

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES  
COMMITTEE ON CASINOS  
SCOTTSDALE, ARIZONA  
FRIDAY, JANUARY 9, 2009  
MINUTES

The Committee on Casinos of the National Council of Legislators from Gaming States (NCLGS) met at the Hotel Valley Ho in Scottsdale, Arizona, on Friday, January 9, 2009, at 4:00 p.m.

Representative Helene Keeley from Delaware, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. H. Mac Gipson, AL  
Rep. Pebblin Warren, AL  
Sen. Tom Harman, CA  
Rep. Kevin Ryan, CT  
Rep. Bill Oberle, DE  
Rep. John Viola, DE

Other legislators present were:

Sen. Nancy Rodriguez, NM  
Sen. John Sparks, OK

Others present were:

Susan Nolan, Nolan Associates, NCLGS Executive Director  
Nicholas Brozean, Nolan Associates, NCLGS Assistant Legislative Coordinator

#### MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its June 13, 2008, meeting in Napa, California.

#### ECONOMIC CONDITIONS IMPACTING CASINOS

Michael Soll, executive vice president of The Innovation Group, said on average the top five gaming markets, including the Las Vegas Strip, Atlantic City, Chicago, Connecticut, and Detroit, are experiencing a 5.5 percent decrease in revenue. He said declining gaming revenue within these markets provides a strong indication of the overall gaming market condition.

Mr. Soll said gaming revenues are on the decline in Atlantic City due to a partial smoking ban. He said a combination of rising gasoline prices and the remote location of Connecticut's casinos are causing a decline in the state's gaming revenue. He said new competition from New York and Pennsylvania is also negatively impacting gaming revenues in Atlantic City and Connecticut. Mr. Soll said Colorado is also feeling the negative effects of a smoking ban and rising gasoline prices.

Mr. Soll said gaming revenues in Louisiana and Mississippi are now feeling the damaging effects of the economy after bouncing back from the Hurricane Katrina decline. He said gaming revenues in Indiana and Illinois are falling due to increased competition. He said a smoking ban in Illinois is also contributing to the state's decreasing revenue. He said Iowa is experiencing increases in gaming revenue after expansion.

Mr. Soll said macroeconomic slowdown, fluctuating gas prices, low consumer confidence, rising unemployment, and smoking bans are the main reasons for lower consumer spending at casinos. He said highly-leveraged corporate balance sheets, smoking bans, competition, and aggressive capital investment in Las Vegas are also adding to the distress in the gaming industry.

Mr. Soll said economic conditions are causing delays, cancellations, and downsizing on numerous gaming projects.

Mr. Soll said in June 2008, macroeconomic concerns and declining gaming revenue were discouraging investor confidence. He said closing credit markets, contract defaults, active buyer distress, and restructurings are all on the rise. He said several gaming companies across the country are either going through bankruptcy or facing bankruptcy.

Mr. Soll said bankruptcy issues within the gaming industry will greatly affect state legislators, as the industry is under tight regulation. He said new financiers must undertake the licensing process and equity structures need approval in a timely process for companies to effectively restructure and emerge from bankruptcy.

Mr. Soll said company restructuring can take place outside of the court or in court depending on state regulatory systems. He said out-of-court restructuring is cheaper, faster, less structured, and avoids a potential negative public perception. He said banks will need to provide contract flexibility and new equity players will surface as bankruptcy declarations increase.

Mr. Soll said tribal governments and their creditors might need to reorganize debt capital structures when financial issues arise or banks could face incomplete gaming projects. He said reservation land is generally held by the U.S. government in trust for the tribe and tribes must retain the sole propriety interest in the reservation-based gaming operation. He said sovereign immunity waivers typically limit creditors' enforcement rights to specific assets.

Mr. Soll said The Innovation Group did research in conjunction with some other companies to figure out a reason for the gaming revenue decline in the current economy. He said the gaming industry has never before felt the impacts of a recession and many thought gaming was recession-proof.

Mr. Soll said research suggests that 22 percent of active gamers plan to play less over the next 12 months. He said players have never before said they would play less in a recession. He said the majority of consumers that plan to play less frequently are over the age of 35 and less affluent. He said more people have less discretionary income and more personal budget constraints for gaming than ever before.

Mr. Soll said players do not plan to return to previous gaming habits until their personal budget or income increases. He said for the first time in the industry, the gaming decline will ride the same storm as the economy.

Mr. Soll said legislators will need to make up for budget shortfalls by generating new sources of tax revenue. He said cutbacks on gaming constraints, such as loss limits, betting limits, and tax rates, will help produce more gaming revenue. He said many states are considering gaming expansion to counteract budget shortfalls.

#### NEXT GENERATION OF CASINO MARKETING

John Taylor, president and CEO of GameLogic, said historically, people have thought that a soft economy will draw gaming expansion in order to generate more government revenue, bigger gaming facilities are better and more appealing, industry innovation is slow, and that gaming is a recession-proof industry.

Mr. Taylor said currently, capital is non-existent in most cases, casino gaming supply exceeds demand, and the number of casino players is relatively flat at 55 million. He said the industry must encourage existing players to gamble more often, re-establish ties with old players, and introduce gaming to potential players. He said research suggests that 59 percent of people open to gambling do not visit casinos. He said the casino industry will need to find new players to produce more revenue.

Mr. Taylor said GameLogic believes new players can be found using Internet marketing techniques. He said casinos need to develop electronic Internet relationships with all players, as coupons sent by mail are costly and ineffective.

Mr. Taylor said every month 45 million people play free Internet games. He said 75 percent of Internet games are casino-style games. He said industry stakeholders must personalize the gaming experience, introduce new forms of content and experiences, and connect people to gaming at home. He recommended that legislators carefully reconsider gaming regulation and taxes in the current economy to enable the industry to find and produce new players.

#### CONSIDERATION OF A PROPOSED RESOLUTION SUPPORTING SMOKE-FREE CASINOS

Karen Blumenfeld, executive director of the New Jersey Group Against Smoking Pollution (NJ GASP), reported that numerous gaming jurisdictions around the world are going smoke-free. She said research suggests that smoking bans do not cause declines in revenue and can potentially increase revenue, as nonsmokers gamble more than smokers.

Bronson Frick, associate director of the American Nonsmokers' Rights Foundation, said over 70 percent of the U.S. population lives in smoke-free jurisdictions. He said many other states and jurisdictions are implementing smoke-free ordinances. He said seven of 22 states that have casinos or racinos have smoke-free environments in those venues.

Mr. Frick said several studies show that there is a reduction of heart attacks among people in districts that have smoke-free gaming laws. He recommended that communities and states

looking to provide a smoke-free health benefit should issue a comprehensive law that covers all employees and does not leave out hospitality workers.

Mr. Frick said districts with smoke-free laws save money on health care. He said firsthand, secondhand, and third-hand smoking can have harmful health consequences. He said third-hand smoke is the lingering effects of secondhand smoke, such as smoke adhering to walls, carpets, and clothing.

Wes Ehrecke, president of the Iowa Gaming Association, said states that adopt smoke-free legislation risk a 25 to 30 percent drop in gaming revenue, as evident in Colorado and Illinois over the past 12 months. He said opponents would suggest that drops in gaming revenue are the cause of a down economy. He said that Iowa, which is adjacent to Illinois, has seen a five to 13 percent increase in gaming over the past 12 months.

Mr. Ehrecke said Iowa does have an exemption for its smoking ban on gaming floors. He said casinos in Iowa utilize state of the art ventilation and filtration systems to accommodate all casino patrons and employees. He said Iowa voluntarily began using smoke-free gaming areas for non-smokers.

Mr. Ehrecke said adopting a smoke-free gaming resolution might not be a good position for NCLGS to take as a nonpartisan entity that advocates states' rights. He said NCLGS focuses on the states' ability to choose and implement gaming within its boundaries, as well as to provide a nonpartisan forum for legislators to share information with other legislators on gaming successes and failures.

Mr. Ehrecke asked if NCLGS would consider a resolution to ban alcohol in casinos or the expansion of gaming altogether. He said adopting a controversial resolution that is brought forth by a group with a specific agenda would compromise the integrity of NCLGS, as well as the organization nonpartisanship and balance.

Rep. Oberle, NCLGS President, said the implementation of a full smoking ban in Delaware led to a depreciation of about 5.6 percent in the first fiscal year thereafter, 4.3 percent the second year, a net gain of about 3.5 percent in the third year, and continual growth subsequently until the recent economic slowdown.

Rep. Oberle said, as the sponsor of the NCLGS smoke-free gaming resolution, that the resolution does not have any binding effect on state legislatures or tribal governments. He said the purpose of NCLGS is to promote sound public policy. He said the committee spent a lot of time on the issue and saw enough anecdotal information for the resolution to be considered sound public policy.

In response to a question from Sen. John Sparks regarding statistics being controlled by economic variables, Mr. Frick said it would be extremely difficult to control all the variables relating to the economy and smoke-free gaming legislation when comparing data between states. Mr. Soll said there is a five to ten percent impact where a patron can go to an alternative market and a ten to 15 percent impact where there is an alternative market with smoking. Mr. Soll said

although the data is difficult to compare and a margin of error exists, the numbers he presented are controlled by economic variables.

Rep. Gipson said he opposed NCLGS adoption of the smoke-free gaming resolution, since the main purpose of NCLGS is to educate policymakers, not to encourage states and tribal governments to enact legislation.

After considering a series of proposed amendments, the committee voted to adopt the resolution with one dissention, with an amendment offered by Rep. Warren, and to refer it to the NCLGS Executive Committee. The amendment, Rep. Warren said, uses the word “encourage,” rather than “mandate” in resolve clauses, as the goal of the resolution is to encourage and support efforts to educate legislators on the issue.

#### ADJOURNMENT

There being no further business, the meeting adjourned at 5:30 p.m.

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