GAMING IN THE MISSISSIPPI ECONOMY

A Marketing, Tourism, and Economic Perspective

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PREFACE AND ACKNOWLEDGEMENTS

This report is the culmination of one year of intensive research, review, data gathering, refinement, discussion, and finally, compilation. It is, in every sense of the phrase, a "collaborative effort" undertaken by a few key players, principally those persons named in the INTRODUCTION section. As primary author, however, I personally take responsibility for any errors or omissions. I have done my very best to check and re-check each fact, each figure, and each estimate for accuracy.

I feel I would be remiss, however, if I failed to point out that a project of this scope and size has necessarily involved literally hundreds of persons. Naming each of them here is not practical; any attempt to do so would surely overlook some individuals, anyway. But in particular there are a few persons and entities which have provided our team with extraordinary access to information--much of it not generally available to the public--to whom we owe a particular debt of gratitude.

My sincere thanks go to Dr. Phil Pepper and his staff at the Institutions of Higher Learning for this tremendous opportunity, as well as for their patience and understanding as we all set about the task of determining just exactly what this project would entail. Thanks also to the legislature for its wisdom in funding the study of an industry that has become a major focus in the Magnolia State.

Among all those who offered specific assistance are several I personally need to thank. First, to the various consultants who subcontracted with us, my thanks for the hours of informal training, consultation, and insights they offered--hours which surely were not included in the fees which we were able to pay them. Second, to the various faculty and the librarians at the University of Las Vegas in Nevada, who have painstakingly collected thousands of individual items about casino gambling and who made these all readily available to me, my appreciation. Third, to the leaders and the researchers at the various bureaus, associations, and boards which deal with economic development, tourism, and casino gambling, thank you all for your help, access to information, and advice. Finally, to our respective families, we all note and appreciate your support in a venture that too frequently took us away from home, and preoccupied our thoughts for weeks on end.

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Background
The Institutions of Higher Learning received funding from the Mississippi Legislature to perform an analysis of the Mississippi Casino Gambling Industry. IHL, in turn, contracted with the University of Southern Mississippi to conduct the research. The analysis is broad in scope, and provides a review of the current "state" of gaming in the State. The review includes: estimates of the growth and economic impacts of casinos, potential threats to casino gaming revenues, the nature of the relationship between casino gambling and tourism, and potential changes in the regulatory and taxation environment. The analysis includes only a brief review of the social impacts of gaming on the State.

Revenues Generated by Casino Gambling
In the eight full fiscal years since the arrival of casinos, over $3.3 billion in direct gaming taxes have been collected. In the fiscal year just ended, (FY 2000) casinos paid over $320 million in gaming taxes. Another $2.5 million in room and restaurant taxes are generated by casino establishments. At least $20 million in annual payroll taxes are paid on behalf of casino employees. Most casinos pay either tidelands leases or levee fees, which add another $9 million annually. Casinos also collect sales tax on the sale of merchandise

Other Economic Impacts
Commercial and residential construction has seen significant growth since the arrival of casino gambling in Mississippi. Direct casino construction has accounted for a 130% increase in the number of hotel rooms on the Gulf Coast, for example, and the number in the North River region has grown from about 20 rooms in 1992 to over 6,000 rooms today.

Sixty-two percent of the $800 million dollars paid annually to casino employees goes to residents of Mississippi. The casinos employ thousands of other persons who are residents of Tennessee, Alabama, Arkansas, and Louisiana. Retail sales in four of the eight casino counties have grown at a rate above the state average; those counties have substantially greater casino development than do the remaining four casino counties.

Potential Threats to Casino Gaming Revenues
A favorable geographic locale combined with free-market regulatory structure, and growth in the general market for casino gambling have combined to create the extraordinary casino growth Mississippi has experienced. Gaming tax revenues are projected to reach the $400 million mark by FY 2003.

Primary external threats to these revenues identified in this research include recession, natural disasters, and the expansion of legal gambling into neighbor states. While not recession-proof, the casino gambling industry has in the past rebounded quickly from economic slowdowns. The casinos (and their stockholders) have a vested interest in limiting the risks of loss associated with a potential hurricane or other natural disaster. The state's best course in this area is adequate preparation to minimize casino closures following a hurricane. There is little, if any, action the State can take to protect itself against neighbor states' policy decisions with respect to legalizing casinos.

Mississippi Casinos and Tourism

Our research confirms that the North River region and the Gulf Coast are predominantly tourism-driven, while the South River region caters to a primarily local market. Non-residents generated 82% of all gaming revenues in the North River region, and 66% of gaming revenues on the Gulf Coast. Most of the out-of-state visitors traveled to the state as their final destination. Forty-two percent of non-residents spend one or more nights.

Casino-related tourism in Mississippi is driven by a conflux of factors. The formula for increasing both gaming revenues and revenues associated with casino tourism is: casino gaming + hotels + air service + dining + retail + leisure attractions + convention facilities + entertainment + coordinated marketing = increased visitors, longer stays, and higher tax collections.

Gaming visitors are generally mature, (aged 45 or older) educated, (a majority have attended college) and have relatively high incomes ($30,000 or higher). While most non-resident visitors to the casinos travel in a private automobile, they currently engage in few activities outside of the casino resorts (dining out and shopping were the most common non-casino activities). These out-of-state visitors generally express a high level of satisfaction with their stay in Mississippi. Between 86% and 88% of our survey respondents indicated they had visited the Mississippi casinos at least once before.

Social Impacts of Casino Gambling

A review of numerous studies conducted in various jurisdictions shows that no consensus of opinion exists regarding the relationship of casinos to crime, suicide, bankruptcy, divorce, or abuse. Problem and pathological gamblers are found to be responsible for many of the social ills associated with gambling. However, it is not clear whether the presence of casinos in the state has resulted in an increase in the rate of occurrence of problem gamblers. Likewise, while the rates of crime or suicide may be higher in some casino communities, these rates are also higher in many other "tourist" areas that do not have casinos. Further study is needed in this area.

Regulatory/Taxation Issues

The current regulatory structure is satisfactory. The PEER Committee's 1996 report on the Gaming Commission should be followed up, as the Commission still needs to clarify its roles as *promoter* of the industry and its associated economic development from its role as *regulator and arbiter of disputes* involving casinos.

Regulations providing casino employees with notification and severance packages or outplacement would be beneficial. Likewise, a tightening of regulations regarding extension of credit and access to cash in casinos is needed. Current regulations requiring that new casino construction include significant non-gambling develop-ment such as hotels, restaurants, and other entertainment, are having the desired effects and should be maintained.

Current restrictions on the teaching of gaming-related content in public post-secondary institutions should be lifted, as they appear to place persons earning degrees at Mississippi colleges and universities at a disadvantage when they apply for middle-to-upper level positions in accounting, finance, marketing, or management at Mississippi casinos.

The current tax rate of 12% on gross gaming revenues (8% to the state and 4% to local governments) should be maintained. Mississippi's rate is already higher than Nevada's. Only in jurisdictions that are not competitive and market-driven, (for example Illinois, Iowa, and Louisiana) are rates higher. The competitive nature of the Mississippi market requires casinos to spend a greater percentage of their annual revenues on marketing and upgrades of their facilities. Several of the State's casinos are operating at extremely low profit margins; a few currently operate at a loss. Increasing the taxes would likely result in some casino closures, significant cut-backs in new investment, and a shifting of casino marketing efforts to more local markets.

Recommendations

- Create a statewide tourism initiative, housed within the MDECD. Assess a bed tax on hotels/motels with 50 or more rooms to fund coordinated tourism advertising.
- Create designer incentives, involving cooperation between state and local governments, to expand infrastructure such as air service and public transportation in casino tourism areas.
- Strengthen the recently passed Family Entertainment and Tourism Sales Tax Rebate law to ensure that it applies only to facilities likely to attract non-resident visitors.
- Refine existing economic incentive programs and develop new ones to target manufacturers and distributors of equipment, supplies, and services critical to the casino gambling and tourism industries.
- Create a statewide tourism certification program providing training in customer service and tourism, utilizing existing public post-secondary educational programs.
- Review current regulations relating to insurance coverage to minimize financial loss in the event of a major natural disaster or weather event such as a hurricane.
- Review current regulations relating to credit policies and cash availability in casinos to limit problem gamblers' ability to run-up unrecoverable debts.
- Remove restrictions on the teaching of casino-related content in public post-secondary institutions.
- Maintain the current 12% total tax rate on gross gaming revenues to maximize both revenues and future economic development.
- Fund a statewide study of the social impacts of casinos on both gaming and non-gaming counties. Such a study should include, at a minimum, attempts to quantify the impacts of casino legalization on the rate of problem and pathological gambling, criminal activity, suicide, and bankruptcy. The study should include both a new prevalence study and a determination of problem gamblers' habits, as well as assessments of the general social impacts of casinos in Mississippi.

INTRODUCTION

In its 1999 regular session, the Mississippi Legislature appropriated funds for a unique study (the Analysis) of Mississippi's gaming industry. These funds were directed to the state's Institutions of Higher Learning, University Research Center. That Center was further directed to perform or contract for the performance of said Analysis.

After considering numerous alternatives for conducting the study, the University of Southern Mississippi was chosen to coordinate the assessment. University expertise in business, tourism, economic development, and gaming research were utilized where appropriate, and university personnel contracted with and coordinated the work of consultants and industry experts as needed to accomplish the objectives of the Mississippi Legislature in its enabling legislation.

I. PURPOSE & SCOPE

The purpose of the Analysis is to provide a working document to assist Mississippi Legislators in understanding the economic impact of gaming in Mississippi in order that they can make informed decisions on casino gambling related matters.

The Analysis is broad in scope and includes but is not limited to the study of any and all factors related to increasing the positive effects of gaming on the economy of the State of Mississippi. Of special interest are the development of a customer profile for each of the state's three gaming regions, determining the economic impact made by out-of-state gaming visitors, developing a list of destination resort " drivers," (those factors which cause out-of-state visitors to come to Mississippi and stay one or more nights) identifying legislation or incentives which could be enacted to bring more out-of-state visitors to Mississippi, and identifying complimentary amenities, diversification opportunities, and related ventures which can enhance or protect non-gaming revenues generated by visitors to gaming establishments.

A few other matters of interest include the regulatory/ taxation environment; potential threats to Mississippi gaming revenues such as recessions and new competition in surrounding states; gaming related problems; the estimated growth of gaming revenues to the state of Mississippi and the possible effects of increasing or decreasing taxes on gaming establishments.

II. LIMITATIONS

This study does not in any way, nor was it intended to, address moral issues related to gaming. Neither does it address bingo, illegal gaming activities, or Indian gaming. The researchers and authors would have preferred to have contracted for an additional piece of primary research related to non-gaming visitors to the state but did not because of time and monetary constraints. Likewise, while our charge does include initial estimation of the social impacts of casino gambling on the state, time and monetary constraints, plus industry reluctance to fully participate if certain questions relating to problem gambling were asked in our surveys, have caused us to use only estimates of these impacts that are based primarily on *previously published* research.

III. METHODOLOGY

The Analysis utilized primary and secondary research. It used historical analysis to develop a proper perspective of the industry as a whole, for Mississippi, and for data projections.

It reviewed existing literature with primary emphasis on industry trends, industry projections, sociological issues, economic impact, revenue growth, and demographic changes.

Primary research was conducted to assess beliefs, attitudes, and/or policy analysis needs of involved parties including (but not limited to) the Mississippi gaming associations, economic development officials, gaming officials (both local and national), the Mississippi Gaming Commission, and casino patrons--both in and out-of-state. Two surveys were conducted, using the methods described below. The survey instruments appear as Appendix A.

A literature search to uncover any previous research in the area of gaming visitor profiling was undertaken. Based on the findings from the secondary research and from extensive previous experience in this area, the first data collection survey form was created. Subsequently, in-casino random samples were taken beginning in early November 1999 and ending in late January 2000. The sample sizes *(n)* were as follows:

- Gulf Coast Region 952
- North River Region 864
- South River Region 266

Please note that the sampling distribution was approximately stratified based on a hybrid of total gaming positions and casino hotel rooms in that particular region. Additionally, the day of data collection and the corresponding time block of data collection were randomly determined through probability selection. Representatives from one of our consultant firms, Decision Scientific, conducted the interview process. Upon collection, the data was subsequently entered into the software program, *Statistical Package for the Social Sciences™* (SPSS), for analysis.

Probability sampling was utilized as the sampling method. Probability samples are distinguished by the fact that each population element has a known, nonzero chance of being included in the sample. One can calculate the likelihood that any given population element will be included in a probability sample because the final sample elements are selected objectively by a specific process and not according to the whims of the researcher or field worker. A probability sample allows an assessment of the amount of sampling error likely to occur because a sample, (rather than a census) was employed when gathering the data.

A follow-up telephone survey was conducted in March of 2000, using a sample of persons living within one day's drive of one of the three state markets, and who had indicated that they had gambled or were interested in gambling. The survey instrument used was carefully designed to avoid biases or respondent "burnout." Professional interviewers from The Olinger Group, a sub-contracted firm, completed the interviews, which averaged 10-12 minutes in length. The total number in the sample was 650 persons. The sample sizes (*n*) are as follows:

- Gulf Coast visitors 250
- North River visitors 250
- South River visitors 150

Upon collection, the data was subsequently entered into the software program, *Statistical Package for the Social Sciences™* (SPSS), for analysis.

Economists and economic development experts performed additional work. This portion of the research included gathering and analyzing primary economic indicators such as tax collections, retail sales activity, personal income growth, employment figures, and other data. In addition, extensive personal interviews were conducted with state and local government officials, researchers, journalists, casino operators and managers, and a variety of casino industry financial experts.

Robert Ingram, Executive Director of Economic Development for USM, managed and coordinated the process and conducted some of the background interviews with gambling executives. Dr. Denise von Herrmann, an Assistant Professor of Political Science with an extensive background in gaming research, assisted with planning, coordinated research activities, conducted some of the interviews, and authored much of the final report. Dr. William C. Smith, Associate Dean of the Business School, provided research analysis, marketing/tourism insight and authored portions of the report. Graduate interns within the USM Department of Economic Development also assisted with research.

Primary contractors on the study were Decision Scientific, LLC. of Gulfport, MS., the Goodman Group of Hattiesburg, and Lance Hopkins & Associates of Brandon. All three firms have extensive experience in gaming research and strategic planning related to gaming markets. Their research and input was invaluable and is incorporated throughout the Analysis.

BACKGROUND OF THE MISSISSIPPI GAMING INDUSTRY

While much of the history and background of the Mississippi Gaming Industry has been published elsewhere, it is briefly reviewed here, as some elements of that history relate directly to this research and its findings.

I. Legislative and Political History

On December 19, 1987 the Europa Star docked in Biloxi, Mississippi, and ushered in a new era of legal gambling. The first proposal to legalize dockside gaming in Mississippi was introduced by State Representative Tommy Walman of McComb, but his bill lacked provision for proper regulation. State Senator Tommy Gollot of Biloxi countered with his own proposal, which included creation of a five-member gaming commission to be housed in the State Tax Commission (Minor, 1989).

In March of 1990 each house passed a version of a casino bill, but differences remained. By the middle of March both houses had passed the Gaming Control Act. The Diamond Lady and the Emerald Lady, replicas of 1800s paddle-wheel steamboats, were the first ships to enter the Biloxi channel in mid-July of 1992. By December of 1992, Mississippi led the South in new job creation and the state had five operating casinos. As of 1999, Mississippi is the third largest (non-Indian) gaming destination in the United States, with 29 dockside casinos operating primarily on the Gulf Coast and the greater Tunica area.

II. Growth and Progress of the Industry

The phenomenal growth of casinos in Mississippi has been widely attributed to the state's "Nevada-style" regulatory and market structure, which neither limits the number of licenses that may be granted, nor places restrictions upon the amount players may wager or lose. The similarity to Nevada's system not only is not an accident, but is in fact very much by design. At least one early Mississippi Gaming Commission member brought actual copies of Nevada casino approval forms with him when he came to Mississippi. In a very general sense, the only significant differences between the regulations in Nevada and Mississippi are those relating to water. (Mississippi's casinos must be located on designated navigable waterways, and therefore many regulations pertain to environmental impacts, structural concerns relating to permanently-moored casino "boats," and the like.)

Mississippi casinos today range from 16,000 square feet of gaming space to over 110,000 square feet, many of which have high-end hotels and restaurants, convention facilities, and big name entertainment. The casino industry is very labor intensive and, in Mississippi, employs just over 40,000 people. According to many industry leaders, the growth of the casino industry in Mississippi has not yet peaked.

THE STATE OF GAMING

A great deal has been written about the obvious economic impacts of gaming in Mississippi.[1] Replicating and detailing that information *was not* a primary task of this research. However, certain key economic impacts must be reviewed in order to understand the overall picture of casino gambling's impact on Mississippi, and those sections of this report appear below.

I. REVENUES

Mississippi levies an 8% gaming tax on gross gaming revenues. In addition, casinos pay another 4% to local governments. Gaming revenues go directly to the state general fund, except for a portion, which was earmarked for a highway and bond sinking fund. The graph on the next page shows gaming revenues from fiscal year 1993 (the first full year of gambling activity in the state) through 2000. The yearly figure includes June, 2000 revenues, which were estimated at $31,500,000, a very conservative estimate, as it is smaller than both June 1999 revenues and May 2000 revenues.

In addition to gaming taxes, the casino industry pays sizeable amounts of other taxes and fees to the state and local governments in Mississippi. In 1999 total Room/Restaurant taxes generated in Tunica and the Gulf Coast alone were $5,524,215. Since casino companies operate nearly all of the hotel rooms and restaurants in Tunica, it is safe to attribute 90-95% of these revenues to casinos. Approximately 40% of hotel rooms and restaurants in the Gulf Coast region are in casinos.[2] Applying these percentages to the total receipts results in an addition of some $2,444,790 in hotel and restaurant taxes directly attributable to casinos.

As of March 31, 2000, the 29 Mississippi (non-Indian) casinos employed just over 40,000 people. The average annual salary for casino workers was approximately $20,500.[3] Applying an effective annual state income tax rate of 2.5%[4] to those workers results in approximately $20,500,000 in state payroll taxes paid from casino employees' salaries.

Other direct revenues generated by casinos include retail sales taxes collected on merchandise sold inside casino properties, (probably an incalculable number--if only 10% of Estimated Tourism and Recreation Sales[5] in Harrison, Hancock, and Tunica counties is extracted, the amount would be just over $7 million) and property taxes paid by casinos and their resort properties (perhaps as much as $60 million[6], although again, these numbers are very difficult to determine since assessment and mil levies vary).

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[1] See, for example, Charles P. Cartee (Spring 2000) case study published in Economic Development Review, The State Auditor's 1998 Report from the Performance Audit Division, and the yearly Impact studies of Tourism and Recreation prepared by the Mississippi Department of Economic and Community Development (February 2000 being the most recent).

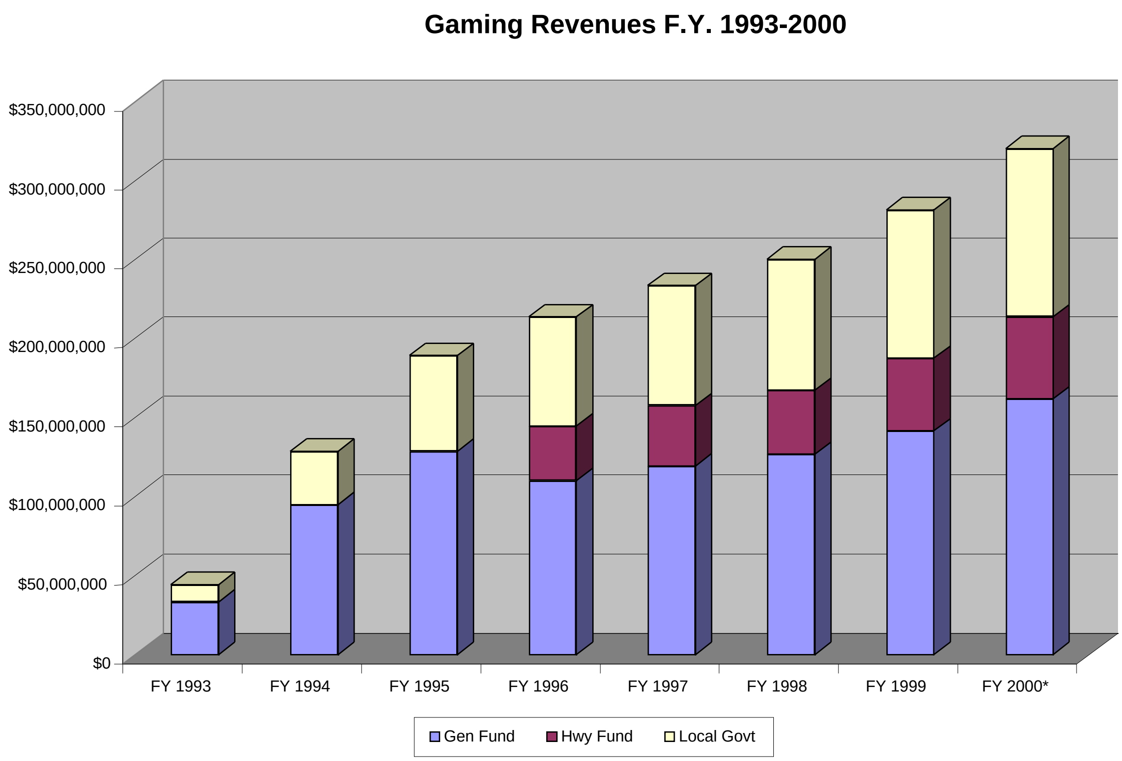
[2] Gaming Commission statistics show that there were 5,125 casino hotel rooms in FY 1999, State Tourism reports show that Harrison and Hancock Counties combined had some 12,880 hotel rooms during FY 1999.

[3] Salary was computed by dividing the total reported payroll for 1st quarter, CY 2000 by the total reported number of employees, then multiplying by 4 quarters. Data from MS Gaming Commission.

[4] Several accountants consulted suggest the effective average state income tax rate lies between 2.5 and 3.5%.

[5] These figures are calculated annually by the Tourism research unit at MDECD; data used are from "Appendix E" found in the February, 2000 report.

[6] This figure was calculated using a casino property valuation of $4 billion, at 15% assessed value, and a rate of 100 mils.



Eight Gulf Coast casinos pay annual rents to the state on tidelands leases. These monies are used to administer the Public Trust Tidelands Act and flow to the Department of Marine Resources for tidelands management costs. The combined annual payments on those leases, according to Secretary of State Eric Clark's office, were $5,470,486 for 1999. Casinos on the River areas pay levee fees. In the 1998 Fiscal Year these fees totaled $3,766,669.

II. GENERAL ECONOMIC IMPACTS

A. The Gulf Coast

The defense industry, shipbuilding, and the State Port at Gulfport remain a vital part of the Coast economy, yet the role of gaming, hotels, and retail have become the dominant job creation sectors of the Coast's economy. This provides the Coast economy with five or six growth components, which is not the norm for a community with a population under 500,000. This potential for growth resulted in the magazine, *Southern Expansion and Management*, deciding to cite the Gulf Coast as the top mid-size growth market in the South in 1998.

The level of new construction in a region is a strong indicator of economic growth (see table below). Overall, in the three coastal counties of Mississippi, the total value of commercial building permits exceeded $388 million in 1998. Both the number and value of residential building permits has risen sharply in the Coastal counties since the arrival of gaming. In 1996 and 1997, gaming developments applied for commercial building permits totaling approximately $1 billion.

Gulfport, Mississippi Commercial Building Permits		
Year	**Number**	**Valuation**
1990	97	$5,165,276
1991	104	$7,432,366
1992	118	$34,932,543
1993	225	$22,454,589
1994	246	$26,579,370
1995	207	$58,703,131
1996	224	$52,915,327
1997	376	$89,776,806
1998	358	$182,105,879

Sources: City of Gulfport and Gulf Regional Planning Commission

Prior to 1991 and the advent of dockside gaming, yearly housing starts on the Gulf Coast averaged approximately 75 per year. Since that time, the Gulfport and Biloxi housing markets have grown dramatically. In 1995, *U.S. News and World Report* (April 10, 1995) listed the Gulfport/Biloxi area as the fifth "hottest" city in terms of housing growth. The average price for a home increased 30.6%, from $80,400 in 1994 to over $105,000 in 1999. In 1999, the average number of homes sold per month was 210.

Prior to the arrival of the first dockside casino, the Coast had approximately 6,400 hotel rooms with virtually no new hotels under construction. Today, by comparison, the Mississippi Gulf Coast has over 15,000 rooms, which represents a 130% increase. Additionally, the Gulf Coast has been home to world class entertainment. Both locals and visitors alike can view the Cirque du Soleil circus *"Alegria"* at Beau Rivage, enjoy professional boxing, or watch entertainers as diverse as Bill Cosby, Tony Bennett, or Tracy Lawrence perform on the Coast.

B. North River Area

In addition to casino development in Tunica County, over 1,000 multi-family dwelling units have either been built, are under construction, or are in the planning stage. Much of this residential development has been prompted by the construction of a new school near Robinsonville. Additional single family dwellings are expected in the near future as development for several subdivisions have already met approval.

Retail sales have also had a positive impact on Tunica County. Last fall, the Casino Factory Shoppes opened with many of the store owners reporting that sales have been as much as 60% better than projected. Preliminary plans now call for a second phase of development. Upon completion, the 600,000 square-foot retail outlet will cover 60 acres of land. During the summer of 2000, the 48,000 square-foot Tunica Arena & Exposition Center is due to open and the Federal Aviation Administration has given approval and licensing for a $35 million expansion of the small regional airport facility.

In 1992, Tunica had one motel and a total of 20 rooms. Today, Tunica has 6,093 hotel rooms and 225 rooms currently under construction. According to the Tunica Convention and Visitors Bureau, Tunica County is one of the fastest growing destinations in the nation. It is believed that the addition of the new $21 million convention center will help lure conventions and groups too large for individual properties.

Also of note in Tunica, Isle of Capri casinos is preparing to open the Paradise Entertainment Center, a $14 million complex with two theaters under one roof adjacent to its Tunica County casino in Robinsonville. The larger of the two theaters, Flamingo Bay, will seat 1,280 people. The smaller venue will be a multi-purpose facility that will seat 500 people.

C. South River area

In the South River area, growth is also evident. For example, Natchez has a new Visitor’s Center and Convention Center that will be useful in promoting overall tourism as well as gaming tourism in the area. Greenville's casinos employ some 1,600 personnel, and personal disposable income in Washington County has grown from just over $240,000,000 in 1991 to more than $332,500,000 in 1997. The number of individual taxpayers in the county increased 16% during the period 1993-1997.

D. Statewide Impacts

1. Employment

In discussions with the Tunica Convention and Visitor’s Bureau and the Tunica County Planning Department, the Harrison County Development Commission, Adams County Economic Development Authority, and the Vicksburg Chamber of Commerce, the casino employment patterns were established.

According to the Mississippi Gaming Commission, total casino employment in Mississippi as of June 30, 2000 is 40,059. Of this number, 9000 are Tennessee residents, 3,650 are from Arkansas, 2,389 are from Louisiana, 400 are from Alabama, and 29,620 are from Mississippi. Many of these Mississippi residents live in non-casino communities and commute to the casinos to work. Wages and salaries for casino employees in the same period total nearly $800,000,000, according to Gaming Commission data. Based on this information and the employment patterns shown above, total employment dollars by state and general spending patterns can be established.

State	Emp	% Emp	Wages	Spendable portion
Mississippi	24,837	62%	$496,000,000	$208,320,000
Tennessee	8,813	22%	$176,000,000	$73,920,000
Arkansas	3,605	9%	$72,000,000	$30,240,000
Louisiana	2,404	6%	$48,000,000	$20,160,000
Alabama	400	1%	$8,000,000	$3,360,000
Total	40,059	100%	$800,000,000	$336,000,000
Spendable (after-taxes and housing costs) income for Mississippi residents is computed at 42%. It is assumed that the remainder is spent in Mississippi. This method may overestimate the effects for non-resident employees, however, there is no known data suggesting the extent to which these employees spend their wages in Mississippi versus in their home state.				

Source: data from various Gaming Commission reports.

In addition to these direct wage effects for casino employees, a multiplier can be used to compute the overall effects of employment to the state economy created by employees' spending. The U.S. Chamber, in its publication What 100 New Jobs Mean to a Community, has computed the multiplier for hotels and amusement to be 1.88. Mississippi's multiplier, computed by the State Economist, is 1.45 for gaming employment.[7] Applying this multiplier to the figures for casino employment in Mississippi yields the following result:

Direct Casino Employment		40,059
Indirect and Induced Impact		
Construction	721	
Manufacturing	2,163	
Trans., Comm., Util.	1,622	
Wholesale/Retail	3.425	
F.I.R.E.[8]	1,442	
Services	8,292	
Other	361	
		18,027
Total Employment Impact		58,086

Casino employment in Mississippi provides a substantial number of new jobs to the economy, and through the multiplied effects of the wages paid by casinos generates even more. These induced and indirect impacts are felt through all the various sectors of Mississippi's economy. Average wages and benefits paid by casinos are within line or slightly better than other

[7] This is for "amusements/recreation/service" category. The multiplier for lodging is 1.54, and for eating and drinking establishments is 1.28. No breakdown of casino employees *by category* is available, so this report classifies all employees as gaming, utilizing the 1.45 figure. We recognize this slightly alters the results.

[8] Denotes the Finance, Insurance, and Real Estate sector.

service sectors in the state. Wages earned by casino employees are spent on a variety of goods and services in Mississippi, resulting in a substantial impact to the overall economy. Even non-resident employees of Mississippi casinos are purchasing goods and services in the state[9], thereby adding to the state's economic base.

2. Retail Sales

The 1990s has been a decade of solid growth in retail sales activity nationwide. Average annual growth in retail has been 5.5%, with the rates accelerating in the latter part of the decade. Mississippi's growth has topped the national rate at an average increase of 6.6%. While some casino gambling communities outperformed the state, others did not. Hancock, Harrison, Neshoba, and Tunica counties all had average annual growth in retail sales that were higher than the Mississippi average, but Adams, Coahoma, and Washington did not. Warren County's growth was in-line the with state average.

The state's retail sales growth has outpaced the U.S. average in the past decade, but the extent to which gambling can be credited for that performance is difficult to ascertain. One piece of evidence is the extent to which retail sales growth has outpaced the overall state's growth in those counties that tend to attract the greatest number of casino gamblers, and particularly in the counties attracting many out-of-state casino visitors.

Annual Retail Sales Growth--Gaming Counties & State

	FY '91	FY '92	FY '93	FY '94	FY '95	FY '96	FY '97	FY '98	Average
Adams	3.30	2.80	2.80	6.60	4.10	1.50	5.10	7.50	4.21
Coahoma	2.60	5.60	6.50	11.60	9.30	-10.90	2.40	3.00	3.76
Hancock	11.00	3.80	22.00	31.00	-6.60	3.20	6.50	23.50	11.80
Harrison	1.60	7.10	11.80	30.60	2.30	-7.40	22.30	9.90	9.78
Neshoba	5.90	14.20	4.00	16.10	11.80	6.30	12.70	27.20	12.28
Tunica	2.70	4.90	54.40	286.10	-3.60	-5.60	74.20	-16.20	49.61
Warren	9.00	2.10	1.90	25.50	2.80	-2.30	14.30	-0.80	6.56
Washington	-2.40	0.20	3.40	4.30	6.50	-4.10	9.60	2.30	2.48
STATE	2.60	3.50	7.40	13.30	7.20	-4.50	16.40	6.90	6.60

Source: Computed by author from U.S. Census Bureau data.

In those counties where casino gambling is more of a local activity, retail sales growth has tended to be below the state average, lending some credibility to the so-called "cannibalization" or "substitution" effects. In other words it appears that some local spending is being shifted from general retail business to the casinos. Gambling obviously has provided retail sales stimulus in the "destination" markets of the Gulf Coast and Tunica, but its effects on sales in other state casino market areas is less certain.

[9]Again it is noted that there is no reliable way to ascertain the extent to which non-resident casino employees purchase goods and services in Mississippi. At a minimum, they are likely purchasing gasoline, meals, and so forth.

3. Casino Purchases of Goods and Services

Between 1992 and 1999, casinos in Mississippi have spent a total of about $4 billion in construction. While precise figures are unavailable, anecdotally several casinos told researchers that they bought materials and supplies locally where such items were available. Obviously, these purchases have had a positive impact upon the state's economy. Likewise, many casinos have ongoing relationships with local suppliers of various items, including produce, seafood, linen services, and other items. In interviews with casino executives, however, it was noted that some needed items were not available from local sources.

Reports from the state Gaming Commission show that in the third quarter of fiscal year 2000, casinos in Mississippi spent $44,470,464 on gaming equipment. Of the 40 or so currently licensed manufacturers and distributors of gaming equipment listed by the Commission, only 5 are headquartered in Mississippi.

III. THREE SEPARATE CASINO GAMBLING MARKETS

Mississippi is not one destination for casino gamblers, but rather, three. This research has taken a careful track to examine and illustrate the differences and similarities among these three markets. Because of the language in the authorizing legislation, non-Indian casinos can only locate, generally, in one of these three areas: the Gulf Coast, the North River region comprised of Tunica, Robinsonville, and Lula, or the South River region including such Mississippi River sites as Natchez , Greenville, and Vicksburg. Each market is detailed below.

A. Demographic Profile of Gamblers in Mississippi (See Table 1 in Appendix B)

1. The median age for gamblers in Mississippi is 49 for all regions except the South River, where the median age was 39. By comparison, the median age in Las Vegas is 49.
2. Mississippi's market is primarily female, in the range of 55% female and 45% male.
3. Except for the South River region (56%), more than 70% of gaming patrons report no children at home below 18 years of age.
4. Mississippi gamblers have higher levels of education with more than 46% of all respondents reporting having either attended college, graduated from college, or completed graduate school.
5. The majority of Mississippi gamblers are employed full-time. The Gulf Coast has the highest percent of retired patrons with 34%, followed by the North River region with 27% and the South River region with 17%.
6. North and South River patrons report median incomes of between $30,000 and $39,999, while the Gulf Coast respondents report median incomes of between $40,000 and $49,999. A study of the North Mississippi overnight guest market for the State Department of Tourism found average incomes of $38,292.51, in line with our study findings.
7. In the three markets surveyed, out-of-state gamblers made up 78% of the North River market, 23% of the South River market, and 61% of the Gulf Coast market.
8. The primary states of residence for visitors to each market are as follows:

Residence	Gulf Coast Region	North River Region	South River Region
Mississippi	39%	22%	77%
Alabama	14%	5%	2%
Arkansas	<1%	11%	3%
Florida	14%	<2%	<1%
Georgia	4%	2%	1%
Illinois	<1%	4%	1%
Louisiana	15%	<1%	11%
Missouri	<1%	5%	none
Tennessee	<1%	32%	none
Texas	2%	1%	1%
All others	9%	15%	3%

B. Gamblers in Mississippi Travel Habits (See Table 2 in Appendix B)

1. The vast majority (90%) arrive in private automobiles.
2. Mississippi was the final destination for 61% of patrons at the South River casinos, for 79% of patrons at the Gulf Coast casinos, and for 76% of North River patrons. Unplanned or impulse stops comprised 24% of visits in the North River region, 21% of visits in the Gulf Coast region, and 39% of visits to the South River region. This information reinforces the need for numerous and visible road signs and billboards to attract casino visitors.
3. More than 60% of visitors in all three markets reported coming to Mississippi more often since the legalization of gaming.
4. Most people (56%) did not seek any information to plan their trip to Mississippi. Among those who sought information, friends and relatives were the most frequently utilized. Very few respondents used the remaining sources of information, such as web sites, State Welcome Centers, etc. This probably results from the fact that the respondents had visited the casinos before and knew where they were going.

   According to American Express Travel Trends Monitor people rely on a variety of sources when planning a <u>vacation</u>:

Friends / Family	28%
Travel Agency / Agent	26
Magazine / Newspaper Ads	16
Travel Guides / Directories	14
Internet	11
Travel Articles / Columns	8

   These sources of information become more important as the state targets less avid gaming tourists to Mississippi. For example, some studies are already showing the Internet becoming more important as a source of information for vacation traveling. This means Mississippi officials need to recognize the growing importance of this vehicle in their marketing strategy for the state.

5. Overnight stays range from a low of 18% in the South River market to a high of 47% in the North River market. Twenty-four percent of Gulf Coast patrons stayed overnight.[10] Overall, 42% of non-resident guests to the state report staying overnight.
6. Seventy-eight percent of non-resident guests report they have no immediate family in Mississippi.
7. Casino patrons travel with others since averages are over two guests in the traveling party in each of the three markets surveyed.
8. The number of patrons spending the night in non-casino owned lodging on the Gulf Coast is 38%, followed by 30% in the South River region, and 9% in the North River region.
9. Of those spending the night, guests stay longer on the Gulf Coast (3.31 days) than in either the North River region (2.53 days) or the South River region (1.71 days).
10. Mean expenditures for food/drinks, shows/entertainment, and shopping all lag behind Las Vegas. Sightseeing expenditures are significantly higher in Mississippi. It should be noted that this suggests that opportunities exist in these areas for non-gaming development.

[10] These percentages reflect participants in our survey--it should be noted that two major properties did not participate in the survey, and thus their hotel guests are not reflected in these figures.

GAMING GROWTH ANALYSIS

Mississippi has seen the greatest, and the fastest, growth of any of the casino markets opening since 1990. A former Governor labeled the state's growth during the early 1990s "The Mississippi Miracle." Others have been less effusive, but all agree that the growth has been extraordinary. What is less certain is to what factor or factors that growth can be attributed, and to what extent it can be counted on to continue.

I. CAUSES OF GAMING GROWTH

A. Free-Market Regulatory Structure

Mississippi, unlike the majority of states authorizing casinos since 1990, has adopted a market-oriented regulatory structure. Simply stated, while most locations limit the number of casino licenses which may be granted, and many also place credit, loss, or wager limits on betting, Mississippi has chosen to allow full and open competition among casinos.

Both the state and the casino industry have benefited tremendously from the overall economic expansion, which has accompanied the legalization of casino gambling in Mississippi. It is difficult to imagine that a similar level of growth would have occurred in the absence of the booming national economy. Yet clearly the state's decision to allow market forces to work must also receive partial credit for the phenomenal growth in casino revenues here.

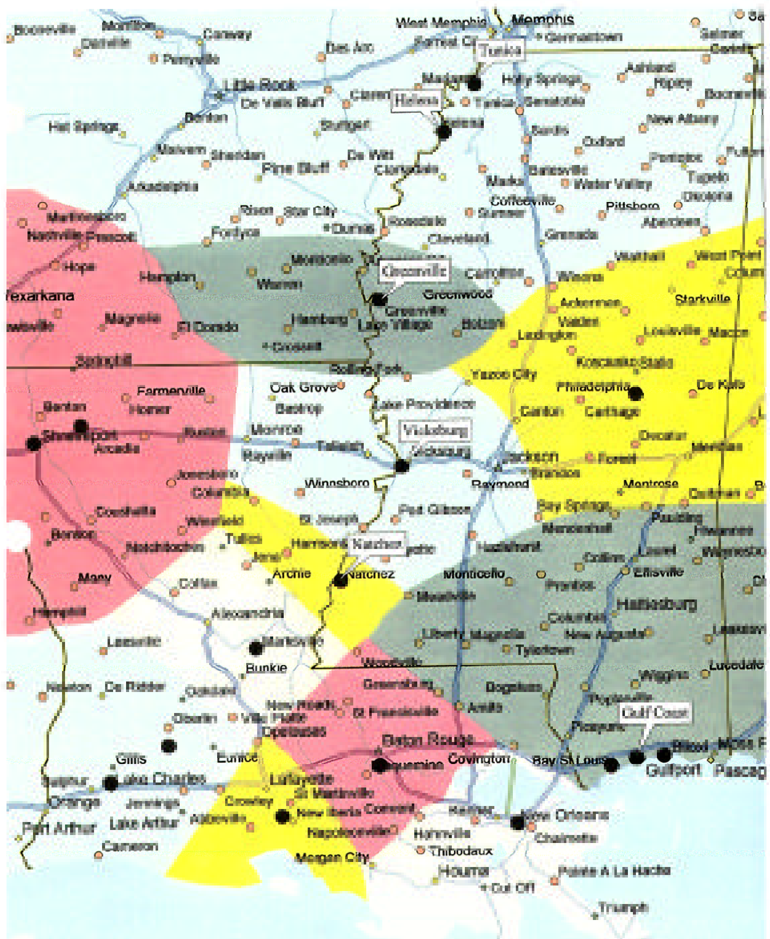
B. Geographic and Demographic Benefits of Mississippi

Part of the explanation for the dramatic growth in casinos in the state lies in simple geography and the lack of alternative casino gambling venues, other than those in Louisiana, in the Deep South. A typical "day-trip" distance for persons travelling by car is 150 miles. Within that distance of the Gulf Coast there are some 3,950,000 residents. Another 3,425,000 live within 150 miles of the Tunica area. Several large metropolitan areas in Florida, Alabama, Arkansas, and Tennessee are within that driving distance and have few competing gambling opportunities.

The North River and Gulf Coast are large enough and capital intensive enough to continue their attraction through investment and renewal. The trade area map on the next page shows the geographic areas from which each gaming center draws. Greenville, Vicksburg and Natchez each have tight limited market areas. This local traffic is sufficient for small gaming facilities, but is not large enough, nor geographically located for growth. The North River region and the Gulf Coast have large day trip (150 miles) populations and have little to no competition.

The Gulf Coast has New Orleans as its nearest competitor. The opening of Harrah's New Orleans has had minimal impact on Gulf Coast casinos. The lack of hotel rooms and adequate food and beverage facilities limits the extent to which Harrah's can be expected to erode the Gulf Coast market. Other Louisiana casinos also act as limits on the ability of Mississippi casinos to penetrate various markets in that state and in Arkansas. These limited areas are shown in pink on the trade area map.

Statistical Trade Areas



Street Atlas USA, copyright 1996 DeLorme

The North River region also has a large geographic trade area with a large population concentration. This market faces little to no competition from Louisiana casinos, and has no direct competition to the north. Further, the interstate system converges on Memphis, just north of Tunica. Memphis is also a major airline hub giving the North River region potentially easy access from a broad geographic area.

C. Growth in the National Gambling Market

The 1998 National Gambling Impact Study Commission report contrasted the past-year gambling habits of Americans in 1975 and 1998. For casinos, the growth was phenomenal: in 1975 only 10% of Americans had visited a casino in the past-year, by 1998, that number had grown to 29%. The total amount Americans wagered and lost in all legal gambling venues, including lotteries, racetracks and so forth, in 1998 was $50 billion. Most experts expect the growth to continue.

The expansion of legal gambling has been accomplished primarily along two fronts in the U.S.: first, states have adopted lotteries and/or authorized casinos, often as a means of generating additional state revenues or (in the case of casinos) economic stimulus; second, certain changes in federal law have provided for dramatic expansion of Indian tribal casinos. The combined effects of this growth now place some form of legal gambling in all but two U.S. states.

II. INDUSTRY GROWTH VERSUS GENERAL ECONOMIC EXPANSION

A 1998 report to the California State Legislature compared the revenues earned by various gambling industry segments in 1982 with 1996. In both years, casino gambling accounted for about 40% of the total (although if Indian casinos are included the segment share jumps to 48%). The absolute dollar amount of revenues soared during the same period from $4.2 billion to $17.5 billion ($22.9 billion if Indian casinos are included). An important question is, to what extent can growth in casino revenues (both nationally and especially in Mississippi) be attributed to *general economic expansion*?

The study team is first to acknowledge that there can be no absolute answers. One cannot logically separate the economic activity from the environment or historical context in which it occurs. There are, however, various statistical techniques that can provide partial answers to this question.

Goodman and Associates, a consultant contracted for this study, utilized a variety of methods of analysis to determine the extent of economic growth in Mississippi as a result of gaming. Their analysis included comparisons between Nevada and Mississippi gaming growth, analysis of gaming revenue growth relative to the consumer price index, trend analysis, and comparisons of retail sales, "pull factor[11]" trends, and the use of "location quotients."

In general, the Gulf Coast gaming counties (especially Harrison) and Tunica County showed marked improvement over the state as a whole in most of these areas. Results were mixed in other gaming counties, however, with little evidence of substantial positive impact.

Comparing Mississippi to other states shows that the most impressive gains brought by casino gambling are in employment and income in the service sector, and growth in retail sales. According to a new Census Bureau report, Mississippi ranked first among all states in service sales growth during the period from 1992 to 1997, with 94.3% growth. Most other Southeastern states fared well, with South Carolina, North Carolina, Georgia, Texas, Louisiana, and Arkansas

[11] Pull factors allow one to see changes in retail attractiveness of a local community relative to the state over time. Location quotients allow one to see how employment in various SIC categories relates to the state totals over time. Numerous other demographic factors were examined as well.

all in the top 25. Mississippi was 11th in overall retail sales growth during the same period, with growth of 41.6%. All Southeastern states except Florida were among the top 25. Other sectors of the state's economy, *those that would not generally be associated with the advent of casino gambling*, such as manufacturing, finance, insurance and real estate, (F.I.R.E.) wholesale trade, and the transportation, communications, and utility sectors, (T.C.U.) showed much more modest growth: Mississippi ranked 41st in manufacturing, 36th in F.I.R.E., 29th in wholesale, and 38th in T.C.U growth.

All of these findings are in line with other research discussed within this report, suggesting that the North River and Gulf Coast gaming regions are creating real economic growth by attracting large numbers of out of state visitors, while the South River region is attracting higher percentages of local patrons. This does not mean that casinos in the South River region are not important to their communities or to the state. They are.[12] Simply put, however, the gaming counties that are able to draw substantial numbers of new tourists to the state are realizing large, positive impacts from casino gaming.

III. PROJECTED GROWTH AND THREATS

Mississippi gambling revenues have grown at an average annual rate of 10.69% between 1997 and 2000. Future growth, however, may be impacted by a variety of factors both within, and beyond, the control of the state. This section reviews the major threats and opportunities to casino gambling in Mississippi.

A. Growth

Projecting the growth of revenues into the future is highly speculative business, however several methods are suggested by prior research. The first method is to use the average annual growth rate from the prior decade (not possible in this case since the state's casinos have been operating for only eight full years). The second method is to use a straight-line regression calculation based upon available years of data. Even discounting the first two years of casino operations, this method yields growth estimates of 12%[13] for FY 2001, 9% for 2002, 8.5% for 2003, and 8% for 2004. The third method requires comparison of the current status of Mississippi's casino industry to an historical period in Nevada and projection of similar growth patterns from that period on. Several financial industry experts on casinos have suggested that Mississippi is now a "mature" or "nearly-mature" gambling market, and thus they would logically expect it to begin reacting more like Nevada, which has recently experienced slower rates of growth than has Mississippi. Using this more conservative method results in growth projections of just under 9% for FY 2001, 8% for 2002, 7.5% for 2003, and 7% for 2004.

Using the regression growth estimates above, projected gross revenues for casino gambling can be calculated, as can gaming taxes. Those projections appear in the graph below. Regardless of the method one chooses, in any revenue projection, certain underlying assumptions (most notably that the economy will remain healthy and that the general market for casino

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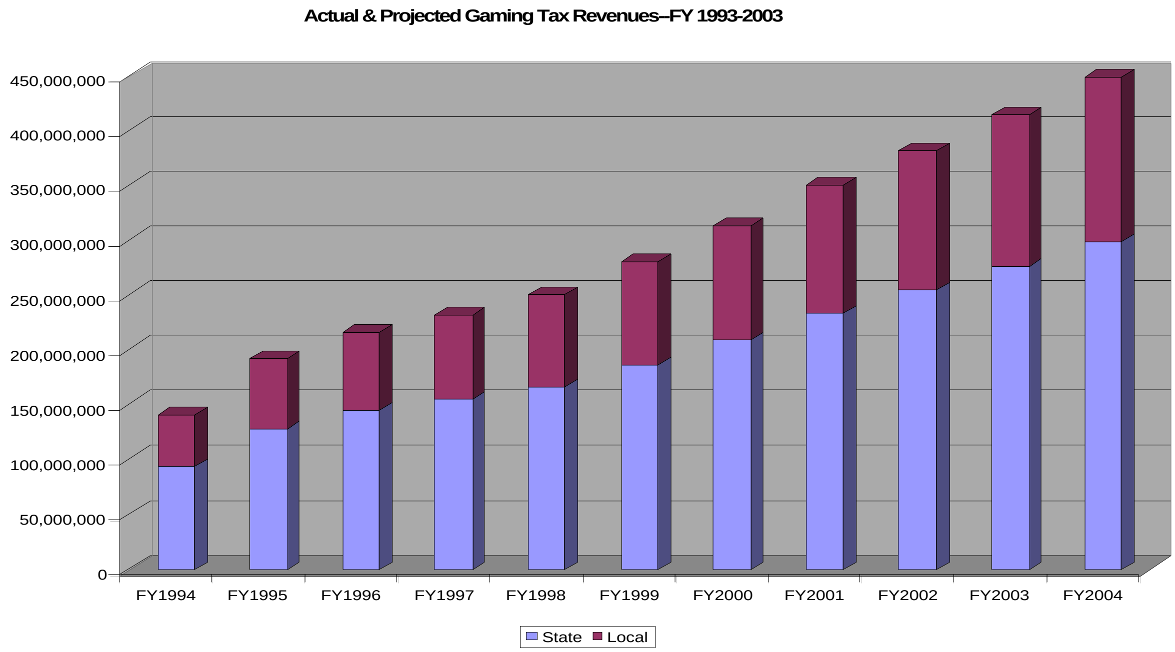
[12] A 1998 study from UNLV, for example, found that Greenville casinos positively impacted personal income, retail sales, automotive tax collections, and local ABC fee collections. The evidence regarding impact on restaurant business in the county was mixed.

[13] All of these numbers have been rounded for ease of reading. The underlying data and graphed results are available from the author.

gambling will continue its growth pattern unabated) must be met for any predictions of growth to hold true.



Growth in revenues appears to have slowed and will likely continue to do so in the near term. A mature market can continue to grow, but at a somewhat slower pace than has been the Mississippi experience during the last seven years. However it should be noted that the expansion of the primary demographic group (i.e., aging baby-boomers) suggests a countervailing force is at work. Likewise, the state of Mississippi's casino gambling market has demonstrated an ability to "grow into" each wave of expansion.

B. Threats

While various market changes probably pose significant threats to the Mississippi casino gambling industry, such changes are difficult to identify or quantify. In a competitive market such as those in Mississippi, a major concern is likely diminished customer interest. Casinos in particular, and especially "destination-resorts" like Las Vegas, have experienced the strongest growth during recent years. Casino experts in the financial industry expect the trend to continue.

Another potential market threat involves the ongoing round of consolidation and merger activity in the casino business.[14] In the spring of 2000, a major consolidation impacted Mississippi when MGM Grand purchased the Mirage Resorts, including the Biloxi Beau Rivage property. This trend is expected to continue. If the casino companies continue mergers and acquisitions until only a handful of companies remain, and if those companies fail to provide

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[14] Some financial analysts who study the casino industry have publicly expressed concern that excessive consolidation might lead to markets offering too little choice for gaming consumers, and thus ultimately to a reduction in gaming demand. While no consensus of opinions exists, it is prudent to at least consider this possibility as a threat to gaming's future growth.

either the variety or consistency of product that their predecessors did, these activities could have major impacts on the demand for casino gambling.

A number of factors internal to the state of Mississippi could also potentially threaten the stability of casino revenues. These primarily involve various infrastructure elements, many of which are the direct responsibility of the state legislature and various local governments. Of all the potential threats, these are the ones that can be most easily impacted by legislative action.

1. Transportation/Infrastructure

Tunica County, which has enjoyed growth and development of unprecedented magnitude, has also had its share of infrastructure challenges. In 1997, through investments by the state, U.S. Highway 61 from Memphis to Tunica was expanded from two-lanes to four-lanes. In addition, through public-private funding, access roads from the highway to the casinos were built. Currently U.S. Highway 304 is being revamped. The two-lane road is being replaced by a four-lane highway with access from Interstate 55, which, upon completion will provide an interchange directly into Tunica.

The shortfall of roadway development on the Mississippi Gulf Coast, however, is a much different issue than what has been experienced in Tunica. The lack of roadway development is the second most critical issue facing the gaming industry on the Coast. Surveys showed that the perceived quality of public transportation was rated among the lowest of all attributes by visitors relating to their Mississippi casino experience. Transportation infrastructure not only lags behind current demand, but must also prepare for future demands. The roads on the Coast are essentially the same as they were since the advent of dockside gaming although some noticeable improvements have been made.

Highway 90 in Biloxi has been widened along Casino Row, Highway 90 in Gulfport from Grand Casino east to DeBuys Road has been resurfaced, a new bridge recently opened at Henderson Point, Highway 49 in Gulfport is currently being widened to six lanes, and a few streets have been converted to one-way in an effort to improve traffic flow. The Coast cannot accommodate large numbers of vehicles on Highway 90 without complete gridlock. This issue becomes magnified if the Coast is required to evacuate should a major hurricane make landfall on the Coast. Additionally, because many of the Coast's residents have lived here for a relatively short period of time, they do not have "local knowledge" of how to get away from the Coast other than by major roads which further aggravates the evacuation. Some believe that it will probably take a catastrophic event to occur before transportation issues are addressed and resolved.

Currently, one major north-south road is under construction in Gulfport (Cowan-Loraine Road) which will certainly relieve Highway 49 for northbound and southbound traffic in the central part of the county. The location of an additional north-south corridor is being debated in Biloxi. In addition to north-south roads, the Coast is in great need of better east-west traffic flow. Although several suggestions have been made with regard to the location of an east-west corridor, a final decision of where to locate the corridor and how to fund the project has not materialized. Regardless of when and where another east-west corridor is developed, adding two new lanes (one east and one west) to Highway 90 will need to be addressed because Highway 90 is now and will remain the primary roadway for both tourists and local residents.

The onset of dockside gaming on the Mississippi Gulf Coast has placed an increased burden on the existing primary road system as indicated by the following:

- Between 1990 and 1997, daily traffic on Highway 90 at Point Cadet in Biloxi increased 106% from 21,320 to 44,000 vehicles;
- Between 1990 and 1997, daily traffic at the Highway 49 and Interstate 10 interchange in Gulfport increased 86%, from 29,570 to 55,000 vehicles; and
- Between 1990 and 1997, daily traffic at the Highway 90 and Highway 49 intersection increased 73%, from 24,230 to 42,000 vehicles.

2. Air Transportation

Presently, five major airlines serve the Gulfport-Biloxi Regional Airport offering 25 flights daily to and from Atlanta, Memphis, Houston, Dallas, Orlando, and Tampa. With annual boardings of approximately 800,000 passengers the Gulfport-Biloxi Regional Airport was identified as one of the fastest growing airports in the United States as the result of a 120% increase in total passengers since 1993. This airport has also been cited as the nation's most on-time airport.

Recently new air service from Canada was introduced at the Gulfport-Biloxi airport, which is certain to expand the market further. It was announced in June 2000 that Beau Rivage and Grand Casinos have reached a joint marketing agreement with AirTran Airways to continue the carrier's low-fare flights to the Gulf Coast. The two casino operators will be partners in the deal with Casino AirLink of Tampa, Florida. The service currently brings in more than 14,000 passengers.

The Gulfport-Biloxi Regional Airport has approximately 1,300 acres of property with another 100 acres in easements. In the terminal area, more than 250 acres are available for expansion of the existing terminal, construction of additional terminals, and aircraft parking ramps. This is equivalent to the amount of land that New Orleans International has available for terminals, which accommodates more than eight million passengers per year.

Since 1995, the airport has invested $20 million to expand its terminal, infrastructure, and related facilities to better serve its customers. The airport currently has two runways. The first of which is a 9,000 foot all-weather runway, the longest in the region. This runway routinely accommodates B-747 and L-1011 aircraft operating intercontinental flights. Both military and commercial charters routinely operate these large aircraft. The second runway is 5,000 feet long. Land acquisition is currently underway to allow the extension of this runway to 8,000 feet at a cost of $6.0 million.

Visitors that travel by air to Tunica County rely heavily on the Memphis International Airport located about 30 miles away. The Memphis airport is served by 12 airlines and provides direct flight access to 88 cities. The Tunica Municipal Airport also serves Tunica County. This airport has recently received expansion approval from the Federal Aviation Administration to include runway extension and other amenities.

3. Qualified employees

One of the greatest concerns facing the casino industry throughout the state is the lack of a qualified workforce to fill vacancies. Because of the casino industry, Tunica County employs over 15,000 people in a county whose total population is less than 10,000. Tunica's workforce, described in interviews with local employers and officials generally as "unskilled and unmotivated," has been a major issue since the inception of gaming. Tunica has relied heavily on the Memphis market to find and hire qualified workers, but that market has been exhausted. Consequently, casino operators have turned to the surrounding rural towns and counties for workers only to find a population that was often ill prepared and lacking skills required for a full-time position.

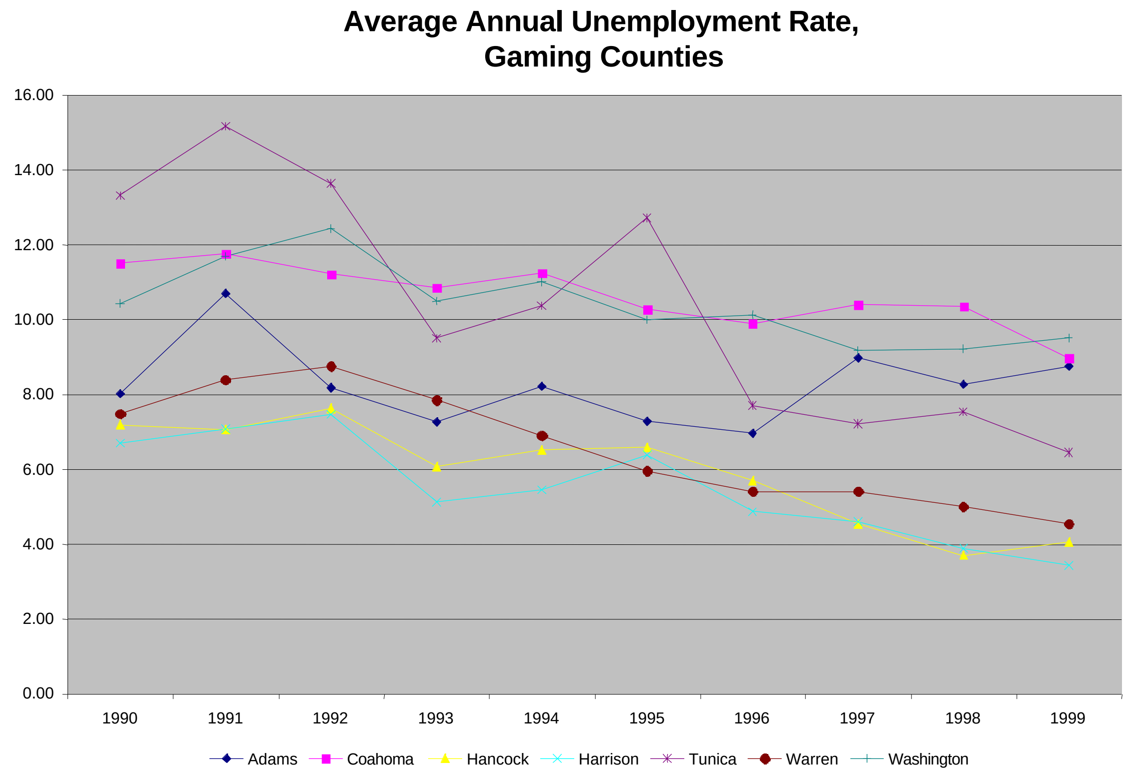
Casino operators were forced to seek more innovative ways to obtain qualified workers. One example of such innovation was the "Adopt a Town Program" that was implemented in 1997. This program seeks areas with high unemployment rates and "adopts" the area by partnering with communities, colleges, and various transportation departments to address barriers to employment, such as transportation, childcare, communication skills, and social skills.

A second example is one Tunica hotel that increased productivity dramatically by paying its room attendants on a per-room basis instead of an hourly wage. Programs such as these have relieved, but not solved, the shortage of qualified workers. The industry has clearly improved the quality of life for many people in the area as casino workers in Tunica County now receive health benefits, life insurance, retirement, and other benefits which have diminished the overall reliance on government sponsored programs.

Although the Mississippi Gulf Coast has not experienced the same challenges as Tunica County, the need for qualified workers exists nonetheless. During 1999, three Coast casinos asked the federal government for permission to hire temporary workers, under the H2-B visa program, from foreign countries to staff their hotels. At the time, unemployment in Harrison County had reached a 40-year low of 2.8% and casinos were having difficulty in filling positions, particularly with housekeepers and custodial workers. Labor department officials, however, disapproved the application because they felt the tourism industries on the Coast are not seasonal--a requirement of the program.

Employment in the services sector has shown a consistent pattern of growth, largely as a result of the strong tourism/gaming and lodging industry in the Biloxi/Gulfport area and support services for both medical and government installations. Approximately 28% of the work force on the Mississippi Gulf Coast is employed in the service sector and 20% in retail. Approximately 17% of all civilian, non-farm employment is in government. Military facilities, including both military and civilian personnel, are estimated to directly support over 45,000 persons in the Gulfport/Biloxi area.

The overall unemployment levels in the state of Mississippi have decreased in recent years. According to Bureau of Labor Statistics reports, the statewide average unemployment rate as of first quarter (calendar year) 2000 was 5.63%. The figure below illustrates average annual unemployment rates for the seven non-Indian gaming counties, during the period 1990 to 1999, inclusive.



Source: http://www.economagic.com

Finally, a number of conditions outside of the control of the state of Mississippi or the casino industry itself could potentially impact casino revenues to the state. These would include general economic occurrences such as recession, weather disasters such as a major hurricane, and the political actions of other states or the U.S. Congress with respect to gambling legalization.

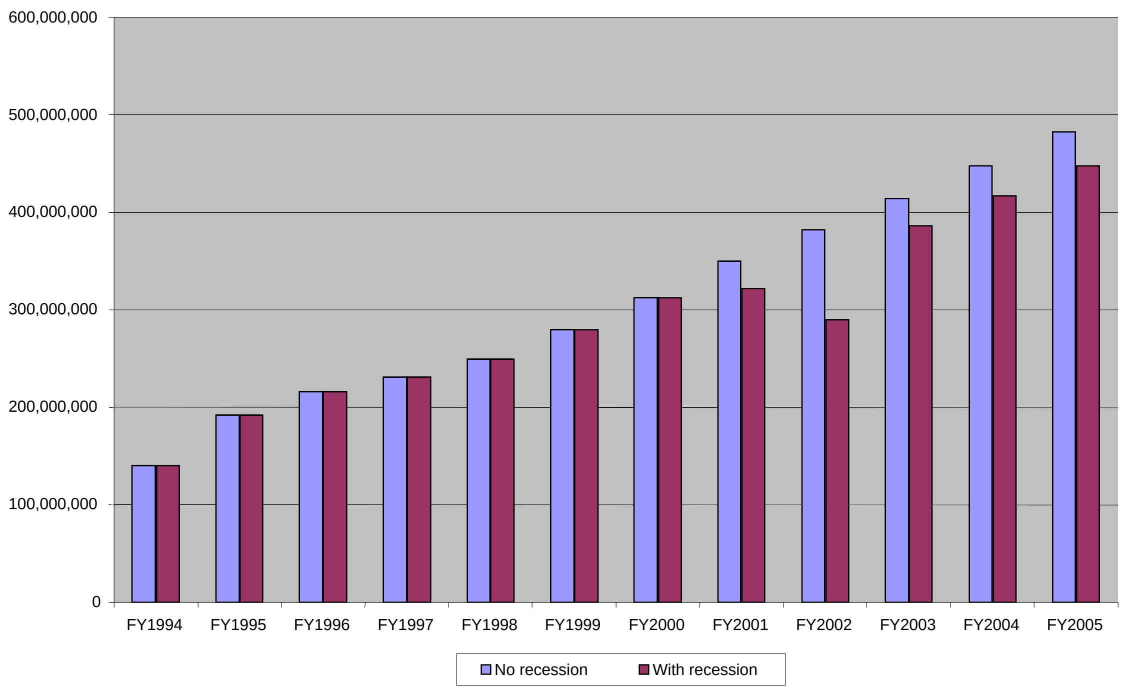
4. Recession

Nevada has experienced revenue gains between 3.4 and 4.5 % each year since 1994. Between 1984 and 1993 the average annual gain was 10% per year. This is probably the result of new gaming locations. During the recession of 1991-1992, Nevada casinos' growth was 5.30% in 1991 and then there was a decline of 10.56% in 1992. In the recovery year of 1993, revenues rebounded 34% to put the overall trend in line with the previous growth pattern. This pattern agrees with the description of the impact of recessions on gaming generally, by Mr. Clarey Zingler, large corporation auditor for Ernst and Young. Mr. Zingler spent several years in Las Vegas working for various casinos.

Would the same experience be likely for Mississippi? At this point, historical trends are unavailable because of the short history of gaming in the state. In the past four quarters, Mississippi's overall growth has averaged 4%. With 29 dockside casinos and with nearly $3 billion in gross revenues annually, the state is described by most financial analysts as a "mature" or "nearly mature" gaming market. Therefore, the only acceptable model to use for estimating the impacts of recession in Mississippi is the Nevada experience.

Following Nevada trends, a recession could cause growth to slow to between two and three percent in the first year of a recession. In the second year a decline of at least ten percent in gaming revenues is predicted, followed by an increase of 33%. When gaming returns to its normal activity the following year (2004) the projected 8% increase or more would put gaming nearly back on its original trend line[15]. Based upon Nevada's experience, gaming will not completely insulate against decreases in revenues, however it will act to quickly restabilize state revenues once the recession ends.

Gaming Tax Revenues--Recession Beginning August of 2000



5. <u>Weather and Other Natural Disasters</u>

At least 32 hurricanes have hit the Mississippi Gulf Coast, mostly in the months of August and September, since weather records were first maintained. With a dozen of the state's casinos being located along the Gulf Coast, the potential for weather disasters presents a very real threat to the state's casino revenues.

The Mississippi Gaming Commission has established a Hurricane Command Center, along with a set of regulations that detail procedures for coordinating information and for making the decision to close Gulf Coast casinos if a hurricane does arrive. The regulations stipulate that all cruise vessels which are not self-propelled in the Biloxi or Bay St. Louis bays, or on the Gulf Coast, must be moored to withstand a Category 4 hurricane including 155 mile-per-hour winds and a 15-foot tidal surge.

[15] Using the exact same percentages of growth and decline as experienced by Nevada in the 1992 recession. Of course if Mississippi follows Nevada's *general pattern*, it could have a greater than 33% rebound to return fully to its pre-recession growth trend line.

Each casino is required by the regulations to have in place a set of hurricane preparedness and response plans. Employees must be trained in relevant procedures. A spokesperson for the Gulf Coast Gaming Operators association told us that all Gulf Coast area casinos carry insurance to protect against both facility damage and business interruption (loss of revenues due to temporary shutdowns). Employees' salaries would not be covered in the event of major damage, however.

During Hurricane Georges, when Gulf Coast casinos were closed by the Gaming Commission, most casinos opted to pay the hourly salaries of their workers during the period the casinos were closed. Employees faced significant losses of income, however, since many earn substantial portions of their wages in tips. This, of course, impacted state income tax collections. A hurricane causing major damage to Gulf Coast casino facilities could result in increased demand for unemployment compensation or other state assistance.

The 1998 experience with Hurricane Georges was fairly mild. Most casinos were only closed for a few days, and thus the impact on state revenues was minimal. However, a major (strong Category III or Category IV) hurricane on the Gulf Coast, especially if it included a noteworthy storm surge, would cause significant damage to many casino properties. Even if some properties withstand such a storm without incurring major damage, all casinos would likely be shut down for a number of days or even weeks due to road flooding and general security concerns of local officials if a major storm were to hit the area directly.

Based upon average 3rd quarter revenues for 1999 and projected growth patterns, we estimate that the combined loss to state and local governments would be at least $407,221 for *each day* that casinos on the Gulf Coast were closed due to a hurricane in 2000. Growth projections suggest that figure would be about 9% greater in FY 2002, and 8% greater in FY 2003. There is virtually nothing the state can do to *prevent* these losses. Having adequate hurricane recovery procedures in place is the best course of action that state and local government can take in order to minimize these effects.

6. Expansion of Legal Gambling In Neighbor States

One of the most difficult potential threats to predict and/or quantify is the possible legalization of casino gambling by one or more of our non-casino gambling neighbor states. Since most Mississippi casino visitors are day-trippers, travelling to the casinos in private automobiles, it is reasonable to assume that any legalization of casinos by a non-casino neighbor state would result in the loss of a portion of that state's current visitors to Mississippi. Other visitors to Mississippi casinos currently drive through one or more of these neighbor states, and they may elect to visit the closer casino instead. [16]

This concept is generally known in economics as "friction-of-distance," and simply stated, means that the further one is from a particular point, the less the likelihood that one will go to that point, all other things being equal. The current number of visits (*not visitors)* or literally, the number of persons who annually pass through the doors of the state's 29 dockside casinos, and their state of residence, is shown below.

[16] The principal author of this report has studied the politics of legalizing various forms of gambling for the past 11 years. She firmly believes that neither Alabama, Tennessee, nor Florida is likely to overcome the various political hurdles required to pass casino gambling legislation in the next decade. Opinions differ however, and so in order to fully answer the legislature's questions about potential threats, this material is included as a "What if?" analysis.

Number of Visits From Various States:

Tennessee	7,384,540
Alabama	5,486,275
Arkansas	5,396,794
Louisiana	5,074,824
Florida	4,379,752
Georgia	2,371,239
Oklahoma	1,672,966
Texas	1,470,331
Ohio	564,845
North Carolina	385,885

If gaming were to be legalized in Tennessee, Alabama, Florida, or other states in the region, the impact would be significant. The likelihood of all three locations legalizing gambling is extremely small, however, such an occurrence represents the "worst-case" scenario upon which to base a discussion of this potential threat. If all three states allow casinos, and three open in each state with at least 6,000[17] slots each, the effect would be as follows:

STATE	PRESENT TAXES TO MS	REVISED TAXES TO MS
Tennessee	$39,876,520	$7,177,774
Alabama	$29,625,886	$8,887,765
Arkansas	$29,142,691	$14,571,345
Florida	$23,650,663	$2,365,066
TOTAL	$122,295,760	$33,001,950
To State GF	$81,530,506	$22,001,300
To County	$40,765,253	$11,000,650

Given this new competition, Mississippi would lose $89,293,810 in gaming taxes, $29,764,603 of that would be lost to the gaming counties. While the potential for such legalization is certainly open for debate, the consequences are clear. If one or more of Mississippi's neighbors legalizes casinos, and especially if they choose a market-oriented approach, the losses to Mississippi would be substantial. The state's best defense is to encourage continued growth through a competitive tax structure and open market philosophy.

7. Internet Gambling

In 1998, Congress issued its report on the impact of gambling in the U.S. That report included various recommendations, including a call for continued scrutiny of the emerging

[17] The underlying calculation, by Lowell Goodman and Associates, utilizes MDECD tourism data and a figure for "average drop per visit" from the Gaming Commission, and represents the loss of gaming tax revenue under the three-state "worst-case scenario" described above.

internet gambling market. As internet gambling has continued to expand, some have called upon Congress to take action limiting the availability and access to such sites. While this may be needed, much of the internet gambling is beyond Congress' reach, since many internet gambling sites are located in foreign countries.

The purpose of this study is not to determine the impacts of the internet gambling market on state casinos. Nor indeed is there any concrete information to show whether it taps into the same, or a different market, than do "brick and mortar" casinos. Clearly there would be some current casino gamblers who *would not enjoy* internet gambling, for a major reason often cited for coming to casinos is "to socialize" or "to have a good time." Internet gambling is primarily a solitary activity, and it does not provide opportunities for complementary activities such as dining, shopping, or attending entertainment events. It also will likely hold the greatest appeal for problem gamblers, because of ease and anonymity associated with computers.

Clearly some portion of the Mississippi casino market is being eroded by the availability of internet casino gambling. If indeed, Congress acts to curtail internet gambling, it will likely have positive effects for Mississippi casinos. If Congress fails to act, and if the expansion of internet casino gambling continues unabated, there will likely be revenues lost. The state should urge its congressional delegation to support legislation banning internet gambling.

8. Other Threats

At least two other potential threats to the industry merit mention here. The first is an on-going challenge to the very presence of the industry in the state. In 1997 and 1998, State Ballot Initiatives number 12 and 13 were circulated, attempting to pass a constitutional amendment banning gambling and casinos in the state. Both initiatives have been judged by the First Circuit in Hinds County to be unconstitutional, although the decisions are based primarily upon procedural improprieties in the wording of those ballot initiatives and a lack of adequate (required) information regarding fiscal impacts. The supporters of those amendments have vowed to continue their attempts to ban gaming from Mississippi, and obviously this would result in serious loss of revenue and jobs were they to be successful.

Finally, some in the casino industry, as well as some political observers, have told us that the prevailing moral opposition by a large proportion of the state's residents represents a palpable threat to the industry and its future. Some casino executives told us in interviews that the *state* should assume responsibility for educating the population about the casino gambling industry and its impacts. No recommendations are made regarding either issue.

IV. SOCIAL IMPACTS OF GAMBLING IN MISSISSIPPI

Although the potential for social impacts of casino gambling upon any state is significant, the authorizing legislation for this study did not primarily focus upon such impacts. The contract specifies that they are to be briefly reviewed, however. The basis for this review consisted of compilation and examination of existing research on the topic, as well as extrapolation, where plausible, of results pertaining to Mississippi.

The research team considered including questions regarding problem and pathological gambling on the in-casino intercept surveys, but met with strong resistance from the casinos themselves. Their concern was that the extra time involved, as well as the very personal nature of the questions involved, would be too intrusive and would frustrate or alienate their customers.

Because a well-done prevalence survey was conducted in Mississippi in 1996 by The Mississippi Council for Problem and Compulsive Gambling and Mississippi State University, the team decided to proceed by discussing the general issues utilizing only the existing research. Information obtained in surveys regarding the ratio of local to non-local customers in each region has been added to provide further detail and to aid in formulation of recommendations.

A. Problem Gamblers and Their Impacts

The volume of research into problem and pathological (or "compulsive") gambling and its effects has grown tremendously over the past two decades. Appendix C, which lists the various primary and secondary data sources consulted for this study includes a large number of statewide and regional studies of problem gamblers. The 1996 Mississippi Prevalence study mentioned above, was an important first step in understanding the impact of problem gamblers in Mississippi generally, and the added impact that the legalization of casinos may have had on the state.

From the 1996 study, it is shown that nearly 5% of Mississippi residents can be classified as "problem" gamblers. As much as 2% of residents have problems severe enough to be labeled as "probable pathological" gamblers. These numbers are in line with national estimates--meaning that Mississippi does not show a significantly higher prevalence than most other states (those with and those without casinos).

The Prevalence study also reveals important facts about the demographics of problem versus non-problem gamblers, and the gambling habits of the two groups. To summarize those findings briefly, problem gamblers in Mississippi spend three-and-a-half times, on average, the amount each month for gambling that non-problem gamblers spend. Some 80% of all reported monthly expenditures for gambling could be accounted for by a very small group of so-called "heavy-spending" problem gamblers.[18] The study found that 47% of all problem gamblers in Mississippi fall into that heavy-spending group. Problem gamblers often engage heavily in various *illegal* forms of betting (either in place of or in addition to, their participation in legal gambling).

Problem gamblers in Mississippi are generally younger, more racially diverse, and more likely to be either divorced or single than their counterparts who gamble but do not experience "problem" gambling. What the 1996 Prevalence study does not alone reveal is that the impacts from these problem gamblers *are likely not* evenly distributed across the state. Our own demographic profile shows that Mississippi residents are *much more likely* to gamble in South River (76.83%) or on the Gulf Coast (39.43%) than in the North River casinos (11.49%).

The National Gambling Impact Study estimated that some three million Americans have at some time in their lives been pathological gamblers--those whose gambling is such a problem that they resort to crime, go bankrupt, lose their jobs, have serious family problems or even attempt suicide. That study also shows that about 15% of all gambling industry revenues are generated by pathological gamblers, and that each one costs society $12,000 over his lifetime. Interestingly, most of these gamblers' problems manifest themselves in *repeated* visits to gambling sites. Since residents are much more likely to visit casinos frequently than are non-residents, this suggests that in Mississippi, casinos pose a greater problem *for residents than for non-resident (and therefore less frequent) visitors*.

[18] While this seems an extraordinarily high amount from such a small group, it is noteworthy that these were *self-reported figures* from the state prevalence study. It is likely that both problem and non-problem gamblers as a group were misreporting their expenditures, and perhaps only a small portion (the "heavy-spenders") in this study accurately portrayed their losses.

A 1996 study in Wisconsin provides one of the best examples of an attempt to quantify the effects of problem gamblers in an American state.[19] The researchers looked at employment costs, bad debts, civil court costs, thefts, criminal justice costs, therapy costs, and welfare costs.[20] Total annual estimated cost per problem gambler in Wisconsin casinos[21] was $10,113. It is noteworthy that only gamblers *in treatment* were included, and thus these estimates are likely significantly higher than would be actual costs for all persons, since it is often serious (and costly) consequences such as arrest or bankruptcy, which cause persons to seek treatment.

While both time and financial constraints prevent replication of the Wisconsin study, relevant conclusions can be drawn about what it says for Mississippi. Based on Census Bureau estimates of the state's adult population in 1999, applying these rates to Mississippi would mean that there are some 100,362 problem gamblers, and of those about 40,145 are pathological gamblers.[22] Without a study of those problem gamblers and their casino visitation habits, there is no way to estimate the extent to which casinos have contributed to these problem gambling levels. **For this reason, it is strongly recommended that the state of Mississippi underwrite additional research attempting to determine what impacts, if any, casinos have had on the number or costs to society of problem gamblers in the state.**

B. Casino and Tourism-Related Crime

Another area receiving attention in both the scholarly literature and in various news reports is the possible link between casinos and increases in crime. Several issues confound attempts to quantify the extent of the linkage. First, neither casino nor non-casino jurisdictions typically maintain records of the "causes" of any major type of crime. In other words, the proximity of a casino to the site where an assault takes place does not provide enough information for us to determine whether the crime was in any way related to the presence of the casino. Of course, some crimes occur on casino property, but again, it is extremely difficult to determine whether the crime would have also occurred elsewhere in the city in the *absence of the casino*.

The National Gambling Impact Study Commission conducted two reviews of the relationship between crime and gambling, and the findings of both reports can best be summarized as "inconclusive." Part of their research found clear relationships between pathological gamblers and criminal activity; a second portion found little evidence of any causal relationship between the advent of casinos in a community and the rates of a variety of types of crime.

Certain illegal activities may also increase in the presence of destination casino resorts, such as those on the Gulf Coast and in Tunica. The 1996 Wisconsin study mentioned above found drunken driving, prostitution, and illicit drug use tend to increase in the presence of casinos.

Mississippi has never been considered a "high-crime" state. Law enforcement officials on the Gulf Coast, for example, have reported increases in certain categories of criminal activity,

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[19] Thompson, et. al., 1996. All research consulted is listed in Appendix C.
[20] The methodology carefully accounts for actual costs (such as the cost of prosecuting gamblers who embezzle or write bad checks to pay for their gambling) and uses conservative estimates where appropriate (such as including only one-half of the debts problem gamblers declared when they filed for bankruptcy on the assumption that such persons likely were not careful money managers in the first place).
[21] Wisconsin has 17 Indian tribal casinos. These estimates are based upon patrons at those facilities.
[22] Of course there are other social "problems" that likely cost the state as well, such as smoking or excessive use of alcohol, but these issues are clearly beyond the scope of this research.

such as drunken driving and burglary[23], since the advent of casino gambling. As gaming and tourism continue to expand their role in Mississippi's economy, the state and local governments must remain vigilant to provide adequate law enforcement funding for these locales, since both research and experience show that tourism tends to bring increased crime.

C. Other Social Concerns

A number of other social ills are anecdotally linked to the presence of casino gambling, but are likewise difficult to accurately associate with the casinos themselves. Suicide rates, for example, are often linked by sociologists to the presence of casinos in communities, and Nevada is consistently among the top two or three states in reported rates of suicide. A study by a University of California sociologist found that Las Vegas had *the highest rates* of suicide for any community in the nation, and that the rate was abnormally high *for both residents and visitors*.

Figures compiled by the Centers for Disease Control and Prevention in Atlanta, Georgia, show that suicide is *not* a leading cause of death in Mississippi. At 12.4 per 100,000, our rate of suicides is just one point above the national average of 11.4 per 100,000. Detailed information about specific communities, and the possible underlying causes of suicide deaths in Mississippi, would provide more detailed information to inform future policy decisions.

Bankruptcies are another area of concern. The ready extension of credit at many of Mississippi's casinos causes concern among those who counsel both problem gamblers and persons who have more general problems with credit. The proliferation of in-casino cash machines, nearby pawnshops and title loan offices, and similar ready sources of cash in casino areas suggests that the level of demand for such services has clearly increased since the arrival of casinos. Memphis, TN--the largest single "feeder" market for the Tunica-area casinos, has the nation's highest rate of bankruptcy.[24] The state of Nevada ranks first in bankruptcy filings, Tennessee is second, and Mississippi ties with California for sixth place.

The presence of 29 dockside casinos arguably presents some risk to the communities in which they are located and to the larger state as well. As tourism generally occupies an increasing role in the state's economy, an attempt to clarify and quantify the social changes which accompany tourism activity is an important task which the legislature, and possibly various federal government and/or private grant-making agencies, will need to underwrite.

[23] Data obtained from the Coast Crime Commission covers the period 1994-1999. No regional collection of data is available for the period prior to 1994.
[24] Clearly the correlation between the existence of Mississippi casinos in Tunica and the high rate of bankruptcies in Memphis cannot be directly attributed to the casinos in the absence of further study. These figures are mentioned only to *demonstrate the rationale behind* the concerns expressed, and to once again highlight the need for additional examination of this and other social issues related to gaming.

GAMING IN THE OVERALL TOURISM MARKET

The legalization of gaming brought many new visitors to Mississippi and more frequent trips from people who have visited the state before gaming. Many of these out-of-state guests are not aware of the rich history, culture, and natural attractions in the state. An important goal of this study has been to describe who these visitors are, how they arrive, what they spend their money on, how much they spend, how satisfied they were with their visit, and what needs to be improved upon. This information forms the first step in designing a strategy to ensure Mississippi can take full advantage of all the opportunities these guests bring to Mississippi.

This section of the report will look at gaming related destination tourism, the demographic profiles of gamblers in Mississippi, their travel and spending habits, satisfaction level with their visit to Mississippi casinos, and a comparison of Mississippi and non-resident gamblers.

I. INTRODUCTION

Mississippi faces numerous opportunities to reshape the image of the state. While the exact number of visitors can depend on who is counting, there is no question that the number of people coming to our state since the legalization of gaming is substantial. An article in the New Orleans City Business magazine (6/07/99) outlines an effort by the New Orleans Tourism Marketing Corporation to increase the number of regional market pleasure trips to New Orleans by increasing their advertising spending. The article sites losing 600,000 visitors to the Mississippi Gulf Coast in 1998. Further evidence of Mississippi's ability to draw guests from outside our state is provided by The Memphis Business Journal (2/27/98) listing the largest Memphis-area tourist attractions. The number one attraction was a Mississippi casino and 7 of the top eight were all Mississippi casinos. Using this base to build Mississippi's revenue base and to enhance the state's image with many who are new to our state, will also grow our non-gaming tourist revenues and jobs throughout the state.

II. THE DESTINATION TOURISM MODEL FOR CASINO GAMBLING

In a meeting with economic development volunteers and professionals attending the University of Southern Mississippi's New South Economic Development Course in Biloxi, MS, in September of 1999, Barry Shier, former CEO of the Beau Rivage, provided an overview of destination resort tourism in the gaming industry and addressed factors which drive that market. These "drivers" are: lodging, air service, restaurant variety/quality, retail opportunities, non-gaming leisure attractions, size/quality of convention facilities, and non-gaming entertainment options. The concept and "drivers" he presented were discussed with casino managers in Mississippi and with several Las Vegas casino executives during our face-to-face interviews. There was strong consensus that the factors described were indeed key to creating a gaming destination resort.

In reality there is no "magic bullet" for increasing the stays of gaming visitors and getting them to spend more money on non-gaming activities. This research shows who is coming and what they are doing while here. The factors that influence visitors to come to the state are known as well. Therefore, the most efficient way to influence gaming visitors is by enhancing the "drivers" of destination tourism, and then providing well-designed and coordinated marketing of Mississippi destination resorts in targeted feeder markets.

In identifying the drivers, areas are also identified where enhancement should result in higher numbers of out-of-state visitors spending more nights in Mississippi and more money on non-gaming activities. Both Mr. Shier and a proprietary study done for Harrah's Casinos indicate that Las Vegas visitors spend about 50% of their trip budget on gaming and 50% on non-gaming activities. In Mississippi, a much higher percentage is said to go to gaming because other amenities are not as well developed as they are in Las Vegas.

A. The Drivers and Their Potential in Mississippi

1. Lodging and Air Service

Obviously, tourists will not travel to and stay overnight in areas that do not have an ample quantity of quality, reasonably priced rooms. Not so obvious is the fact that airlines only increase service if hotel rooms are available to handle in-bound visitors. More, better, and less expensive air service is a key to bringing in more visitors and conventions, and also is a key factor in industrial/distribution recruitment, making air service even more important.

A review of the growth in available air service that has occurred at Mississippi's casino gambling locations, particularly at the Biloxi-Gulfport Regional Airport was prepared for this study. That review reveals that, between 1990 and 1999, total passenger activity at that airport increased by an average annual growth rate of 22.6%. Charter flights bring about 6,000 passengers each month, and a trial package last winter from Canada was so successful that it is being expanded for next year.

Gaming in Mississippi has been directly responsible for the construction of thousands of new hotel rooms, primarily on the Gulf Coast and in Tunica, but to a lesser extent in the South River Markets as well. Part of this construction was due to Gaming Commission regulations that require non-gaming expenditures equal to at least 50% of the cost of the casinos. The trend throughout the industry (in open and competitive markets such as Mississippi) has been going in the direction of even further non-gambling development within casino properties.

Much of the non-gaming revenue growth at casino resorts most likely results from the fact that gaming patrons tend to spend a majority of their funds at the casino in whose hotel they are staying. Any incentives to encourage investment in hotel rooms or related services over and above the state mandated investment minimum will likely result in more air service, more tourists, more gaming taxes, more property taxes, and more sales taxes.

The evidence in Mississippi to date shows that the market has had no difficulty absorbing the increased hotel capacity; Gaming Commission occupancy rates for the third quarter of fiscal year 2000 reveal that 83.39% of rooms in the North River region and 84.01% of Gulf Coast region rooms were filled. The occupancy rate in the South River region was lower, at 71.06%. Less than 1,000 new rooms were listed in the report as "under construction or planned."

The availability of funds in the Matching Grants program at MDECD for communities to use in attracting new and/or upgraded commercial air service is important. Creative use of such funds in the past played a major part in bringing Southwest Airlines to Mississippi. **It is time to create designer incentives for the airline industry similar to those given to manufacturers since better, more frequent, reasonably priced air seats will translate directly into increased dollars for the state and also help attract new business and industry.**

2. Restaurants

There was strong consensus that visitors will not remain in areas which do not provide great food options. Certainly this is a strong point in Mississippi with numerous excellent casino-related eateries joining Mississippi's already notable array of quality restaurants. Tunica is the exception to this rule in that there are few choices outside of the casinos. But the Tunica casinos have done a good job in creating top quality food options.

3. Retail

Women dominate the retail sales market and there must be outstanding shopping options if they are to extend their stays in gaming markets. This is a tremendous weakness in Tunica--though it is improving. Unfortunately, shopping opportunities are also sub-par in other Mississippi gaming markets when compared to major U.S. metropolitan areas.

The Gulf Coast appears to be overdue for a major retail development and this will almost certainly follow residential and tourism growth *if* suitable property and infrastructure are available. Retail development should also occur naturally in the Tunica area as hotel and tourism growth continue. Desota County should benefit from that growth as well (as will Memphis).

As Coahoma, Washington, Warren, and Adams County gaming markets are more local than destination type markets, retail growth in those counties will be more difficult to spur. The major government incentives used to attract retail facilities in Mississippi are currently CDBG grants and Tax Increment Financing. The continued availability and viability of those programs is important to retail growth in eligible counties. The lack of access to state CDBG funds in metropolitan statistical areas is a deterrent for industrial and retail growth in the state's larger cities.

Cities and counties also have the option of using §17-21-5 and §17-21-7, which allow them to provide for property tax exemptions in defined central Business Districts. This law is little known and not widely used.

Retail options--especially high end and low end (outlet type) malls--are important to tourism and can help increase length of stays in gaming communities, thus increasing sales and property taxes. **Increased emphasis on the recruitment of major retail developments to Mississippi will increase state and local tax collections in all gaming communities, but especially in Tunica and the Gulf Coast. The MDECD should make such recruitment one of its priorities.**

4. Leisure Attraction

Leisure Attractions are any activities which give non-gaming, recreational, leisure time options to visitors. Those activities whose patrons share the most similar demographics to gaming patrons obviously offer the best option to attract more gaming visitors and keep them longer.

Auto racing was often mentioned by casino executives as the perfect complement, as was golf. Others mentioned included tennis, boating, hunting, fishing, deep-sea fishing, water parks, theme parks, and natural/historical/cultural attractions. However, a vast majority of former gaming visitors surveyed indicated that they came "to gamble" and spent little on other activities. Most also indicated they had almost nothing in the way of Mississippi tourism information before they came and did little trip planning.

A recent change in Mississippi law (HB 1301, see more details under "State and Local Tourism Efforts, below) offers the potential to enhance leisure activities but probably needs fine-tuning--which will be discussed later. Custom-designed incentives may be needed to attract major auto racing circuits and facilities and theme parks to the state.

The efforts of Gulfport, the Port of Gulfport, the Gulf Coast Convention and Visitors Bureau, and others, to bring the international cruise industry to Mississippi are a positive step. One or more cruise ships sailing out of the Port of Gulfport would expose tens of thousands of new visitors a year to Mississippi. Many of the things needed to make cruise ship stopovers here possible are also needed to grow other tourism entities-- increased air service, better airport facilities, more hotel rooms, better roads and other physical infrastructure, and better human infrastructure. A passenger holding terminal is one of the greatest needs. House Bill 1301 could play an important part in building such a facility if the facility contained shops and restaurants that generate sales taxes.

Gulf Coast tourism officials believe the economic impact of a 1000 passenger ship stopping in Gulfport would be $100,000 per day in direct passenger expenditures. Ship and cruise spending would increase this substantially, and a ship using Gulfport as a home base should multiply expenditures several more times. However, the greatest benefit would probably come from the opportunity to change perceptions of our state and to attract repeat visitors to both gaming and non-gaming destinations. **We recommend that the Mississippi Department of Economic and Community Development work with Gulf Coast officials to insure that House Bill 1301 funds can be used to assist development of the cruise industry and that other infrastructure grants or loans be utilized as is feasible for the development of a state of the art passenger terminal at the Port of Gulfport.**

5. Convention Facilities

Approximately 10% of Las Vegas visitors attend conventions. This equates to over 3 million visitors a year and is a major factor in eliminating the seasonality of tourism. The two surveys conducted for this study show that between 2% and 4% of Mississippi visitors came here for a meeting, convention, or trade show. For Mississippi to compete for increased convention and meeting business, **it needs more and better convention/trade show facilities, more hotel rooms, better air service, and much larger public marketing budgets to complement the budgets of private sector entities**.

6. Entertainment

Obviously entertainment options are critical to the success of all destination tourism markets except those in which the attraction is so large that it becomes the entertainment--such as certain National Parks which can take days to enjoy. Sometimes the mass of entertainment options literally becomes the attraction, such as Branson, MO, and Orlando (a sleepy city with few natural attractions until invaded by Disney and a host of other entertainment giants). Las Vegas is this type destination resort. The variety and quality of entertainment in Las Vegas now allows persons of all ages to spend time and money on non-gaming activities, meaning non-gaming spouses can travel to Las Vegas and stay for days with little chance of boredom.

The casinos themselves will provide much of the entertainment needed, but a recently passed law, House Bill 1301, should be an incentive to both casinos and non-casinos to develop new and larger family entertainment facilities. Certainly NASCAR type activities, theme parks, "major" entertainment complexes, golf courses, "Imax" type complexes, virtual reality centers and other activities located in or near gaming areas help attract more visitors and help in lengthening stays of visitors. Any of these should qualify for benefits under the current plan outlined in HB1301, which is discussed in more detail in the recommendations section, below.

In summary, *a formula to bring more tourists into gaming areas, have them stay longer, spend more money, and pay more taxes would be as follows:*

> *Gaming + hotel rooms + air service + fine dining options + retail options + leisure attractions + adequate convention facilities and marketing + entertainment options = more visitors, longer stays, and higher tax collections*.

III. EVIDENCE REGARDING THE MISSISSIPPI GAMING/TOURISM MARKET

Building a market for non-gaming activities and attractions first requires some understanding of the markets the casinos are presently serving. While many states focus on how to increase the number of tourists, Mississippi can focus attention on not only increasing the number, but how to better serve the existing guests.

Ninety-five percent of respondents to an out-of-state resident telephone poll report Mississippi was their final destination on their most recent trip. The question is how to attract more money to non-gaming activities and attractions, how to increase the length of stay, and how to increase the amount of money and therefore tax revenues the state's visitors contribute. Additionally, it is significant that any new travelers from out-of-state that are attracted to Mississippi due to the increased media coverage of the state from gaming and tourism advertising will be less avid gamblers and therefore more open to any additional non-gaming activities offered throughout the state.

Interested businesses and investors can review the relevant tables in Appendix A (III and IV)[25] and determine if the profile of Mississippi's casino gambler matches a market that they are interested in. In the following text some notes of what people in this demographic profile like to do in addition to gambling are also included.

A. Characteristics of Mississippi Gamblers (See Table III[26] in Appendix B)

1. Approximately 13% of Gulf Coast and South River region patrons and 14% of North River region patrons indicated that this was their first trip to casinos in the respective destination.

2. The majority of respondents in both the North River and Gulf Coast regions indicated that they visit the casinos between one and five times per year, the plurality of

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[25] PLEASE NOTE: The actual sample size responding to individual questions varies from survey to survey. The total sample is reported in the following tables to give you an idea about the percentages. For more specific information about any question or its respective sample size please see the appropriate study in the IHL Office.

[26] The results here are from the internal intercept surveys. For a comparison of these results with those obtained in the telephone survey, please see the appropriate table in Appendix B.

South River region respondents visit 26 times per year or more. The respective median number of visits were: 8 times for the North River region, 13 times for the Gulf Coast, and 18 times for the South River region.

3. Most of the out-of-state resident respondents (71%) came specifically to gamble. Twelve percent of the non-resident respondents reported that vacation/leisure accounted for their trip to the state. Only 5% reported visiting friends or relatives as the primary purpose for their trip to Mississippi.

4. The likelihood of return is also relatively high. In the internal intercept surveys, the likelihood of return ranged from 82% in the Gulf Coast region to 88% in the North River region.

B. Comparison Between Residents and Non-Residents of Mississippi (See Table IV in Appendix B)

1. First trip to the gaming destination:

Location	Resident	Non-resident
Gulf Coast	4%	18%
South River	8%	27%
North River	4%	16%

2. Persons participating in a package tour:

Location	Resident	Non-resident
Gulf Coast	5%	21%
South River	8%	16%
North River	8%	14%

3. Percentage of revenues[27] generated:

Location	Resident	Non-resident
Gulf Coast	34%	66%
South River	69%	31%
North River	18%	82%

4. Gamblers engaged in very few activities other than gambling (98%) and dining (75%). The other most popular activities were shopping (16%), evening entertainment (14%), and sightseeing (11%). (Note: These figures in large part reflect the current lack of available activities. For example, the North River region is presently addressing the need there for entertainment and shopping activities.) The popularity of these activities is confirmed by studies from the Travel Association of America:

- Vacationers prefer to travel by car
- Dining out is a popular activity with travelers.
- Their number one activity is shopping (32%)
- Outlet shopping malls have been growing in popularity since 1997 when 37% of all travelers say they visited a discount outlet mall. Opryland theme park is being replaced by an outlet shopping and entertainment complex.
- Outdoor activities (17%)

[27] Estimated revenue for each market was determined by multiplying the average frequency of visit times the average gaming budget.

- Visiting museums or historic sites and cities (14%)
- Visiting beaches (11%)
- Cultural events / festivals (10%) Cultural and historic travelers spend more, stay in hotels more often, visit more destinations, and are twice as likely to travel for entertainment purposes than other travelers.[28]
- National / State parks (9%)[29]
- Over the past five years, 20 percent of Americans went on a garden tour, visited a botanical garden, attended a gardening show or festival, or participated in some other garden related activity.

All of these activities, attractions, and more are presently available in Mississippi. Since gambling visitors are older, a brief look at what mature travelers (defined in the industry as people 55+) prefer is warranted:

- Spend more time on the road than any other group.
- Spend more money on outdoor vacations than any other age group. This age represents 14% of soft adventure travelers and 9% of all hard adventure travelers. (Soft adventure travel, e.g., beaches and camping and hard adventure includes whitewater rafting, scuba diving, and mountain biking.)
- Account for 32% of all travelers who have visited a historic site or museum. Additionally, 18% of all historic travelers are retired.
- Travelers who attend cultural events are likely to be age 55 or older.[30]
- Aging Baby Boomers ensure this demographic profile will continue to grow. Their financial power makes them an appealing segment and they are the ones visiting our state now.

5. When respondents were asked what activities would encourage people to visit more often or stay longer the top activities, other than gambling related, were evening entertainment (14%) and shopping (11%). This is more likely to be an artifact that these visitors are not thinking about what else Mississippi has to offer. The state has never spent enough in a concerted, unified effort to build the general awareness of the opportunities to enjoy these many non-gaming activities in Mississippi. New developments along existing tourist sites, e.g., taking advantage of the Great River Road to locate more family-oriented attractions, could also help fuel tourism growth in the state.

C. Demographic Comparison Between Residents and Non-Residents (See Table IV in Appendix B)

The most predominant demographic characteristics of respondents in each region are:

1. The demographic profiles of casino visitors of both residents and non-residents are similar to gaming patron profiles on a national level. The typical Mississippi gambler is female and 45 or older. The only dramatic difference from these statistics is in the South River region where only 37% of Mississippi residents are 45 or older. In the other two gaming regions, both residents and non-residents 45 or older comprise the majority.

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[28] Travel Industry Association of America
[29] Travel Industry Association of America, Tourism Works for America Report
[30] Travel Industry Association of America, Adventure Travel report 1997 and Profile of Travelers Who Participate in Cultural and Historic Activities.

2. Residents and non-residents have similar demographic characteristics in terms of number of children living at home, occupation, and incomes.

3. Education levels of Mississippi gamblers also track national trends showing casino gamblers have achieved high education levels. Non-residents are somewhat more likely to have higher educational attainment. The percents that have attended college or received degrees are as follows:

Location	Resident	Non-resident
Gulf Coast	53%	55%
South River	47%	56%
North River	33%	49%

IV. STATE AND LOCAL TOURISM EFFORTS

MDECD's Tourism Matching Grant program has been a major success and should be further enhanced. The Tourism Division at MDECD appears to have the leadership and vision that can allow it to play a strong part in bringing key tourism players to the table and in creating coordinated marketing campaigns which include both public and private partners. However, visitors' apparent lack of knowledge about Mississippi's existing amenities--including cultural, historical and recreational--offers marketing opportunities which need to be exploited by these coordinated public/private campaigns targeted toward the known demographics and habits of persons already coming to Mississippi for gaming purposes.

A. House Bill 1301 (Family Entertainment & Sales Tax Rebate)

The development of this bill and its passage show foresight on the part of its authors and other members of the Mississippi Legislature. Because the bill was only recently passed and definitions, regulations and guidelines have yet to be developed and/or made public by the Mississippi Department of Economic and Community Development, it is difficult and would be imprudent to make substantial claims or pass judgment upon it at this time. However, elements of this bill as written offer hope of substantial incentives (sales tax rebates up to 35% of total project cost over a 10-year period), which can be utilized to encourage the development of many of the "drivers" previously discussed, for qualified projects.

These could include auditoriums/entertainment/convention-related facilities, stadiums/arenas, dining facilities, golf courses, theme parks, auto racing facilities, campgrounds, hotels, certain retail establishments, or any other family entertainment operations so deemed by MDECD to fit investment guidelines. Rebates could go to public or private entities and could go to corporations that own casinos, but not for the development of gaming activities. There are restrictions related to investment size and related to operations owned by gaming companies. All resort type hotel construction--for example those over a $12 million initial investment--should qualify under HB1301.

There are several problems with this bill as passed. Thresholds have been set too low, such that they could potentially be met by skating rinks, movie theaters, bowling alleys and other businesses which are great entertainment, but which do not and will not normally draw destination tourists or increase tax revenues to the state. It is our understanding that the purpose of the bill is to encourage the construction of major attractions that will bring outside visitors and dollars into the state, thus increasing tax revenues to the state. In other words, the state can choose to give up a little for a few years to add new investments and gain a lot in the long run.

However, as passed, the bill will also encourage the building of "entertainment" operations which will attract few if any outside visitors or dollars to the state and will simply recycle existing dollars and actually reduce tax revenues to the state and hurt existing businesses. **Therefore it is recommended either that the list of eligible businesses/activities be refined to insure that only those likely to attract out-of-state visitors are included or that the threshold investment amounts be increased.**

Local economic development/tourism agencies and MDECD also need to begin identifying, targeting, and aggressively recruiting major developments related to enhancing destination tourism opportunities for the state--using HB1301 incentives as a primarily recruiting tool. The Tunica area, the Gulf Coast and the Vicksburg/Jackson corridor offers the potential for tremendous tie-ins with existing and incoming gaming-related tourism attractions and hotels. Other river areas also have unique potential, especially in regard to historical and cultural tie-ins.

B. <u>Coordination of State/Local and Industry Efforts</u>

Casino executives with experience in both Nevada and Mississippi operations often indicated there were more coordinated marketing efforts between state and local tourism-related agencies and casinos in Nevada than in Mississippi and suggested that casinos needed better representation on such boards in Mississippi gaming markets.

The Tunica Convention and Visitors Bureau received much praise from casino executives in that area. The long-range plan developed by and for that organization was reviewed by us, and appears to be very solid. Improvements to the area airport will help bring in more and larger private planes and jets, but lack of commercial air service and the distance (in miles and time) to the Memphis airport hurts the effort to bring in guests from outside driving distance.

Similarly, coordinated marketing efforts between certain Gulf Coast casino properties and local tourism officials have been successful in expanding the area's reach into both the Canadian market and into metropolitan Atlanta. Additional coordination was cited by many during our industry interviews as a key to continuing the growth of this market.

C. <u>Other Input Related to Destination Resort Status</u>

Having received input from thousands of sources, ideas generated were plentiful. Some were huge in scope, such as "build a state-of-the-art international convention center with easy access to casinos on the Gulf Coast." Other ideas were as simple as add more road signs or provide more public transportation.

REGULATORY AND TAXATION ISSUES

I. IMPACT OF MISSISSIPPI'S REGULATORY STRUCTURE

As stated elsewhere in this report, Mississippi's regulatory structure has been widely described as "industry-friendly," "free-market," and by some as "laissez-faire." A 1996 PEER Commission report recommended certain changes at the Gaming Commission to clarify that body's role as *regulator* and distinguish it from its role as *promoter* of the casino gambling industry. Of particular concern was the Gaming Commission's role (in light of its self-proclaimed position as gaming promoter) as arbiter in disputes between customers and casinos over jackpots and payouts. The research team has reviewed the PEER report and generally supports its recommendations.

A. Regulatory Concerns

Several areas that were not addressed in the PEER report merit discussion here. One of these is the rights of casino employees. Given the free-market structure in Mississippi, it is not surprising that there have been numerous instances of casino closure. While time has shown that these are probably part of the natural consolidation in a truly free market, such closings can negatively impact thousands of casino employees. Currently provisions protecting the employment benefits of casino workers are lacking from the state regulations.

A second area of concern, especially to many opponents of the casino gambling industry, is the relative lack of restrictions on casino credit operations. Current regulations are primarily of a "housekeeping" nature; that is, they tend to focus on "how" casinos offer credit and maintain and collect credit accounts. Payroll checks, cashier's checks, and traveler's checks are not included in calculations of credit extended. Generally, casinos are allowed to determine for themselves how much credit to extend.

Since the state does not place limits on wagers or losses, absolute credit limits are not established, and many sources of "credit" are not currently required to be considered in the required records, the potential exists for casinos to seriously over-extend credit to some individuals, particularly those who may be attempting to conceal a gambling problem. Some in the financial industry see a need for tighter controls.

B. Restrictions Upon Gaming-Related Education

As with any service business, training has become critical to the gaming industry, and evidence suggests that the casinos are devoting larger portions of their own resources to this area. Repeatedly, CEOs, managers, and other key personnel within casino gaming facilities have told us that the current regulations that forbid the teaching of gaming-related courses at state institutions of higher learning should be repealed.

Evidence from the state of Louisiana suggests that when state institutions of higher learning are permitted to offer gaming related courses, local gaming facilities do utilize those educational services. (A significant portion of Mississippi residents working in Mississippi casinos currently take one or more such courses at UNO.) House Bill #881, offered during the 1999 legislative session, would have removed the restrictions while still maintaining a clear line between teaching "gambling" and teaching casino-industry specific content.

Only a few academic programs exist in the United States that focus on gambling.[31] But at least a dozen U.S. schools offer courses with content tailored, in whole or in part, to the specific idiosyncrasies of casinos. Passage of such a bill does not appear to require any significant expenditure of new funds, and does not appear to pose any serious threats to either the industry, the educational entities, or the public.

II. IMPACT OF CURRENT MISSISSIPPI TAX STRUCTURE

Extensive interviews with representatives from the casino gambling industry in Mississippi reveal nearly universal agreement that the current gaming tax in Mississippi is "fair." While significantly higher than the gaming tax rate in Nevada, Mississippi's 8% tax on gross gaming revenues (plus the additional 4% which goes to local governments) are viewed as reasonable by financial analysts.

In a year when state teachers have pushed hard for pay increases while revenue growth has slowed, the political impetus for a gambling tax increase appears to be growing. The industry itself, as shown in this report, appears to be strong and experiencing a healthy growth pattern. At least one local newspaper has editorialized in favor of a 4% tax increase. It is important to note, however, that a tax increase from the current 12% to a total of 16% would be *a 33% increase* in taxes.

But will a tax increase bring the expected results for the Mississippi legislature? In order to answer that question, regional gaming profitability models are provided to illustrate the true financial picture of the industry. Input from financial analysts regarding the reaction of capital markets to a change in gaming tax rates is included as well.

A. The Gaming Taxation Model

In order to create the gaming models, each gaming property in the state was asked to provide detailed financial information for the 1999 calendar year. In total, 25 out of 29 non-Indian casinos in the state participated in the analysis. The rationale for requesting this information was to assess current operating margins and net profit (loss). With this information, it is possible to determine the effects of a tax increase on both cash flow and income. Included in the request was the following:

- Total Annual Revenue
- Total Gaming Revenue
- Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)
- Net Profit (Loss)*
- Total Employees (standardized as "full-time equivalent employees")

***Please note that Pre-tax income was derived from reported Net Profit by utilizing an effective corporate income tax rate of 35%. It should also be noted that, because of the need to deal with all properties in a standard format, tax benefits from losses were considered in this analysis. This is a very conservative stance, since not all casinos claimed tax loss benefits this year.**

[31] The best known are the International Gaming Institute at UNLV and the Institute for the Study of Commercial Gambling at UN-Reno.

The information was provided in a confidential format to protect individual companies and their stockholders from risks associated with release of such information. After standardizing the data, it was aggregated by market to create an overall profitability statement for each. Of course our results will not hold if conditions other than tax rates change substantially in the near future. Casino operators were also afforded an opportunity to express their views in addition to providing the financial information. Uniformly, those participating expressed their belief that raising the tax rate that Mississippi casinos pay is the greatest threat to the industry.

A review of the impacts, by gaming region, appears below. Generally, this study shows that raising taxes could, conceivably, have a negative overall impact, in that several casinos that operate on a very low margin would be forced out of business[32]. Not only would the state lose the tax revenue generated by these casinos, but also tax revenue from other sources such as retail sales, employee income taxes, and tidelands fees.

Even more disturbing for state policy, research suggests that casinos have only a small amount of latitude in adjusting their payout rates as a means of controlling costs. Customers, researchers say, quickly figure out that payouts have been reduced and take their business elsewhere. This means that casinos generally will feel forced to make cuts in marketing and/or services (which has real impacts on employment). When casinos cut their marketing budgets and/or reduce service by cutting the number of personnel in service functions, they tend to shift their efforts *away from tourism and toward a more local market.*

Out-of-state customers, relatively speaking, are more expensive for casinos to attract than are local residents. Overnight guests in casino hotels often receive deep discounts or "comps" in hotel room rates, in-casino meals, and similar amenities, while demanding high level of employee service. Local customers can be attracted with cheaper, less personnel-intensive means such as token give-aways. Local advertising, too, is generally less expensive.

One of the critical benefits of gaming in Mississippi is the ability of the North River and Gulf Coast markets to extract significant amounts of tax revenue from non-resident visitors. Problem gambling, and the social ills associated with it, are reduced in a market which caters to tourists (obviously some visitors who come to Mississippi will be problem or pathological gamblers--but since they typically visit only two or three times per year clearly they are not impacting the state in the same way as residents with gambling problems). As demonstrated elsewhere in this report, the positive economic impacts generated by gaming are greatest in those areas attracting large numbers of tourists.

Gulf Coast Region

Eleven out of 12 casinos on the Gulf Coast participated in the study. All data represents 1999 actual accounting information with the exception of the Beau Rivage. The Beau Rivage utilized CY 2000 projections due to the fact that the casino was not open for the entire year and because CY 1999 included pre-opening expenses.

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[32] While some of the customers who had previously patronized the closed casinos would shift to other local casino venues, some others, obviously, would not. Extensive research into casino patrons' habits shows that *a combination of factors, including such intangibles as appearance, "feel," and theme of the casino property* draw patrons to gamble at one location over another. It is assumed in this analysis, therefore, that *all* revenue is lost when a casino property closes, simply because there is no way to reliably estimate otherwise.

The specifics for the Gulf Coast casinos that participated in the study were as follows:

Total Annual Revenue	$1,369,046,053	
Total Gaming Revenue	$1,046,236,018	
EBITDA	$ 285,541,336	20.9% of Total Annual Revenue
Income Before Taxes	$ 78,880,871	5.8% of Total Annual Revenue
Net Profit (Loss)	$ 51,272,566	3.7% of Total Annual Revenue
Total Full-time Equivalents	14,524	

Based on the reported data for the Gulf Coast Region, a 4% gaming tax increase would result in a 14.7% decrease in EBITDA, a 53.1% decrease in income before taxes, and a 53.1% decrease in net profit. *As a result of the potential gaming tax increase and assuming no other changes, the aggregate net profit as a percentage of total annual revenue would decline from 3.7% to 1.8%.* In our opinion, it is conceivable that three Gulf Coast casinos would cease to operate under this financial constraint due to excessive losses, and likely that one or more would do so. Together these three casinos employ a total of approximately 2,000 workers and have reported total gaming revenues of approximately $130 million.

North River Region

Nine out of 11 casinos in the North River Region participated in the study. All data represents 1999 actual accounting information with the exception of the Isle of Capri in Tunica. The Isle of Capri utilized FY 2000 projections due to the fact that the casino was not open for the entire year and because FY 1999 included pre-opening expenses. The specifics for the North River Region casinos that participated in the study were as follows:

Total Annual Revenue	$1,151,576,129	
Total Gaming Revenue	$ 976,000,156	
EBITDA	$ 253,568,009	22.0% of Total Annual Revenue
Income Before Taxes	$ 68,936,958	5.9% of Total Annual Revenue
Net Profit (Loss)	$ 42,783,222	3.8% of Total Annual Revenue
Total Full-time Equivalents	11,075	

Based on the reported data for the North River Region, a 4% gaming tax increase would result in a 15.4% decrease in EBITDA, a 57.3% decrease in income before taxes, and a 57.3% decrease in net profit. *As a result of the potential gaming tax increase and assuming no other changes, the aggregate net profit as a percentage of total annual revenue would decline from 3.8% to 1.6%.* In our opinion, it is conceivable that three North River Region casinos would cease to operate under this financial constraint due to excessive losses and likely that one or more would do so. These casinos employ a total of 3,000 workers and have reported total gaming revenues of approximately $240 million.

South River Region

Five out of six casinos in the South River Region participated in the study. All data represents 1999 actual accounting information. The specifics for the South River Region casinos that participated in the study were as follows:

Total Annual Revenue	$ 232,588,483
Total Gaming Revenue	$ 215,116,794

EBITDA	$	64,068,663	27.5% of Total Annual Revenue
Income Before Taxes	$	49,144,331	21.1% of Total Annual Revenue
Net Profit (Loss)	$	31,943,811	13.7% of Total Annual Revenue
Total Full-time Equivalents		2,528	

Based on the reported data for the South River Region, a 4% gaming tax increase would result in a 13.4% decrease in EBITDA, a 17.5% decrease in income before taxes, and a 17.5% decrease in net profit. *As a result of the potential gaming tax increase and assuming no other changes, the aggregate net profit as a percentage of total annual revenue would decline from 13.7% to 11.3%*. In our opinion, it is conceivable that one, and possibly, two properties in this region would cease to operate. The potential loss in employment and gaming revenue will not be discussed because doing so would likely reveal the identity of the casino(s) in question.

The impacts of a 4% tax increase on capital investments were also considered. Financial analysts and casino industry experts agree that such a tax increase would result in seriously diminished capacity for capital expansion by Mississippi casinos. Further, several of those experts warned that *new* casino investment to the state would be eliminated. Obviously, this would seriously harm the industry's ability to generate new revenues.

Allowing continued expansion of Mississippi's gaming industry should add significantly to the state's economy. Raising tax rates on gaming could, by itself, offset all of the other growth recommendations in this report.

OVERALL ASSESSMENT AND RECOMMENDATIONS

Taken as a whole, the results of this study show that the casino gambling industry, and its associated revenues to the state of Mississippi are generally strong and will continue to grow over the next few years. Real external threats to the industry are relatively few; opportunities for growth are many.

As the state endeavors to increase spending by those already visiting, and to increase the number of new guests, it is imperative that visitors' wants and needs be met. As an industry, tourism relies on its many components to ensure the guest's overall experience is a good one. This requires that tourism related businesses, agencies, and organizations work together to package and promote the tourism opportunities within their portion of the state. Tourism related industries include transportation, accommodations, food and beverage services, shops, entertainment, special events, gaming, and aesthetics.

Our strongest recommendation is this: Better coordination of marketing and advertising among state government and various local agencies--plus, where appropriate, casinos themselves--is the primary, controllable factor available to insulate Mississippi's gaming revenues from various threats.

Mississippi has made some progress in this direction, including the Sales Tax Rebate Law, Tunica having worked with Memphis; Convention and Visitors Bureau to coordinate activities, and similar efforts. However our research shows that areas of weakness in the overall experience for many tourists could hamper state efforts to enhance gaming revenues. Visitors have provided details about problem areas which exist in Mississippi. These areas will require attention if the state is to maximize its full tourism potential.[33]

While some specific recommendations have already been put forth, (these were shown in **bold type**[34] in the text of earlier chapters) this study suggests that some broad strategies are needed to protect and enhance the various economic benefits that Mississippi has already derived from legal casino gambling. These strategic recommendations are:

1. Create a statewide initiative for tourism development (housed within the MDECD). This initiative would encourage MDECD involvement in, and coordination of, the various marketing efforts currently launched independently by various Convention and Visitor's Bureaus and other local agents. Greater cross marketing and possibly joint ventures with neighbor states (particularly with Memphis as a natural complement for Tunica) should be a part of the charge.
2. Increase the amount of money committed to tourism advertising. One means could be to assess a bed tax on all Mississippi hotels and motels with 50 or more rooms to expand the existing budget. These monies should be allocated for out-of-state tourism advertising programs to be under the control of the MDECD. Since all hotels will benefit from these messages, the extra burden should be more palatable. Again coordination is key here: advertising messages must be coordinated and consistent. There is no point raising new

[33] For example, visitors were asked, "On your last trip to Mississippi, what was the worst thing that you encountered about Mississippi or the places you stayed or visited in Mississippi?" Responses to this and related questions can be found in: State of Mississippi, Department of Tourism, Mississippi Tourism Overnight Guest Research, *2000 Hotel/Motel Guest Perception & Demographic Profile Research*, May 2000, by Research Strategies, Inc.
[34] The complete set of recommendations found in this report is contained in the Executive Summary.

monies for advertising if several gaming and non-gaming sites within the state end up using it to compete against one another.

3. State and local government coordination, particularly in the area of infrastructure development, is also sorely needed. Infrastructure improvements require a willingness of both parties to share the financial load, and to commit to outcomes. Review of the Bond-Sinking Fund and Gaming Highways legislation may show a need for additional funding to keep pace with growth.
4. The South River region has special marketing requirements: the greatest potential in Natchez, Vicksburg, and Greenville for tourism growth is through coordinated marketing efforts between casinos and existing cultural and historical tourism attractions. Tourism officials in Vicksburg should also work closely with Jackson due to the area's proximity to Jackson serving as the closest major commercial air service.
5. Develop a statewide certification program, e.g., The Mississippi Welcome Mat Certification Program, where participating businesses agree to follow defined policies and hours of operation. They would display a symbol that communicates to the public they are a location where internal employees are trained in customer service, area tourist sites, and giving directions to those sites. These displayed symbols would be exactly like road signs, and also be put on roadsides like Key Community and interstate billboards that increase the ease with which the state's guest can find their way.
6. Utilize the existing University programs and Community Colleges to provide instruction in how to train service industry employees throughout the state, working through appropriate associations to develop tourism oriented brochures, maps, training programs, and certification programs such as the example above.
7. Refine existing incentives (such as HB 1301 and §27-31-101 (ad valorem exemptions), §27-31-104 ($100 million project exemptions) and the Central Business District exemptions under §17-21-5, and §17-21-7 to ensure that they apply to tourism ventures and attract ventures of appropriately high dollar amounts. Consider instituting a "tax holiday" or similar provision as part of an overall incentive package for major tourist developments.
8. Review existing incentives and possibly create new ones to target manufacturers and distributors of equipment and supplies critical to the casino industry. State economic development officials should target these industries in an attempt to recapture significant purchases currently going out-of-state. Create some incentive for Mississippi casinos that purchase their equipment and supplies from Mississippi manufacturers or distributors.
9. Consider steps to ensure that existing developments do not suffer unrecoverable losses due to hurricanes and other natural disasters. Such steps could include development of new insurance regulations, creation of a new captive insurance fund for the gaming industry, or similar measures. Specific recommendations as to which venue is best are beyond the scope of this study, however we do see a need for action, possibly following a focused study of the insurance issue.
10. Consider putting into place reasonable regulations to ensure that casino credit is extended in a manner consistent with sound financial industry practices. Such practices could include requirements for more specific data being obtained from credit customers, more data sharing between casinos, or even limits on the use of cash machines, cashing of certain types of checks, and the like.
11. Remove state restrictions on the teaching of casino-related content in public colleges and universities. Well-crafted legislation could ensure that "gambling" is not taught, while allowing more Mississippi residents to gain education that will give them access to higher-paying management functions in the casino industry. Appropriately worded

legislation could also provide a way to allow continuing education divisions at state institutions to recapture certain industry training opportunities.

12. Maintain the current 12% tax rate on gross casino gaming revenues. While the desire to extract greater revenues is understandable, evidence we have gathered suggests that increasing the tax will likely have negative economic and social consequences for the residents of the state. Likewise, our research suggests that the net increases in revenue to be gained from such a tax hike would be lowered substantially by the very real possibility of between 6 and 9 casino failures.

This research touches upon areas of concern for the state as a whole, and of particular concern for those communities in which casinos are located. Perhaps the most glaring assessment and recommendation is the need for additional study. To be sure some needed research will be eligible for funding by various national agencies such as the National Science Foundation, the National Institutes of Health, and the Department of Justice. But some additional research specific to the circumstances and needs surrounding casino gambling in Mississippi are still badly needed. In an era of limited state resources and looming cuts in many budget categories, research may seem an unjustifiable expense.

The alternative, however, can be costly in both the short and the long term. Public policy will be made--whether state revenues increase or decline--and to the extent that the policy is informed by well-done and unbiased policy research, it can be crafted in ways that maximize results while minimizing costs. We have held that goal before us in all phases of this project.

APPENDIX A

DATA COLLECTION INSTRUMENTS

USED IN THE ANALYSIS

Vicksburg[35], Mississippi Gaming Patron Survey

1. Is this your first trip ever to Vicksburg, Mississippi **casinos**? __Yes __No

2. Do you live within 40 miles of this casino? __Yes __No **If YES, please go to Question 6**

3. Which of the following is true about your travel habits to Vicksburg, Mississippi?

__I visit Vicksburg more often now than I did two years ago
__I visit Vicksburg less often now than I did two years ago
__I visit Vicksburg about the same now as I did two years ago
__Does not apply, this is my very first trip to Vicksburg

4. Was Vicksburg, Mississippi:

__Your primary destination __A planned stop on an extended trip __Not planned, just stopped

5. Think about this trip to Vicksburg, Mississippi casinos. Think about your typical 24-hour day here. On the average, about how much per person will you spend on a typical day for the following: (Please round to the nearest dollar)

Food and drinks $__________ Shows and entertainment $__________

Shopping and gifts $__________ Sightseeing $__________

6. Not including travel, food, lodging, or other non-gaming amenities, how much money did you budget for gambling on this trip? Include only your own personal gambling budget and not the gambling budgets of others who may be with you. Please note that this estimate is for the entire trip. If you are here just for the day, please answer relative to today's activities only.
$____________

7. Are you visiting Vicksburg, Mississippi on this trip as part of a casino tour or travel package?

__Yes __No

8. Including this trip, how many trips have you taken to visit Vicksburg, Mississippi casinos in the past twelve months?

__1-5 times __6-10 times __11-15 times __16-20 times __21-25 times __26 or more times

9. Did you stay last night or do you plan to stay tonight in a local hotel, condominium, bed and breakfast, or RV park?

__Yes __No **If NO, please go to Question 15**

10. How many nights do you plan to stay on this visit to Vicksburg, Mississippi?________ nights

[35] A few survey items included location-specific content; however, all surveys used the same questions.

11. On this trip, how many days do you plan to gamble? __________ days

12. In what type of accommodations did you stay or do you plan to stay? __Casino hotel

__Non-casino hotel __Condominium__ __Bed & Breakfast __RV park __Other

13. Approximately how much per night are you spending per room__on lodging? $__________ per room/per night

14. Including yourself, how many people stayed last night or will stay tonight in your overnight accommodation?

__One __Two __Three __Four __Five __Six or more

15. What is the likelihood that you will return to Vicksburg, Mississippi casinos in the next 12 months?

__Definitely __Very likely __Possibly __Unlikely __Will not return __Don't know

16. Has your experience at Vicksburg, Mississippi casinos so far been:

__Much better than you expected __Better than you expected __About the same as you expected

__Worse than expected __Much worse than expected

17. Including yourself, how many adults (over 21) are in your immediate party? __________ adults in my party

18. When gaming, how many different casinos do you typically visit per day?

m1 __2 __3 __4 __5 __6 __7 __8 or more

19. Approximately how many hours do you plan to gamble today? _________ hours

20. Do you regularly participate (at least once every three months) in other forms of gambling such as the lottery, off-track betting, horse racing, sports betting, or greyhound dog racing?

__Yes __No

21. If yes, in what types of other forms of gambling do you regularly participate? (Please check all that apply)

__Lottery __Off-Track Betting __Horse Racing __Sports Betting __Greyhound Dog Racing

22. Please rate your experience on this trip thus far on the following attributes. If you have no experience with an attribute, please skip and go to the next attribute.

	Excellent	Good	Average	Fair	Poor
Overall enjoyment	___	___	___	___	___
Price/value	___	___	___	___	___
Quality of overall experience	___	___	___	___	___
Restaurant experience	___	___	___	___	___
Entertainment experience	___	___	___	___	___
Quality of lodging	___	___	___	___	___
Parking availability	___	___	___	___	___
Local public transportation	___	___	___	___	___
Variety of non-gaming activities	___	___	___	___	___
Employee attitudes	___	___	___	___	___
Overall atmosphere	___	___	___	___	___

23. Which of the following gaming destinations have you visited **<u>in the past twelve months</u>**? **(Check all that apply)**

__Atlantic City, NJ __Baton Rouge, LA __Bossier City, LA __Greenville, MS

__Lake Charles, LA __Las Vegas, NV __Lula, MS (Lady Luck) __Reno, NV __Tunica, MS

__Natchez, MS __Mississippi Gulf Coast __New Orleans, LA __Other ___________________

GENERAL INFORMATION

A. What is your gender? __Male __Female

B. Do you have children (under 18) living at home? __Yes __No

C. Did <u>any</u> children accompany you on this trip? __Yes __No

D. If <u>any</u> children accompanied you on this trip, how many? ______________

E. What was your mode of transportation to the area?

__Private Automobile (Car/Truck) __Tour Bus __Airplane __Recreational Vehicle (RV)

__Motorcycle __Other _______________

F. What is your highest level of education?

__Less than High School __High School Graduate __College-Non Graduate
__College Graduate __Graduate School

G. What is your occupational status?

__Employed Full Time __Employed Part Time __Retired __Unemployed
__Other (Remain at home by choice)

H. What is your age group? __21 - 24 __25-34 __35-44 __45-54 __55-64

__65-74 __75 and above

I. What is your annual household income <u>before</u> taxes?

__Less than $20,000 __$20,000 - $29,999 __$30,000 - $39,999 __$40,000 - $49,999

__$50,000 - $59,999 __$60,000 - $69,999 __$70,000 - $79,999 __$80,000 and above

J. Where do you live? (City, State) _____________________

Mississippi Gaming
Questionnaire – Final
March 23, 2000

Hi, my name is _____ with The Olinger Group. We are conducting a brief survey this evening about gaming in the state of Mississippi. We are not trying to sell you anything and only want your opinions. May we speak with an individual in the household that is 21 years and older?

SCREENERS

QS1. Are you 21 years or older?
____ Yes
____ No ***(Ask for any other household members who is 21 years or older and repeat introduction)***

QS2. Do you or does anyone in your family work for a gaming or gambling institution (casino, off track betting, horse track, dog track)?
____ Yes ***(Thank and terminate)***
____ No ***(Continue)***

QS3. Have you gambled in the past 12 months at a Mississippi casino located in Tunica, Central Mississippi (Vicksburg, Natchez, Greenville), or the Gulf Coast (Bay St. Louis, Gulfport, Biloxi)?
____ Yes ***(Continue)***
____ No ***(Thank and terminate)***

BEHAVIORIAL INFORMATION

Q1. How many times have you visited the State of Mississippi in the last 12 months?
____ One time
____ 2-3 times
____ 4-5 times
____ over 5 times

Q2. On your most recent trip to Mississippi, in which of the following regions have you gambled? (***Check all that apply)?***
____ Tunica
____ Central Mississippi (Vicksburg, Natchez, Greenville)
____ The Gulf Coast (Bay St. Louis, Gulfport, Biloxi)
____ Other ***(Specify)*** __________________________

Q3. On your most recent trip to Mississippi, what other locations did you visit?
____ Tunica
____ Central Mississippi (Vicksburg, Natchez, Greenville)
____ The Gulf Coast (Bay St. Louis, Gulfport, Biloxi)
____ Jackson
____ Tupelo
____ Other ***(Specify***)__________________________

Q4. Did your most recent trip involve an overnight stay?
____ Yes
____ No ***(Go to Q7)***

Q5. On your most recent trip to Mississippi, how many total nights did you spend in Mississippi?
______ ***(Identify number of nights)***

Q6. On your most recent trip to Mississippi, what kind of accommodations did you utilize most***? (Check only one)?***

____ Casino hotel
____ Non-casino hotel
____ Bed and Breakfast
____ Motel
____ Campground/RV Park
____ Staying with friends/relatives
____ Condominium
____ Other

Q7. Was your most recent trip to Mississippi part of a tour package?
____ Yes
____ No

Q8. On your most recent trip, what primary means of transportation did you use to travel to Mississippi?
____ Personal automobile
____ Recreational Vehicle
____ Rented Vehicle
____ Train
____ Airplane ***[If airplane, ask]*** ____ Regularly scheduled flight or ____ Charter flight
____ Bus ***[If bus, ask]*** ____ Regularly scheduled bus or ____ Charter bus
____ Other ***(please specify___________________________________)***

Q9. What was the primary purpose of your most recent trip to Mississippi ***(qualify primary purpose)?***

____ Gambling
____ Business
____ Attending a meeting, a trade show, or a convention
____ Visiting friends/relatives
____ Attending a major event/entertainment
____ Vacation/leisure
____ Just passing through
____ Other

Q10. On your most recent trip to Mississippi was Mississippi your final destination?

____ Yes ***(Skip to Q13)***
____ No ***(Continue)***

Q11. Which state was your final destination? ***Specify?*** ___________________________

Q12. What was your primary purpose for going to ***read state in Q11?***

____ Gambling
____ Business
____ Visiting friends/relatives
____ Attending a meeting, a trade show, or a convention
____ Vacation/leisure
____ Other

Q13. Where did you find information for planning your most recent trip to Mississippi?
____ State welcome center
____ Local chamber of commerce or visitors bureau
____ Mississippi Web Site
____ Travel advertisement
____ Friends and relatives
____ Other
____ Did not use any information to plan this trip

Q14. Overall, on a 5-point scale with 5 meaning very satisfied and 1 meaning very dissatisfied, how satisfied were you with your most recent gambling experience in Mississippi?

1 2 3 4 5

Q15. Again, using this same 5-point scale, how satisfied were you, overall, with each of the following on your most recent trip to Mississippi? ***Read each response and evaluate on a 1-5 scale***
____ quality of accommodations
____ quality of restaurants
____ quality of roads and highways
____ quality of service (hospitality)
____ quality of airline service

Q16. Which of the following activities or attractions did you participate in or visit on your most recent trip to Mississippi? ***(Read each activity and indicate by checking the "have participated" box below)***

	Have Participated	Exceptional	Very Good	About Average	Very Disappointing	Poor	Don't Know
Sightseeing							
Historic towns and attractions		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Cultural activities		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Deep-sea fishing		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Shopping		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Parks		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Hunting/fishing		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Golfing		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Camping		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Fairs and Festivals		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Evening entertainment		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Gambling		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Family attractions		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ
Sports events		ÿ	ÿ	ÿ	ÿ	ÿ	ÿ

Q17. Could you please tell me how you would rate these activities/attractions that you participated in or visited?
[Read activities/attractions participated in or visited above and rate each activity]

Q18. Which of the activities mentioned above, would encourage you to visit Mississippi more often, entice you to stay longer or would increase your satisfaction with visiting the state ***(check all that apply)?***
____ Sightseeing
____ Historic towns and attractions
____ Cultural activities
____ Shopping
____ Parks
____ Hunting/fishing
____ Deep-sea fishing
____ Golfing
____ Camping
____ Fairs and festivals
____ Evening entertainment
____ Gambling
____ Family attractions
____ Sports events
____ other ***(Specify)***________________________

Q19. What other things currently not offered by the State of Mississippi would encourage you to revisit the state?
Specify________________________________

Q20. How did your most recent trip to Mississippi meet your expectations?
____ Totally Satisfied
____ Somewhat Satisfied
____ Not at all

Q21. What is the likelihood that you will return to Mississippi for a visit within the next 12 months?
____ Very likely
____ Likely
____ Unlikely
____ Very unlikely

Q22. These last few questions are just to classify your answers. What is your zip code?
________________ ***Write In***

Q23. Which of the following best describes your age category? ***(Read List)***

____ 21 to 24
____ 25 to 34
____ 35 to 44
____ 45 to 54
____ 55 to 64
____ 65 or older

Q24. Do you have any children in your household under the age of 18?
____ Yes
____ No

Q25. Do you have immediate family that live in Mississippi? ____ Yes ____ No

Q26. And finally which one of the following categories describes your household total annual income before taxes? ***(Read List)***
____ Under $15,000
____ $15,000 to $24,999
____ $25,000 to $34,999
____ $35,000 to $49,999
____ $50,000 to $74,999
____ $75,000 to $99,999
____ $100,000 or over
____ Refused

That completes our survey. Thank you for your time and opinions. We appreciate your help. Have a good day/evening.

Q27. ***(Record sex by voice)*** ____ Male ____ Female

APPENDIX B

DATA ON GROWTH & PERFORMANCE

OF THE MISSISSIPPI

CASINO INDUSTRY

These charts are not available at the present time. They will be added to this document when they become available.

APPENDIX C

SOURCES CONSULTED

SOURCES CONSULTED

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Additionally, a number of pieces of public information from the State of Mississippi's various departments, including Tax Figures, Gaming Revenues, and the like were obtained. Also, it should be noted that a number of "private" studies were shared with us by various persons involved in individual casino operations, state tourism, local tourism efforts, and such. Those materials have been retained by the research team.