

STATEMENT OF:
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UNIVERSITY OF MASSACHUSETTS, DARTMOUTH
BEFORE THE
SENATE EXECUTIVE COMMITTEE
97TH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS
Held in the State House, Springfield, Illinois, May 11, 2011

INTRODUCTION

Thank you for this opportunity to testify on HB1965, which would amend the Smoke Free Illinois Act by exempting the state's nine riverboat casinos from its provisions. I am testifying today as the Director of the Center for Policy Analysis (CFPA) at the University of Massachusetts Dartmouth,¹ where I am a Chancellor Professor of Public Policy, and as the project manager for the center's Gaming Research Project. The Center for Policy Analysis was established in 1985 as a multidisciplinary research unit specializing in applied policy research. The Center for Policy Analysis provides research services, information support, and technical assistance to state and local government agencies, private business associations, non-profit organizations, and school departments. The CFPA has released approximately 200 applied policy reports over the last ten years in the areas of regional economic development, public management, polling and program evaluation. To my knowledge, the CFPA is one of only five university research centers in the United States with a specialized emphasis on the economic, fiscal, and social impacts of casino gaming.²

Our group first began studying the economic and fiscal impacts of casino gaming in 1995 and this interest was institutionalized by the University of Massachusetts in 2004, when it agreed to fund our New England Gaming Research Project. The NEGRP publishes an annual *New England Casino Gaming Update* and a biennial *New England Gaming Behavior Survey* in addition to other research conducted by myself and my associates on various facets of the U.S. casino industry.³ Our purpose in conducting this type of research is to provide policymakers, the

¹ See, <http://www.umassd.edu/seppce/centers/cfpa/>. The Center for Policy Analysis was established in 1985 as a multidisciplinary research unit specializing in applied policy analysis. The Center for Policy Analysis provides research services, information support, and technical assistance to state and local government agencies, private business associations, non-profit organizations, and school departments. The CFPA has released approximately 200 applied policy reports over the last ten years in the areas of regional economic development, public management, polling, and program evaluation. The New England Gaming Research Project was launched by the Center for Policy Analysis with the February 2004 release of its first annual *New England Casino Gaming Update*. Its purpose is to provide policymakers, the general public, and the media with independent and objective research on the economic, fiscal, social, and community impacts of gaming in the New England and Northeastern regions. The Project is funded entirely by the University of Massachusetts Dartmouth.

² The others are located at the University of Nevada, Las Vegas, the University of Nevada, Reno, the University of North Dakota, and Rutgers University of New Jersey.

³ See, <http://www.umassd.edu/cfpa/gaming.cfm>

general public, and the media with independent and objective research on the economic, fiscal, and social impacts of gaming in the United States.

During the last five years, proposals for partial or full smoking bans on casino gaming floors have become a major focal point of gambling policy debates in the United States and abroad. For example, partial or full smoking bans have been extended to casino gaming floors in New Jersey (2006), Pennsylvania (2006), Colorado (2008), Illinois (2008) and South Dakota (2010), as well as Edmonton and Calgary, Canada, and the entire country of Poland. Similar proposals have been debated, or will be debated, in many other states, such as Connecticut, Indiana, Iowa, Rhode Island, and Massachusetts. In virtually every case where smoking bans have been extended to casino gaming floors, industry executives and their lobbyists have opposed these bans, and subsequently, have argued that smoking bans are to blame for declines in gross gaming revenues and, therefore, declines in the gaming taxes collected by states.

However, to my knowledge, no one has ever previously asked gamblers in those states whether or not smoking prohibitions discourage them from gambling at a state’s casinos, nor has the obvious correlation been drawn between the timing of recent smoking bans, the onset of the Great Recession, and a general decline in gross gaming revenues in most casino jurisdictions, regardless of the existence or absence of casino smoking prohibitions. Consequently, in its 2011 New England Gaming Behavior Survey, the Center for Policy Analysis for the first time asked casino gamblers in five of the six New England states:

“All things being equal in terms of size, gaming options and distance from your home, if smoking were prohibited on the gaming floor, would you be more likely or less likely to visit a casino where smoking is prohibited, or does it not matter?”

We found that contrary to conventional industry wisdom among gamblers who had actually visited a casino or racino in the last twelve months, 53% said they are more likely to visit a casino where smoking is prohibited on the gaming floor, while 32% said it does not matter, and only 15% said they would be less likely to visit a casino where smoking is prohibited on the gaming floor (see Table 1).

Table 1

<u>Smoke-free gaming floor?</u>			
<u>Visited casino in the past 12 months</u>		<u>Have not visited casino in 12 months</u>	
More likely to visit a casino	53%	More likely to visit a casino	47%
Does not matter	32%	Does not matter	41%
Less likely to visit a casino	15%	Less likely to visit a casino	12%

These results were released in April of 2011 in report entitled, “Place Your Bet II: The Potential Regional Competitive Advantage of a Non-Smoking Policy for Massachusetts Casinos.”⁴ The thrust of that report was that if properly marketed to the large number of out-of-state non-smoking gamblers, smoke free casinos could actually provide a state’s casino gaming industry with a significant competitive advantage in attracting out-of-state casino gamblers as compared to the small number of casino gamblers that might be lost to a neighboring state’s smoke filled casinos.

⁴ <http://www.umassd.edu/seppce/centers/cfpa/whatsnews/>

SURVEY METHODOLOGY & FINDINGS

Based on press reports of these findings, the American Lung Association in Illinois approached our organization and requested that we conduct a similar poll of Illinois casino gamblers to determine whether the smoking ban that became effective January 1, 2008, was a significant factor in the subsequent downturn in gross gaming revenues at Illinois's riverboat casinos. We designed a survey for the purpose of determining whether the smoking prohibition had motivated casino gamblers to reduce their trips to Illinois's riverboat casinos, or whether other factors related to the recession, alternative gaming options, and inter-state competition were more significant explanations for the downturn in gross gaming revenues.

The Center for Policy Analysis uses the Genesys Sampling System to generate random telephone numbers. The Genesys Sampling System is used by many private and university-based polling and survey research organizations. The system uses a list of all possible telephone numbers in a particular geographic area (e.g., a state) to randomly generate a telephone sample for the designated geographic area. The Illinois survey was conducted using a random digit dialing (RDD) sample, which insures an equal and known probability of selection for every residential telephone number (listed and unlisted) in the sample geographic frame. The Center for Policy Analysis also uses Computer Assisted Telephone Interviewing (CATI) to conduct telephone surveys, which provides highly reliable data because the computer controls the questionnaire, skip patterns are executed exactly as intended, responses are within range, and there are no missing data. The CFPA employs telephone interviewers, who have conducted numerous telephone polls for the CFPA, and all have been trained intensively. Senior-level staff monitored the interviewers at all times to ensure high quality data collection. Telephone interviews were conducted from April 27, 2011 through May 9, 2011 between 9:00 am and 8:00 pm CDT on weekdays and between 10:00 am and 3:00 pm CDT on Saturdays and Sundays.

Interviewees were screened by asking: "Have you gambled at a casino in the past 12 months?" The survey generated a total of 401 respondents, who had gambled at a casino at least once during the last twelve months, for a margin of error of +/-4.9% at the 95% confidence interval.⁵ The final responses were weighted to account for sampling bias and to provide the most accurate possible insight into gamblers' attitudes toward the smoking prohibition.⁶

Respondents who answered yes to the screening question, were then asked:

"All things being equal in terms of size, gaming options and distance from your home, if smoking were prohibited on the gaming floor, would you be more likely or less likely to visit a casino where smoking is prohibited, or does it not matter?"

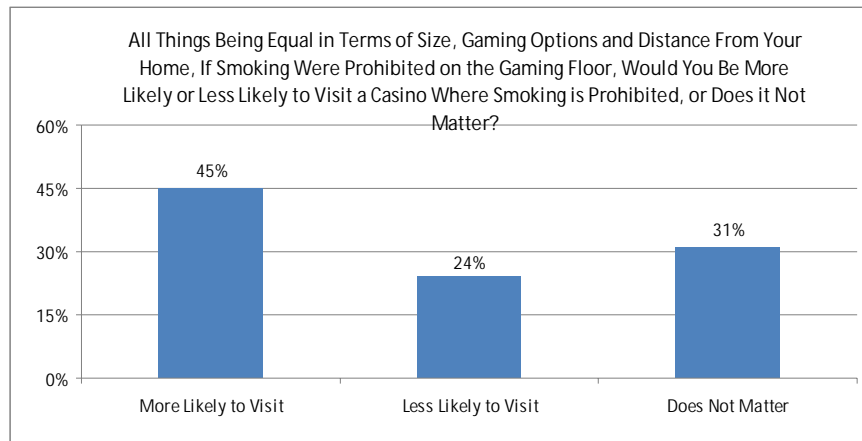
It should be noted that Illinois has one of the highest prevalence rates for smoking in the United States with 21.3% of the adult population (ages 18+) reporting that they are current cigarette smokers (2007-2008). Illinois ranks 39th among the 50 states in smoking prevalence

⁵ This means that if a question from the survey was asked 100 times, then 95 of those times the percentage of people giving a particular answer to the question would be within the margin of error reported for each state on the questions asked of that state's residents in this poll.

⁶ Sampling bias is defined as the tendency of a sample to exclude some members of the sampling universe and over-represent others. In this study, females and older respondents are over-represented. Weighting the data allocates more "weight" to groups that are under-represented (e.g. younger males), while providing less weight to groups that are over-represented (e.g. older females). In other words, weighting adjusts the sample so that it looks more like the actual population of the study population as defined by the U.S. Census Bureau (2005-2009 American Community Survey estimates). All data in this report have been weighted to adjust for sex and age.

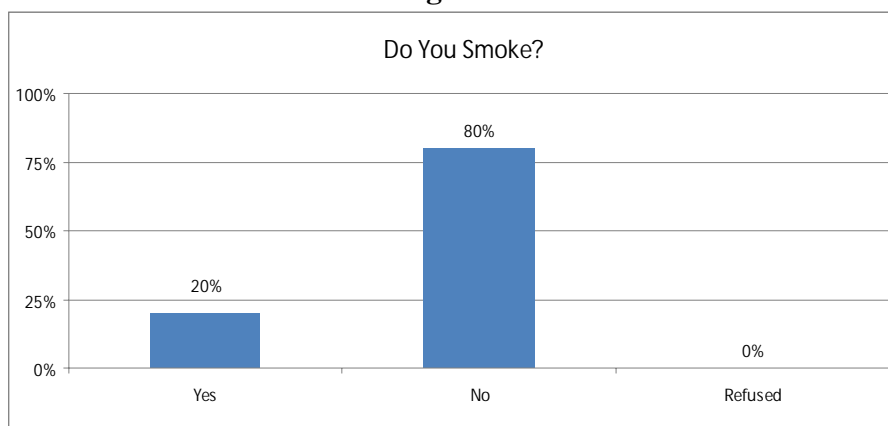
(with 1 being the lowest percentage of smokers).⁷ However, our survey found that 45% of Illinois's casino gamblers report that they are more likely to visit a casino where smoking is prohibited on the gaming floor, 31% say it does not matter, while only 24% state they are less likely to visit a casino where smoking is prohibited on the gaming floor. In other words, more than three-quarters (76%) of Illinois's casino gamblers report that they either prefer, or are indifferent, to smoking prohibitions on the gaming floor (see Figure 1).

Figure 1



Industry proponents of smoke filled casinos are likely to argue that if 21% of the casinos' customer base is unhappy with smoking prohibitions that is sufficient to account for the documented decline in the state's gross gaming revenues, and they typically point to New Jersey and Colorado as supporting examples in conjunction with Illinois. The CFPA's Illinois survey actually found that more than one-third (36%) of casino gamblers who smoke report that they too either prefer a smoking prohibition on the gaming floor (13%) or that it does not matter to them (23%). The survey also found that smokers do not constitute a disproportionate percentage of casino gamblers in comparison to smoking prevalence in the state's general adult population -- 20% of adults aged 21+ who gamble at casinos were self-identified smokers as compared to 21% of the general adult population aged 18+ (see Figure 2).

Figure 2

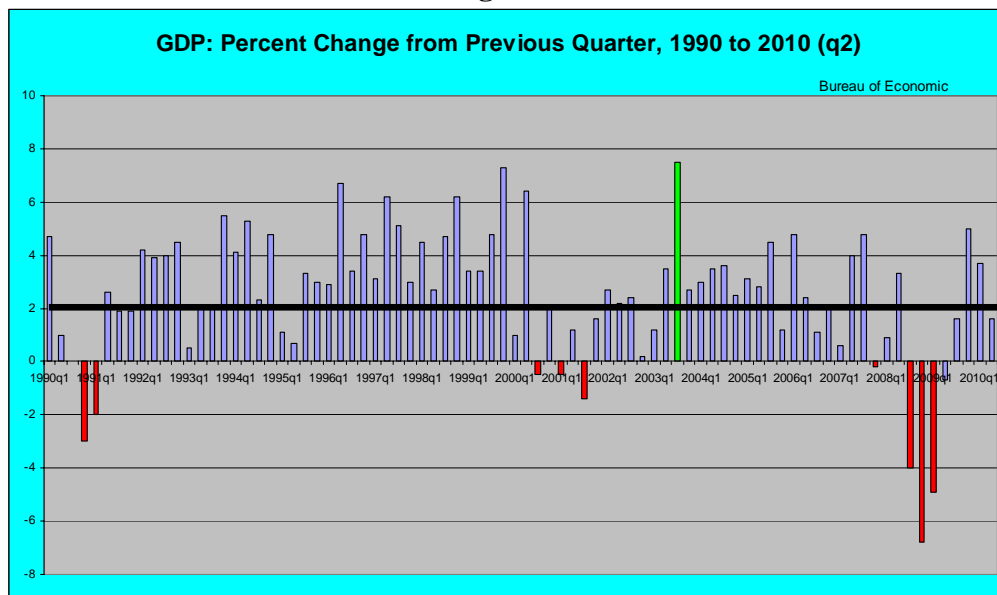


⁷ See, http://www.cdc.gov/tobacco/data_statistics/state_data/state_highlights/2010/pdfs/highlights2010.pdf

Furthermore, claims about the relationship between smoking prohibitions and gross gaming revenues that use Illinois, Colorado, or New Jersey as evidence of the negative fiscal impacts of casino smoking prohibitions ignore the obvious correlation between the timing of recent smoking bans, the onset of the Great Recession, and the general decline in gross gaming revenues in most U.S. casino jurisdictions, regardless of the existence or absence of casino smoking prohibitions.

The casino industry relies on discretionary consumer spending and this is exactly the type of spending that consumers cut back at the onset of a recession and it is typically the last type of spending to recover after the end of a recession, particularly since employment and unemployment are lagging indicators in the early phase of an economic recovery. In this respect, it cannot be ignored that the National Bureau for Economic Research, which officially dates recessions in the United States “determined that a peak in economic activity occurred in the U.S. economy in December 2007.”⁸ As we all know by this time, the recent recession that began in January 2008 has been dubbed “the Great Recession,” because it is the deepest, longest, and most significant downturn in U.S. economic activity since the Great Depression of the 1930s (see Figure 3).

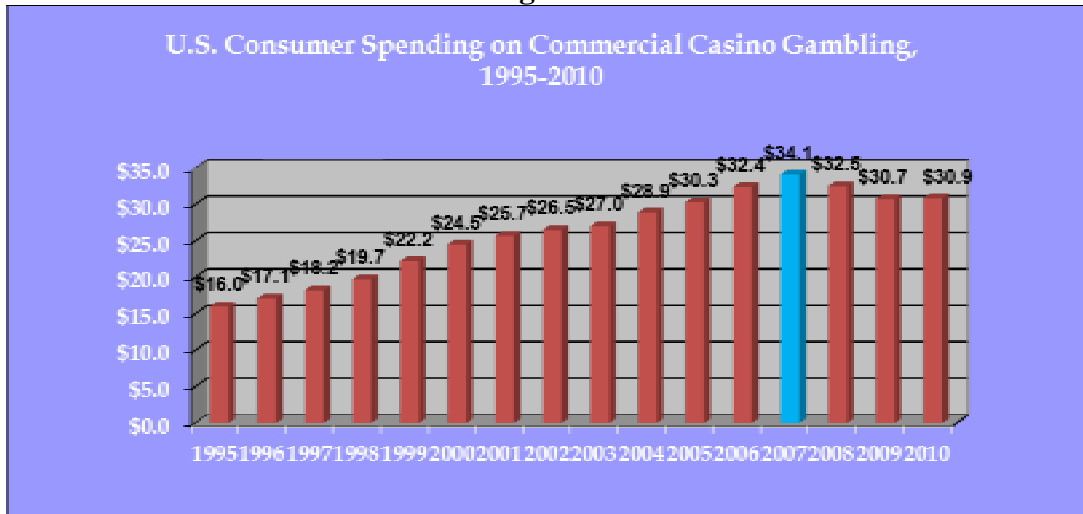
Figure 3



With the onset of the Great Recession, gross gaming revenues for commercial casinos declined nationally in 2008 and 2009 and only started to recover marginally in some jurisdictions in 2010 (see Figure 4). Gross gaming revenues are down 9.4% nationally since the onset of the Great Recession.

⁸ NBER Business Cycle Memo (Nov. 28, 2008).

Figure 4



Significantly, the Illinois and Colorado smoking prohibitions both took effect in January 2008, which is the month that officially marks the beginning of the Great Recession. Moreover, gross gaming revenues declined during this time in most jurisdictions regardless of whether they allowed or prohibited smoking on casino gaming floors. Similarly, the city council in Atlantic City, New Jersey passed an ordinance in 2006, which limited smoking on the gaming floors of that city’s 11 casinos to no more than 25 percent of gaming space. An outright ban on smoking in the casinos took effect in October 2008. In that instance, industry officials again blamed the smoking ban for a decline in gross gaming revenues, but it is now abundantly clear in retrospect that in addition to the impact of the Great Recession, Atlantic City’s gross gaming revenues have also been directly and significantly affected by increased competition from Pennsylvania, which opened 10 casinos between November 2006 and December 2010, and from New York, which authorized 7 racetracks to install about 11,000 video lottery terminals starting in October 2006, just as the city’s partial smoking ban took effect.

The CFPA attempted to determine whether or not these macro-economic factors played any role in Illinois casino patrons’ decisions to gamble less frequently at that state’s casinos. Respondents were asked:

“In the last twelve months, have you reduced the number of trips to a casino due to any of the following? How about: 1) cost of gasoline, 2) loss of income, 3) reduced slot payouts, 4) you are falling behind on your bills, 5) you lost your job, 6) declining value of your home, 7) increased cost of living, 8) any other (please describe)? [Respondents could give more than one answer].

As one might expect of an industry fueled by discretionary consumer spending, the two reasons most frequently cited by Illinois’s casino gamblers for reducing the number of visits to casinos is the increased cost of gasoline (40%) and the increased cost of living (35%) (e.g., food price inflation).⁹ Another significant cluster of reasons cited by Illinois’s casino gamblers for reducing the number of visits to casinos is loss of income (16%), falling behind on bills (15%),

⁹ In the week ending May 7, 2011, Illinois had the second highest average gasoline price among the 50 states after Hawaii.

job loss (12%), and declining home values (11%). Indeed, following the onset of the Great Recession, Illinois's unemployment rate skyrocketed from 6% to 12.4% (well above the national average), while average gasoline prices rose by more than one dollar per gallon during this time. Thus, casino gamblers with jobs and stable incomes have been shifting their spending patterns more toward consumer staples – for example, gasoline and food -- and away from spending on discretionary purchases, such as gambling, in a perfectly rational manner, while those without jobs or strained incomes are also making the rational decision to not gamble or to gamble less frequently (See Figure 5, Figure 6, and Figure 7).

Figure 5

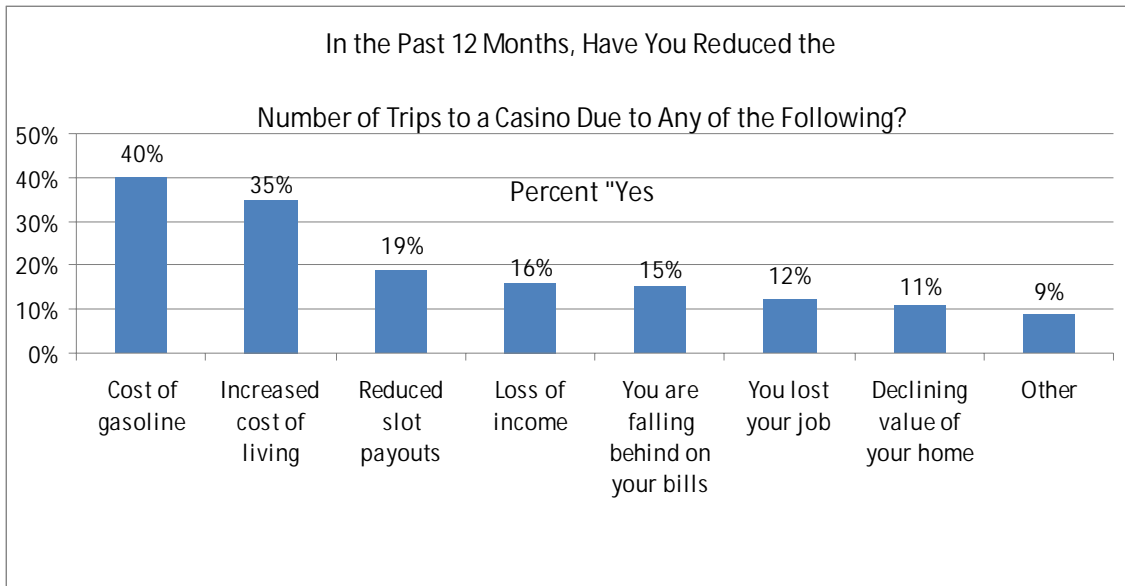
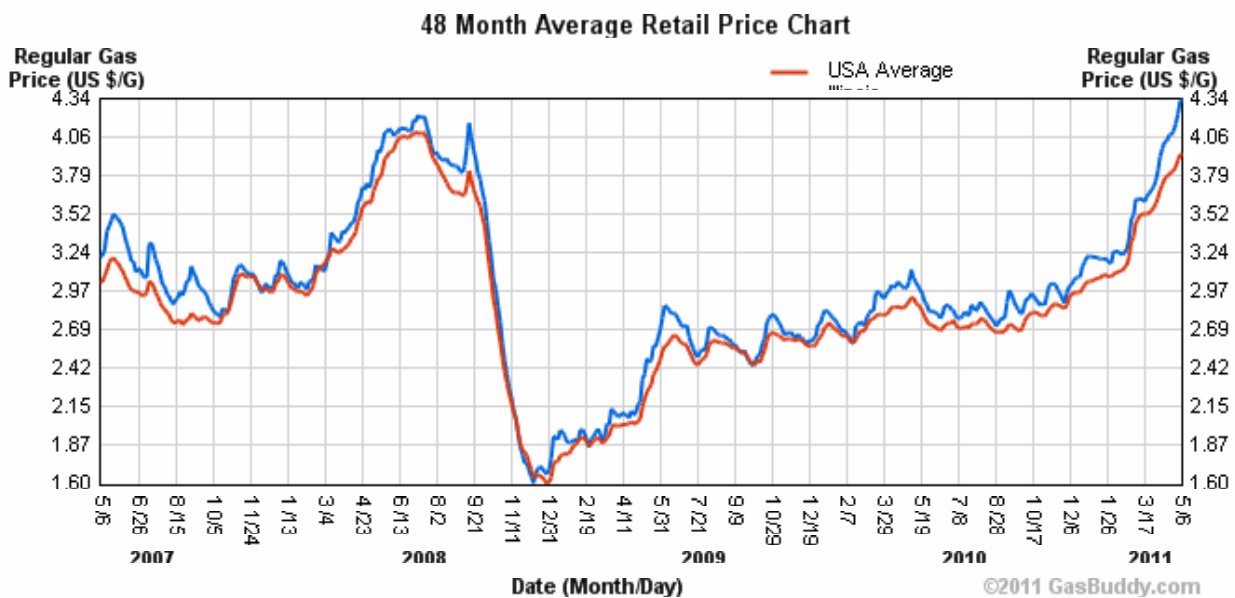
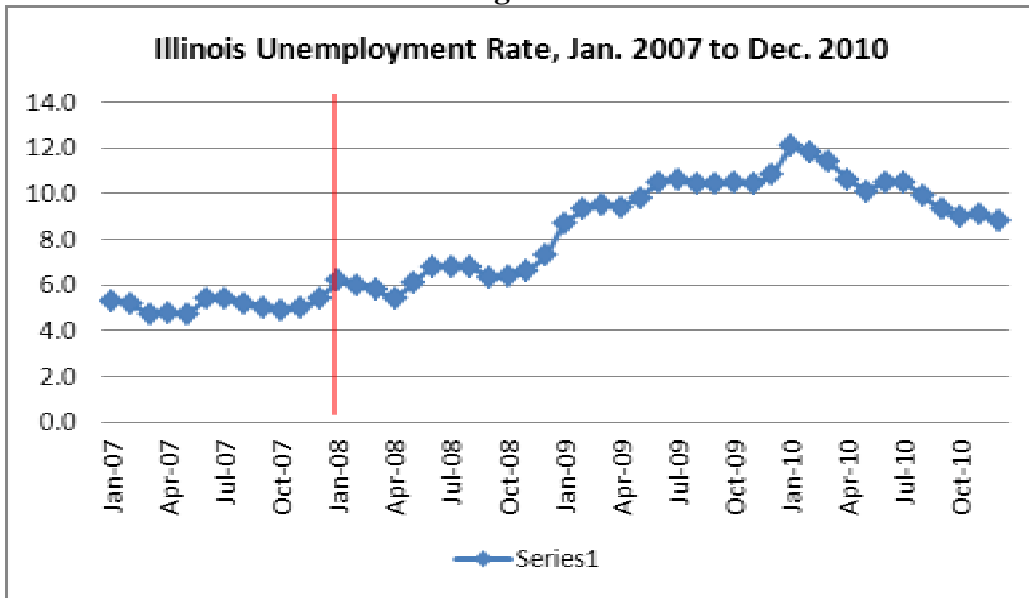


Figure 6



Source: http://gasbuddy.com/gb_retail_price_chart.aspx

Figure 7



Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics.

It should also be observed that Illinois’s riverboat casinos are not destination resorts with the full array of resort amenities, such as a luxury hotel, retail shopping, golf course, spa, comedy and dance clubs, concert and entertainment arenas, or conference and meeting facilities and Illinois’s effective tax rate – the highest in the nation for commercial casinos – generally discourages significant investment in new or improved gaming facilities. Consequently, as gambling policy in adjacent states, such as Iowa, Missouri, and Indiana is gradually moving away from the Mississippi River model of floating river boats to an industry anchored by land-based and fixed “dockside” casinos, subject to lower effective tax rates, Illinois’s riverboats are becoming less competitive at a time when the region’s gaming market is becoming more competitive in three ways.

First, whether it is true or not, 19% of Illinois’s casino gamblers reported that they now gamble less frequently at Illinois’s riverboat casinos because of “lower slot payouts.” The perception among many of the state’s casinos gamblers is that the odds now favor the house too heavily and they are not inclined to gamble as frequently as they did in the past. Second, many of the casino gamblers interviewed for the survey volunteered that many casinos in Indiana, Missouri, and Iowa are more attractive and offer a higher quality entertainment experience than some of the riverboat casinos in Illinois. While the casinos in Indiana, Iowa, and Missouri may not qualify as “destination resorts,” similar to Connecticut, Nevada, or New Jersey, they still do appear to have a stronger “gravity effect” for many Illinois residents based on their superior amenities, which often include gourmet dining, a hotel, upscale lounges, and greater physical attractiveness.

Finally, a new entrant onto the Illinois gambling landscape has been the introduction of video poker into local clubs and bars. Respondents to the Illinois survey were asked:

“In the past 12 months, have you at any time played video poker or slot machines at a local club or bar rather than going to a casino?”

Among Illinois's casino gamblers, 14% said they had played video poker or slot machines at a local club or bar *instead of* going to a casino and these occurrences have likely cannibalized slot machine revenues at the riverboat casinos, particularly for gamblers who are seeking a more convenient location to gamble, for slot machine players seeking to reduce gasoline consumption by gambling closer to home, or for those who perceive that local clubs and bars offer a higher payout.

CONCLUSION

The survey evidence, at least in New England and Illinois, suggests that smoking prohibitions are not a significant cause of declining gross gaming revenues in states that extend smoking prohibitions to casino gaming floors. In fact, if properly marketed to the large number of out-of-state non-smoking gamblers, smoke free casinos might actually provide a state's casino gaming industry with a significant competitive advantage in attracting out-of-state casino gamblers as compared to the small number of casino gamblers that might be lost to a neighboring state's smoke filled casinos. The simple fact is that the vast majority of Americans no longer smoke cigarettes or cigars on a regular basis, but the casino industry has generally failed to adjust to this significant lifestyle change over the last two decades.

The fact is that gross gaming revenues began declining nationally, and in most state jurisdictions, coincident with the onset of the Great Recession. In some cases, such as New Jersey, these macro-economic factors have been compounded by increased regional competition from new casino jurisdictions. The survey evidence from Illinois strongly suggests that the reduction in visits to that state's riverboat casinos is related first to macro-economic factors associated with the Great Recession and, more recently, to rising gasoline prices and general inflation (e.g., food), and, second, to changes in the regional gaming market that are leaving some of Illinois's riverboats less competitive than they may have been in a previous decade.