

October 2000

CONVENIENCE GAMBLING

Information on Economic and Social Effects in Selected Locations



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United States General Accounting Office
Washington, D.C. 20548

October 18, 2000

The Honorable Frank R. Wolf
House of Representatives

Dear Mr. Wolf:

This report is the third in a series of reports we have prepared for you on the impact of gambling in the United States. The first report provided information on contributions from gambling interests to federal political candidates and national political party committees.¹ The second report provided information on the social and economic impact of gambling on communities, based on information presented in the 1999 report of the National Gambling Impact Study Commission (NGISC)² and our case study in Atlantic City, NJ.³ This report responds to your request for information specifically on the economic and social effects of convenience gambling. NGISC defined convenience gambling as the placement of slot machines or video poker terminals in restaurants, bars, drugstores, and other retail businesses meant to attract local residents, as opposed to tourists.⁴ In its 1999 report, NGISC noted eight states as having legalized convenience gambling.⁵

You were interested in convenience gambling because it is different from the primary type of gambling (destination casino resorts) covered in our second report in that most of the patrons live in the community where the gambling machines are located. As you requested, we looked at the economic and social impact of convenience gambling on selected communities and families. We focused on the

- (1) economic effects of convenience gambling, particularly on employment, tax revenues and community investment, and bankruptcy; and

¹Campaign Finance: Contributions From Gambling Interests Have Increased (GAO/GGD-99-127, July 27, 1999).

²National Gambling Impact Study Commission Final Report, June 1999.

³Impact of Gambling: Economic Effects More Measurable Than Social Effects (GAO/GGD-00-78, Apr. 27, 2000).

⁴In this report, we use the term "convenience gambling" instead of "video gambling" to refer to the operation of video gambling machines, including video terminals, video bingo, and other electronic gambling devices placed in local establishments, such as restaurants, bars, and convenience stores.

⁵NGISC highlighted the following eight states as having legalized convenience gambling: California, Louisiana, Montana, Nevada, New Mexico, Oregon, South Carolina, and South Dakota.

(2) social effects of convenience gambling, including the prevalence of pathological gambling.⁶

To accomplish these objectives, we selected Charleston, South Carolina; Great Falls, Montana; and Salem, Oregon, to conduct case studies. These communities were located in three of the eight states noted in the NGISC report as having legalized convenience gambling. We selected the three states primarily because they did not have destination gambling casino resorts. The specific communities in these states were selected on the basis of two additional criteria. First, we selected communities that did not border other states. It seemed to us that border communities with legalized gambling are more likely to attract gamblers from both inside and outside of the community, thus diffusing some of the potential effects of convenience gambling on the community. Second, we identified communities with a large number of video gambling machines as well as large amounts of revenues from video gambling relative to other nonborder communities in each state. As you know, South Carolina banned convenience gambling as of July 1, 2000. However, as agreed with your office, we included Charleston to obtain information on the effects of convenience gambling on a South Carolina community while convenience gambling was legal in the state.

In addition, since convenience gambling was legalized statewide in all three states, much of the data we reviewed are compiled on a statewide basis; therefore, much of our discussion refers to the entire state.

For our case studies, we visited the three cities and the state capitals in South Carolina, Montana, and Oregon. We interviewed city, county, and state officials involved in economic, social, regulatory, and law enforcement areas, as well as individuals representing the restaurant industry, the convenience gambling industry, and nonprofit social organizations. We also analyzed economic and social data provided by federal, state, county, and city agencies, where available, for several years before and after convenience gambling was legalized in each community. Data for some of the indicators we studied were not readily available for the city, so we used the county data. The three cities in our case study were either the largest or second largest city in their respective counties.

⁶The American Psychiatric Association defines pathological gambling as a pathological disorder having the essential feature of “persistent and recurrent maladaptive gambling behavior that disrupts personal, family, or vocational pursuits.”

We did our work from December 1999 to August 2000 in accordance with generally accepted government auditing standards. Appendix III provides further details about our objectives, scope, and methodology. We requested comments on a draft of this report from various officials in South Carolina, Montana, and Oregon and the Chair of the former NGISC.⁷ Their comments are discussed near the end of this letter.

Results in Brief

Available data for the three communities studied in general showed that the introduction of legalized convenience gambling created some jobs in the communities and increased tax revenues. Funding for community investment also increased in two of the communities. The unemployment rate appears to have been unaffected by the legalization of convenience gambling in the three areas we studied. Local government officials in Charleston, SC, and Great Falls, MT, commented that the atmosphere of convenience gambling created a negative environment and stigma in the communities, which hurt local commerce and residential areas and had a detrimental effect on community investment. They said that the proliferation of video gambling machines in “tacky” establishments discouraged new business from coming into a community. While most of the officials we interviewed said they believed that convenience gambling had some impact on bankruptcy filings and some studies have shown a link between pathological gambling and bankruptcy, we found no evidence on whether or not a link existed between convenience gambling and bankruptcy in the general population in the areas we studied. An analysis of available bankruptcy data we obtained from the Administrative Office of the U.S. Courts showed that while bankruptcy rates increased from 1990 to 1999 in the areas we studied, so did the national rate by roughly the same rate.

Because of numerous factors, we were not able to clearly identify the social effects of gambling upon the three communities. Measuring the social effects of gambling is difficult in part because of the limited amount of quality data on the social effects of gambling and the complexity of determining whether a cause-effect relationship exists between gambling and social problems. This determination is made more complex because of the difficulty of isolating gambling from other factors that may contribute to increases in certain social problems, such as substance abuse and personality disorders. Aside from specific anecdotal examples linking social problems and convenience gambling, we found no conclusive evidence showing whether or not convenience gambling caused increased social problems in the three communities.

⁷ NGISC ceased operation in 1999.

In general, postlegalization social indicators did not vary widely from prelegalization trends and were similar to national trends. However, total crime increased in Charleston, prostitution and drug arrests increased in Salem, divorces and child abuse and neglect cases increased in Marion County (where Salem is located), divorces increased in Cascade County (where Great Falls is located), domestic violence incidents increased in Charleston County (where Charleston is located), and child abuse and neglect cases decreased in Charleston County. However, state and local officials said those changes were not related to convenience gambling, but were primarily due to reporting or definitional changes or more concentrated law enforcement efforts for certain crimes. In addition, data were not always available to show pre- and postlegalization trends for all indicators in all of the communities. Because problem gambling studies had not been done in the three states prior to the legalization of convenience gambling, it was not possible to analyze whether the prevalence of pathological gambling changed with the introduction of convenience gambling. Available data for Oregon and Montana showed that recent pathological gambling prevalence rates fell within the range of other states. Recent studies were not available for South Carolina.

The Chair of the former NGISC and officials from South Carolina, Montana, and Oregon generally agreed with our report.

Background

Video poker machines started as arcade games in South Carolina where players could only win credits to replay a game. In 1991, the South Carolina Supreme Court ruled that cash payoffs were legal if the money did not come directly from the gaming device.⁸ This effectively legalized convenience gambling in South Carolina. In 1993, South Carolina enacted the Video Game Machines Act to govern the operation of video poker machines in the state.⁹ In 1996, the Governor authorized South Carolina's Department of Revenue and the State Law Enforcement Division (SLED) to coordinate enforcement of the video gambling regulations. According to a Department of Revenue official, their budget was funded from the state's general fund, and in 1999, 13 Department of Revenue staff members worked solely on convenience gambling and the regulatory budget dedicated to convenience gambling totaled about \$6.2 million. According to a SLED official, 33 agents were responsible for convenience gambling enforcement—6 of the agents worked full-time on convenience gambling and the remaining 27 agents spent about 50 percent of their time on

⁸*State v. Blackmon*, 403 S. E. 2d 660 (S.C. 1991).

⁹S.C. CODE ANN. §12-21-2770, *et seq.*

convenience gambling enforcement. The official said that SLED would have difficulty isolating the budget for convenience gambling from the total SLED budget.

Unlike Montana¹⁰ and Oregon,¹¹ South Carolina did not restrict video gambling machines to only those establishments that have licenses to serve alcoholic beverages. Video gambling machines were located in convenience stores, gas stations, restaurants, and bars whether or not they had a license to sell alcoholic beverages. Private businesses owned or leased the video gambling machines and operated the video gambling business in South Carolina. However, state legislation required that the state license each machine every 2 years.¹² According to South Carolina officials, in 1999, the number of video gambling machines operating in South Carolina totaled about 32,300 (the largest of the 3 states), including 966 in Charleston. They said that, in 1999, South Carolina received about \$63 million from video gambling license fees, which represented about 8 percent of the reported \$770 million of the gross proceeds (the amount remaining after prizes have been paid) from convenience gambling in the state.

A 1999 South Carolina Supreme Court decision upheld a state law banning convenience gambling in South Carolina effective July 1, 2000.¹³ The U.S. Supreme Court refused to hear an appeal of the ban,¹⁴ and as of July 1, 2000, the operation of video gambling machines was illegal in South Carolina. SLED gave video gambling machine operators 7 days to remove the video gambling machines from the state.

Montana's state legislature legalized video gambling in 1985.¹⁵ With the exception of Montana's lottery and horse racing, the Gambling Control Division within Montana's Department of Justice licenses and regulates all

¹⁰MONT. CODE ANN. §23-5-611.(1)(a).

¹¹OR. REV. STAT. §461. 217(2).

¹²S.C. CODE §12-21-2720(A) (1998).

¹³Joytime Distrib. and Amusement Co. v. State, 528 S.E. 2d 647 (S.C. 1999). South Carolina Supreme Court ruled on two parts of South Carolina Act 125, signed by the Governor on July 2, 1999. Part I prohibited cash payouts on video gambling machines effective July 1, 2000. Part II required that a referendum be held for voters to ascertain whether video gambling machines should continue to be allowed in the state. The Court upheld part I and ruled that part II violated the state constitution.

¹⁴Cert. Denied, Joytime Distrib. and Amusement Co. v. South Carolina, 120 S. Ct. 1719, 2000 U.S. LEXIS 2883, 68 U.S. L.W. 3668 (U.S. 2000).

¹⁵Video Gaming Machine Control Law, Part 6, Chapter 5 of Title 23, MONT. CODE ANN.

legal gambling in the state, including convenience gambling. According to a Division official, the Division's budget was about \$3 million in 1999, and of the 50 Division staff members, 5 worked solely on convenience gambling. Similar to the practice in South Carolina, private businesses own or lease the video machines in Montana. Montana law requires that each machine be licensed by the state annually.¹⁶ In addition, establishments that apply for video gambling licenses in Montana must also own a license to sell alcoholic beverages.¹⁷ Video gambling machines authorized by Montana's legislation are bingo, keno, and draw poker machines.¹⁸ In 1999, video gambling operators in the state had 17,000 machines, including 1,452 in Great Falls, according to Montana officials. Montana officials said that in 1999, Montana received \$38 million from convenience gambling, which represented 15 percent of the \$253 million in gross proceeds derived from convenience gambling in the state.

In 1991, Oregon passed legislation that legalized video gambling machines and in 1992, began operating them as part of its ongoing state-operated lottery.¹⁹ The Oregon State Lottery Commission (Commission), a state agency operated by a five-member commission, sets policy and rules for the state lottery operations, including convenience gambling, which consists of video poker machines.²⁰ Annually, 9 percent of the profits from video gambling are allocated to pay expenses of the Commission. According to Commission staff, 150 Commission staff members worked solely on convenience gambling and the Commission's budget dedicated to convenience gambling totaled about \$29.8 million in 1999. Oregon's video gambling machines are allowed only in bars, taverns, and restaurants that have licenses to serve alcoholic beverages.²¹ Unlike South Carolina and Montana, Oregon only allows video lottery game machines in establishments that have a contract with the Commission as video game retailers.²² The Commission owns the machines. In 1999, Oregon had 8,900 video gambling machines, including 290 in Salem. In 1999, Oregon received

¹⁶MONT. CODE ANN. §23-5-612.

¹⁷MONT. CODE ANN. §23-5-119.

¹⁸MONT. CODE ANN. §23-5-603(2).

¹⁹OR. REV. STAT. §167.166.

²⁰OR. REV. STAT. §461.100(2)(a) and (c)(4).

²¹OR. REV. STAT. §461.217(2).

²²OR. REV. STAT. §461.217(1).

about \$236 million, about 59 percent of total gross proceeds (\$403 million), from convenience gambling in the state.

The three states operated convenience gambling in a similar manner for some areas and differed in other areas. All three states prohibited minors from playing video gambling machines. Persons under the age of 21 were not permitted to play the machines in South Carolina and Oregon, and persons under age 18 were prohibited from playing the machines in Montana.²³ In addition, all three states limited the number of machines per single place or premises.²⁴ The limit was 5 in both South Carolina and Oregon and generally 20 in Montana. While Montana and Oregon allowed convenience gambling 7 days per week, South Carolina prohibited convenience gambling on Sunday.²⁵ Also, while Montana allowed advertising of convenience gambling, both Oregon and South Carolina prohibited advertising of convenience gambling.²⁶ Oregon only allowed retailers to place signs inside of premises provided that the signs had been approved by the Oregon State Lottery.

Economic Effects of Convenience Gambling on Communities

Convenience gambling created some jobs and tax revenues in the three areas we visited, and provided funding for some community investment in Great Falls and Salem, but not in Charleston. Bankruptcy rates in the three communities after the legalization of convenience gambling increased, but so did the rate in the rest of the nation. Also, county bankruptcy data for 1989 and earlier were not available, so our analysis was limited.

Employment

Convenience gambling created some jobs in all three areas we visited. Most of the officials we interviewed who worked in areas dealing with economic issues said that convenience gambling had created jobs for the local economy. However, state employment officials said that the estimated number of jobs created by convenience gambling was minimal in comparison to total private sector jobs. An employment official in South Carolina said that the estimated 3,500 jobs created by convenience gambling represented less than 1 percent of the 1.5 million private sector

²³S.C. CODE ANN. §12-21-2804(c) (1998); MONT. CODE ANN. § 23-5-158, and OR. REV. STAT. § 461-600.

²⁴S.C. CODE ANN. §12-21-2804(A) (1998); MONT. CODE ANN. § 23-5-611(c)(3); and OR. REV. STAT. §461.217(3).

²⁵S.C. CODE ANN. §12-21-2804(E) (1998).

²⁶S.C. CODE ANN. §12-21.2804(B) (1998).

jobs in the state in 1998.²⁷ Montana's estimate of 3,700 jobs created by convenience gambling represented about 1 percent of the 391,700 total private sector jobs in the state in 1997. The estimated number of jobs created by convenience gambling in Oregon was 2,500, which was less than 1 percent of the 1.3 million private sector jobs in the state in 1999.

The estimated number of jobs created by convenience gambling may be inaccurate, according to state officials. According to state employment officials, no precise figures exist on the number of people employed solely by convenience gambling. They said that determining the number of convenience gambling jobs was difficult because many of the video gambling machines were located in establishments that existed before the legalization of convenience gambling. According to the officials, the establishments might not have added new employees when they began operating video gambling machines and instead used existing workers to monitor the machines along with their other responsibilities (e.g., clerks, cashiers, and bartenders). They also said that convenience gambling jobs were included in various job classifications (mostly the Department of Commerce amusement and recreation standard industry classification), and isolating jobs solely dedicated to convenience gambling is difficult.

Generally, the unemployment rate appears to have been unaffected by the legalization of convenience gambling in the three areas we studied. The cyclical pattern observed in the national unemployment rate was evident in all three states and communities both before and after the legalization of convenience gambling. After the legalization of convenience gambling, unemployment rates generally followed the same prelegalization pattern of periodic fluctuations of increases and decreases.

Tax Revenue and Community Investment

All three states received either tax revenue or fees from convenience gambling. South Carolina charged a 2-year \$4,000 license fee for each video gambling machine operating in the state.²⁸ In 1999, the state received about \$63 million from video gambling license fees, which represented about 8 percent of the reported \$770 million of the gross proceeds (the amount remaining after prizes have been paid) from convenience gambling in the state. In 1999, Charleston received an additional \$144,000 in video gambling license fees. State and city officials said that both state and city

²⁷ A South Carolina Employment Security Commission official said that the estimated number of jobs created by convenience gambling (3,500) has to be qualified because that number also included other jobs in the amusement coin-operated device and recreation job classification.

²⁸ S.C. CODE ANN. §12-21-2720(A) (1998).

convenience gambling revenues were deposited into the general fund account for no specific program or designated purpose.

Montana's state legislation mandates that convenience gambling operators pay Montana 15 percent of convenience gambling gross proceeds, plus an annual license fee of \$200 for each video gambling machine.²⁹ In 1999, Montana received \$38 million from convenience gambling, which represented about 15 percent of the \$253 million in gross proceeds derived from convenience gambling. Montana received another \$3.6 million in video gambling machine license fees in 1999. State legislation also requires the state to deposit one-third of the funds derived from convenience gambling into the state's general fund and distribute the remaining two-thirds to local communities.³⁰ In 1999, Great Falls received \$2.5 million of the funds.

Unlike South Carolina and Montana where private businesses operate convenience gambling, in Oregon, convenience gambling is part of the state-operated lottery. The state and the businesses (retailers) share the proceeds on the basis of a four-tiered compensation system. In 1999, Oregon received about \$236 million, which represented about 59 percent of total gross proceeds (\$403 million) from convenience gambling in the state. State legislation requires that 2.5 percent of funds from convenience gambling be distributed to all counties for economic and development activities.³¹ State legislation also requires that the remaining proceeds from convenience gambling be deposited in the State's Administrative Services Economic Development Fund for creating jobs, furthering economic development, or financing public education.³² State officials said they could not isolate the amount of convenience gambling funds that Salem had received because the state distributes the funds by specific programs and projects--not by city. The Oregon legislature distributes the revenue to state agencies, which in turn grant the funds to selected projects and programs, thus the amount the state used for Salem projects could not be specifically identified. In addition, according to the Oregon State Lottery Commission, in 1999, Oregon also derived about \$1.8 million from the amusement device tax, a tax imposed upon individuals for operating a video lottery terminal.

²⁹ MONT. CODE ANN. §§23-5-610(1) and 23-5-612(2)(a).

³⁰ MONT. CODE ANN. §23-5-610(6)(a) and (b).

³¹ OR. REV. STAT. §461.547(1).

³² OR. REV. STAT. §§461.544 and 461.540(1)(a)(b) and (c).

The amount of tax revenues and license fees the states received from convenience gambling ranged from 1 to 5 percent of state budgets.

While officials from both Montana and Oregon said that convenience gambling contributed to community investment to some extent, most of the officials we interviewed in South Carolina said that convenience gambling had not increased funds for community investment. Both South Carolina and Charleston deposited video gambling machine license fees into their general funds with no designated purpose. While Montana also deposited the funds the state derived from convenience gambling into its general fund with no designated purpose, Great Falls officials reported that the funds Great Falls derived from convenience gambling were used for police, fire safety, and parks and recreational activities. State officials said most of Oregon's lottery funds (including those from convenience gambling) are dedicated to education. According to state officials, beginning with the 1995-1997 state biennium budget, the state legislature designated over 70 percent of Oregon's lottery proceeds for education. Oregon distributed the remaining funds derived from convenience gambling throughout the state, including Salem, for various programs and projects. Community investment projects have included workforce training for youth, flood control and recovery efforts, and revitalization of downtown areas. According to officials in Montana and Oregon, the convenience gambling industry has not directly contributed to community investment. They said that funding for community projects was derived from Montana's and Oregon's taxes on convenience gambling.

Also, some officials in Charleston and Great Falls commented that the atmosphere of video poker parlors (also called "casinos" in Montana) has had a detrimental effect on community investment. They said that convenience gambling establishments created a stigma that discouraged new businesses from coming into a community and that the parlors/casinos were sometimes "tacky" and did not contribute to a quality urban setting.

Bankruptcy

While officials in all three communities said they believed that convenience gambling contributed to bankruptcy filings, we found no conclusive evidence linking gambling and bankruptcy for the general population. The officials provided anecdotal evidence to support their belief. They said (1) persons with gambling addiction problems have experienced personal bankruptcy as a result of their illness and the convenient availability of convenience gambling contributes to the illness and (2) the accessibility and availability of convenience gambling have led many to use credit cards for their gambling needs and, in some instances,

have led to refinancing their homes to liquidate their credit card debts only to renew their credit cards and accumulate more debt--a vicious cycle that eventually leads to bankruptcy or financial hardship.

Also, gambling studies have shown a link between bankruptcy and individuals suffering from pathological gambling. A 1998 Montana gambling study³³ reported that 10 percent of Montana's lifetime problem or probable pathological gamblers had filed for bankruptcy, while approximately 4 percent of those who did not have lifetime gambling problems had filed for bankruptcy.³⁴ In addition, the National Opinion Research Center in doing research for NGISC, reported that on the basis of a 1998 national survey, 19 percent of pathological gamblers reported filing for bankruptcy compared with 5.5 percent for low-risk gamblers and 4.2 percent for nongamblers.

An analysis of available bankruptcy data obtained from the Administrative Office of the U.S. Courts showed that while the bankruptcy rates increased during 1990 to 1999 in the areas we studied, so did the national rate, at roughly the same level of increase.

We were unable to show bankruptcy trends pre- and postlegalization of convenience gambling because county bankruptcy data were not readily available before 1990, according to an official of the Administrative Office of the U.S. Courts. See appendix I for a more detailed discussion on the economic effects of convenience gambling.

Social Effects of Convenience Gambling on Communities

NGISC reported in its 1999 report that one controversial feature of convenience gambling is the location of video gambling machines in close proximity to children and families, including those in impoverished neighborhoods. The report stated that convenience gambling occurs in close proximity to residential areas and because video gambling machines are located in consumer-oriented sites, patrons regularly encounter them in the course of their day-to-day activities. The report further stated that

³³ The 1998 Gambling Study: A Report to the Governor and the 56th Legislature by the Gambling Study Commission, Montana Legislative Council, and Montana Legislative Services Division, Final Report, November 1998.

³⁴ Researchers estimate the prevalence of pathological gambling by conducting surveys among populations or within clinical settings and using screening instruments to identify individuals with gambling disorders. In general, individuals who score 3 or 4 points on the screen are classified as "problem gamblers." Those who score 5 or more points are classified as "probable pathological gamblers." As noted by NGISC, prevalence rates are stated in terms of timeframes, either "lifetime" (prevalence rate of individuals who have at some time met the criteria for a gambling disorder category) or "past-year" (prevalence rate of individuals who met the criteria for a gambling disorder category in the past year).

NGISC heard testimony stating that convenience gambling is often found in neighborhoods where money spent on gambling could otherwise be spent on needed goods and services and that it provided few economic benefits and created potentially greater social costs by making gambling more available and accessible.

Because of numerous factors, we were not able to clearly identify the social effects of gambling upon the three communities. Measuring the social effects of gambling is difficult in part because of the limited amount of quality data on the social effects of gambling and the complexity of determining whether a cause-effect relationship exists between gambling and social problems. This determination is made more complex because of the difficulty of isolating gambling from other factors that may contribute to increases in certain social problems, such as substance abuse and personality disorders. As a noted gambling researcher stated, social impacts of gambling are qualitative, elusive, and very difficult to measure.³⁵ One official in Montana pointed to his own contact with clients seeking treatment for alcohol and drug abuse and their occasional self-reporting of gambling problems. He noted that social indicators are difficult to attribute to gambling because determining the underlying cause of the problem is a “chicken and egg” question--counselors and researchers cannot determine whether the social problem or problem gambling preceded the other.

Some officials pointed to specific examples of the negative social effects of convenience gambling. They cited examples that included (1) a South Carolina incident where an infant reportedly died of heat exhaustion after being left in a car outside of a convenience gambling casino, while the infant’s mother played video gambling machines; (2) two gambling-related suicides in Oregon; and (3) defendants in embezzlement and employee theft cases in Montana, stating that their crimes were associated with their gambling problems. Other officials said convenience gambling had no impact on social indicators or said they had no basis to judge the impact of convenience gambling.

In general, postlegalization social indicators we reviewed did not vary widely from prelegalization trends and were similar to national trends. However, total crimes increased in Charleston, prostitution and drug arrests increased in Salem, divorces and child abuse and neglect cases increased in Marion County (where Salem is located), divorces increased

³⁵ William Eadington cited in The 1998 Montana Gambling Study, A Report to the Governor and the 56th Legislature by the Gambling Study Commission, Montana Legislative Council, and Montana Legislative Services Division, Final Report, November 1998.

in Cascade County (where Great Falls is located), domestic violence incidents increased in Charleston County (where Charleston is located), and child abuse and neglect cases decreased in Charleston County. However, officials said these changes were not related to convenience gambling.

Sufficient data for all of the family social indicators were not available; therefore, we could not show all trends before and after the legalization of convenience gambling in the three communities.³⁶

Analysis of data on suicides showed that the rates both before and after the legalization of convenience gambling remained almost constant in the three communities and were similar to the national rate.

State officials said that problem gambling studies had not been conducted in any of the three states before the legalization of convenience gambling. Thus, we were not able to show pathological gambling prevalence rates in the three communities before and after the legalization of convenience gambling. However, we were able to obtain recent prevalence rates for Oregon and Montana. Oregon's and Montana's pathological gambling prevalence rates fell within the range of other states that have completed studies of problem and pathological gambling but were higher than the national average. NGISC reported in its 1999 report that problem and pathological gambling estimates in 17 states ranged from 1.7 to 7.3 percent of adults and that the national rate of U.S. adults classified as pathological gamblers ranged from 1.2 to 1.6 percent. Researchers looking at the prevalence of pathological gambling in Oregon and Montana estimated that the percentage of probable pathological gamblers ranged from 1.6 to 2.8 percent of Montana's adult population and 1.4 to 1.8 percent of Oregon's adult population in 1997. A study conducted in South Carolina covered a limited population--adults receiving alcohol and drug treatment--thus, we could not compare South Carolina results with the other rates. See appendix II for a more detailed discussion on the social effects of convenience gambling.

Agency Comments

We requested comments on a draft of this report from the Chair of the former NGISC; the Administrator of Registration, Licensing, and Local Government Services, South Carolina's Department of Revenue; the Director of the Department of Planning and Urban Development,

³⁶Single-parent family data for Charleston, SC, and Salem, OR, and domestic violence data for Great Falls, MT, and Salem, OR, were not readily available. Thus, trends before and after the legalization of convenience gambling could not be determined for those social indicators in those communities.

Charleston, SC; the Manager of Public Affairs of the Oregon State Lottery Commission; the County Commissioner of Marion County, OR; the Acting Administrator of the Gambling Control Division of Montana's Department of Justice; and the Assistant City Manager of Great Falls, MT.

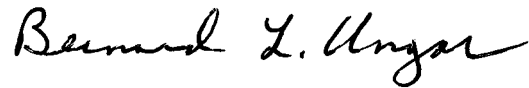
We received written comments from the Chair of the former NGISC in a letter dated October 12, 2000, which is reproduced in appendix IV. The former Chair said that our findings and the difficulties we encountered in obtaining conclusive information on the economic and social effects of convenience gambling reinforced NGISC's findings and experiences. She said that overall our report appeared to be a balanced analysis of the facts present in the communities we studied. Furthermore, she concurred in our approach to selecting the three states and communities included in our review. She also noted that the fact that our report found that bankruptcy rates in the communities increased during the period 1990 to 1999 at roughly the same rate as national bankruptcies should be viewed cautiously and that policymakers should obtain more extensive data on underlying factors of local bankruptcies before attributing or dismissing local increases to national trends. We agree. Finally, the former Chair said that our report reinforces the need NGISC identified for more extensive research on both the economic and social effects of convenience gambling.

In October 2000, we received oral comments from a Public Affairs Representative of the Oregon State Lottery Commission; the Assistant City Manager of Great Falls, MT; the Acting Administrator of the Gambling Control Division of Montana's Department of Justice; the Assistant Public Affairs Director of South Carolina's Department of Revenue; and the Director of the Department of Planning and Urban Development, Charleston, SC. They said that they generally agreed with the report and some provided technical comments, which we incorporated into the report where appropriate. As of October 16, 2000, we had not received comments from Marion County, OR.

We are sending copies of this report to Senator Fred Thompson, Chairman, and Senator Joseph I. Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry A. Waxman, Ranking Minority Member, House Committee on Government Reform; Senator Orrin Hatch, Chairman, and Senator Patrick Leahy, Ranking Minority Member, Senate Judiciary Committee; Representative J. Henry Hyde, Chairman, and Representative John Conyers, Jr., Ranking Minority Member, House Judiciary Committee; and other interested parties. Copies will be made available to others upon request.

If you have any questions regarding this report, please call me or John Baldwin on (202) 512-8387. Key contributors to this report are acknowledged in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "Bernard L. Ungar". The signature is written in a cursive style with a large, stylized 'B' and 'U'.

Bernard L. Ungar
Director, Physical Infrastructure

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Abbreviations

APA	American Psychiatric Association
DSM	Diagnostic and Statistical Manual of Mental Disorders
FBI	Federal Bureau of Investigation
NGISC	National Gambling Impact Study Commission
SLED	State Law Enforcement Division of South Carolina
UCR	Uniform Crime Report

Economic Effects of Convenience Gambling on Communities

Convenience gambling created jobs and tax revenues in the three areas we visited, but its effect on bankruptcies was uncertain. State employment officials estimated that convenience gambling created about 3,500 jobs in South Carolina, 3,700 in Montana, and 2,500 in Oregon. The estimated number of jobs created by convenience gambling represented less than 1 percent of total private sector jobs in South Carolina and Oregon and about 1 percent of total private sector jobs in Montana. In addition, state employment officials said the estimated number of jobs may be inaccurate because of the difficulty of isolating convenience gambling jobs from other jobs in the amusement and recreation industrial job classification and because some employees who work with video gambling machines also perform in other capacities, such as cashiers or bartenders.

Governments of all three communities received revenues from convenience gambling. In 1999, South Carolina received about \$63 million in video gambling machine license fees and Charleston received an additional \$144,000. In 1999, Montana received \$38 million from taxes on convenience gambling proceeds (the amount remaining after prizes have been paid) in the state and distributed \$2.5 million to Great Falls. In 1999, Oregon received about \$236 million from its state-operated convenience gambling operations and distributed the funds throughout the state. The amount Salem received was not available because funding was distributed to state and county programs and projects and not directly to cities. The amount of tax revenues and license fees that the three states received from convenience gambling ranged from 1 to 5 percent of state budgets.

While officials from Montana and Oregon said that funding derived from convenience gambling had contributed to community projects to some extent, most of the officials we interviewed in South Carolina said that convenience gambling had not increased funds for community investment. Great Falls officials reported that the funds Great Falls derived from convenience gambling were used for police, fire safety, and parks and recreational activities. Oregon distributed funds derived from convenience gambling throughout the state, including Salem, for various programs and projects, including community investment projects that have included water resources projects, revitalization of downtown areas, and funding to enhance timber-stressed communities.

While officials in all three communities said they believed that convenience gambling contributed to bankruptcy filings, we found no conclusive evidence linking gambling and bankruptcy for the general population. County bankruptcy data for years before 1990 were not available so we were unable to analyze pre- and postlegalization of

convenience gambling bankruptcy rates for the three communities. An analysis of available bankruptcy data we obtained from the Administrative Office of the U.S. Courts showed that the bankruptcy rate after the legalization of convenience gambling for the three states and communities increased, but so did the rate in the rest of the nation. No data were readily available to provide the underlying cause of bankruptcy filings. A 1998 Montana report on problem gambling in Montana reported that persons suffering from pathological gambling filed for bankruptcy two and one-half times more than those who did not have gambling problems.

Effects of Convenience Gambling on Employment

According to state and local officials in the three states and communities we studied, figures on the number of people employed solely in convenience gambling jobs are not collected. They said that determining the number of convenience gambling jobs was difficult because many of the video gambling machines were located in establishments that were existing businesses before the legalization of convenience gambling. State employment officials said the establishments might not have added new employees when they began operating video gambling machines and instead used existing workers to monitor the machines along with their other responsibilities (e.g., clerks, cashiers, and bartenders).

South Carolina Employment Security Commission officials said no methods exist to determine the number of convenience gambling jobs because the jobs are included in various industrial codes. While one Commission official estimated that the number of convenience gambling jobs was about 3,500, another official said that the number should be qualified because it included jobs in the amusement coin-operated device and recreation job classification, which includes more than convenience gambling jobs.¹ The estimated 3,500 convenience gambling jobs represented less than 1 percent of the total 1.5 million private sector jobs in South Carolina, as of 1998.

Since convenience gambling was banned in South Carolina as of July 1, 2000, a review of the number of individuals who were former convenience gambling employees filing unemployment claims could shed light on the number of convenience gambling jobs that had existed in the state. According to an official of South Carolina's Employment Commission, between July 1 and July 28, 2000, 2,399 unemployment claims had been

¹ We were unable to independently verify the number of jobs associated solely with convenience gambling because the jobs were not isolated but were grouped with other types of jobs in the Department of Commerce's amusement and recreation services and coin-operated amusement devices standard industrial classifications.

filed by video poker employees for the entire state, including 64 with the Charleston Employment Office.²

A 1998 gambling study published by Montana's Legislative Council and Services Division stated that no standard definition existed for gambling-related employment and presented three separate estimates for convenience gambling employment in Montana in 1997.³ One estimate (16,300) included all employees working at gambling establishments (including restaurants and bars); another estimate (10,000) included only those employees at gambling establishments who had face-to-face contact with gamblers; and the third estimate (3,700) represented revenue allocated jobs where the employment was fully supported by gambling. We decided to use the lower number of 3,700 because this estimate appeared to be more closely related solely to convenience gambling. This estimate represented about 1 percent of the 391,700 total private sector jobs in Montana in 1997.

Oregon State Lottery Commission officials also said that determining the number of jobs specifically created by video poker was difficult because Oregon law requires that video poker retailers be established businesses before they are accepted as video poker retailers. They said that according to the Oregon Restaurant Association, video poker has created about 2,500 jobs for video poker retailers. The estimated number of video poker jobs (2,500) represented less than 1 percent of the 1.3 million total private sector jobs in Oregon in 1999.

State and local officials and various researchers said that jobs in the convenience gambling industry are generally low-paying with minimal benefits. A Great Falls official said that the jobs created by convenience gambling are generally part-time, minimum wage jobs, usually without benefits. According to the 1998 Montana gambling report, employees at gambling establishments in Montana earned an estimated average of \$9,600 annually, excluding benefits and tips. However, the report noted salaries of other jobs in the service area, such as amusement and

² An official in the South Carolina Employment Commission said Commission staff stopped monitoring unemployment claims filed by former convenience gambling employees as of July 28, 2000, because by that time, the weekly number of claims filed by convenience gambling employees had leveled off to almost none.

³ The 1998 Montana Gambling Study: A Report to the Governor and the 56th Legislature by the Gambling Study Commission, Montana Legislative Council, and Montana Legislative Services Division, Final Report, November 1998. According to the Director of the Bureau of Business and Economic Research, at the University of Montana-Missoula, who worked on the report, the majority of the gambling discussed in the report is convenience gambling; a miniscule amount included live card games.

recreation services and hotels and lodging places, that were close to the estimated salary in Montana's gambling establishments.

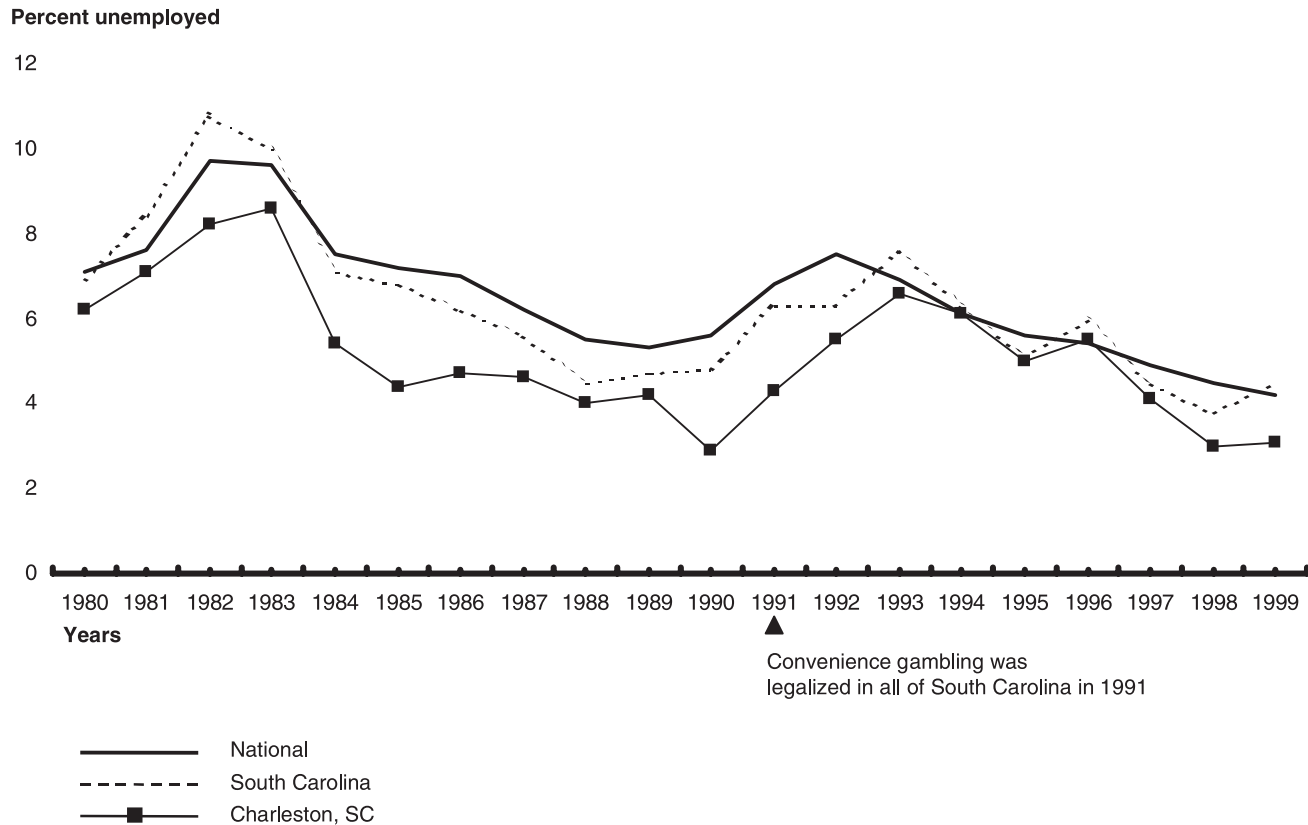
Of the 10 government, private industry, and community officials we talked to in the three states who worked in areas that covered economic issues, including state economic and community development and gambling industry officials, 9 said that convenience gambling had some effect on creating new jobs. While 5 of the 10 officials said that convenience gambling increased wage rates and employee benefits for local employees, 3 said that convenience gambling had no effect on employee wages and benefits, and 2 said that they had no basis to judge.

According to the 1999 NGISC report, convenience gambling, such as video poker, attracts local residents and does not offer the jobs and economic benefits found in destination resort casino gambling, which brings in visitors and money from outside the immediate community. The report further stated that convenience gambling creates few jobs and fewer good quality jobs and is not accompanied by any significant investment in the local economy. Jobs derived from convenience gambling in the three states were minimal compared with destination resort gambling. For example, in 1998, the jobs (both full- and part-time) in casino hotels in Atlantic City represented about 80 percent of the private sector jobs in that city.

Generally, the unemployment rate appears to have been unaffected by the legalization of convenience gambling in the three areas we studied. Initially, unemployment rates for the three states and communities increased following the legalization of convenience gambling; however, the increases were not sustained. After the legalization of convenience gambling, rates generally followed the same prelegalization pattern of periodic fluctuations of increases and decreases. In addition, the cyclical pattern that was observed in the national unemployment rate for the period 1980 to 1999 was also evident in the rates for all three states and communities during the same period.

As shown in figure I.1, both South Carolina's and Charleston's unemployment rates (along with the national rate) initially increased from 1990 to 1993, then decreased. Convenience gambling was legalized in South Carolina in 1991.

Figure I.1: Unemployment Rate in the United States, South Carolina, and Charleston, SC, 1980-1999



Source: GAO analysis of data obtained from the U.S. Department of Labor's Bureau of Labor Statistics.

Although Charleston's unemployment rate followed the state and national patterns, it was generally lower than the state and national rates. For example, in 1991 (the year convenience gambling was legalized in South Carolina), Charleston's unemployment rate was 4.3 percent, South Carolina's rate was 6.3 percent, and the national rate was 6.8 percent. An official in South Carolina's Employment and Security Commission said that Charleston's unemployment rate was lower than the state and national rates because the city is a major coastal metropolitan area with a year-round economy supported by tourists.

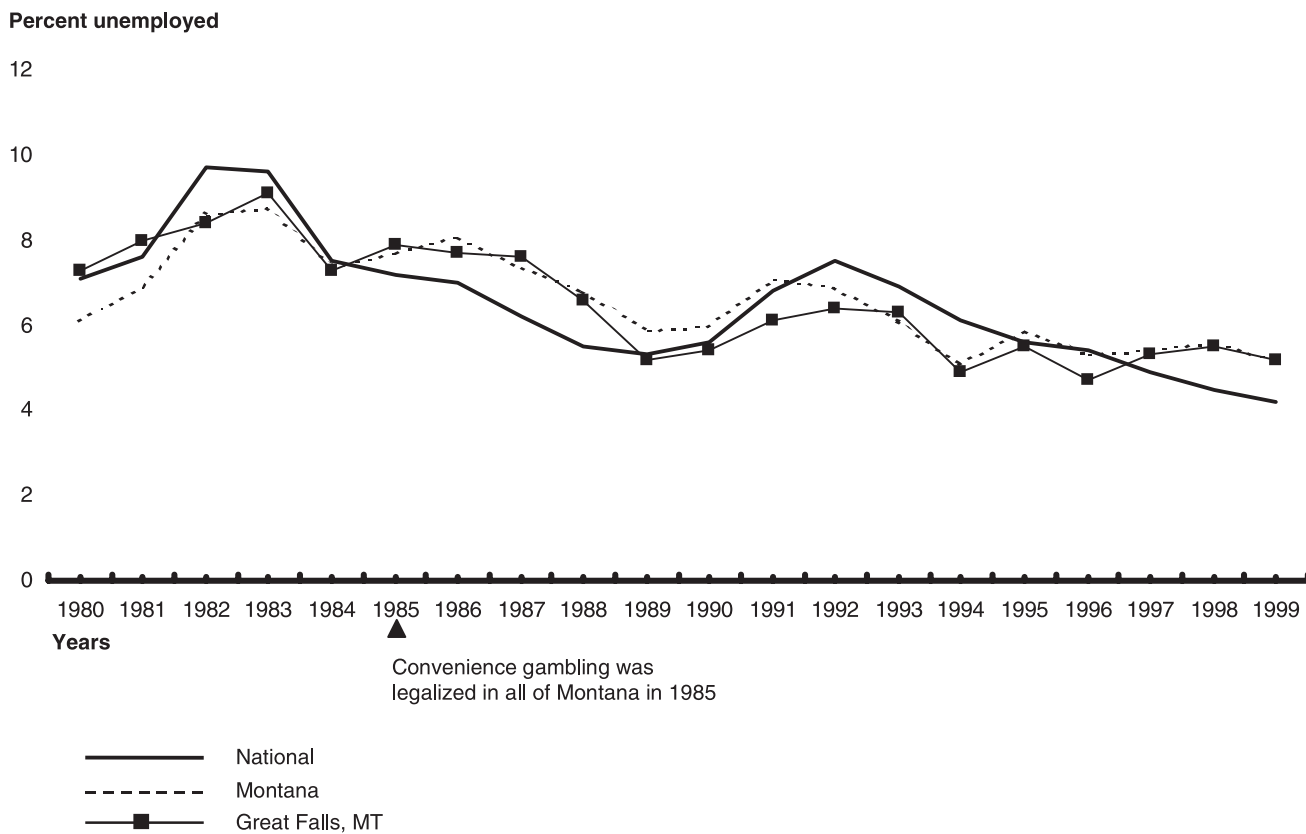
A South Carolina Employment and Security Commission official also said that convenience gambling-related jobs had little, if any, impact on the state's employment. She said that from 1991 (the year convenience gambling was legalized in the state) to 1999, the number of new paying

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jobs in the amusement and other recreation industrial classification (of which convenience gambling is included) was 3,150. This number represented less than 1 percent of the total 319,000 new jobs created in the state during the same period.

Montana's and Great Falls' unemployment rates fluctuated after Montana legalized convenience gambling in 1985 but in general declined from 1985 to 1999, as shown in figure I.2.

Figure I.2: Unemployment Rate in the United States, Montana, and Great Falls, MT, 1980-1999



Source: GAO analysis of data obtained from the U.S. Department of Labor's Bureau of Labor Statistics.

According to an official in Montana's Department of Labor and Industry, from 1985 (the year Montana legalized convenience gambling) to 1999, the number of new paying jobs created in Montana was 104,000 and of that amount, 1,200, or 1.15 percent were "other recreation" sector jobs, which includes such jobs as recreational guides and gambling-related jobs. He

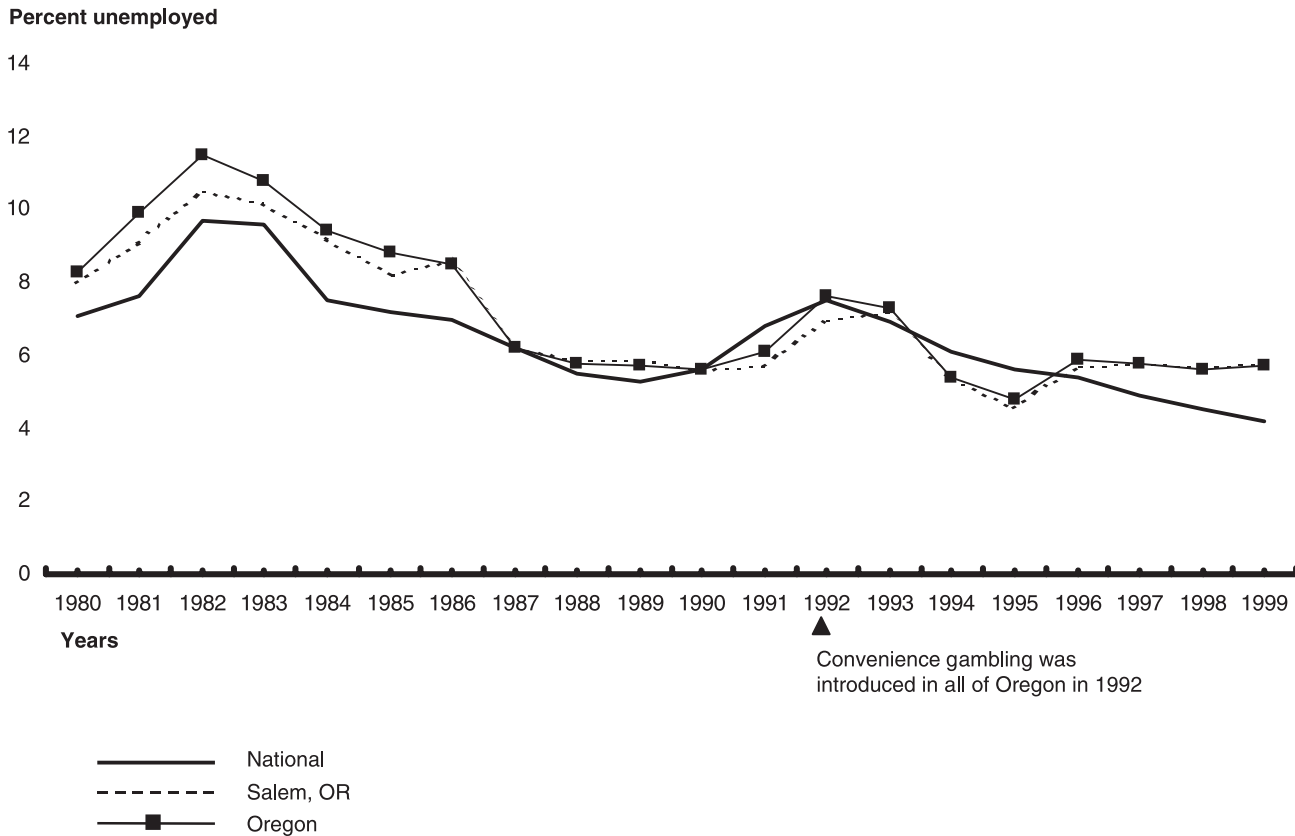
said that considering these numbers, convenience gambling had very little, if any, impact on employment in Montana.

An official in Montana's tavern industry said that convenience gambling has helped the state's economy by keeping establishments open, especially taverns in rural areas, and provided opportunities for second incomes for lower middle class workers. He also said that the use of other services by the convenience gambling industry has contributed to other state employment, including construction jobs, accountants, lawyers, and repair service employees.

Oregon's and Salem's unemployment rates also generally decreased (along with the national rate) after Oregon introduced convenience gambling in 1992,⁴ as shown in figure I.3.

⁴ Although Oregon legalized convenience gambling in 1991, it did not begin operating convenience gambling machines until 1992. OR. REV. STAT. §167.166.

Figure I.3: Unemployment Rate in the United States, Oregon, and Salem, OR, 1980-1999



Source: GAO analysis of data obtained from the U.S. Department of Labor's Bureau of Labor Statistics.

According to an official in Oregon's Employment Department, Oregon's and Salem's unemployment rates were generally higher than the national rates during 1980 to 1999 because (1) the state experienced annual employee layoffs, because some of Oregon's industries, especially logging, are highly seasonal; (2) in the early 1990s, management of federal land was revised, which limited the availability of timber harvests; (3) problems with the Asian economy had a much larger effect on Oregon's external trade than on the national economy's; and (4) certain timber from the Southeastern part of the United States has become less expensive than Oregon timber, and this resulted in fewer jobs in Oregon.

Since the introduction of convenience gambling in Oregon in 1992, convenience gambling has accounted for a very small number of the new jobs created in the state, according to an Oregon Department of Labor

official. He said that from 1992 to 1999, 304,800 new paying jobs were created in Oregon and of that amount, 7,900, or 2.6 percent, were in the amusement and other recreation job sector, which includes gambling-related jobs.

An official of Oregon's restaurant industry said that convenience gambling has contributed to the state's economy by helping to keep restaurants open and thus helping to save jobs in Oregon. He said that a restaurant's revenues have to be about \$250,000 annually for it to remain in business and on average, about one-fourth of that amount is derived from convenience gambling. He also said before convenience gambling, a number of taverns could not pay their bills in a timely manner, but because convenience gambling increased business for the average tavern by about \$70,000 annually, those taverns no longer have this problem.

Because some proponents of gambling have reported that gambling establishments produce jobs in communities and in turn contribute to a decrease in welfare rolls, we looked at trends in welfare caseloads before and after the legalization of gambling in the three communities.⁵ As shown in table I.1, analysis of 1980 to 1999 data indicated that after the legalization of convenience gambling, welfare caseloads (families) per 10,000 population for the three states and communities varied as they had before the legalization of convenience gambling, but by 1999 had decreased significantly, as had the national rate. (The bold area denotes the period of time convenience gambling had been legal and/or operating in the area.)

Table I.1: Welfare Caseload (Families) Per 10,000 Population in the United States, South Carolina, Montana, and Oregon, 1980-1999

Year	United States	South Carolina	Charleston County, SC	Montana	Cascade County, MT	Oregon	Marion County, OR
1980	161	178	218	88	100	146	^a
1981	169	183	215	92	91	131	^a
1982	154	162	185	72	93	108	^a
1983	156	153	170	80	93	104	^a
1984	158	143	158	88	102	102	^a
1985	155	132	151	96	106	104	^a
1986	156	138	145	109	125	113	125
1987	156	134	131	118	131	112	126
1988	153	120	108	119	133	112	130

⁵ Welfare caseload data were not readily available for the cities of Charleston, SC, and Great Falls, MT; state agencies maintained the data by the county level. To be consistent, we used county data for all three cities.

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Year	United States	South Carolina	Charleston County, SC	Montana	Cascade County, MT	Oregon	Marion County, OR
1989	153	108	94	117	123	115	133
1990	159	111	86	122	122	115	138
1991	173	125	101	125	131	129	159
1992	187	138	130	133	137	139	168
1993	193	147	148	140	142	140	178
1994	194	142	148	139	145	136	178
1995	185	132	142	133	137	125	159
1996	171	122	132	124	131	105	128
1997	145	90	95	101	111	74	90
1998	118	66	63	72	78	56	64
1999	97	47	43	55	65	51	60

Note 1: Data were not available at the city level for Charleston, SC, and Great Falls, MT. To be consistent, we used county data for all three cities.

Note 2: The bold area represents the period of time convenience gambling had been legal and/or operating in the area. South Carolina banned convenience gambling as of July 1, 2000.

^aData were not available for Marion County from 1980 to 1985.

Source: GAO analysis of data obtained from the U.S. Department of Health and Human Services, the Bureau of the Census, South Carolina's Department of Social Services, Montana's Department of Health and Human Services, and Oregon's Department of Human Services.

State officials said the recent decreases resulted mostly from federal and local government regulations established to reduce welfare rolls.

Effects of Convenience Gambling on Tax Revenue and Community Investment

All three areas received either tax revenue or fees from convenience gambling operations, but little community investment from convenience gambling in Montana and Oregon, and none in South Carolina. As shown in table I.2, the percentage of gross proceeds (the amount remaining after payment of gambling prizes) received by each state varied.

Table I.2: Tax and Fee Revenues Received by South Carolina, Montana, and Oregon From Convenience Gambling in 1999

	South Carolina	Montana	Oregon
Number of video gambling machines in state	32,300	17,000	8,900
Total statewide convenience gambling gross proceeds (after prizes paid) (in millions of dollars)	\$770.2	\$252.7	\$402.6
Amount received by state (in millions of dollars)	\$63.1	\$38.0 ^a	\$235.7 ^b
Percent received by state	8.2	15.0	58.5

^aThis amount does not include the \$3.6 million Montana received in 1999 from video gambling license fees.

^bThis amount does not include the \$1.8 million Oregon received in 1999 from the amusement device excise tax.

Note: Of the three states, only Oregon had a computerized centralized monitoring system. The stated gross proceeds from the other two states are based on convenience gambling industry reports provided to the states.

Source: South Carolina's Department of Revenue, Montana's Department of Justice/Gambling Control Division, and the Oregon State Lottery Commission.

Unlike Montana and Oregon, states that received a percentage of convenience gambling gross proceeds, South Carolina's revenue from convenience gambling consisted of a flat license fee on video gambling machines. In 1999, South Carolina charged a 2-year \$4,000 license fee for each video gambling machine operating in the state.⁶ According to South Carolina officials, license fees the state derived from convenience gambling were deposited in the state's general fund with no specific use designated. Also, South Carolina legislation allowed local governments to impose a license fee on video gambling machines not to exceed \$360.⁷ According to South Carolina's Department of Revenue, the City of Charleston received \$144,000 in video gambling machine license fees in 1999. Like the state's license fees, Charleston's license fees were designated for the city's general fund with no specific designated use, according to a Charleston official.

State legislation mandates that convenience gambling operators pay Montana 15 percent of convenience gambling gross proceeds, plus an annual license fee of \$200 for each video gambling machine. State legislation also requires Montana to deposit one-third of the funds derived from convenience gambling in the state's general fund and distribute the remaining two-thirds to local communities. The amount each local government receives depends on the amount of the state's revenue derived from the video machines located in the local jurisdiction. In 1999, Great Falls received \$2.5 million of these funds. Montana also received \$3.6 million in video gambling license fees in 1999.

Unlike South Carolina and Montana where private businesses operate convenience gambling, in Oregon, convenience gambling is part of the state-operated lottery. The state and the businesses (retailers) share the proceeds on the basis of a four-tiered compensation system. Under the compensation system, the amount the retailers receive depends on the volume of sales or plays. Overall, under the system effective in July 1999, private businesses received about 32 percent of gross proceeds, Oregon received about 59 percent, and the remaining 9 percent was allocated to cover expenses of the Oregon State Lottery Commission, the regulator of

⁶ S.C. CODE ANN. §12-21-2720(A) (1998).

⁷ S.C. CODE ANN. §12-21-2720(B) (1998).

convenience lottery. The proceeds Oregon receives are to be deposited in the state's general fund, except for 2.5 percent that is legislatively mandated for economic development in counties.⁸ According to an Oregon 1996 audit on the use of lottery funds and in accordance with Oregon law, of the 2.5 percent designated for counties, 90 percent of the funds is distributed to each county in proportion to the gross proceeds from the video lottery games played in each county, and the remaining 10 percent is distributed equally among all counties.⁹

The Oregon legislature decides which specific programs will receive the remaining 97.5 percent of the funds derived from convenience gambling. These funds are combined with other funds derived from the state-operated lottery. Legislation requires that the proceeds be deposited in the state's Administrative Services Economic Development Fund, a general fund account, for creating jobs, furthering economic development, or financing public education.¹⁰ According to the Oregon State Lottery Commission, in 1999, Oregon also received about \$1.8 million from the annual amusement device excise tax on video gambling terminals, which goes to Oregon's Department of Revenue to be used for general state and county expenses.

Local governmental officials in Charleston, SC, and Great Falls, MT, commented that convenience gambling establishments created a negative atmosphere in the communities. They said that video poker parlors (also called "casinos" in Montana) presented a negative image that hurt local commerce and residential areas and have (1) had a detrimental impact on established residential neighborhoods because of the proliferation of gambling establishments and machines; (2) created a stigma that tends to discourage new business from coming into a community; (3) introduced an undesirable element in restaurants, shopping malls, and neighborhood commercial centers; and (4) resulted in "tacky" gambling establishments that have not contributed to a quality urban setting--the buildings are generally cheap, landscaping is minimal and usually not well-maintained, and the signs (where advertising is legal) are gaudy.

Officials, including individuals working in the economic and planning areas, also said that while convenience gambling hurt some businesses, it benefited others. They said that restaurants/bars were the primary

⁸ OR. REV. STAT. §461.547(1).

⁹ State of Oregon's Use of Lottery Funds, No. 96-33, Sept. 9, 1996, and OR. REV. STAT. §461.547(1).

¹⁰ OR. REV. STAT. §§461.544 and 461.540(1)(a)(b) and (c).

beneficiaries of convenience gambling. Other types of establishments cited as benefiting from convenience gambling included convenience stores, advertising agencies, hotels and motels, loan companies, gas stations, pawn shops, casinos, and ski resorts/golf courses. The officials said they believed that these establishments and their employees have benefited because of increased revenues, increased employment opportunities, and improved employee benefits, especially in taverns/bars. According to the officials, entertainment and retail establishments, including grocery stores and charities, suffered because of convenience gambling. The officials said the retail businesses suffered because spending patterns shifted from their businesses to convenience gambling; people began spending more money on gambling machines instead of other entertainment and clothes and as a result, some stores have closed. They said that charities had suffered because people who spend money on video gambling machines reduce their financial donations to charities.

While officials from both Montana and Oregon said that funding derived from convenience gambling had contributed to community projects to some extent, most of the officials we interviewed in South Carolina said that convenience gambling had not increased funds for community investment. Neither the state nor Charleston allocated video gambling machine license fees to any particular project; the funds were placed in their general fund accounts.

According to officials in Montana and Oregon, the convenience gambling industry has not directly contributed to community investment. However, they said that funding for community projects was derived from Montana's and Oregon's taxes on convenience gambling.

According to Great Falls planning and budget officials, taxes derived from convenience gambling have been used primarily for police and fire safety, with a small portion going to parks and recreational activities.

Of the three communities, Salem was the only one where local officials could provide examples of specific community investment projects funded by convenience gambling. Information provided by officials of Marion County (which includes Salem) showed that funds derived from the 2.5 percent of convenience gambling proceeds that the state provides to counties for economic development purposes have funded numerous projects, including contributions to

- revitalization of downtown areas,

- the Riverfront Park in the City of Salem,
- water resources projects,
- workforce retail business training for youth,
- flood control and recovery efforts,
- Salem Rodeo Foundation,
- purchase of a building to provide medical service to migrant workers and other low-income residents, and
- enhancement of timber-stressed communities.

The remaining 97.5 percent of Oregon funds from convenience gambling is combined with the state lottery funds and distributed throughout the state for various projects. According to an Oregon audit report on the use of Oregon lottery funds, the lottery's initial primary objectives were to maximize revenue for economic development and the creation of jobs. In 1995, voters added financing of education as an authorized use of the funds. According to Oregon State Lottery officials, beginning with the 1995-1997 biennium budget, the state legislature allocated over 70 percent of all lottery proceeds to education. The audit report noted that the remaining funds were used to support other endeavors, such as the school to work transition programs of Oregon's Mental Health and Developmental Disability Services and promotion of tourism.

Effects of Convenience Gambling on Bankruptcy

County bankruptcy data were not available before 1990, and because Montana and South Carolina legalized convenience gambling in 1985 and 1991, respectively, and Oregon introduced convenience gambling in 1992, sufficient bankruptcy data were not available to determine bankruptcy trends before the legalization and introduction of convenience gambling in the three communities. Bankruptcy rates for Charleston County (where Charleston is located), Cascade County (where Great Falls is located), and Marion County (where Salem is located) generally increased from 1990 to 1999, following the national trend.

While the data we reviewed provided no conclusive link between gambling and bankruptcies in the three states and communities for the general population, officials we interviewed in the three states said they believed that convenience gambling had at least some impact on bankruptcy. They provided anecdotal evidence to support their belief. A South Carolina law

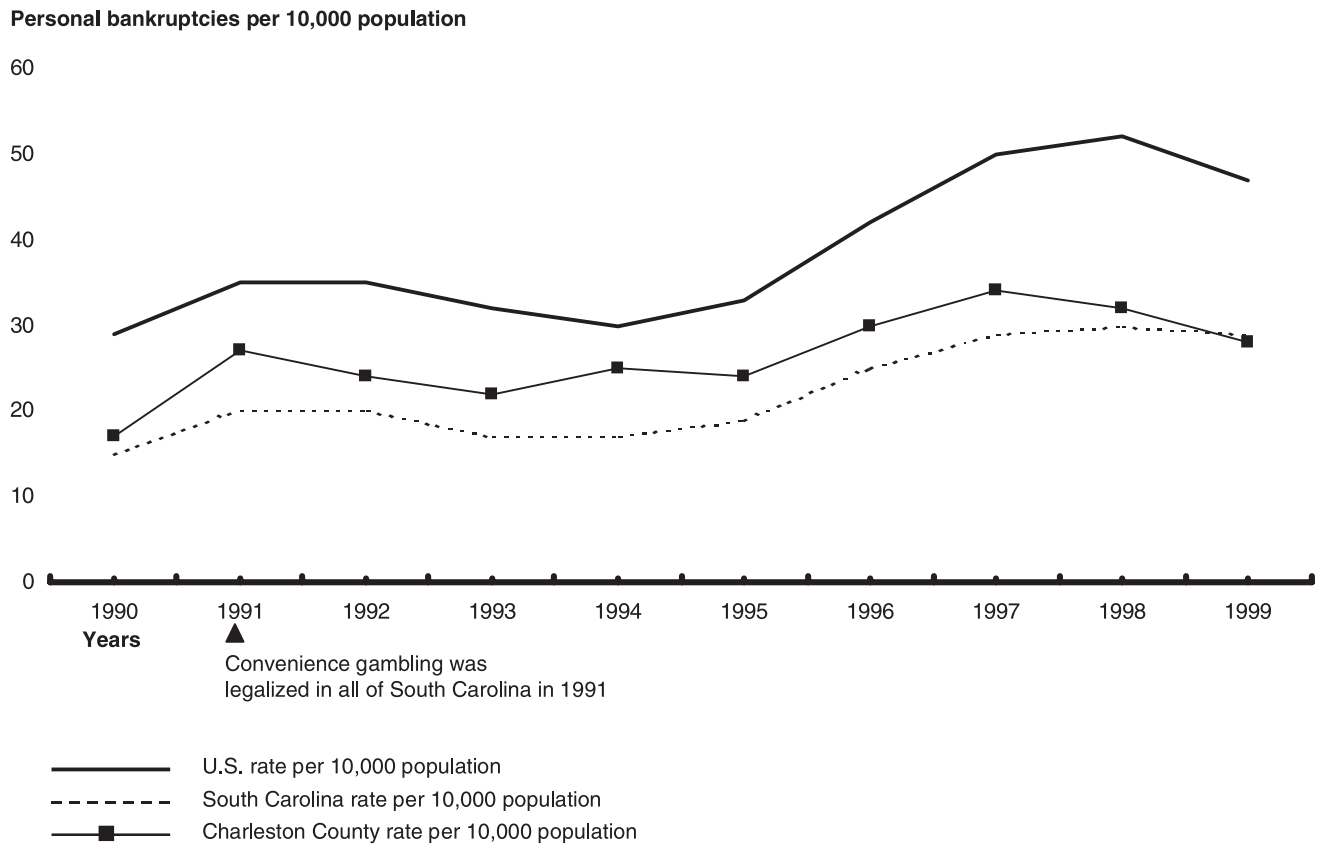
enforcement official provided examples of family problems caused by a bankruptcy filing due to convenience gambling. Great Falls and Montana officials commented that the people who can least afford to gamble tend to be the most attracted to it and often find themselves in financial trouble. They further commented that the accessibility and availability of convenience gambling have led many to use credit cards for their gambling needs and, in some instances, have led to refinancing their homes to liquidate their credit card debts only to renew their credit cards and accumulate more debt--a vicious cycle that eventually leads to bankruptcy or financial hardship. Oregon officials said that persons with gambling addiction problems have experienced personal bankruptcy as a result of their illness and that the convenient availability of convenience gambling contributes to the illness.

Gambling studies have shown a link between bankruptcy and individuals suffering from pathological gambling. The previously mentioned 1998 Montana gambling study reported that 10 percent of Montana's lifetime problem or probable pathological gamblers had filed for bankruptcy, while approximately 4 percent of those with no lifetime gambling problems had filed for bankruptcy.¹¹ In addition, the National Opinion Research Center, in doing research for NGISC, reported that on the basis of a 1998 national survey, 19 percent of pathological gamblers reported filing for bankruptcy compared with 5.5 percent for low-risk gamblers and 4.2 percent for nongamblers. We note here that because of the low percentage of the population suffering from pathological gambling (1.2 percent to 1.6 percent of the adult American population, as reported by NGISC in its 1999 report), population-wide data are not likely to reflect the linkage between gambling and bankruptcy for this subgroup of the overall population.

The number of bankruptcy filings per 10,000 population in Charleston County increased from 17 in 1990, the year before convenience gambling was legalized in South Carolina, to 28 in 1999. However, the national rate also increased from 29 to 47 during this period, as shown in figure I.4.

¹¹ As noted by NGISC in its 1999 report, prevalence rates of problem and pathological gamblers are stated in terms of timeframes, either "lifetime" (prevalence rate of individuals who have at some time met the criteria for a gambling disorder category) or "past-year" (prevalence rate of individuals who met the criteria for a gambling disorder category in the past year).

Figure I.4: Personal Bankruptcy Rates in the United States, South Carolina, and Charleston County, SC, 1990-1999



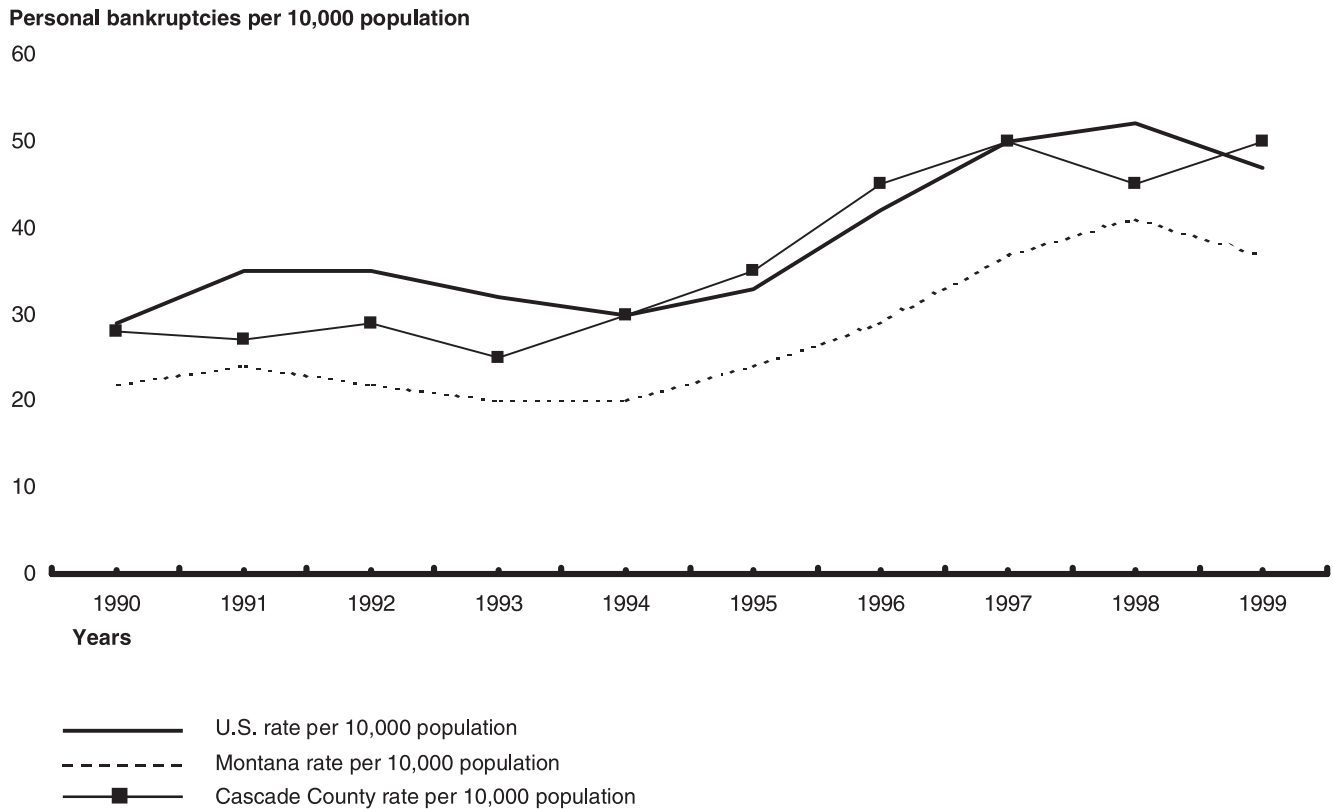
Note: Bankruptcy data were not readily available at the city level.

Source: GAO analysis of data obtained from the Administrative Office of the U.S. Courts and the Bureau of the Census.

We were unable to show prelegalization of convenience gambling bankruptcy trends because sufficient data were not available. South Carolina legalized convenience gambling in 1991, and county bankruptcy data were not readily available before 1990, according to an official of the Administrative Office of the U.S. Courts.

We were also unable to show trends for the bankruptcy rate in Cascade County (which includes Great Falls) after Montana legalized convenience gambling (1985), because county data prior to 1990 were not readily available. As figure I.5 shows, between 1990 and 1999, Cascade County's and Montana's bankruptcy rates increased, similar to the national trend.

Figure I.5: Personal Bankruptcy Rates in the United States, Montana, and Cascade County, MT, 1990-1999



Note: Bankruptcy data were not readily available at the city level, and data for Cascade County, (which includes Great Falls) were not readily available before Montana legalized convenience gambling (1985).

Source: GAO analysis of data obtained from the Administrative Office of the U.S. Courts and the Bureau of the Census.

Cascade County's (which includes Great Falls) bankruptcy rate was consistently higher than the state's rate for the period 1990 to 1999 and for some of the years, higher than the U.S. rate. For example, in 1996, Cascade County's bankruptcy filings were 45, national filings were 42, and Montana's filings were 29 per 10,000 population. Montana officials said they did not know why Cascade County's rate was higher. An official of the U.S. Bankruptcy Court, District of Montana, said Cascade County's rate was probably higher than Montana's rate because Great Falls is part of Cascade County's jurisdiction and Great Falls is the second largest population center in Montana. He said that with the exception of four other counties, Montana is very sparsely populated, and a very small number of bankruptcy filings occur outside of those five counties, thus, the

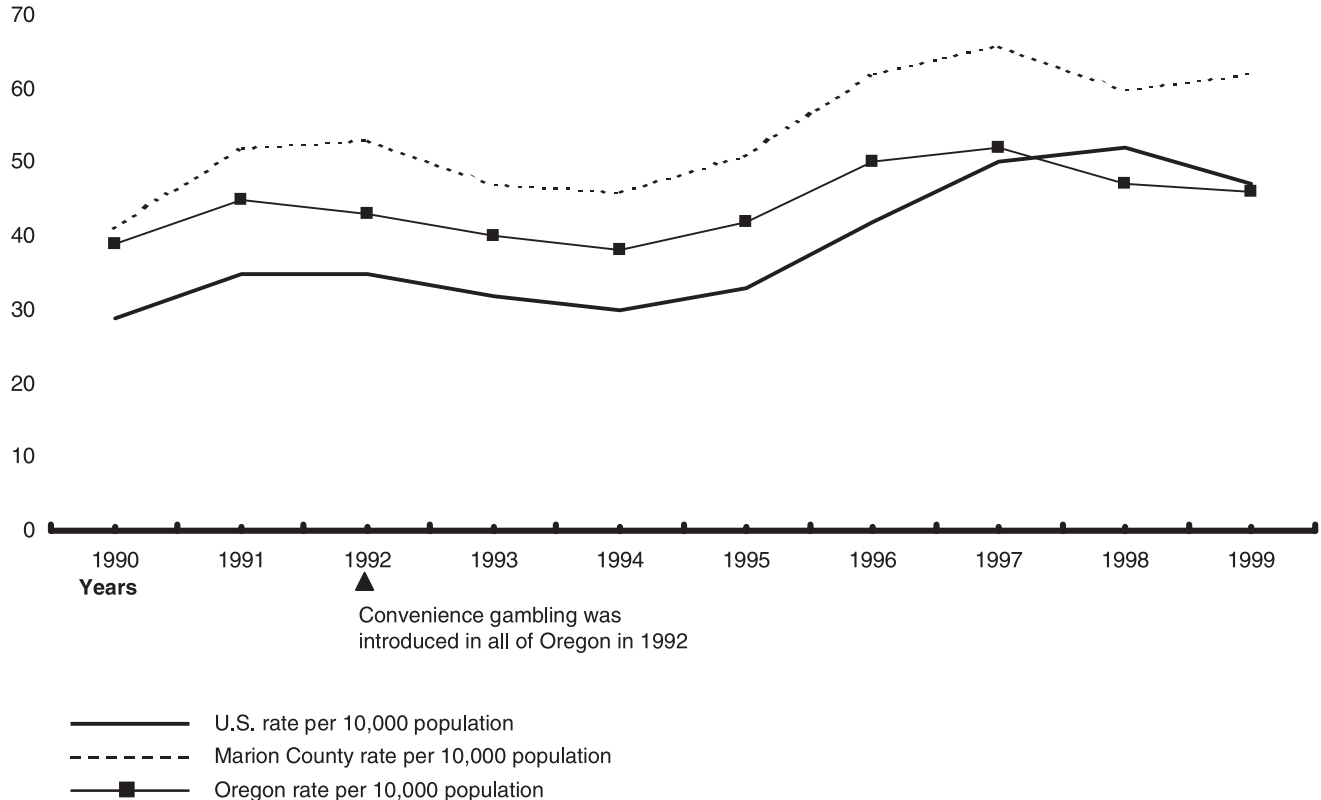
overall state rate is kept lower than the large populated areas by the low filing rate of the smaller populated areas.

The 1998 Montana gambling study concluded that problem gamblers are more likely to file for bankruptcy than others in the population. The report stated that 22 percent of Montana's Gamblers Anonymous members had filed for bankruptcy and that about 10 percent of Montana's lifetime problem or probable pathological gamblers had filed for bankruptcy, while approximately 4 percent of those who did not have lifetime gambling problems had filed for bankruptcy.

After Oregon introduced convenience gambling in 1992, the bankruptcy rates for Oregon, Marion County (where Salem is located), and the nation generally decreased until 1994 and generally increased between 1995 and 1997, as shown in figure I.6.

Figure I.6: Personal Bankruptcy Rates in the United States, Oregon, and Marion County, OR, 1990-1999

Personal bankruptcies per 10,000 population



Note: Bankruptcy data were not readily available at the city level.

Source: GAO analysis of data obtained from the Administrative Office of the U.S. Courts and the Bureau of the Census.

We were unable to show prelegalization trends because as previously mentioned, county bankruptcy data were not readily available before 1990.

While Oregon and Marion County bankruptcy rates generally followed a pattern similar to the national rate pattern, both the state and county rates were higher than the national rate during most of the period between 1990 and 1999. For example, in 1996, the county bankruptcy rate was 62 per 10,000 population, the state's rate was 50, and the national rate was 42. Officials in Oregon said they did not know why Oregon and Marion County rates were higher than the national rates, especially during the 1990s. They said the state's economy had suffered during the 1980s because of problems in the timber industry, but during the 1990s, the high technology industry had helped stabilize the state's economy. One official in Oregon's Employment Department said a contributing factor might have been the reduced demand for Oregon exports to Asian countries beginning in the late 1990s.

A 1996 Oregon report prepared by a Governor's Task Force on Gaming stated that the Association of Community Mental Health Programs (the entity that coordinates Oregon's problem gambling treatment) reported that the average annual gambling debt of gamblers in state-funded treatment programs was roughly 72 percent of the gamblers' gross annual household income.¹² The task force reported that it heard testimony stating that gambling may be a factor in an increasing number of the state's bankruptcies, although it noted that no systematic research existed to support this impression.

¹² State of Oregon Governor's Task Force on Gaming Final Report, October 4, 1996.

Social Effects of Convenience Gambling on Communities

Aside from specific anecdotal examples linking social problems and convenience gambling, we found no conclusive evidence showing whether or not convenience gambling caused increased social problems in the three communities. To assess the social effects of convenience gambling on the three communities, we reviewed problem gambling studies completed in Montana and Oregon; interviewed state and local officials; and reviewed data from 1980 to 1999, where available, regarding the following social indicators: families (including divorce, single-parent families, domestic violence, and child abuse and neglect); suicide; crime; and the prevalence of pathological gambling. Analysis of the available data showed that rates for some indicators were higher than the state and national rates in some years and lower in other years, both before and after the legalization of convenience gambling. While some state and local officials pointed to specific examples of negative social effects of convenience gambling, other officials said either convenience gambling had no impact or they had no basis to judge the impact of convenience gambling.

Measuring the social effects of gambling on communities is difficult in part because of the limited amount of quality data on the social effects of gambling and the complexity of determining whether a cause-effect relationship exists between gambling and social problems. This determination is complex because of the difficulty of isolating gambling from other factors (such as substance abuse and personality disorders) that may contribute to increases in certain social problems. An attempt to isolate the effect of any particular type of gambling, such as convenience gambling, further increases the complexity of establishing a cause-effect relationship. As stated by noted gambling researcher, William Eadington, in a 1998 Montana gambling study, social impacts associated with gambling are qualitative, elusive, and very difficult to measure.¹

Montana's 1998 state government-funded gambling study reported that determining the social effects of problem gambling is difficult because research on the social impact of problem gambling is limited due to the relatively few problem gamblers and the difficulty of identifying them. The report further stated that while household surveys provide an estimate of the number of problem gamblers, the surveys are not able to estimate detailed social impact associated with problem gamblers.

¹William Eadington cited in The 1998 Montana Gambling Study, A Report to the Governor and the 56th Legislature by the Gambling Study Commission, Montana Legislative Council, and Montana Legislative Services Division, Final Report, November 1998.

One official in Montana pointed to his own contact with clients seeking treatment for alcohol and drug abuse and their occasional self-reporting of gambling problems. In his view, “addictions travel in threes” (for example, drug, alcohol, and gambling addictions) for dependent personality disorders. He cited gambling as one of the primary social problems in Great Falls. However, he also noted that social indicators are difficult to attribute to gambling because it is a “chicken and egg” question--counselors and researchers cannot determine whether the social problem or problem gambling preceded the other.

As previously mentioned, the data we reviewed do not, by themselves, indicate whether or to what extent convenience gambling has affected families; a trend in either direction does not necessarily imply a connection to convenience gambling because numerous other factors also influence the trend, such as changes in data reporting, behavior problems, and other societal trends.

In an effort to obtain additional information on the social indicators and to obtain the opinions of officials working in the three states and communities, we asked the individuals included in our case studies about the social impact of convenience gambling. Of the 42 agencies and organizations included in our case studies, 13 were government and community agencies that provided social services to residents in the three communities. We asked officials in those 13 agencies for their opinions on the social impact of convenience gambling. As table II.1 shows, while some of the officials said that they had no basis to judge the social effects of convenience gambling, most of the officials said that convenience gambling had at least some impact on social problems, such as divorce, domestic violence, and pathological gambling.

Table II.1: Responses from Social Services Officials in South Carolina, Montana, and Oregon to Questions on the Social Impact of Convenience Gambling

In your view, to what extent has the presence of convenience gambling in your community had negative social impacts?	Number of agencies /officials				Total number of agencies/organizations with officials responding
	Great impact	Some impact	No impact	No basis to judge	
Increased rates of domestic violence	3	5	0	4	12
Increased rates of child abuse and neglect	3	5	0	5	13
Increased rates of divorce	4	4	0	5	13
Increased rates of homelessness	3	3	0	6	12
Increased rates of alcohol abuse	4	5	0	4	13
Increased rates of drug abuse	3	6	0	4	13
Increased rates of problem and pathological gambling	10	3	0	0	13
Increased rates of suicide	2	5	0	6	13

Source: GAO analysis of responses to questions on the social impact of gambling.

In response to questions about potential positive social benefits of convenience gambling, some of the officials responded that convenience gambling had some impact on increased sources of entertainment for community residents and increased contributions to nonprofit organizations, especially fraternal groups, who used their proceeds from video gambling machines for their charitable causes.

NGISC reported in its 1999 report that one controversial feature of convenience gambling is the location of video gambling machines in close proximity to children and families, including those in impoverished neighborhoods. The report stated that convenience gambling occurs in close proximity to residential areas and because video gambling machines are located in consumer-oriented sites, patrons regularly encounter them in the course of their day-to-day activities. The report further stated that NGISC heard testimony stating that convenience gambling is often found in neighborhoods where money spent on gambling could otherwise be spent on needed goods and services and that it provided few economic benefits and created potentially greater social costs by making gambling more available and accessible. In its conclusions, NGISC recommended that states should cease and roll back existing convenience gambling operations.

Effects of Convenience Gambling on Families

With the exception of increased divorces in Cascade County (where Great Falls is located), increased divorces and child abuse and neglect cases in Marion County (where Salem is located), increased domestic violence cases in Charleston County (where Charleston is located), and decreased child abuse and neglect cases in Charleston County, available data for the

Appendix II
Social Effects of Convenience Gambling on Communities

social indicators did not show much difference after the legalization of convenience gambling. However, data were not available for some indicators.²

Divorce

While officials in 8 of the 13 social service agencies/organizations said convenience gambling had at least some impact on increased divorce rates, officials in 5 of the entities said they had no basis to judge the impact. As shown in table II.2, divorce data generally showed no increase in the number of divorces per 10,000 population after convenience gambling was legalized or introduced in the communities we studied, with the exception of Marion County (where Salem is located) and Cascade County (where Great Falls is located), which showed an increase.³ (The bolded area shows the period of time convenience gambling had been legalized and/or operating in the area.)

Table II.2: Divorces Per 10,000 Population in the United States, South Carolina, Montana, and Oregon

Year	United States	South Carolina	Charleston County, SC	Montana	Cascade County, MT	Oregon	Marion County, OR
1980	52	44	54	^a	70	67	58
1981	53	^a	^a	^a	^a	67	60
1982	51	^a	48	57	68	63	50
1983	50	^a	^a	57	63	61	48
1984	50	^a	48	53	53	59	45
1985	50	^a	46	52	52	59	45
1986	49	40	44	53	68	59	44
1987	48	40	43	51	66	58	42
1988	48	42	48	51	64	55	39
1989	47	43	41	51	69	54	25
1990	47	46	51	51	69	55	30
1991	47	43	43	55	70	54	27
1992	48	43	51	51	70	54	27
1993	46	42	42	51	65	54	33
1994	46	43	52	49	63	51	52
1995	37	41	46	49	62	49	53
1996	43	41	46	48	63	47	42
1997	^a	42	49	46	61	46	48
1998	^a	39	41	^a	^a	46	46

Note 1: Divorce data were not readily available at the city level.

²Single-parent family data for Charleston, SC, and Salem, OR, and domestic violence data for Great Falls, MT, and Salem, OR, were not readily available, thus, trends before and after the legalization of convenience gambling could not be determined for those social indicators in those communities.

³Although Oregon legalized convenience gambling in 1991, it did not begin operating convenience gambling machines until 1992. OR. REV. STAT. §167.166.

Note 2: The shaded area represents the period of time convenience gambling has been legalized and/or operating in the three states and communities. South Carolina banned convenience gambling as of July 1, 2000.

^aData were not available.

Source: GAO analysis of data obtained from the U.S. Department of Health and Human Services, South Carolina's Department of Health and Environmental Control, Montana's Department of Public Health and Human Services, and Oregon's Health Division, Center for Health Statistics.

An Oregon official in the Office of the Registrar said that the increases and fluctuations in Marion County's divorce rates were not related to gambling, but were due to inconsistent record reporting and a change in state law during the 1990s. The new law required that at least one of the parties petitioning for a divorce had to live in the county where the divorce is filed; before enactment of the statute, petitioners could file for a divorce in any Oregon county, according to the official.

An official in Montana's Department of Health and Human Services said it would be almost impossible to determine why Cascade County's divorce rates were higher than the national rates because Montana is a no-fault-divorce state. Montana's 1998 gambling study reported that 31 percent of the problem and pathological gamblers in Montana were divorced (an increase from 8.6 percent in a 1992 study) compared with 12 percent for the total state population. The report recommended that services for problem gamblers target marital and family counselors because of the negative impact gambling has had on families and the ever-growing divorce rate among problem gamblers.

Percentage of Families With Children Under 18 That Are Single-Parent Families

The 1990 Census data were the most complete and recent readily available data on single-parent families. Because both South Carolina and Oregon legalized convenience gambling after 1990, we were unable to compare single-parent family statistics for Charleston, SC, and Salem, OR, before and after the legalization of convenience gambling, nor were we able to show post 1990 data for Montana. Montana legalized convenience gambling in 1985.

On the basis of data obtained from the Bureau of the Census, between 1980 and 1990, the percentage of families with children under 18 that were single-parent families in Great Falls and Montana increased. However, the increase for Great Falls was lower than the increases in the national and state percentages. Specifically, from 1980 to 1990, the percentage of families with children under 18 that were single-parent families increased by

- 3 percentage points in Great Falls, from 21 percent to 24 percent;

-
- 7 percentage points in Montana, from 14 percent to 21 percent; and
 - 5 percentage points in the United States, from 20 percent to 25 percent.
-

Domestic Violence and Child Abuse and Neglect

Domestic violence data were not available for Great Falls, MT, and Salem, OR, prior to the legalization of convenience gambling in the respective states. Thus, we were unable to determine trends in the incidence of domestic violence before and after legalization of convenience gambling for those communities.

Reported domestic violence incidents per 10,000 population in Charleston County increased by 11 between 1988 and 1991 (the year convenience gambling was legalized in South Carolina). From 1991 to 1994 (3 years after legalization) the number increased by 15--a difference of 4 between the two periods. South Carolina's incidents increased by 19 between 1988 and 1991 and also increased by 19 between 1991 and 1994. Because of a lack of complete national data, we were unable to compare state and local trends with national trends for reported domestic violence incidents and child abuse and neglect cases.⁴

The number of incidents of child abuse and neglect cases in South Carolina decreased after convenience gambling was legalized in 1991 from 54 to 50 per 10,000 population. Charleston County's rate decreased from 54 to 52 during this period. Thereafter, the number of incidents for both the state and county fluctuated periodically through 1997, the most recent year data were available

The number of child abuse and neglect cases per 10,000 population in Great Falls fluctuated from 3 in 1984 (the year before Montana legalized convenience gambling) to 5 in 1986, 6 in 1988, and 3 in 1996, the most recent readily available data. Montana's rate also fluctuated.

After Oregon introduced convenience gambling in 1992, the number of child abuse and neglect cases per 10,000 population in Marion County increased from 5.0 to 7.3 in 1998. The Oregon rate increased from 3.4 to 4.4 during the same period. An Oregon official said the increases occurred because the definition of child abuse and neglect was expanded to include

⁴According to a Department of Justice official, national data on the reported number of domestic violence incidents are based on surveys and not actual reported incidents. Also, a contractor of the Department of Health and Human Services said that complete national data on child abuse and neglect cases were not available because the data are reported on a voluntary basis and all states do not report certain data. Thus, the national and local data are not comparable. Consequently, we did not include figures to show trends for these two indicators. Also, domestic violence data were not readily available before the legalization of convenience gambling in Great Falls, MT, and Salem, OR.

the “threat of harm” during this period. He said that most of the new cases were in that category.

While officials in 8 of the 13 social services agencies/organizations we interviewed said that convenience gambling had at least some impact on increased rates of child abuse, the remaining five said that they had no basis to judge the effect. An official with the Community Health Center in Charleston said that gambling has never come up as an issue in his 13 years of investigating child abuse cases. However, he also said that he has seen parents playing video gambling machines while their children wait for their parents to finish playing. In a South Carolina incident during the late 1990s, an infant reportedly died of heat exhaustion after being left in a car outside a convenience gambling casino while the infant’s mother played video gambling machines.

Effects of Convenience Gambling on Suicide

Available data showed that in general, the suicide rates per 10,000 population remained almost constant both pre- and postlegalization of convenience gambling and were similar to the national rates between 1980 and 1998, as shown in table II.3

Table II.3: Suicides Per 10,000 Population in the United States, South Carolina, Montana, and Oregon

Year	United States	South Carolina	Charleston County, SC	Montana	Cascade County, MT	Oregon	Marion County, OR
1980	1	^a	^a	^a	^a	^a	^a
1981	1	1	^a	2	^a	1	^a
1982	1	1	^a	2	2	1	^a
1983	1	1	^a	2	2	2	^a
1984	1	1	^a	2	1	2	^a
1985	1	1	^a	2	1	2	^a
1986	1	1	^a	2	3	2	^a
1987	1	1	1	2	3	2	^a
1988	1	1	1	2	3	2	^a
1989	1	1	1	2	2	2	^a
1990	1	1	1	2	2	2	2
1991	1	1	1	2	2	2	1
1992	1	1	1	2	2	2	1
1993	1	1	2	2	2	2	1
1994	1	1	1	2	1	2	1
1995	1	1	2	2	2	2	1
1996	1	1	1	2	2	2	1
1997	1	1	1	2	2	2	1
1998	^a	1	1	2	^a	^a	1

Note 1: Suicide data were not readily available at the city level.

Note 2: The bolded area represents the period of time convenience gambling had been legalized and/or operating in the three states and communities. South Carolina banned convenience gambling as of July 1, 2000.

^aData were not readily available.

Source: GAO analysis of data obtained from the Bureau of the Census; the U.S. Centers for Disease Control and Prevention; Computer Center of Marion County/Salem, OR; South Carolina's Department of Environmental Controls; and Montana's Department of Public Health and Human Services.

Officials in 7 of the 13 social services agencies/organizations said that convenience gambling had an impact on suicide, while officials in 6 of the agencies/organizations said that they had no basis to judge convenience gambling's impact on suicides. One Oregon official commented that the state has had a couple of well-known gambling-related suicides. According to an Oregon task force on gambling that issued a report in 1996, testimony before the task force included statements attesting that broken families and suicides were associated with problem gambling in Oregon.⁵ However, the report noted that there was no basis to estimate the extent of these problems or the cost.

Effects of Convenience Gambling on Crime

Crime data were not available for all of the years between 1980 and 1998 for Great Falls. Available data showed that all crimes generally increased in Charleston after convenience gambling was legalized, and prostitution and drug arrests increased in Salem but not other crimes. Law enforcement officials said that convenience gambling had little, if any, impact upon the higher crime rates. They cited other reasons for the higher crime rates, including law enforcement's concentrated efforts directed toward certain crimes, which led to more arrests, thus raising the arrest rates. Also, while pre- and post-data were not always available for the three communities, for the most part, trends shown by the available data on crimes did not vary widely after convenience gambling was legalized in the three communities. That is, in many cases, communities that had an increase in crime after the legalization of convenience gambling also had increases before the legalization of convenience gambling.

Both Montana's 1998 and Oregon's 1996 gambling reports concluded that while some linkage between problem gambling and crime existed, the extent of the linkage was not clear because (1) no systematic effort had been made to assess the reason crimes are committed and (2) no systematic study had been conducted to determine the number of problem gamblers who have committed crimes to support gambling. The task force that completed Oregon's 1996 gambling report stated that the task force

⁵State of Oregon Governor's Task Force on Gambling, *Final Report*, October 4, 1996.

heard testimony from several problem gamblers who relayed stories of engaging in first-time criminal behavior to obtain money to gamble.

As table II.4 shows, while about one-half of the officials in the 39 agencies/organizations involved in social, economic, and law enforcement activities who responded to our question on convenience gambling's impact on crime said that convenience gambling had increased property and white-collar crimes, many of the officials said they had no basis to judge the impact of convenience gambling on crime.

Table II.4: Responses by Officials in South Carolina, Montana, and Oregon to Questions on the Impact of Convenience Gambling on Crime

In your view, what impact has the presence of convenience gambling in your community had on the following crime rates?	Number of agencies/organizations				Total number of agencies/ organizations responding
	Great impact	Some impact	No impact	No basis to judge	
Increased violent crime rates	1	8	11	19	39
Increased property crime rates	1	19	4	15	39
Increased white collar crime rates	5	20	2	12	39
Increased prostitution	0	6	9	24	39
Increased drug-related crime rates	2	8	8	19	37

Source: GAO analysis of officials' responses to questions on the impact of convenience gambling on crime.

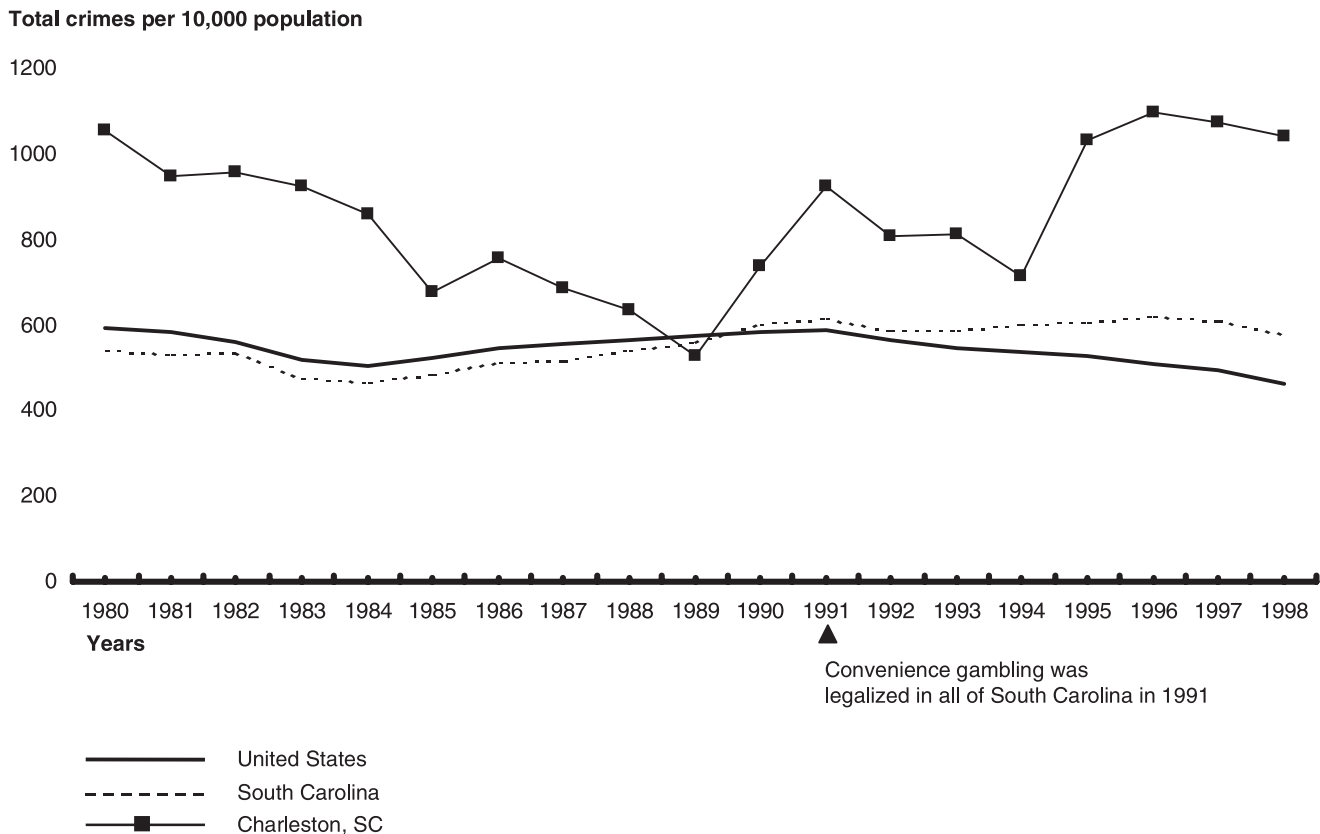
We examined crime data from the Federal Bureau of Investigation (FBI) Uniform Crime Report (UCR) for the three communities before and after the legalization of convenience gambling and compared the crime rates with national rates.⁶ Total crime data were not readily available for all of the years between 1980 and 1998 for Great Falls, MT.

As shown in figure II.1, total crimes per 10,000 population initially decreased in Charleston after 1991, when convenience gambling was legalized, but increased after 1994.⁷ The state's total crime rate remained fairly constant during this period, while the national rate decreased.

⁶We used the FBI's UCR to calculate the rate of crime in the three states, the three cities, and the United States. UCR included reported incidences of violent crime (murder, forcible rape, robbery, and aggravated assault) and property crimes (burglary, larceny-theft, and motor vehicle theft).

⁷Total crimes includes both violent and property crimes.

Figure II.1: Total Crimes in the United States, South Carolina, and Charleston, SC, per 10,000 Population, 1980-1998



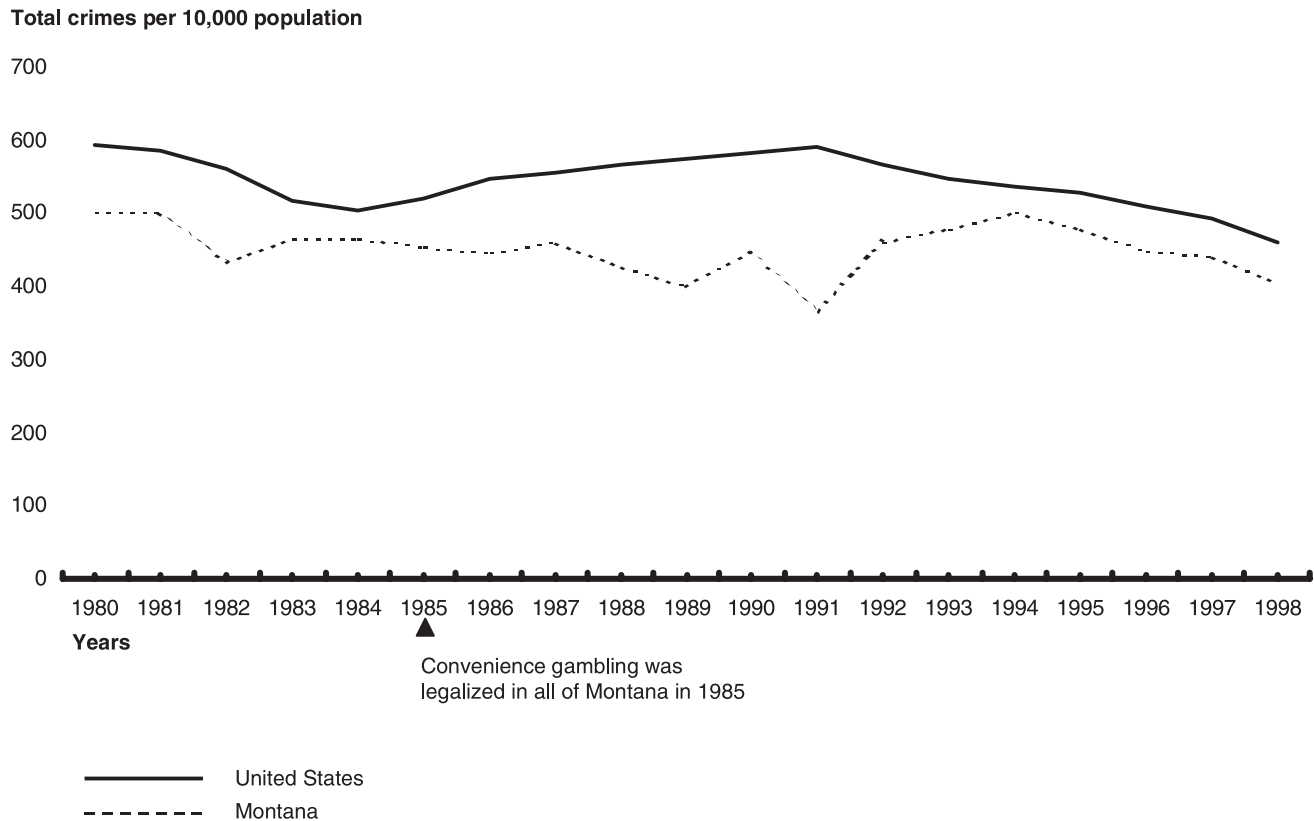
Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

A Charleston, SC, law enforcement official said that convenience gambling had little, if any, impact on Charleston's total crime rate. He said that Charleston's rates were higher because of the heavy annexation the city has experienced over the years. He said most of the annexation has been the annexation of major commercial areas into the city's jurisdiction, which led to increased property crime rates, including larceny (nonviolent property crimes such as hotel room theft), shoplifting, and vandalism. He further stated that increased property crimes drive the total crime rate because total crime includes property crime.

As previously mentioned, total crime data for all of the years between 1980 and 1998 were not readily available for Great Falls, MT. As shown in figure II.2, after the legalization of convenience gambling in 1985, Montana's crime rate had some decreases and increases, but in 1998 was below prelegalization rates.

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Figure II.2: Total Crime Rates in the United States and Montana, 1980-1998



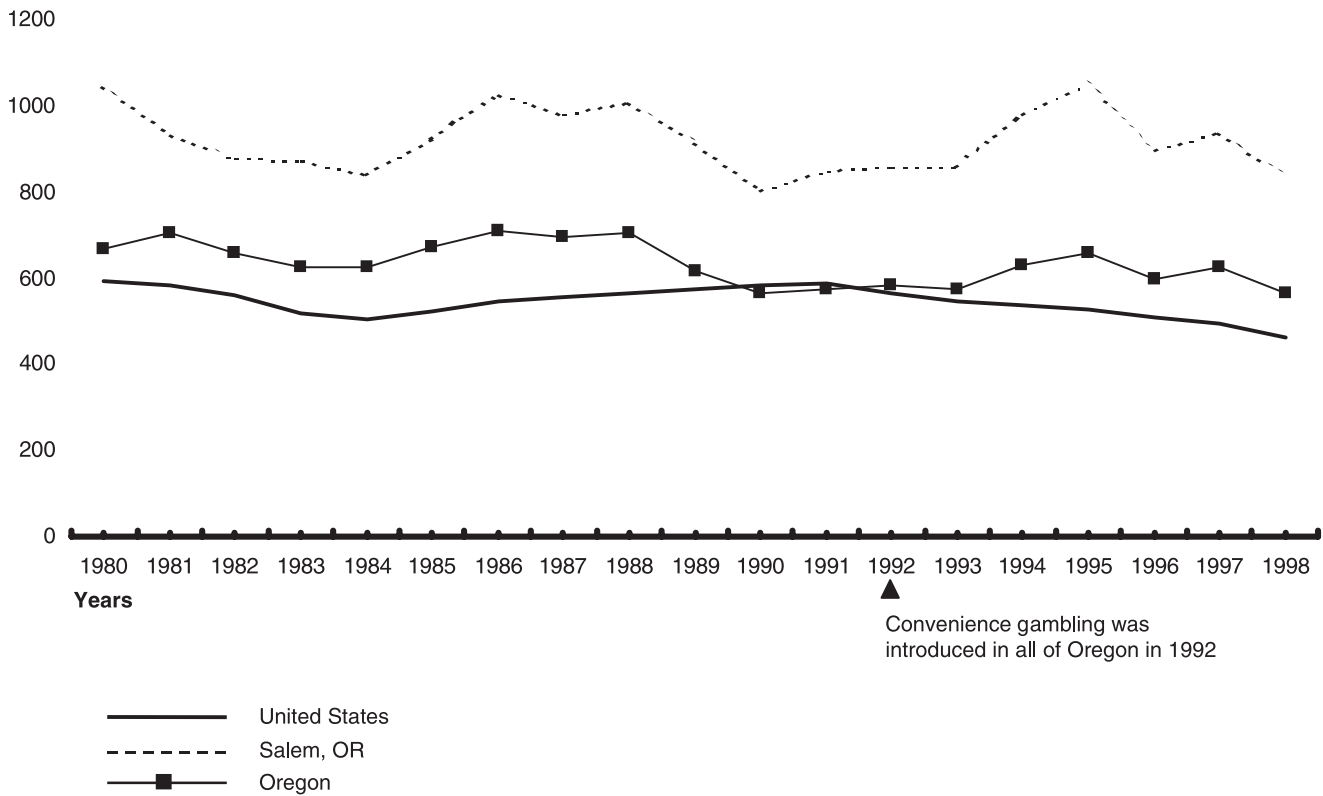
Note: Total crime data were not readily available for all of the years between 1980 and 1998 for Great Falls.

Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

As shown in figure II.3, both Oregon's and Salem's total crimes per 10,000 population varied after Oregon introduced convenience gambling in 1992. By 1998, Oregon's crime rate had decreased from 582 to 564, and Salem's crime rate decreased from 861 to 837 per 10,000 population.

Figure II.3: Total Crime Rates in the United States, Oregon, and Salem, OR, 1980-1998

Total crimes per 10,000 population



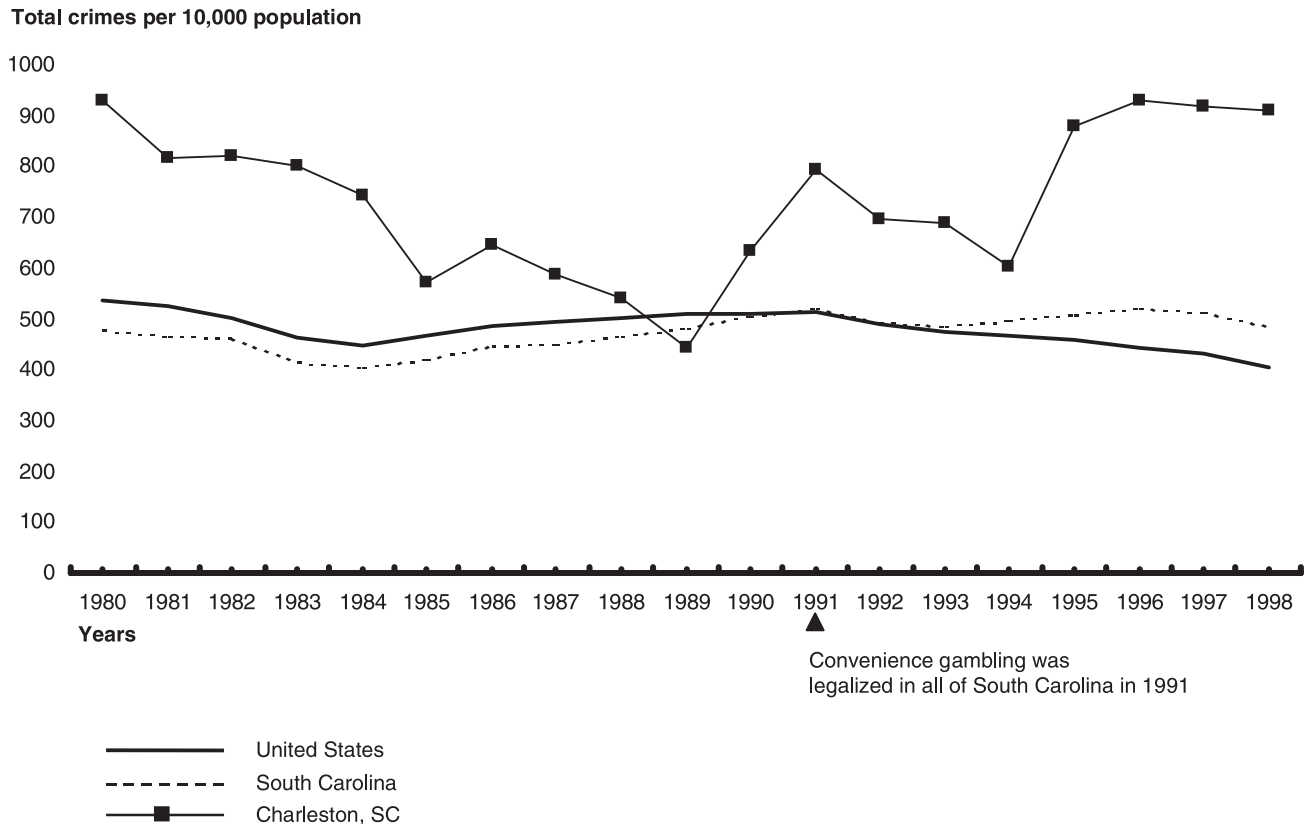
Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

Salem's total crime rates were higher than the U.S. rate during the period from 1980 to 1998, and Oregon's rate was higher than the U. S. rate most of the years during this time period. A Salem law enforcement official said that the city's crime rate had not been affected by gambling. He said that both Salem's total and property crime rates resulted mostly from consequences of having all but one of the state prisons located in Salem's city limits until 2 years ago. He said that when many of the individuals got out of prison, they stayed in the area and sometimes, their cycle of crimes continued.

Trends in property crime rates in the communities were generally similar to the trends in the total crime rates. As figure II. 4 shows, South Carolina's property crime rate did not change dramatically after convenience

gambling was legalized in 1991 and while Charleston's rate initially decreased, its rate began an overall increase after 1994.

Figure II.4: Property Crime Rate in the United States, South Carolina, and Charleston, SC, 1980-1998

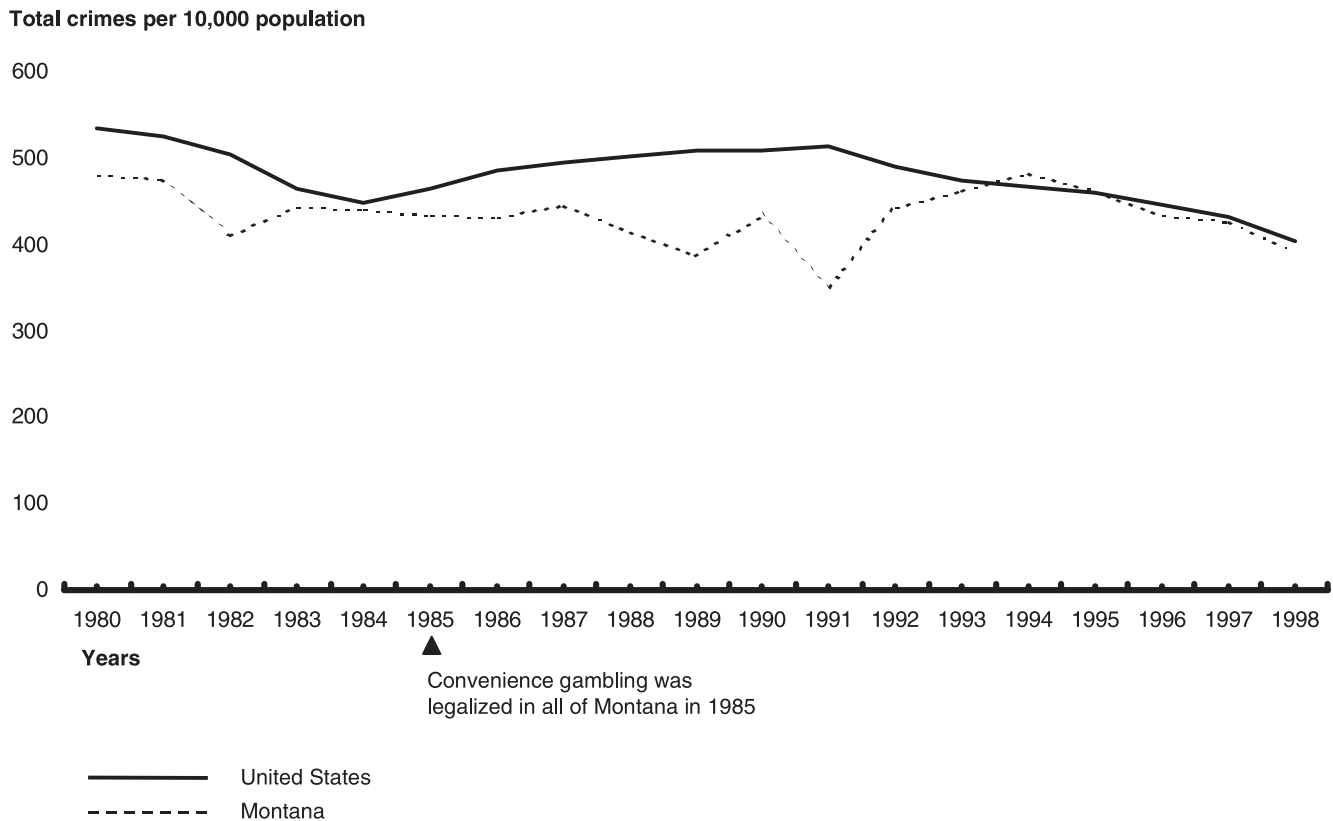


Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

A Charleston law enforcement official said that Charleston's property crime rate was not related to convenience gambling, but was related to increased commercial activities annexed into the city's jurisdiction throughout the years.

Property crime data for all of the years between 1980 and 1998 were not readily available for Great Falls, MT. However, analysis of the state's property crime data showed that Montana's rate varied in the decade after Montana legalized convenience gambling in 1985, but by 1998 did not widely vary from the prelegalization rates, as shown in figure II.5.

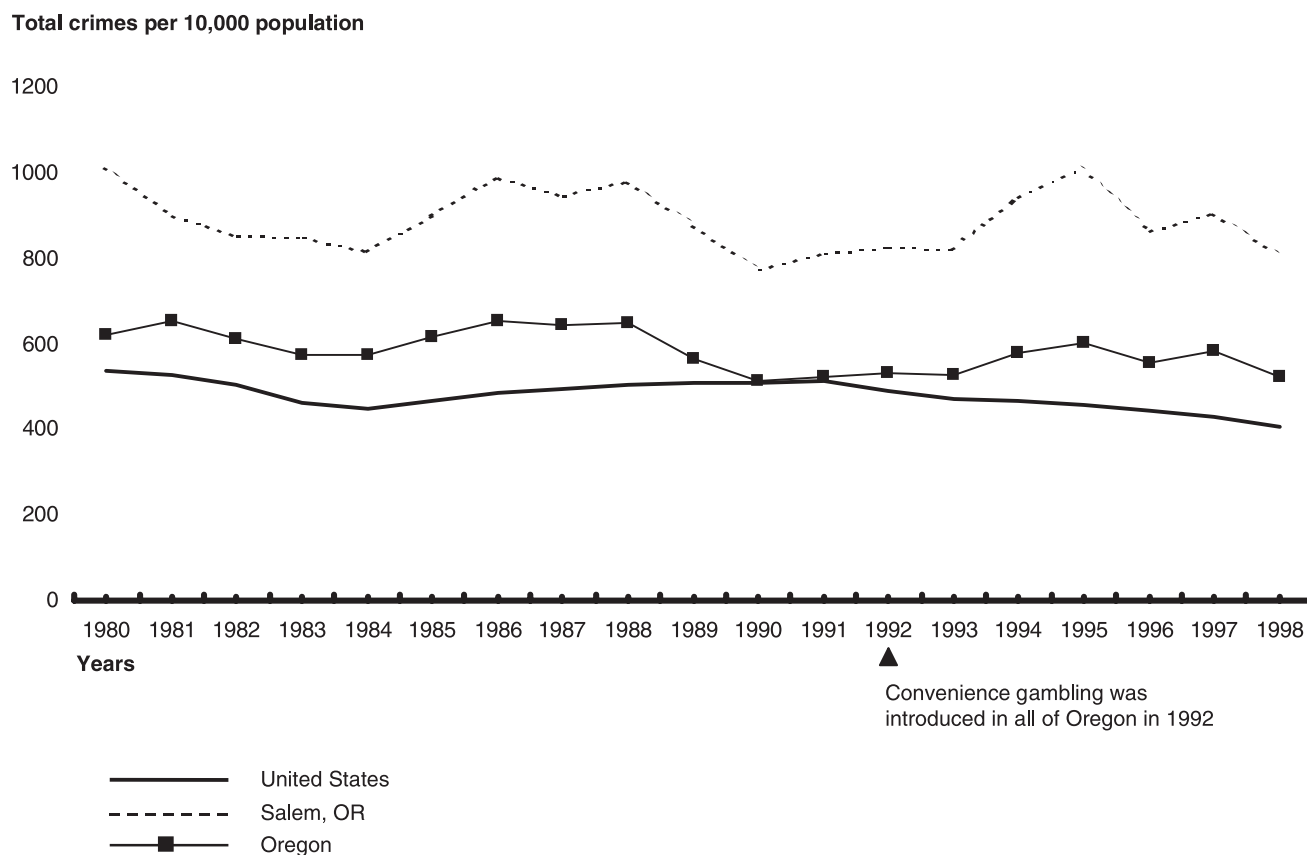
Figure II.5: Property Crime Rates in the United States and Montana, 1980-1998



Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

After Oregon introduced convenience gambling in 1992, both Oregon's and Salem's property crime rates fluctuated, but by 1998 were at about the same level as 1992, as shown in figure II.6.

Figure II.6: Property Crime Rates in the United States, Oregon, and Salem, OR, 1980-1998



Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

Most of the officials in the 42 agencies and organizations said they believed that convenience gambling had at least some impact on white-collar crime rates. An official in Montana said that a number of defendants in embezzlement and employee theft cases claimed that their crimes were associated with their gambling problems. Similarly, another official in Montana said that anecdotal information from treatment providers supports the belief that gambling addiction contributes to higher rates of white-collar crime, such as embezzlement. Two officials in Oregon also noted that several problem gamblers have reported committing white-collar crimes, such as embezzlement.

Embezzlement data for Montana and Great Falls for all of the years between 1980 and 1998 were not readily available. As table II.5 shows, embezzlement arrests per 10,000 population for Charleston fluctuated

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before and after the legalization and/or introduction of convenience gambling, but did not increase noticeably.

Table II.5: Embezzlement Arrests Per 10,000 Population in the United States, South Carolina, and Oregon

Year	United States	South Carolina	Charleston, SC	Oregon	Salem, OR
1980	0.42	0.03	0.14	0.02	0.11
1981	0.42	0.01	0.14	0.02	0.11
1982	0.39	0.02	^a	0.01	^a
1983	0.38	0.02	^a	0.02	^a
1984	0.40	0.03	^a	0.10	^a
1985	0.48	0.06	0.27	0.04	^a
1986	0.52	0.07	0.15	0.09	^a
1987	0.53	0.05	^a	0.11	^a
1988	0.61	0.04	0.28	0.13	^a
1989	0.65	0.06	0.12	0.18	^a
1990	0.61	0.07	^a	0.16	^a
1991	0.55	^a	^a	0.22	^a
1992	0.55	0.04	0.12	0.23	^a
1993	0.51	0.08	^a	0.19	0.79
1994	0.56	0.10	0.12	0.20	0.60
1995	0.57	0.18	0.26	0.47	1.79
1996	0.60	0.20	0.26	0.27	1.34
1997	0.65	0.31	0.13	0.30	1.32
1998	0.92	0.51	0.14	0.26	0.71

Note: The bolded area represents the period of time convenience gambling has been legalized and/or operating in the three states and communities. South Carolina banned convenience gambling as of July 1, 2000.

^aData were not readily available.

Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

Because of insufficient data, we could not determine whether Salem had an increase in embezzlement arrests after Oregon introduced convenience gambling in 1992. As shown in table II.5, Salem's rate increased in 1995, then decreased. According to a Salem law enforcement official, the initial increase was not related to convenience gambling but was due to a data reporting change. In the early 1990s, the city began to consistently document embezzlement arrests. He said prior to then, the city did not maintain consistent records on embezzlement arrests.

Oregon's 1996 gambling report noted that the examination of crime statistics alone makes it impossible to link statistics on certain crimes to gambling. The report stated that fluctuations in the number of embezzlement arrests occur because some employers refuse to report financial crimes, such as embezzlements. The report noted that (1) the number of embezzlement arrests in Oregon has fluctuated from year to

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year, showing both increases and decreases as the availability of legalized gambling has spread; (2) the number of overall embezzlement arrests in Oregon increased from 454 in 1992 (the year video poker was introduced) to 558 in 1995, but this does not mean gambling caused this increase; (3) a decrease does not indicate that gambling is not related to embezzlement arrests; and (4) it is theoretically possible for the total number of embezzlement arrests to decrease over time but still have an increasing number associated with gambling.

Most of the 39 officials who responded to our question on the impact of convenience gambling on prostitution either said that convenience gambling had no impact on prostitution or said that they had no basis to judge the impact of convenience gambling on prostitution arrests. Data on prostitution arrest rates (where available) showed that the communities' rates have been generally lower than the U.S. rates. As shown in table II.6, prostitution arrests varied from year to year and generally increased in Charleston and Salem after convenience gambling was legalized and/or introduced. Data for all of the years between 1980 and 1998 were not available for Great Falls.

Table II.6: Prostitution Arrests Per 10,000 Population in the United States, South Carolina, Montana, and Oregon

Year	United States	South Carolina	Charleston, SC	Montana	Oregon	Salem, OR
1980	4.24	1.08	0.43	0.64	0.21	^a
1981	5.07	1.41	0.70	^a	4.67	^a
1982	5.93	1.37	0.69	1.03	5.43	0.11
1983	5.94	1.16	1.22	0.79	5.89	^a
1984	5.66	1.85	0.83	0.50	5.56	0.99
1985	5.53	2.93	^a	^a	4.82	0.11
1986	5.23	2.06	0.44	0.61	4.59	0.11
1987	4.99	2.34	0.14	1.13	6.14	0.53
1988	4.25	1.89	0.56	0.30	3.59	6.89
1989	4.42	1.86	0.49	1.14	5.19	3.94
1990	4.64	2.06	0.37	1.04	2.21	3.53
1991	4.53	^a	^a	0.25	4.91	3.25
1992	4.37	0.86	0.12	0.02	3.57	3.99
1993	4.43	1.27	0.12	0.03	3.30	3.94
1994	4.17	1.82	1.09	^a	2.54	2.84
1995	4.46	2.67	2.73	^a	3.11	5.19
1996	4.25	2.80	1.29	^a	3.39	7.01
1997	4.19	1.99	1.39	0.32	2.63	2.97
1998	5.05	2.11	0.82	1.46	2.60	4.19

Appendix II
Social Effects of Convenience Gambling on Communities

Note 1: The bolded area represents the period of time convenience gambling has been legalized and/or operating in the three states and communities. South Carolina banned convenience gambling as of July 1, 2000.

Note 2: Data were not readily available to show Great Falls prostitution arrest rates pre- and postlegalization of convenience gambling in Montana.

^aData were not readily available

Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

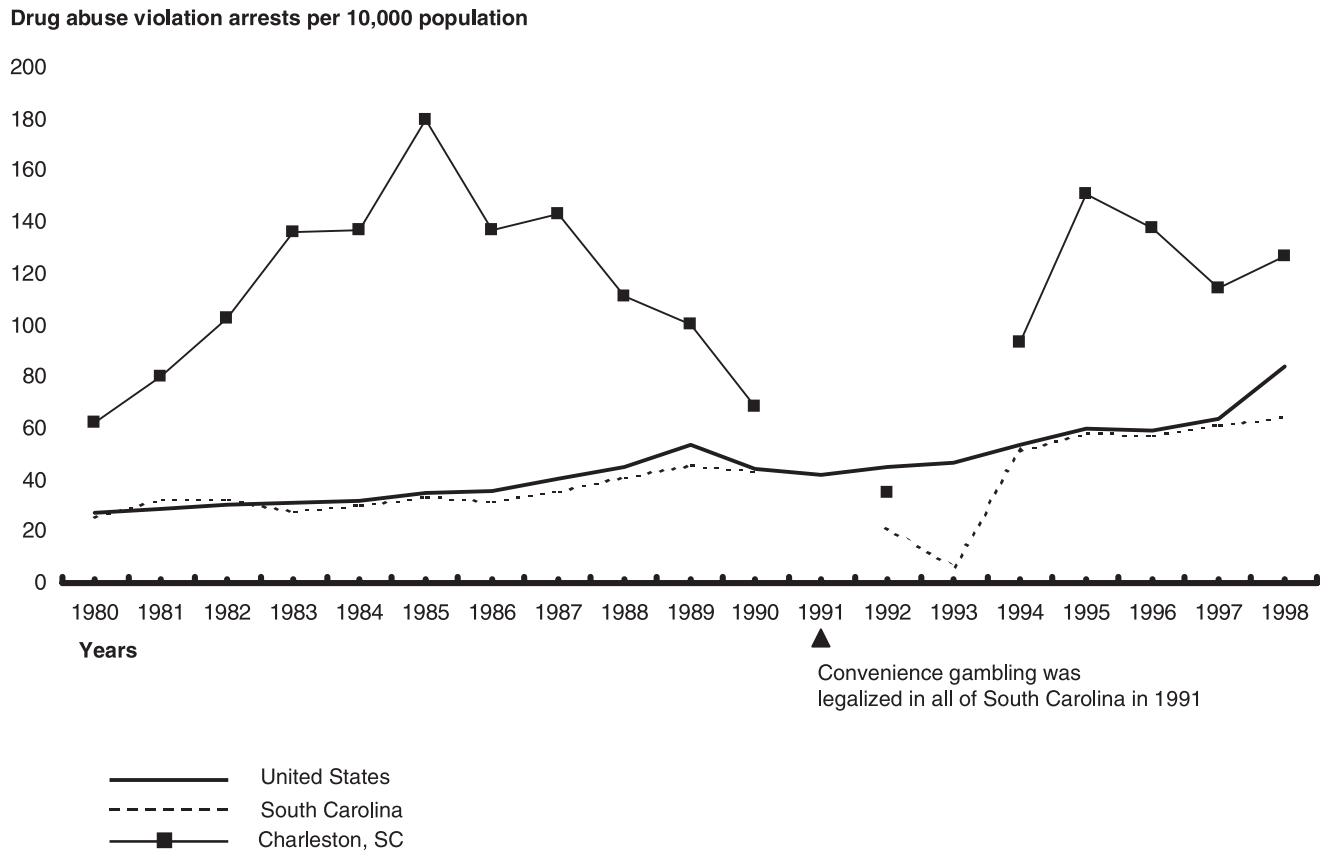
A Salem law enforcement official said the increases in Salem's prostitution arrest rates occurred because in the late 1980s, the Salem Police Department created a street crime unit and began a concentrated effort directed toward pursuing prostitution violations.

Officials' comments on the impact of convenience gambling on drug-related crimes were similarly mixed. While some of them said convenience gambling had some impact on drug-related crimes, others said either that convenience gambling had no impact on drug-related crimes or they had no basis to judge the impact of convenience gambling on drug-related crimes.

Sufficient drug abuse arrest data to show trends for Montana and Great Falls were not readily available.⁸ As shown in figure II.7, between 1980 and 1998, data for the years they were available showed that Charleston's drug abuse arrest rate fluctuated both before and after the legalization of convenience gambling in South Carolina in 1991.

⁸ Drug abuse arrest data for Montana and Great Falls were available for only a limited number of years.

Figure II.7: Drug Abuse Violation Arrest Rates in the United States, South Carolina, and Charleston, SC, 1980-1998



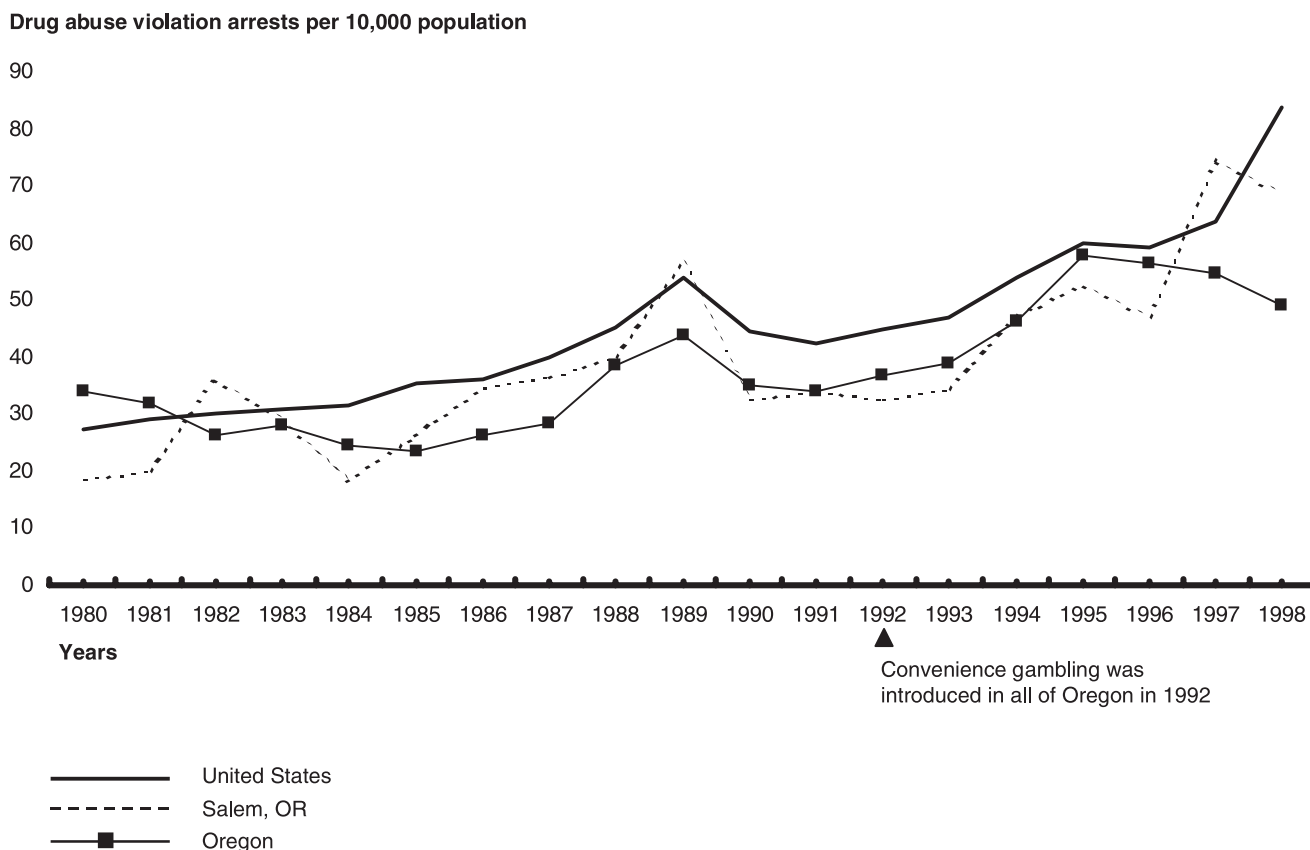
Note: Data on Charleston's drug abuse arrests were not readily available for some of the years during the period 1980 to 1998.

Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

According to a Charleston law enforcement official, Charleston's higher drug abuse arrest rate is not gambling-related, but is related to the city's concentrated efforts directed toward narcotics violations. He said that the city had received federal funds to pursue narcotics violations, and the city's success rate in drug violation arrests has resulted in higher arrest rates than the state and national rates.

As figure II.8 shows, after Oregon introduced convenience gambling in 1992, both Oregon and Salem's drug abuse arrests per 10,000 population generally increased over pre-1992 levels.

Figure II.8: Drug Abuse Violation Arrest Rates in the United States, Oregon, and Salem, OR, 1980-1998



Source: GAO analysis of data obtained from the FBI's UCR and the Bureau of the Census.

A Salem law enforcement official said the increase in Salem occurred because of a concentrated effort directed toward narcotics violations, following the Police Department's creation of a street unit to pursue drug abuse violations, and Salem's arrests had an impact on Oregon's number of arrests.

Estimated Prevalence of Pathological Gambling in the Three Communities

According to state officials, problem gambling studies had not been conducted in any of the three states prior to the legalization of convenience gambling. Thus, we were not able to show pathological gambling prevalence rates in the three communities before and after the legalization of convenience gambling, but we did obtain data on recent prevalence rates for Oregon and Montana. The only study we identified for

South Carolina covered a limited population--adults receiving alcohol and drug treatment--thus, we could not compare South Carolina results to the other rates.

Oregon and Montana's recent pathological gambling prevalence rates fell within the range of prevalence rates in other states but were higher than the national average. In its 1999 report, NGISC reported that problem and pathological gambling estimates in 17 states ranged from 1.7 to 7.3 percent of adults and that the national rate of U.S. adults classified as pathological gamblers ranged from 1.2 to 1.6 percent.⁹ Researchers looking at the prevalence of pathological gambling in Montana estimated that past year probable pathological gamblers represented about 1.6 percent of Montana's 1997 adult population, and lifetime probable pathological gamblers represented about 2.8 percent of the 1997 adult population.¹⁰ Researchers also estimated that past year (or current) probable pathological gamblers represented about 1.4 percent of Oregon's adult population in 1997, and lifetime probable pathological gamblers represented about 1.8 percent of Oregon's 1997 adult population.

The American Psychiatric Association (APA) defines pathological gambling as a "persistent and recurrent maladaptive gambling behavior that disrupts personal, family, or vocational pursuits." APA includes pathological gambling in its Diagnostic and Statistical Manual of Mental Disorders (DSM-IV). Some researchers have classified individuals with gambling problems who do not meet the psychiatric criteria for a gambling disorder but who appear to experience substantial difficulties related to gambling as either problem or potential pathological gamblers.

⁹NGISC noted in its 1999 report that researchers have different opinions on the definition and prevalence of pathological gambling and reported the results of four prevalence studies—three recent and one published over 20 years ago.

¹⁰Researchers estimate the prevalence of pathological gambling by conducting surveys among populations or within clinical settings and using screening instruments to identify individuals with gambling disorders. According to the 1998 Montana study, Montana's problem gamblers were identified using the South Oaks Gambling Screen (SOGS) and the Diagnostic and Statistical Manual 4th Edition (DSM-IV) screen. Each screen assigns points based on answers to gambling-related questions, and individuals with scores exceeding predetermined levels are assigned to various problem gambling categories. For example, individuals who score 3 or 4 points on the SOGS screen are classified as "problem gamblers." Those who score 5 or more points are classified as "probable pathological gamblers." As noted by NGISC, prevalence rates are stated in terms of timeframes, either "lifetime" (prevalence rate of individuals who have at some time met the criteria for a gambling disorder category) or "past-year" (prevalence rate of individuals who met the criteria for a gambling disorder category in the past year).

A 1998 Montana gambling study was the most recent report containing estimated prevalence rates of pathological gambling in Montana.¹¹ Montana legalized convenience gambling in 1985. The 1998 report stated that

- past-year probable pathological gamblers accounted for about 1.6 percent of Montana's 1997 adult population, up from 0.7 percent reported in the 1992 study,
- past-year problem gamblers were about 2.0 percent of Montana's adult population in 1997,
- lifetime probable pathological gamblers rose from 1.3 percent to 2.8 percent of Montana's adult population between 1992 and 1997, and
- lifetime problem gamblers were 2.9 percent of Montana's adult population in 1997.

The 1998 Montana problem gambling report indicated that playing video gambling machines and the lottery may be associated more with problem gambling than other games. The report stated that Montana problem gamblers play video gambling machines and lottery games (including scratch tickets) most often and stated that the preference for rapid play cycle and immediate replay opportunities these games offer has been reported in studies of problem gamblers. The report further stated that a larger portion of individuals who play video gambling machines and scratch lottery scored as problem or pathological gamblers compared to those who played other lottery products. For example, the report stated that about 9 percent of Montana's gamblers play video gambling machines on a weekly basis and about 20 percent of them score as past-year problem and pathological gamblers, 2 percent purchase instant lottery tickets once a week or more and 30 percent of them score as past year problem or pathological gamblers, and 8 percent purchase other lottery products (such as the multi-state lottery Powerball) and 13 percent of them score as past-year problem or pathological gamblers. The report stated that about 48 percent of Montana's past-year problem and probable pathological gamblers reported that they played video gambling machines on a weekly basis, while only 8 percent of the nonproblem gamblers gave a similar response.

¹¹The 1998 Montana Gambling Study: A Report to the Governor and the 56th Legislature by the Gambling Study Commission, Montana Legislative Council, and Montana Legislative Services Division, Helena, MT, Final Report, November 1998.

A 1997 report on the prevalence of problem gambling in Oregon conducted for the Oregon Gambling Addiction Treatment Foundation concluded the following:¹²

- lifetime problem gamblers represented 3.1 percent of Oregon's adult population,
- lifetime probable pathological gamblers represented 1.8 percent of Oregon's adult population,
- current (or past year) problem gamblers represented 1.9 percent of Oregon's adult population, and
- current (or past year) probable pathological gamblers represented 1.4 percent of Oregon's adult population.

The report noted that among legal types of gambling, prevalence rates were highest among respondents who have ever played video poker, card games, and non-Indian bingo and that lifetime prevalence is highest among those who have ever wagered legally on video poker and illegally on games of skill. The report further stated that problem gamblers in Oregon are more likely to gamble weekly on legal forms of gambling in the state, including the lottery, video poker, and Indian Gaming Centers.

The 1996 gambling report conducted by Oregon's Governor's task force on gambling stated that statistics and testimony from treatment providers indicated that video gambling devices may be more problematic in terms of gambling disorders than other games, perhaps because of the rapid and regular reinforcement from the machines. A problem gambling treatment provider in South Carolina agreed and said that video gambling machines are considered the "crack cocaine" of gambling. However, the 1996 Oregon report noted that there was only limited data in Oregon to support sweeping conclusions about the impact of convenience gambling. The report further noted that an estimate of the number of problem/pathological gamblers should have been established before the legalization of convenience gambling to demonstrate whether more individuals encountered gambling problems as a result of convenience gambling, but that this was not done.

A survey of 4,163 adults receiving alcohol or drug treatment services in South Carolina between July and October 1999 revealed that

¹²Gambling and Problem Gambling in Oregon: A Report to the Oregon Gambling Addiction Treatment Foundation, August 26, 1997. This study also used the SOGS and the Diagnostic and Statistical Manual 4th Edition (DSM) screen to identify Oregon's problem gamblers.

- 37 percent reported some level of gambling during the 12 months prior to the survey,
- 10 percent were "at-risk" for becoming problem gamblers, and
- 6 percent were problem/pathological gamblers.

The report concluded that the estimated prevalence of gambling problems among alcohol and drug treatment clients was greater than the estimated prevalence level of gambling among the general public. The study only covered a limited population of the state—adults receiving alcohol and drug treatment—thus, its results cannot be representative of problem or pathological gambling in the state and cannot be compared to the rates of other states.

Overall Costs of Convenience Gambling Versus Benefits of Convenience Gambling

As table II.7 shows, more of the officials we interviewed said that the costs of convenience gambling in their communities outweighed the benefits than those who said that the benefits outweighed the costs.

Table II.7: Responses From Officials in South Carolina, Montana, and Oregon to Question on Whether the Costs of Convenience Gambling Outweigh the Benefits

Officials' opinions	Number of agencies/organizations
Benefits outweigh costs to great extent	4
Benefits outweigh costs to some extent	5
Subtotal	9
Costs outweigh benefits to great extent	16
Costs outweigh benefits to some extent	3
Subtotal	19
No basis to judge/unable to determine	12
No response	2
Total	42

Source: GAO's analysis of responses to interview questions by officials in South Carolina, Montana, and Oregon.

Officials in South Carolina who said that the costs of convenience gambling outweighed the benefits said the reasons for their responses were that crimes increase anywhere gambling is involved; convenience gambling casts a negative visual impact on commercial activities; and the convenience gambling industry offered no benefits while costing the state in social costs.

Most of the Montana officials who commented about the costs versus the benefits of convenience gambling said they see many repercussions from

convenience gambling and very little good from it. One official commented that cities in the state have become quite dependent on gambling revenue; however, the social costs, such as social disruption to families, more people going to bars simply for the gambling, and reduced parental attention to children, are also significant. They further stated that the stigma of convenience gambling hurts the business climate and that an exchange for increased jobs has been an increase in the use of alcohol, drunk driving, and financial problems for a small percentage of those who gamble. However, one Montana official said that while the pluses of convenience gambling are concrete, the negatives are alleged.

Two Oregon officials said that convenience gambling increased benefits to workers and economic development in the restaurant industry. Another said that although quantification of data may show some extent of benefits, the belief that one can win something for nothing reduces interest in working for a living. Another Oregon official said that he had no basis to judge costs versus benefits derived from convenience gambling because no good cost studies had been conducted.

Objectives, Scope, and Methodology

Our objectives were to determine the social and economic effects of convenience gambling on three communities focusing on the

- economic effects of convenience gambling, particularly on employment, tax revenues and community investment, and bankruptcy and
- social effects of convenience gambling, including the prevalence of pathological gambling.

To accomplish the objectives, we selected Charleston, South Carolina; Great Falls, Montana; and Salem, Oregon, for our case studies. These communities were located in three of the eight states that were noted in the 1999 National Gambling Impact Study Commission (NGISC) report as having legalized convenience gambling.¹ We selected the three states primarily because they did not have destination gambling casino resorts. We did not select the other five states because

- Nevada had destination resort gambling; California had numerous Native American casinos; and Louisiana had many forms of legalized gambling, including land-based and riverboat casinos. Their legalized gambling operations might have diffused any potential effects specifically related to convenience gambling.
- New Mexico had recently legalized convenience gambling in 1997, which would not have provided the time periods that the three selected states presented for looking at postlegalization effects of convenience gambling--8 to 14 years.
- South Dakota operated convenience gambling as part of the state's lottery, and we only wanted to look at one example of this scenario. We selected Oregon because, of the states that had incorporated convenience gambling into their state lottery, Oregon had the greatest number of video gambling machines and the reported highest amount of convenience gambling net proceeds (the amount remaining after gambling prizes had been awarded).

The specific communities in the three states were selected on the basis of two criteria. First, we selected communities that did not border other states. Border communities attract gamblers from both inside and outside of the community, thus diffusing some of the potential effects of convenience gambling upon the community. Second, we identified communities with a large number of video gambling machines as well as large amounts of revenues from video gambling relative to other nonborder communities in each state.

¹ National Gambling Impact Study Commission Final Report, June 1999. NGISC listed five other states with legalized convenience gambling—California, Louisiana, New Mexico, Nevada, and South Dakota.

In conducting the case studies, we interviewed officials in local and state government agencies and community and private industry organizations. Initially, we sent data collection instruments to the officials and then followed up with either face-to-face or telephone interviews. Our data collection instrument built on and refined a previous survey used to examine casino gambling in Atlantic City in 1999.² We also reviewed pertinent legislation in all three states relative to convenience gambling and examined court cases that affected convenience gambling in South Carolina.

For our interviews, we selected the state and local government and community agencies/organizations whose missions seemed to involve the social and economic issues we studied. We interviewed officials from 10 agencies/organizations in South Carolina, 17 in Montana, and 15 in Oregon. We attempted to interview about the same number of officials in each state, but some officials declined our interview requests.

We interviewed state and local officials involved in regulatory, law enforcement, social, economic, and revenue collection efforts. We asked officials about (1) their perception of a relationship between video gambling and social factors, such as crime and incidents of domestic violence, divorce, and increased problem gambling and (2) the impact of video gambling on economic factors, such as job creation and increased wage rates and employee benefits.

We contacted the following government agencies and community and private industry organizations in Montana, Oregon, and South Carolina:

- City of Charleston, SC;
- Charleston, SC, Police Department;
- City of Charleston, SC, Department of Planning & Urban Development;
- South Carolina Law Enforcement Division, Columbia, SC;
- 9th Circuit Solicitor's Office, Charleston, SC;
- Medical University of SC--Center for Drugs and Alcohol, Charleston, SC;
- Charleston County Department of Alcohol & Other Drug Services, Charleston, SC;
- Charleston/Dorchester Community Mental Health Center, Charleston, SC;
- South Carolina Department of Revenue, Columbia, SC;
- South Carolina Chamber of Commerce, Columbia, SC;
- Montana Association of Counties, Helena, MT;

² Impact of Gambling: Economic Effects More Measurable Than Social Effects (GAO/GGD-00-78, Apr. 27, 2000).

- City of Great Falls, MT;
- Great Falls, MT, City/County Planning Board;
- Great Falls, MT, Department of Community Development;
- Great Falls, MT, Office of Budget;
- Great Falls, MT, Office of the City Attorney;
- Great Falls, MT, Job Service Workforce Center;
- Gateway Recovery Center, Great Falls, MT;
- Boys & Girls Club of Cascade County, MT, Great Falls, MT;
- Great Falls Rescue Mission;
- Golden Triangle Community Mental Health Center, Great Falls, MT;
- Montana State Department of Health & Human Service, Helena, MT;
- Montana Tavern Association, Helena, MT;
- Great Falls Police Department;
- U. S. Attorney's Office, District of Montana, Great Falls, MT;
- Montana Department of Public Health and Human Services, Addictive & Mental Disorders Division, Helena, MT;
- Montana Gaming Industry Association, Helena, MT;
- Oregon's Department of Economic & Community Development, Salem, OR;
- Oregon Department of Human Resources, Office of Alcohol & Drug Abuse Programs, Salem, OR;
- Marion County, OR, Department of Health, Salem, OR;
- Oregon Senate, Salem, OR;
- U.S. Attorney's Office, District of Oregon, Portland, OR;
- Oregon State Lottery Commission, Salem, OR;
- Oregon Legislature Policy, Research & Committee Services, Salem, OR;
- Oregon Legislature, Salem, OR;
- Oregon Restaurant Association, Wilsonville, OR;
- Marion County Department of Planning, Salem, OR;
- Oregon State Treasury, Salem, OR;
- Oregon's Department of Justice, Salem, OR;
- City of Salem, OR, Department of Community Services;
- City of Salem, OR, Police Department; and
- Herbert & Louis Associates (Private Behavior Health Care Firm), Wilsonville, OR.

We also analyzed social and economic statistics from federal agencies, such as crime data from the FBI, bankruptcy data from the Administrative Office of the U. S. Courts, and unemployment statistics from the Department of Labor's Bureau of Labor Statistics. We obtained additional statistics, such as incidents of domestic violence and child abuse, from state and county agencies. For the three states and the three communities,

we determined the trends from 1980 to 1999, where data were available. This enabled us to analyze economic and social indicators both pre- and postlegalization of convenience gambling. We then compared the state and local trends with U.S. trends for the same time period. In some cases, data were not available at the city level and we used available data from Charleston County, SC; Cascade County, MT; and Marion County, OR. The cities we selected were in these counties and were either the largest or second largest city in the county. Also, while historical data were available on a yearly basis for most of the social indicators we reviewed, some data were available for census years only—1980 and 1990. In those cases, we analyzed data for only those years. Since South Carolina and Oregon legalized convenience gambling after 1990, when we used census data to show trends before and after legalization of convenience gambling, we could only show the results for Montana, which legalized convenience gambling in 1985.

We also reviewed various reports on gambling, including a 1996 report prepared by the Oregon Governor's Task Force on Gaming; Problem Gambling in Oregon, a 1997 report to the Oregon Gambling Addiction Treatment Foundation; a 1998 Montana Gambling Study; and a 1999 report on Gambling Behaviors Among Alcohol and Drug Treatment Clients in South Carolina.

For widely used data, such as data from the U.S. Bureau of the Census, we did not trace data back to original source documents. However, when questions arose regarding data from any source, such as multiple years of missing UCR data for Montana and Great Falls, we interviewed officials to understand the reasons for apparent discrepancies or missing data. In addition, for all of the data used in the report, we interviewed state and local officials regarding variable definitions, methods of data collection, data indicating increases or decreases that were inconsistent with variations for other years in the study period, and data that showed state and/or local rates that varied greatly from national rates. We also interviewed officials regarding the methodologies used and outcomes produced by the state gambling impact and prevalence reports, but did not replicate their analyses. On the basis of our review and discussions with officials in the public (local, state, and national levels of government), private, and nonprofit sectors, we believe that the data used in this report are sufficiently reliable to support our conclusions.

As noted by NGISC in its 1999 report, the amount of quality and relevant research on the social effects of gambling is extremely limited. Our work on the social effects of video gambling relied heavily on testimonial

evidence. Added to the lack of information was the fact that individuals who suffer from pathological gambling tend to suffer from other addictive disorders, and this situation, called comorbidity, further complicates the process of attributing negative effects to any one cause. The attempt to isolate the effects of any particular type of gambling, such as video gambling, further increases the complexity of establishing a cause-effect relationship.

We did our review between December 1999 and August 2000 in accordance with generally accepted government auditing standards. We did our work in Charleston and Columbia, SC; Great Falls and Helena, MT; Salem and Portland, OR; and Washington, D.C. We went to Columbia and Helena because they were state capitals and the gambling regulatory agencies and other state agencies we visited were located there.

Comments From the Chair of the Former National Gambling Impact Study Commission



October 12, 2000

Mr. Bernard Ungar
Director
Government Business Operations Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Ungar:

Thank you very much for the opportunity to review and comment on the draft Government Accounting Office study entitled *Convenience Gambling: Information on Economic and Social Effects in Selected Locations*. I appreciate the efforts that the GAO has undertaken to inform the Congress and the American people on the issue of convenience gambling.

Although the report was limited to three case studies centered around the cities and communities of Charleston, South Carolina; Great Falls, Montana; and Salem, Oregon, these were three of eight states that did have convenience gambling at the time of the NGISC sponsored research studies and final report. The decision by GAO to pick three states without destination casino resorts and three communities that did not border other states was an important decision since it potentially improved the quality of the study. By attempting to isolate out factors such as daily players from neighboring states or individuals who travel for the express purpose of gambling, the report represents a serious effort to accurately portray the economic and social effects of convenience gambling with the aforementioned locations.

Overall the report appeared to be a balanced analysis of the facts present within each of the three communities. The GAO report arrived at many of the same conclusions as the NGISC after two years of extensive research, study and testimony. In summary, the economic and social benefits of convenience gambling are difficult to measure and assess, in part, due to inconsistent or non-existent data collection methods at the city, county, state and federal levels. This situation is further complicated by the fact that some local and state officials initiated the collection of certain data elements only after convenience gambling was introduced. This means that for many communities and their leaders, there is little or no basis for a comparative analysis to factors that existed prior to the introduction of gambling.

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Although it is relatively easy to determine gross state tax revenues and licensing fees that result from the introduction of this form of gambling, it is far more difficult and problematic to identify actual economic benefits. Definitive results such as economic development opportunities, the number of quality jobs created and the amount of community investment are imprecise or only loosely supported by available information. As the GAO study confirms, the mingling or blending of gambling-related revenues with other state funds and grants to communities often clouds the true picture of economic benefits.

Unlike legal gambling at destination areas such as Las Vegas, Atlantic City, Biloxi or certain Native American facilities, convenience gambling does not create a concentration of other businesses such as restaurants, hotels and related support services that show some definable and measurable base of assessment. Likewise, the social effects of convenience gambling within communities is also difficult to measure, leaving both law-makers and citizens with the difficult task of assessing the potential for increases in crime, divorce, abuse and neglect, homelessness or suicide.

In regard to convenience gambling and the potential correlation to bankruptcy, the NGISC did contract with the National Opinion Research Center (NORC) to perform a national survey that focused, in part on this issue. The GAO was correct to include mention of this particular study in the report and to also seek additional bankruptcy information on these communities from the Administrative Office of U.S. Courts. Although the GAO draft report found that bankruptcy rates in these communities increased during the period of 1990 through 1999, at roughly the same rate as national bankruptcies, there is an important point that should be highlighted to those reading the GAO report.

The NGISC, after significant research and testimony, was unable to definitively determine whether or not the overall national increase in bankruptcies during this period was due, in part, to the extensive expansion of legal gambling, including convenience gambling, during the same period. Therefore state and local policy-makers must use considerable care, and must request more extensive data on the underlying factors of local bankruptcies, before attributing or dismissing local increases to mere national trends.

Interestingly, the GAO report did indicate that, based upon interviews during the report process, officials in each of the three states expressed their opinion that convenience gambling did have at least some impact on the bankruptcy rates in their communities. The NGISC received similar testimony from officials and expert witnesses throughout the country.

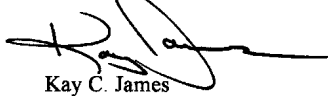
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In terms of social effects, such as potential increases in treatment services or family trauma related to the negative impacts of convenience gambling, the NGISC concluded that officials should generate additional research. At a minimum, local and state officials considering the legalization or expansion of any form of convenience gambling should undertake a comprehensive and quality social survey prior to its introduction. Once a baseline for problem or pathological gamblers, as well as the estimated number of at-risk gamblers, has been established it will be far easier for officials to isolate and track the potential social effects of convenience gambling among these populations within a particular community.

The difficulties encountered by the GAO during the process of preparing *Convenience Gambling: Information on Economic and Social Effects in Selected Locations* highlight and reinforce perhaps one of the most significant findings of the NGISC final report. Namely, in order for elected officials and government leaders to adequately and honestly inform American taxpayers and families on the true economic and social effects of convenience gambling, far more research must be initiated and completed. Until this is done, both lawmakers and citizens should research examples of what has occurred within similar communities across the nation after the introduction of convenience gambling. Equipped with this information, leaders and their constituents must be prepared to ask tough questions about proposed changes to gambling policies and the future impact on their own community.

Thank you once again for the opportunity to comment on the report. Please contact me if I can be of assistance to you on future studies related to the issue of legal gambling.

Sincerely,



Kay C. James

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Acknowledgments

In addition to those named above, Bradly Dubbs, V. Bruce Goddard, Lucy Hall, Michael Horton, Abraham Logan, Yesook Merrill, and Michelle Sager made key contributions to this report.

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