

# An Assessment of the Adult Entertainment Industry in Texas

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## COMPREHENSIVE REPORT

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*Final Report • March 2009*

*Prepared in partial fulfillment of House Bill 1751 directives from the 80th Texas Legislature*

*Prepared by:*

The Bureau of Business Research, IC<sup>2</sup> Institute, and  
the Institute on Domestic Violence and Sexual Assault  
of THE UNIVERSITY OF TEXAS AT AUSTIN



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## >Project Staff

The assessment was conducted by a team of researchers headed by Dr. Bruce Kellison, Associate Director of the Bureau of Business Research, IC<sup>2</sup> Institute, The University of Texas at Austin; and Dr. Noël Busch-Armendariz, Associate Professor and Director, the Institute on Domestic Violence & Sexual Assault, School of Social Work, The University of Texas at Austin. Dr. James Jarrett, Senior Research Scientist, IC<sup>2</sup> Institute, served as the principal researcher. Other researchers included Margaret Cotrofeld, Coral Franke, Yeolib Kim, Brandon McWeeny, Alice Yu, Neely Mahapatra, and Leila Voyles. Cathy Chapaty provided thorough editorial services on the final report. The study was performed from June 2008 through early 2009.

# An Assessment of the Adult Entertainment Industry in Texas

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## COMPREHENSIVE REPORT DOCUMENT Executive Summary

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This project, a collaboration between the Bureau of Business Research (BBR) and the Institute on Domestic Violence and Sexual Assault (IDVSA) at The University of Texas at Austin, assesses the socio-economic impact of Texas' sexually oriented business industry on the Texas economy, analyzes the impact on Texas' economy of the Adult Entertainment Fee (AEF) imposed by the Legislature in House Bill 1751, and provides recommendations for further regulating the sexually oriented business industry in Texas.

### >Background and Significance

HB 1751, passed by the Texas Legislature in 2007 and signed by Governor Rick Perry, imposed a fee on sexually oriented businesses that provide live nude entertainment or performances, in an amount equal to \$5 for each entry by each customer admitted to the business. The legislation's intent was to provide fee revenue to dedicate to the sexual assault program fund to cover the costs of programs that relate to sexual assault prevention, intervention, and research provided by state, local, and nonprofit agencies. The legislation also called for a "third-party assessment of the sexually oriented business industry (SOB) in this state [that would include] recommendations to the legislature on how to further regulate the growth of the sexually oriented business industry in this state." The Texas Office of the Attorney General and its Crime Victim Services Division requested that the Bureau of Business Research, a research unit of The University of Texas at Austin, undertake the assessment.

This report focuses mainly on adult cabarets, including nude and partially nude live dancing establishments that have Texas Alcoholic Beverage Commission (TABC) mixed-beverage licenses and those places that do not have liquor licenses but permit the consumption of alcohol on premises. Adult book and video stores are also included in the analysis.

### >Research Goals

The research team undertook a socio-economic assessment of the sexually oriented business industry in Texas to:

- Identify, collect, and review prior policy and academic studies on the socio-economic impact of SOBs.
- Obtain information on variation in SOB regulations across jurisdictions.
- Review experiences of other states and localities with SOB regulation.
- Analyze academic studies on SOB workers.
- Develop estimates of employment in SOB and AEF-affected businesses and examine job satisfaction of employees and contractors working in the industry.
- Identify AEF-affected businesses and Texas SOB establishments by NAICS codes.
- Obtain and manipulate databases from state agencies about AEF-affected businesses and SOB establishments.
- Outline the tax requirements and other regulations with which sexually oriented businesses must comply.
- Estimate employment and size of the SOB industry in Texas, including breakdown of employment types, such as full-time, part-time, contract workers; entertainers v. managers/others.
- Identify establishment locations and prepare Geographical Information System maps by city, county, state representative districts, and Senate districts.
- Conduct survey of SOB establishment owners and operators.

The research report focuses on the economic impact of the AEF on the industry and on Texas tax collections to:

- Compile tax payment data for 2005 - 2008 AEF-affected businesses and estimate AEF impacts on tax collections in 2008/2009 using data from the Texas Alcoholic Beverage Commission and the Texas Comptroller, and estimate the impact the AEF has on state and local tax collections and on the venues.
- Develop financial estimates for operational expenses of, and investments in, AEF-affected businesses through Comptroller ownership data, aggregated sales and sales tax data, publicly traded firm data, and primary data collected from field interviews with industry association representatives and club owners.
- Assess positive and negative secondary effects from AEF-affected and SOB firms on communities in which firms are located.
- Summarize the economic impact of the AEF on state tax collections and on the industry.

The report concludes with recommendations and options for reform or regulation of the SOB industry.

## >Scope of Assessment

### Report Overview and Organization

This report has been prepared for different audiences using a “triage format.” For readers seeking additional elaboration, detailed materials are presented in individual chapters. Specialized materials are included in footnotes and appendices. Technical language has been avoided as much as



possible, and charts and graphics have been prepared to help illustrate some of the review's key findings. Data are presented in five chapters in the following organization:

**Chapter 1** reports descriptive data, highlighting the scope of the adult cabaret industry, the number of clubs, the number of employees in the industry, and their wage totals. It summarizes the taxes this industry contributes to the State's treasury, describes the AEF imposed in 2008, and looks at collections. Finally, a brief presentation is given on other industry segments, including the impact of adult book and video stores in Texas.

**Chapter 2** goes into further detail about the potential effects of the AEF on Texas clubs and on tax revenues. A tax sensitivity analysis is presented to show the effects on state tax collections of changes in the AEF.

**Chapter 3** analyzes a unique dataset of TABC infractions both at regular bars and at adult cabarets to present one measure of comparison between the two types of drinking establishments.

**Chapter 4** looks at regulations undertaken by other jurisdictions to regulate the adult entertainment industry and tries to put Texas's experience in comparative perspective.

**Chapter 5** presents recommendations and options for reform and regulation that policymakers might consider.

Finally, a series of Appendices are included that augment material presented elsewhere in the report, including literature reviews on the relationship between alcohol and sexual assault, one on entertainers, and another on secondary effects of adult entertainment clubs; maps of adult cabarets in Texas; a survey of Texas club owners conducted for the report, and more detail on club valuations.

### **Priorities and Types of Businesses to Include**

There are numerous categories and types of sexually oriented businesses in Texas. They vary in number, location of sales (on-premise activity in retail establishments, off-premise activity involving retail establishments, private homes, rooms in lodging establishments, etc.), degree of involvement with individuals, and level of business activity. At a minimum, the following industry segments could be examined in theory:

- Adult entertainment clubs
- Adult theaters
- Adult video stores
- Adult bookstores/magazines
- Adult motels/lodging establishments
- Escort services
- Hotel/motel video-on-demand services
- Home-based cable/video-on-demand

- Internet
- Massage parlors
- Novelties/clothing
- Nude modeling studios

The legislative intent for this assessment clearly was focused on adult entertainment clubs and the AEF. Because of language about secondary effects, site-based industry segments appeared to be a higher priority than non-site-based businesses (hotel/motel video-on-demand, home-based cable/dish video-on-demand, and the Internet).

A third factor affecting decisions about inclusion of industry segments was data availability—the difficulty in identifying establishments in that industry segment (e.g., escort services, Internet sites) and the likelihood of obtaining data from the State Comptroller through open-records requests or from some other reliable government or private source. Based upon these three considerations, the following initial priorities were established:

#### *Highest Priority*

- Adult entertainment clubs
- Adult theaters
- Adult video stores
- Adult bookstores/magazines
- Escort services
- Hotel/motel video-on-demand

#### *Secondary Priority*

- Nude modeling studios
- Massage parlors
- Novelties/clothing
- Adult motels

#### *Lowest Priority*

- Home-based cable/video-on-demand
- Internet<sup>1</sup>

After a period of early field work and attempts to obtain data, four changes were necessary:

Adult theaters – There was an insufficient number of stand-alone establishments to warrant attention (arcade-type movies are included in other categories);

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<sup>1</sup> Consideration was given to inclusion of adult internet sites. That would have presented unique challenges in terms of selecting specific sites from among thousands currently in existence, determining if any of the sites are located in Texas, identifying the taxpayers for those which are located in Texas, and obtaining relevant information in databases at the Comptroller's Office of Public Accounts. Further, the accuracy of such information, even if located within the databases, could not be assessed in any manner. Project Staff did not possess the technical expertise, time, and resources to overcome these significant hurdles. Nor are we aware of any policy- or government-based organizational entities that have published information for a state of government.

Escort services – An open records request for information about 32 escort services in one metropolitan area returned inconclusive results;

Hotel/motel video-on-demand – No reliable data could be obtained regarding the breakdown of adult-oriented total revenues for the largest provider of adult content for hotels and motels;

Nude modeling studios – A request for a list of modeling studios in one metropolitan area generated the names of 107 establishments. Yet there was no current information about these establishments in a local database of sexually oriented businesses, and staff could not distinguish between traditional studios and sexually oriented studios by other means.

Ultimately, all attention was focused on:

- Adult entertainment clubs
- Adult bookstores
- Adult video stores

### **Data Limitations**

The sexually oriented business industry is one that appears to have escaped thorough and conventional business/ economic analysis. Further, this is an industry in which some establishments are quite secretive and do not provide information about their operations. For these reasons, there is a paucity of prior published information and even fewer studies that are detailed and verifiable. Therefore, for the most part, all data for this assessment needed to be collected anew.

The primary source of data came from the State Comptroller. All data secured from this office was obtained in response to open-records requests made between June-December 2008. Because of current state statutes regarding confidentiality of information in databases of the State Comptroller, collecting and analyzing the data was significantly limited. Information also was obtained via an open-records request to the Texas Workforce Commission (TWC). Supplemental information was obtained about mixed-beverage sales from a private vendor.

Project researchers conducted a series of field trips to Texas metropolitan areas to interview city and county criminal justice and police vice officials, legal staffs, and select elected officials. Several Texas local governments provided databases of sexually oriented businesses in their jurisdictions. Attempts were made to obtain interviews with owners of adult entertainment clubs during these trips.

A survey of club owners was performed in conjunction with the Texas Entertainment Association (T.E.A.), a group representing some of the adult clubs within the State of Texas. The T.E.A. provided input to the survey instrument as well as contact information for club owners.

Limited information is available from SOB industry groups. Some groups seem to include only a portion of potential members. This is not surprising, given that many of these industry segments appear to be highly fragmented, without large numbers of major companies. There are some

national-level data readily available from the Free Speech Coalition (State of the Industry Report, various years), which rely extensively on an annual survey by the Adult Video Network (AVN). While these data are examined further in a later section, they rarely are documented thoroughly and have been criticized as inflated.

In the end, there are few, if any, reasons for owners of sexually oriented businesses to share information about their establishments. In addition, groups representing some owners of different industry segments have provided inadequate references and data of dubious quality—further challenging the data collection and analysis processes.<sup>2</sup>

## >Fieldwork

To better understand the context for the myriad socioeconomic and public policy issues surrounding SOBs in Texas, the research team undertook a series of trips to discuss the industry with industry representatives and local leaders around the state. We conducted interviews with adult entertainment club owners and their attorneys; city council members; city and county police, vice squad, and sheriff's office representatives; Texas Alcoholic Beverage Commission staff; and city attorneys in a number of cities and municipalities. (The interview templates that structured our discussions appear in Appendix VII of the complete report.) These interviews assisted the research team to frame the local issues surrounding SOBs, although no attributable material from these discussions appears in the report.

## >Key Facts and Findings

### **Economic Impact of Adult Entertainment Industry in Texas**

We estimate the industry has a yearly total economic impact of between \$920 million and \$1.08 billion. This includes direct and indirect effects of total output by adult cabarets and dancer income, adult book and video stores, escort services, and modeling and massage studios. Direct and indirect employment in the adult entertainment sector, including cabaret employees and dancers; bookstore; and video store outlets totaled 12,500 in 2007. Direct output by adult cabarets alone was \$216.6 million in 2007. To put that number in perspective, in 2006, adult cabaret output was approximately two-thirds as large as the Texas media industry as a whole. In 2006, the media industry – film, television, commercials, animation, and video games – spent \$330.1 million on production in Texas.

Using standard Regional Input-Output Modeling System (RIMS II) multipliers, the estimated direct and indirect employment in the adult cabaret sector (not yet including dancers) is just under 8,000 people, whose direct and indirect earnings in 2008 totaled \$170 million. Total direct taxes generated by adult cabarets were \$55.8 million in 2007, \$22.8 million of which went to the State of

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<sup>2</sup> Because sexually oriented businesses need to market their services, there are several sources of information, albeit unconventional ones, readily available. These include listings and advertisements in alternative newspapers in major metro areas of Texas, listings in the business phone directories, and online. To develop lists of establishments for each industry segment for all major metro areas, however, would be very labor intensive. Focusing on several metro areas and then extrapolating results to the entire state is one option. Unfortunately, unless one is extremely confident that all establishments have been identified for a major metro area, there is a significant danger in generating an underestimate for that metro area and more importantly, for the state as a whole.

Texas and \$33 million of which went to cities and counties. When indirect tax payments were added, total taxes generated by adult cabarets were approximately \$70 million in 2007.

### **Alcohol, Sexual Violence, and Adult Cabarets**

Are sexually oriented businesses, alcohol, and the victimization and perpetration of sexual violence against women connected? An exhaustive review of the literature says yes. Researchers have found substantial evidence that connects alcohol with sexual violence perpetration and increased risk for victimization. The connection between alcohol and sexual violence suggests that alcohol consumption does not necessarily lead to rape and assault, but it aids beliefs and behaviors supported by perpetrators that promote aggression.

Assessing the impact of adult cabarets on their workers, mainly young women, is controversial. Many researchers believe that exotic dancing, or nude stripping, is empowering to women, offers superior economic opportunities, and increases power. Researchers have provided evidence, however, that suggests the opposite is true. Exotic dancing is not only demeaning and dangerous for women workers but also is a violent and traumatizing line of work that includes sexual, verbal, and physical violence, and exploits female workers. It is important to note that most samples used in studies of women who work at SOBs are “convenience” or so-called “snowball” samples. Researchers have cited the impossibility of finding a random sample of entertainers and dancers, but there is substantial evidence from qualitative studies that working at SOBs is potentially harmful to women, both physically and emotionally.

The correlation between sexual violence and alcohol and between prostitution and rape is well documented. However, no study has authoritatively linked alcohol, sexually oriented businesses, and the perpetration of sexual violence. Research suggests that some exotic dancers have experienced sexual violence at work, asserting that potential victimization is a concern for women in this profession. What is not known is if there is a causal relationship between sexually oriented businesses and the perpetration of sexual violence.

### **Secondary Effects of Adult Cabarets**

The literature on the socioeconomic impact of sexually oriented businesses cites positive and negative secondary effects for communities and workers. Perhaps the only clear finding is that the literature is deeply divided. There is a lack of consensus about whether sexually oriented businesses harm or benefit communities and those who work in the industry. While positive and negative secondary effects have been documented, it also is clear that many studies lack methodological rigor, and without empirical evidence, authoritative conclusions are difficult to draw.

### **Club Data**

- There are 175 adult cabaret clubs in Texas. Of that total, 133 clubs serve mixed-beverages and 42 clubs have either a beer-and-wine-only license or serve no alcohol, but allow patrons to bring their own beverage (BYOB).

- Mixed-beverage sales account for an average of 70% of sales at the clubs with mixed-beverage licenses.
- Revenues for clubs increased by 2.27% in the first three calendar quarters of 2008 compared to the same time period in 2007. Most of the gain was in the first three months of 2008. Mixed-beverage sales in the adult cabarets dropped in 2008, but taxable sales were up considerably, more than offsetting the declines in mixed-beverage sales.
- There are many small clubs and a handful of very large operations. Of the 133 clubs with mixed-beverage licenses, 90 have drink revenues of less than \$100,000 per month, with the median club selling around \$61,000 per month in mixed beverages.
- An estimated 8,272 people, including 3,181 dancers, are directly employed by adult entertainment clubs in Texas.

## Taxes and Fees

- Like all mixed-beverage permit holders, adult entertainment clubs remit a 14% gross mixed-beverage sales tax every month to the Texas Comptroller of Public Accounts. Third quarter 2008 mixed-beverage sales tax totaled \$5.02 million. Aggregate sales tax in the same quarter totaled another \$1.6 million.
- An estimated 96 adult book and video store outlets paid an estimated yearly sales taxes of about \$4.75 million on taxable sales of just over \$59 million over the four quarters ending June 30, 2008.
- Adult Entertainment Fee (AEF) collections totaled \$11.25 million in the four quarters of 2008, far less than had been anticipated in the Comptroller's Fiscal Note developed in conjunction with HB 1751 (\$34 million in FY2008).

### *Total All Filers*

1st Quarter 2008	\$4.16 million
2nd Quarter 2008	\$3.48
3rd Quarter 2008	\$2.18
<u>4th Quarter 2008</u>	<u>\$1.43</u>
<b>Total:</b>	<b>\$11.25 million</b>

- The amounts collected have declined over the reporting periods. The third quarter amount was \$2 million less than the amount for the first quarter, an approximately 48% decline. This drop is possibly due to at least two factors: Fewer clubs are filing their fee reports with the Comptroller, and fewer customers frequent the clubs that are filing.
- Based on the ratio of club filings and fees collected in the first quarter of 2008, the estimated maximum potential fee total (even with every club filing a report) is likely to be only \$30 million, far less than the \$52 million estimated in the Fiscal Note.

- Club filings of the AEF have been intermittent. Of the 175 clubs, slightly more than one-fourth filed on time in all four reporting periods. More than 40% of clubs have never paid the AEF.
- Besides fewer filing clubs, there is some evidence that fewer customers are entering clubs. For filers who have reported in the first three periods or in all four periods, there was a drop in the AEF collections (that is the equivalent of customers) of 11.1% from the first quarter to the second quarter and another 9% from the second quarter to the third quarter. For the 45 clubs which reported in all four periods, there was a slight increase of 1.1% between the third and fourth quarters of 2008.
- As a percentage of total club revenues, we estimate that the AEF is (or would be) about 12.8%, if all clubs paid the fee, with differential effects on revenues depending on club size.

### Effect of the AEF on Club Sales

- Compared to year-over-year, same-store sales data available for publicly traded clubs with national operations, such as Rick's Cabaret International, Inc., and VCG Holding Company, Texas clubs are showing smaller sales increases than clubs in other states—somewhat surprising given the relative strength overall of the Texas economy compared to other states. This could indicate that the AEF is having a slight negative effect on club revenues.
- Mixed-beverage taxes paid by all drinking establishments in Texas steadily increased in 2007 and 2008, but mixed-beverage taxes collected by adult cabarets in the state have declined, leading to the belief that the AEF is having some effect on clubs' sales.
- Which has more of an effect on club revenues, the economic downturn or the AEF? Researchers ran simple regressions on statewide club revenues and a number of standard economic indicators, such as the statewide unemployment rate, gross state product, and personal income. The results show that there is a higher correlation between the recession and the decline in club revenues than exists between the AEF and the decline in club revenues. For some smaller clubs, however, the remaining effect of the AEF on profit margins could be significant. It could be, and probably is, especially for clubs that have lower gross margins.

### Effect of the AEF on State Tax Collections

Using conservative assumptions about the causes of change in club revenues, our tax sensitivity model showed that at a hypothetical 4% decrease in club output caused entirely by the AEF, the State of Texas could expect a 5.2% drop in tax revenues in 2008-2009. A 10% drop in club output would cause a 13.8% decrease in total tax revenue. This does not include revenue collected by the AEF itself, of course, so even under conditions of up to a 20% reduction in club output, the AEF combined with property and state taxes still generates an overall surplus to state revenues of \$4 million. We estimate, however, that adult cabaret gross revenues will not drop by more than 4% in



2008 and may in fact show an increase overall, so the extreme scenarios are unlikely to play out, especially if AEF collections increase.

### Owners' Survey

To most accurately capture the perspective of the adult cabaret industry in Texas, we surveyed owners of Texas clubs with questions about the operation of their businesses and their opinions about the regulatory environment in Texas. In cooperation with the Texas Entertainment Association (T.E.A.), the main industry association, a total of 136 owners representing virtually all 175 clubs in the state of Texas, were sent either a web-based survey (hosted by SurveyMonkey.com) or a hardcopy survey instrument at their taxpayer address obtained from the Texas Comptroller. Respondents were promised anonymity and confidentiality in return for their participation. Although the response rate was low (17%), and responses from owners of larger clubs throughout the state were overrepresented in the response pool, the survey responses help paint a more complete picture of the industry in Texas. (A complete copy of both the survey analysis and the survey instrument are included in Appendix VII of the full report.) Among the key findings, according to respondents:

- An average patron spends \$45 per club visit, not including tips to dancers.
- Employee fringe benefits: 66% of respondents say they provide at least one fringe benefit to employees, while 34% of owners do not provide any fringes.
- The average entertainer works four 7-hour shifts per week per club and is considered an “independent contractor,” not an employee of the club where she dances.
- We estimate that there are approximately 3181 dancers working in Texas’ adult entertainment clubs, earning an average of \$57,157 per year, and that total direct earnings by entertainers are approximately \$182 million per year. Some respondents report that their best dancers earn up to \$71,000 a year.
- Respondents reported that almost half of the entertainers in their clubs are single mothers, and 16% are students. Respondents reported that almost 90% of their dancers have at least a high school diploma, and 11% have a college degree.
- The most frequently cited challenges that owners face with their dancers included ensuring that entertainers abide by existing laws and regulations, and getting entertainers to come to work on a regular basis.
- Most open-ended responses to questions about the AEF and the regulatory environment in Texas indicated that both were negatively affecting the owners’ businesses. See Appendix IX for all of the responses to open-ended questions.

### TABC Infractions Data Analysis

Is there a difference in the prevalence of crime inside adult entertainment cabarets and inside other types of drinking establishments? As a proxy for crime data, we collected statewide Texas Alcoholic Beverage Commission violations data between 2005 and 2008 for all sexually oriented businesses in Texas with mixed-beverage licenses and a sample of non-adult entertainment club drinking



establishments (bars) in Texas matched by revenue and location. The result is a comparison between the two groups regarding the number and types of TABC violations, number and length of mixed-beverage license suspensions, and the amount of fines levied on the clubs.

- There was no significant difference in the number of complaints lodged with TABC or inspections by TABC agents for the two sample groups.
- Adult cabarets had a slightly higher number of administrative violations than did the sample of bars.
- Adult cabarets paid a higher number of fines, and their fines were significantly higher than the sample of bars, because of the severity of their infractions. The length of SOB license suspensions was more severe than the sample of bars because of a higher frequency of sex and drug violations.
- The bar sample had more criminal violations brought against individuals, mostly for violations related to minors.

## >Recommendations and Options for Reform or Regulation

The research team supports the implementation of the following recommendations in the areas of the Adult Entertainment Fee, zoning and enforcement, and further research. We support the consideration of the following options for reform or regulation in three areas: zoning and land use, refinement of existing regulatory procedures and mechanisms, and new actions.

## >Recommendations on AEF

### **Recommendation #1 Continue AEF at its Current Level**

Based upon the economic analysis, fieldwork interviews and visits, and survey results, the current \$5 AEF is having only a slightly negative effect on the adult entertainment industry in Texas. While it is probably true that smaller establishments have been more negatively affected by the AEF than have the larger clubs, taken as a whole, however, the industry does not appear to have suffered major economic damage from the fee. Although mixed-beverage sales of adult entertainment clubs statewide are lower in the first 9 months of 2008 than they were in 2007, total revenues of adult entertainment clubs in that same time period are up about 2-3% over the comparable period in 2007.

### **Recommendation #2 Improve Collection Rates of AEF**

Based on analysis of data from the Texas Comptroller, which collects the AEF from the clubs, a significant percentage of clubs are not regularly paying the AEF or are not paying it at all.

## >Recommendations on Zoning and Enforcement

### **Recommendation #1** Impose More Stringent and Mandatory Penalties of TABC Violations

As a public safety priority, and given the findings of the infraction research in this study, TABC regulations should be reassessed to allow for more stringent and mandatory penalties of sex and drug infractions at all clubs that hold liquor licenses, including suspension of those licenses. Moreover, innovative enforcement strategies and enhanced cooperation and data sharing among and between law enforcement agencies and TABC are needed.

### **Recommendation #2** Stricter Penalties for License Violations at “Spa” Outlets

Interviews conducted during the study with various state law enforcement officials – including city police officers, vice squad commanders, and sheriff’s deputies – revealed a growing problem with sex crimes occurring in non-licensed “spas.” More stringent penalties and mandatory occupational licensing of spa employees should be imposed by state agencies and monitored by law enforcement officials, similar to the statutes that currently apply to employees of massage parlors.

## >Recommendations for Future Research

### **Recommendation #1** Research on Perpetrators of Sexual Violence

New research should focus on sexual assault perpetrators, particularly those that are never reported or arrested for their crimes, and whether and how often they visit SOBs, their use of the sex industry, and their consumption of alcohol as causes for the sexual violence they commit.

### **Recommendation #2** Research on Women Entertainers

More research is needed to better understand and appreciate the experiences of female SOB industry workers, including risk factors for victimization and the pernicious effects of alcohol on both perpetrators and victims.

### **Recommendation #3** Minimize Virtual Prostitution Advertising

There is a need for research-based strategies to minimize prostitution advertising in print and online publications, similar to the agreement reached for the online site Craig’s List (included in Appendix IX).

### **Recommendation #4** Additional Study on SOBs

A number of special studies are needed regarding SOBs, including an infractions data analysis by size of adult cabaret, an economic analysis of the

AEF on small and medium-sized establishments, a detailed analysis of law enforcement data pertaining to a sample of adult entertainment establishments; a review of the impact of an increase in alcohol taxes on adult entertainment revenues in other states; and a specialized review of legislative initiatives pertaining to the adult entertainment industry in other jurisdictions.

#### **Recommendation #5 Study on Escort Services and Other Industry Segments**

There is virtually no information available about other industry segments such as escort services. There is a need to understand these services in the context of the larger social and economic structures.

### **>Options for Reform or Regulation**

This section outlines the following options for consideration by policymakers:

#### **>Zoning and Land Use**

**Option #1** Establish statewide distance requirements for siting of new adult entertainment facilities.

**Option #2** Same as above but allow for more stringent requirements by local governments if desired.

**Option #3** Monitor closely the City of Houston's legal strategy of using the city's nuisance laws to force closure of "bikini bars" located in residential areas and operating without SOB licenses.

### **>Refinement of Existing Regulatory Procedures and Mechanisms**

**Option #1** Enhance enforcement of occupational requirements, such as Harris County's dancers' licenses.

**Option #2** Allow local city attorneys to petition for TABC action against specific clubs rather than administrative law judges only in Austin and Houston.

**Option #3** Prohibit closed rooms and other private areas in clubs, allowing only space that is visible to most patrons.

### **>New Actions**

**Option #1** Implement a statewide registry of sexually oriented businesses.

**Option #2** Implement a statewide registry of dancers and performers similar to New York State's bill, outlined here in Chapter 4.

**Option #3** Implement a drug testing policy on entertainers and other employees of adult cabarets.

**Option #4** Develop a special statewide Crime Stoppers phone number and outreach initiative to anonymously report incidents at SOBs.

**Option #5** Consider an initiative similar to New Jersey's bill on outdoor lighting and indoor video surveillance, or one like Scotland's proposal for mandatory indoor closed-circuit TV surveillance.

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## Chapter 1

### Descriptive Data

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This chapter highlights the scope of the adult cabaret industry, the number of clubs in the sector, the number of employees in the industry, and their wage totals. It summarizes the taxes the industry contributes to the State's treasury, describes the Adult Entertainment Fee (AEF), and looks at AEF collections. Finally, a brief presentation is given on other industry segments, including the economic impact of adult book and video stores in Texas.

#### >Clubs

##### Number of Clubs

There are 175 adult cabaret clubs in Texas. Of that total, 133 clubs serve mixed beverages and 42 clubs have either a beer-and-wine-only license or serve no alcohol but allow patrons to bring their own beverages (BYOB). Different sources of data were utilized and cross-referenced to identify these clubs.<sup>3</sup> Figure 1.1 shows that the number of clubs has increased moderately in the past three years.

##### Revenue Components

Adult entertainment clubs have a license to sell mixed beverages, to sell beer and wine only, or for BYOB.<sup>4</sup> Information about mixed-beverage sales is available for each outlet and establishment Texas, including adult cabarets that sell mixed beverages. That is the largest revenue stream for the adult entertainment club industry as a whole. (From Q1 2007 through Q2 2008, mixed-beverage sales on average accounted for 70.4% of adult cabaret sales and other sales accounted for 29.6%.) As can be seen from Figure 1.2, mixed-beverage revenues for the entire industry since 2005 have ranged from about \$35 million to \$39 million per quarter.

Other sources of revenue are cover charges, food sales, beer and wine sales, non-alcoholic beverage sales, entertainers' fees in some clubs, and miscellaneous items such as cigars, T-shirts, and other merchandise. Collectively these other items are known as "taxable sales" and are subject to state

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<sup>3</sup> The four general sources of information were (1) the Texas portion of a website of adult clubs in the U.S.; (2) websites for individual adult clubs; (3) a commercial vendor of mixed beverage receipts data for drinking establishments in the State of Texas; and (4) databases from the Comptroller of Public Accounts. The process was labor intensive as substantial reconciliation was required among the multiple information sources due to turnover of clubs (addresses, name changes, temporary closures), several different databases of revenues, and state laws on confidentiality of sales information for specific outlets. Further, information from the Comptroller of Public Accounts was available only through numerous open records requests.

<sup>4</sup> By law, all mixed beverage club permit holders remit to the State Comptroller a 14% gross receipts tax on their mixed beverage sales each month. Following the end of each calendar quarter, 10.7143% of the tax paid is allocated to the county where each business is located. For any business located within an incorporated city, and other 10.7143% of the tax paid is allocated to the city where it is located. The remaining tax is distributed to the State's General Revenue Funds. <http://ecpa.cpa.state.tx.us/allocation/MixBev.jsp;jsessionid=000aTYby8wIR1-uDZ9St-th2zh:-1>.

Figure 1.1 Number of Clubs , 2005 to 2008, by Quarter

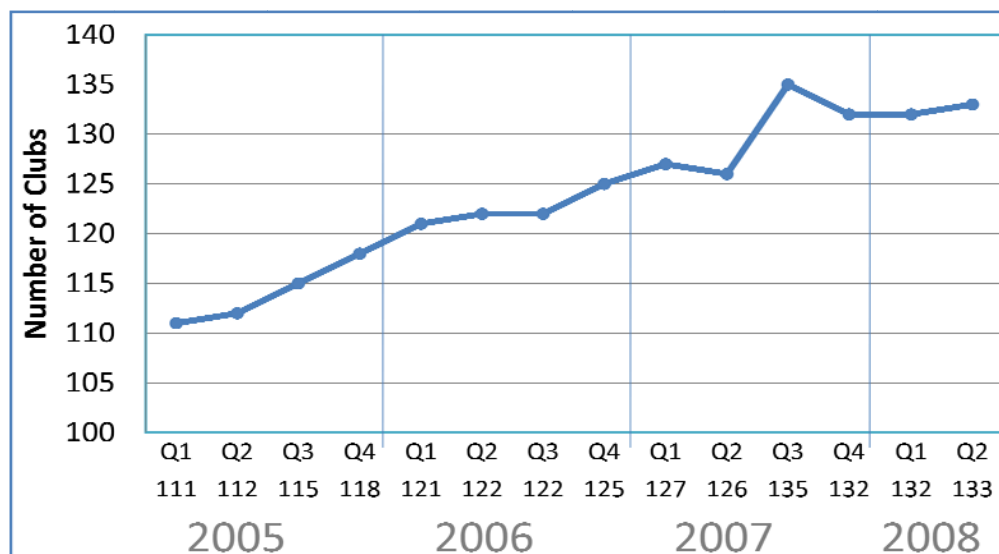
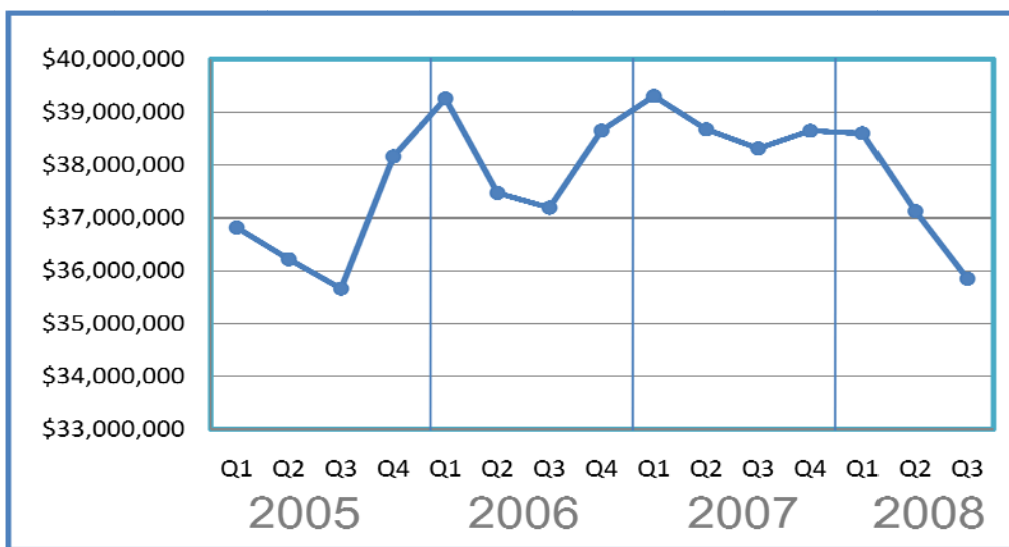


Figure 1.2 Mixed-beverage Sales—All Adult Clubs, By Quarter



and local sales taxes. Data are unavailable for taxable sales at individual clubs; state law prohibits the release of this information for individual outlets and establishments. Data are available for these revenue sources across groups of clubs, however. Taxable sales in the aggregate are shown in Figure 1.3. These totals include purchases made by patrons in the 43 clubs selling beer and wine only (or BYOB), as well as the non-mixed-beverage sales of such items in the 133 clubs with mixed-beverage licenses.

According to Figure 1.3, the quarterly amounts for taxable sales have ranged from a low of \$13 million to a high of \$18 million in the first quarter of 2008. In the most recent quarter, July-September 2008, taxable sales were approximately \$17.8 million. It is unclear why there was a

Figure 1.3 Taxable Sales – All Adult Clubs by Quarter

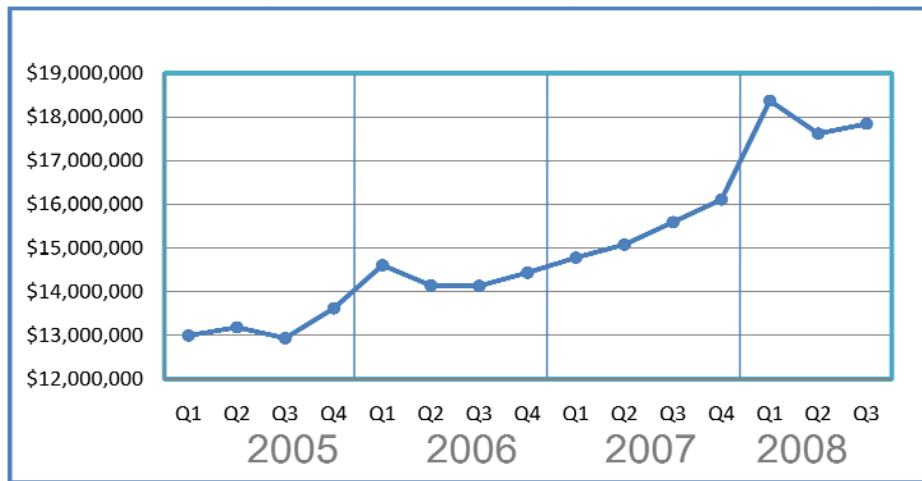


Figure 1.4 Total Revenue (Mixed-Beverage Sales and Taxable Sales): All Adult Clubs, Q1 2005–Q3 2008

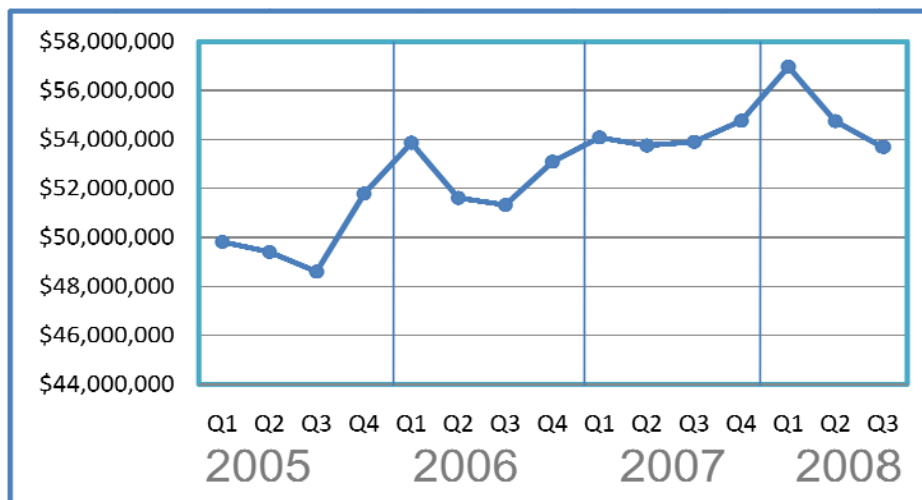
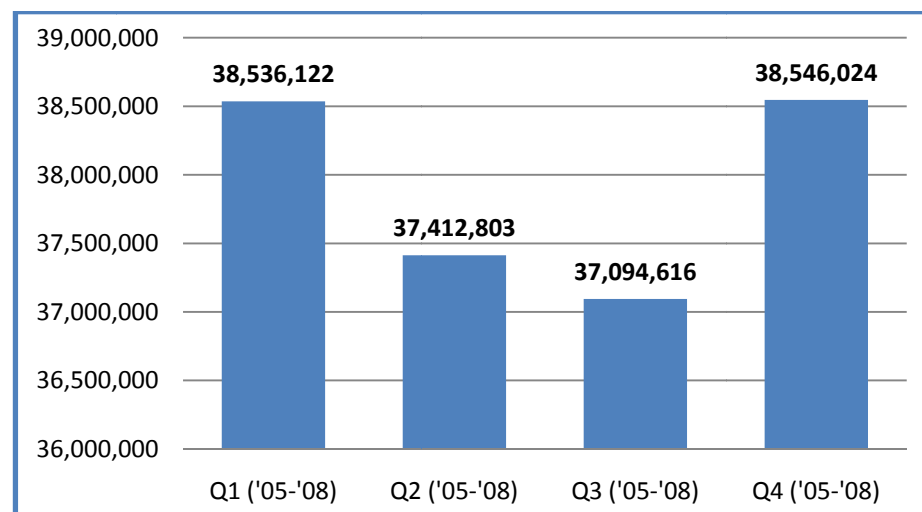


Figure 1.5 Mean Quarterly Mixed-beverage Revenue, All Clubs, 2005-2008



substantial increase in taxable sales for the first quarter of 2008. In past years, there were increases but not a spike that exceeded 10% from the prior quarter.<sup>5</sup> Figure 1.4 shows the pattern of total revenue, Q1 2005 through Q3 2008, a generally upward trend with strong first and fourth quarters and weaker second and third quarters.

The seasonality of club sales is more apparent in Figure 1.5. The first and fourth quarters of the calendar year are the strongest for adult clubs, with the weakest period being the third quarter (July through September).

### **The Clubs by Size**

Most of the adult entertainment clubs are relatively modest in size, as measured by their mixed-beverage sales. Using data from a sample quarter (Q2 2008), it is apparent from Figure 1.6 that the majority of clubs selling mixed-beverages (90 of 131 reporting) had drink revenues of less than \$300,000 for that quarter. Almost half (59) had mixed-beverage revenues of less than \$150,000. Another 24 clubs had drink revenues between \$300,000 and \$600,000. Only 17 clubs had monthly drink revenues that exceed \$600,000.

Another approach to characterizing the distribution of clubs is to identify a typical, or median, club. Based on the number of clubs with mixed-beverage sales, the average (as opposed to median) club sells about \$93,450 in mixed-beverages monthly (\$1,121,400 annually). But because there are many smaller clubs and fewer large clubs, the median club sells less than \$61,223 in mixed-beverages monthly (\$734,676 annually).

No information is available about the distribution of sales across the 42 clubs that have beer-and-wine-only licenses or BYOB-licensed establishments. The state law that restricts the provision of taxable sales information for individual outlets and establishments applies to these 42 clubs, as well as the non-mixed-beverage portion of sales in the 133 clubs with mixed-beverage licenses.

### **Number of Adult Clubs and Their Locations**

In general, the number of adult clubs corresponds to the number of adults in a geographic area. This is true in Texas and the nation. There are strong statistical relationships between the number of adults and the number of clubs in states (Pearson correlation of 0.897) and for the largest 15 counties within Texas (Pearson correlation of 0.907).<sup>6</sup> These data can be interpreted as follows: About 80% of differences among states (and counties within Texas) in the number of adult entertainment clubs can be explained solely by the size of the adult population. In other words, this is a business that in large part depends on the number of adults in a geographic area. Figure 1.7 shows this strong relationship across the nation.

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<sup>5</sup> Please note that the Adult Entertainment Fee for clubs is not included in taxable sales.

<sup>6</sup> The number of registered voters in the 15 largest Texas counties was used as surrogate for adult population in this correlation test.



Figure 1.6 Distribution of Q2 2008 Mixed-beverage Revenue

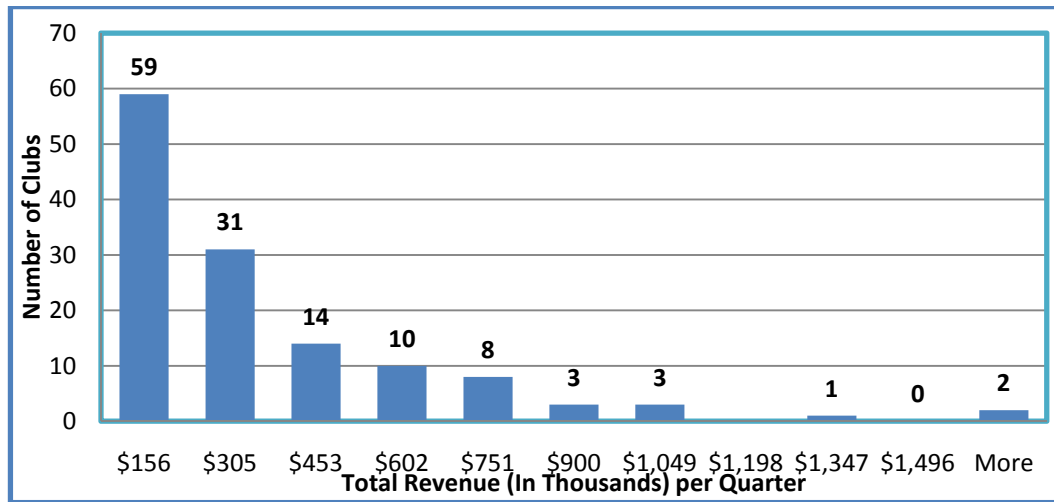
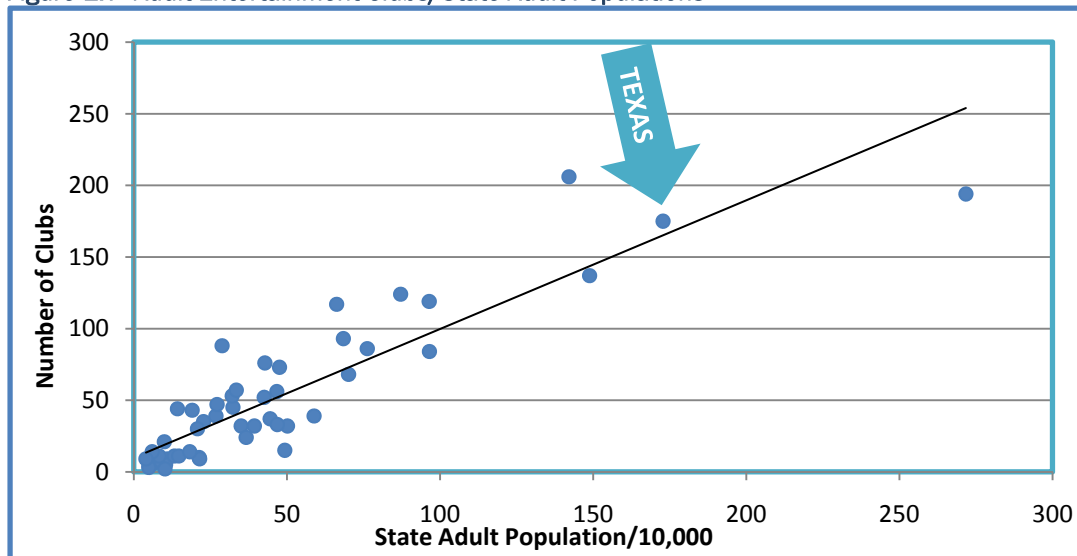


Figure 1.7 Adult Entertainment Clubs/State Adult Populations



Sources: Number of clubs for Texas from sources cited earlier. Adult population for each state from: <http://www.census.gov/popest/states/asrh/files/SC-EST2007-18+POP-RES.csv>. Number of clubs for other states from: <http://www.tuscl.net/r.php?RID=7>.

Visual representations of club locations are shown statewide and for Senate and House districts in the Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Houston, and San Antonio metropolitan area maps presented in Appendix IV. Within Texas, adult clubs are located in 24 counties. They are located in 29 Senate Districts and 65 House Districts as shown in Table 1.1.

### Employment and Wages at Texas Adult Entertainment Clubs

To determine total employment and wage amounts at Texas adult entertainment clubs, an open-records request was made to the TWC. Because of the number of clubs and time limitations, a random sample of clubs was selected for this task. Information about employment and wages was

Table 1.1 Texas Adult Clubs by County and Legislative Districts

HOUSE DISTRICTS				SENATE DISTRICTS		COUNTY	
District	Total	District	Total	District	Total	County	Total
-- District 6	3	-- District 86	2	-- District 1	3	Bell	4
-- District 7	2	-- District 87	5	-- District 3	2	Bexar	13
-- District 8	1	-- District 90	1	-- District 4	3	Brazos	1
-- District 21	2	-- District 91	2	-- District 5	1	Cameron	6
-- District 22	1	-- District 92	6	-- District 6	8	Dallas	20
-- District 23	1	-- District 94	1	-- District 7	6	El Paso	11
-- District 24	1	-- District 95	4	-- District 8	13	Galveston	2
-- District 30	1	-- District 96	1	-- District 9	5	Gregg	2
-- District 33	4	-- District 97	5	-- District 10	9	Harris	37
-- District 34	4	-- District 99	3	-- District 11	5	Hidalgo	11
-- District 36	1	-- District 100	3	-- District 12	9	Jefferson	3
-- District 37	1	-- District 102	1	-- District 13	3	Lubbock	1
-- District 38	2	-- District 103	16	-- District 14	11	McLennan	3
-- District 39	3	-- District 116	1	-- District 16	13	Nueces	8
-- District 40	3	-- District 120	1	-- District 17	5	Potter	5
-- District 41	3	-- District 121	6	-- District 18	1	Randall	2
-- District 42	1	-- District 123	5	-- District 19	1	Smith	3
-- District 43	3	-- District 126	2	-- District 20	14	Tarrant	23
-- District 46	4	-- District 131	2	-- District 21	2	Taylor	3
-- District 49	1	-- District 134	1	-- District 22	3	Tom Green	1
-- District 50	2	-- District 136	4	-- District 23	6	Travis	11
-- District 51	4	-- District 137	5	-- District 24	7	Victoria	1
-- District 54	4	-- District 138	3	-- District 25	7	Webb	1
-- District 56	1	-- District 139	2	-- District 26	4	Wichita	3
-- District 57	1	-- District 140	1	-- District 27	11		
-- District 69	3	-- District 141	3	-- District 28	2		
-- District 71	3	-- District 143	2	-- District 29	11		
-- District 72	1	-- District 144	3	-- District 30	3		
-- District 75	6	-- District 145	2	-- District 31	7		
-- District 76	2	-- District 147	3				
-- District 77	2	-- District 148	3				
-- District 78	1	-- District 150	1				
-- District 83	1						

Note: Several outlets could not be allocated geographically.

requested for one group of 19 larger clubs, a second group of 19 clubs that were licensed as beer and wine only/BYOB, and a third group of 40 randomly selected clubs that sell mixed beverages. Information was received on all 19 of the larger clubs, 16 of the beer and wine/BYOB clubs, and 34 of the randomly selected clubs selling mixed beverages. Data were obtained on the number of full-time and part-time employees of the clubs from October 2007 through March 2008.<sup>7</sup> Data for all six months were used to compute averages for employment and wages of the groups. Based on these computations, the average number of full-time and part-time employees per club (excluding contract employees, licensees, etc.) was estimated to be:

Mixed-beverage clubs:	53
Beer and wine/BYOB clubs:	28
Combined average:	47

If these per-club averages are correct, the total number of full-time and part-time employees statewide for adult entertainment clubs would be approximately 8,223 in the 175 clubs as of the first quarter of 2008. Upon closer examination, the average wage for these employees was determined to be only \$7,059 a year.<sup>8</sup> While this annual amount is theoretically possible, particularly when many employees receive tips, this very low average suggested that a substantial number of the 8,223 employees worked part-time and that the wage data was too low. Based upon average wage data for food service and drinking establishments in the RIMS II model of \$16,696 and a higher estimated wage total for all clubs (\$85 million), a final employment estimate of 5,091 was derived. In effect, RIMS II multipliers were used to estimate total employment based on total sales. This approach incorporates data from food service and drinking establishments in other locations and controls for irregular turnover and the part-time status of some employees.

No occupational data (for example managers, bartenders, waitresses, food workers, custodians, disk jockeys, and administrative personnel) were available from the Texas Workforce Commission for the sample of clubs. Occupational data are available for all drinking establishments in the State of Texas, and these provide a general profile of employment within the adult clubs. Table 1.2 presents an occupational breakdown of the estimated 5,091 employees of adult entertainment clubs (not including dancers) based on typical employment patterns in Texas drinking establishments.<sup>9</sup> From this table, it is obvious that a large proportion of employees are tipped employees.

<sup>7</sup> Data emanated from the TWC Employer Master File (EMF), an electronic file depicting the current status and related tax accounting records for employers and non-employing units. Data in the EMF are collected from all employers in Texas on a quarterly basis. Other information came from the Labor Market Information (LMI). All data were provided in response to an open records request.

<sup>8</sup> Annual total wages for the full- and part-time employees for the clubs were estimated at a minimum of \$58,050,000 and a maximum of approximately \$69 million. The lower amount was selected as a composite estimate. From two publicly held adult entertainment corporations (RICK, VCGH) and one privately held club, it was determined that wages as a percentage of total revenues were 27%, 22%, and 23% respectively. From the TWC wage data, total estimated wages were 32% of total revenues. Because that ratio was based on several assumptions, it seemed unreasonably high. Therefore the 27% wage ratio amount was chosen as a compromise. Total wages using the higher ratio of 32% would have been approximately \$69 million.

<sup>9</sup> Based on Club Owner's survey data presented in Appendix VII.

## >Taxes and Fees

### Mixed-beverage Taxes, Sales Taxes, State Sales Taxes, Local Sales Taxes

The following figures show the aggregate amounts collected since the first quarter of 2005 for the various types of taxes. Figure 1.8 shows the total amount of mixed-beverage taxes for all clubs through the second quarter of 2008.

The total amount of sales taxes generated by state and local taxes on the aggregate amount of taxable sales is shown by quarter in Figure 1.9. Figure 1.10 shows the total amount of state sales taxes generated on the aggregate amount of taxable sales through the third quarter of 2008. Figure 1.11 shows the total amount of local sales taxes generated on the aggregate amount of taxable sales through the third quarter of 2008.

**Table 1.2. Estimate of Occupational Employment in Adult Entertainment Clubs**

Employees by Type	Industry Employ'm't	Estimated Employees*
Waiters and Waitresses	29.9%	1522
Bartenders	29.46%	1500
First-Line Supervisors/Managers of Food Preparation and Serving Workers	8.28%	422
Security Guards	5.81%	296
Dining Room and Cafeteria Attendants and Bartender Helpers	2.96%	151
Cooks, Short Order	2.27%	116
Public Address System and Other Announcers	2.1%	107
Cashiers	2%	102

\* Figures based on 5,091 total employees statewide (totals do not add to 5091 because of rounding error). Not shown are six other categories of employees (dishwashers, janitors, hostesses, etc.) that combine for 17.2% of employment, or 875 jobs.

**Figure 1.8 Mixed-beverage Taxes – All 133 Clubs (Through Q3 2008)**

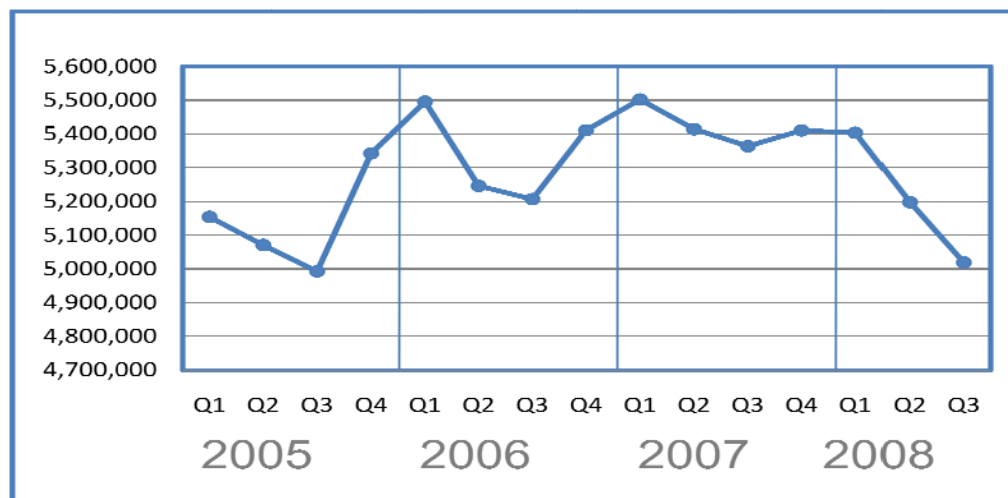


Figure 1.9 Total Sales Tax, by Quarter (Q1 2005–Q3 2008)

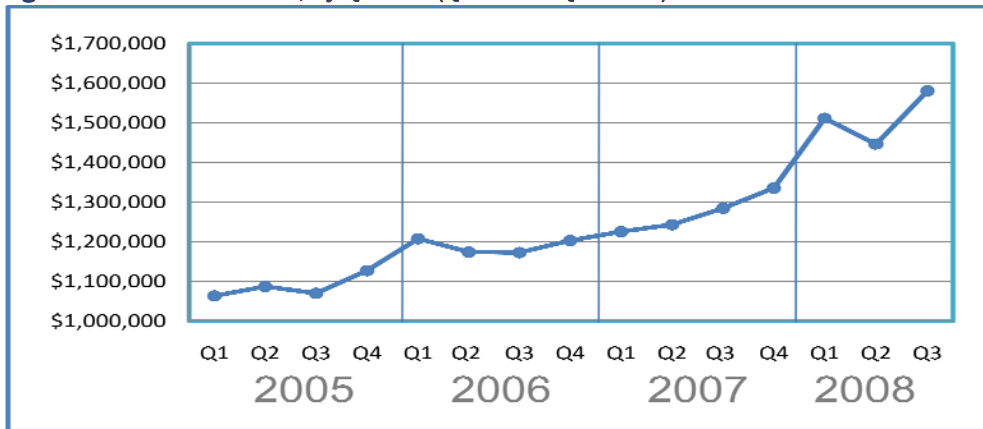


Figure 1.10 State Sales Tax (Through Q3 2008)

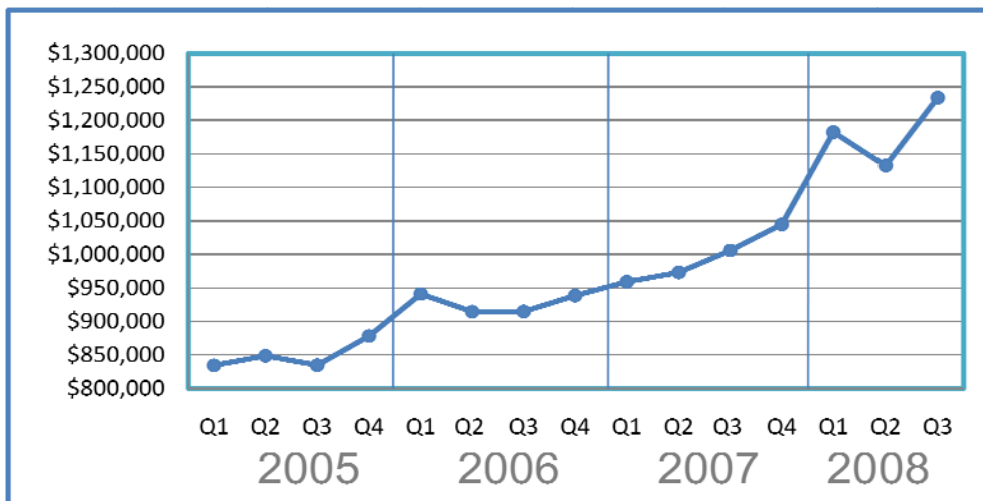


Figure 1.11 Local Sales Tax (Through Q3 2008)



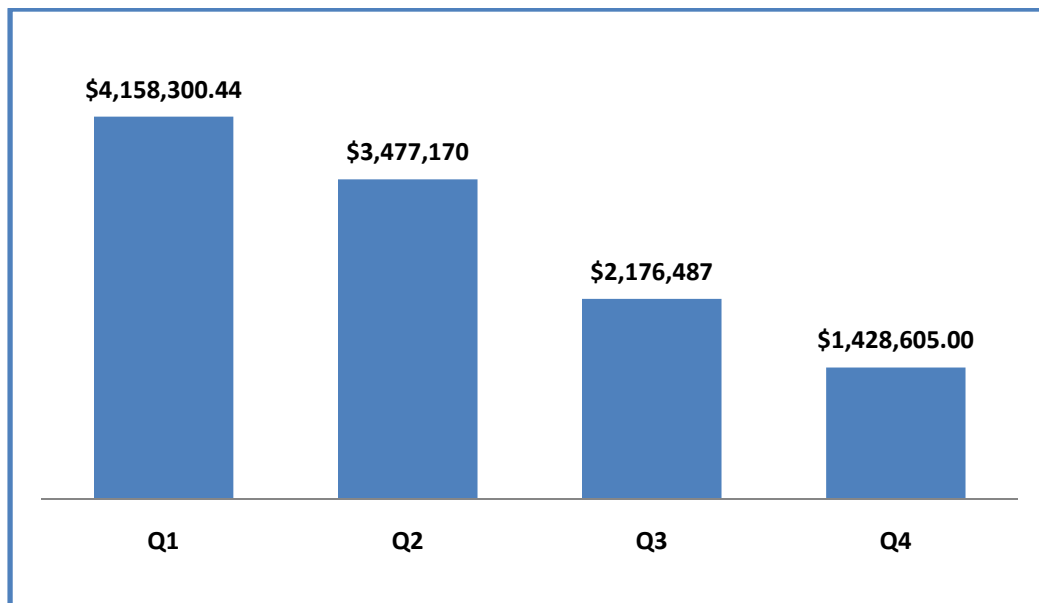
## AEF Collections

Through the first four reporting periods of 2008 (January-March, April-June, July-September, and October-December), AEF collections have totaled \$11,240,562. The amounts for each quarter are shown in Figure 1.12. As is apparent, the amounts collected have declined over the reporting periods. The fourth quarter amount was nearly \$2.7 million less than the amount for the first quarter, down 66%. The decline is likely due to at least two factors: fewer clubs filing and fewer customers frequent the clubs that are filing.<sup>10</sup>

Table 1.3 summarizes the intermittent nature of club filings for the four reporting periods. Of the 175 clubs, only slightly more than one fourth (45) have filed in all four reporting periods. Another 22 clubs have filed in three periods. More than 40% of clubs have never filed a report, and another 7% (12 clubs) filed in the first reporting period only.<sup>11</sup>

There not only have been fewer filing clubs, but the clubs themselves have reported fewer customers entering their establishments. For filers who have reported in the first three periods or in all four periods, there was a drop in the AEF collections (that is, the equivalent of customers) of 11.1% from the first quarter to the second quarter and another 9% from the second quarter to the third quarter. For the 45 clubs that reported in all four periods, there was a slight increase of 1.1% between the third and fourth quarters of 2008. This pattern follows the general seasonal sales pattern, with the first and fourth quarters being higher than the second and third quarters.

**Figure 1.12 AEF Amounts Submitted to Comptroller, 2008 By Quarter**



Source: Compiled from data provided by the State Comptroller of Public Accounts. Data current as of February 4, 2009)

<sup>10</sup> A third factor could be underreporting of customer counts. That is more difficult to determine and compliance was not part of this analysis.

<sup>11</sup> The pattern of filings by the three publicly owned companies has been far superior to the filings pattern by the privately held companies through the first three reporting periods.

**Table 1.3 Club Filings of the Adult Entertainment Fee, 2008 Reporting Periods**

Frequency of Reporting	# Clubs
Never Filed	72
All Four Periods	45
Periods 1, 2, 3*	19
Periods 1, 2	19
Periods 2, 3, 4	4
Periods 2, 3	1
Periods 1, 3	1
Periods 3, 4	1
Period 1 only	12
Period 2 only	1

\* While the filing deadline for Q4 has passed, it is possible that this number will increase slightly as some taxpayers file late. These data were current as of February 4, 2009.

### AEF Collections Compared to Fiscal Note Estimates

In the original Fiscal Note developed in conjunction with HB 1751, it was estimated that \$34 million (net) would be obtained from the AEF in FY2008.<sup>12</sup> In FY2009, the estimated amount (net) was approximately \$52 million, and in FY2010, the estimated amount (net) was about \$59 million.

Because of the delay in fee collections, the reporting periods do not coincide with the original fiscal year time periods. Nevertheless, based on the first 12 months of actual fee collections, which totaled about \$11.2 million, there is sufficient data to determine that the fiscal note estimates will not be reached anytime soon. The total first-year collections of \$11.2 million are one-third the amount originally projected.

Assuming that the same proportion of clubs report in the second year, it is unclear whether the total would be higher or lower than the \$11.2 million of the first year. It is clear, however, that the weak economic conditions entering 2009 will prove very challenging for clubs and that the second year total would likely be less than \$15 million, compared to the original estimate of \$52 million. Significant shortfalls in subsequent years also could occur, unless there is a major increase in the number of clubs filing their reports.

Based on the number of clubs that reported in the first reporting period (100) and the amount of fees collected (\$4.16 million), it seems unlikely that the maximum potential fee total in future three-month reporting periods would exceed \$7.5 million (or \$30 million annually).<sup>13</sup> If the fee amount changes or improvements in compliance are made, then the estimated amounts would need to be adjusted accordingly.

<sup>12</sup> See Legislative Budget Board, Fiscal Note for HB 1751 Enrolled Version, May 25, 2007.

<sup>13</sup> This amount is based on every club (175) filing a report, a \$5 fee, and economic conditions that were equivalent to those in the first three months of calendar year 2008. As noted above, approximately half of the clubs appear to have filed to date.

## >Statewide Economic Impacts of Adult Entertainment Clubs

In this section, we examine the economic and fiscal impact of adult entertainment industry segments (adult cabarets, adult book and video stores) in Texas.<sup>14</sup> The analysis includes direct output (sales), employment, and wages of these industry segments; the indirect impact of the industry segments; the total impact (direct and indirect); and the fiscal impact of the industry segments. In addition, we present a sensitivity analysis of public revenue, given changes in output.

### Methodology

Measuring the impact of adult industries in Texas begins with estimating employment, wages, and industry domestic product or output. Project staff at the Bureau of Business Research at the University of Texas at Austin acquired total sales data for mixed-beverages and other sales at adult entertainment clubs, in addition to total sales for adult video and retail stores. Considering that these sales represent final transactions of goods and services to consumers, these sales figures were assumed to represent industry total direct output. Indirect output generally refers to additional activity in the supply chain caused by activity in the industry studied. For example, increased sales of finished lumber at a retail outlet would result in increased activity in forestry, transportation, manufacturing, and perhaps wholesale trade prior to reaching the retail outlet. Total indirect output for adult industries was estimated using output multipliers.

For this analysis, we used Regional Input-Output Modeling System (RIMS II) multipliers from the Bureau of Economic Analysis for several similar industries because specific multipliers for adult entertainment clubs, adult video stores, or adult book stores do not exist. As proxies, we used NAICS (North American Industry Classification System) multipliers for food services and drinking places (NAICS 722), and sports, hobby, book and music stores (NAICS 451). Rental and leasing services is a broad sector that includes everything from tuxedo shops to rental cars to video stores. However, given that video rentals and retail sales were aggregated and could not be separated, it was assumed that video rental stores operated similar to retail stores for the purpose of this study.

In order to estimate industry employment, direct employment multipliers per \$1 million in output were applied to industry output. Similarly, total wages were estimated using the earnings multiplier per \$1 of industry output. Indirect employment and indirect earnings were calculated using straight employment and earnings multipliers.

Aggregate sales taxes were provided by the Texas Comptroller of Public Accounts for adult entertainment clubs, detailed by mixed-beverage sales and other taxable sales, as well as for adult book and video stores. State and local sales taxes were calculated for the adult entertainment clubs using the universal Texas sales tax rate and rates for local governments. Sales taxes for the adult video and book industries also were provided by the Comptroller's Office of the State of Texas. Property taxes for these industry segments were obtained through public data from county tax assessor websites.

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<sup>14</sup> Most of this analysis was performed by the Business Research Division of the Leeds School of Business at the University of Colorado at Boulder.



Aside from sales taxes generated directly from operations, employees of both industry segments (clubs, video and book stores) spend earnings on taxable goods. An estimate of taxable expenditures based on income was derived from the Consumer Expenditures Survey provided by the U.S. Bureau of Labor Statistics. Applying average spending patterns to adult industry employees provided a consumer retail base to which state and other sales tax rates could be applied.

Employees also pay property taxes either directly if they own their home, or indirectly if they rent their home. Average property tax rates were applied to average home prices to estimate employee property taxes. Similar iterations were applied to indirect employee consumer spending and property taxes. Employment, earnings, and output figures were compared to aggregate industry figures provided by the Bureau of Labor Statistics and the Bureau of Economic Analysis as a secondary check of the model. Detailed explanations of each line in the model, including assumptions, are provided in the appendix.

## >Total Output, Total Employment

Total direct output for adult cabarets, video stores, and book stores topped \$459.1 million in 2007 and \$232.6 million in 1H 2008. Indirect output for these industries was estimated at \$388.4 million in 2007 and \$198.8 in 1H 2008. Total direct and indirect output for these industries was \$847.5 million in 2007 and \$431.3 million in 1H 2008. Aside from employment and wages, these industries generate sales and property tax revenues that support state and local governments, as well as transit, special, and school districts. Total direct employment in the adult cabaret, video store, and retail industries is estimated at 9,207 in 2007.

### Total Output: Adult Cabarets

As reported by the state, industry sales by adult cabarets totaled \$216.6 million in 2007 and \$111.8 million in the first half of 2008. Sales January through June 2008 compared to the same period in 2007 grew 3.7% (5.6% in Q1 and 1.9% in Q2). From Q1 2007 through Q2 2008, mixed-beverage sales on average accounted for 70.4% of adult cabaret sales and other sales accounted for 29.6%.

Given that adult cabarets are providing final goods and services to consumers, it is assumed that total sales represent total output. Therefore, total output, or adult cabarets' contribution to Texas gross state product, was \$216.6 million in 2007 and \$111.8 for 1H 2008.

Applying the food services and drinking places output multiplier to adult cabarets' output returns total indirect output of \$317.9 million in 2007 and \$164.1 million in 1H 2008.

Using a number of sources, the research team estimated that there are 3,181 cabaret dancers in Texas who earned \$181.8 million in 2008. Entertainers are usually not employees of the cabarets and are considered self-employed. It is assumed that entertainer earnings are economic activity, but the indirect economic activity driven by these entertainers is already captured by the cabarets.

### **Total Employment: Adult Cabarets**

Employment at adult cabarets was estimated at 5,091 in 2007. Employment increased from 1H 2007 to 1H 2008 by 3.7% (5.6% in Q1 and 1.9% in Q2). Employment at adult cabarets leads to additional employment in other industries. It is estimated that indirect employment totaled 2,650 in 2007, increasing proportionally in 1H 2008. Based on a ratio of .625 dancers for each FTE employee in the industry, which the research team derived using a number of different sources including data from the survey of owners, there are an estimated 3,181 entertainers in Texas who represent additional, non-employer jobs.

### **Total Wages: Adult Cabarets**

Direct earnings by employees at adult cabarets totaled \$85 million in 2007 and nearly \$43.9 million in 1H 2008. Indirect earnings related to adult cabarets reached slightly under \$80.2 million in 2007 and \$41.4 million in 1H 2008. Direct earnings by entertainers in 2008 were estimated at \$181.8 million.

### **Taxes Paid: Adult Cabarets**

Total direct taxes generated by adult cabarets were \$55.8 million in 2007, of which \$22.8 went to the state and \$33.0 million went to sub-state government and districts. Indirect taxes were estimated at \$14.5 million in 2007 and \$7.5 million in 1H 2008. In addition, entertainers generated another \$19.9 million in income, sales, and property taxes.

## **>Video Stores and Bookstores**

Because there is no inventory or registry of adult video stores and adult book stores statewide, an elaborate and time-consuming process was necessary to compile a database. Research staff utilized several different sources of information including, police vice squad databases, multiple internet sites, and databases for video and bookstores obtained through open records requests to the Texas Comptroller of Public Accounts. Ultimately a database of prospective adult video and adult bookstores was submitted to the Comptroller's Office, with a request to provide statewide totals for taxable sales, sales taxes, state sales taxes, and local sales taxes for the group of outlets. (As with information about sales by specific adult entertainment clubs, there is no sales information available for individual adult video and adult book store outlets because of state law.) In addition, sub-state totals of taxable sales, sales taxes, state sales taxes, and local sales taxes were requested for groups of outlets in Bexar County, Dallas County, El Paso County, Harris County, Tarrant County, and Travis County. This information was requested on a quarterly basis beginning January 2007 through the end of June 2008—six quarters.<sup>15</sup>

Eventually a total of 96 active adult bookstores and adult video stores were identified in the Comptroller's records. The location of these outlets is shown in Table 1.4. As is apparent, Harris County has a disproportionately high number of outlets (41). The entire rest of the state has only 55 stores. Adult video and adult bookstores are located in 65 House Districts and 29 Senate Districts.

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<sup>15</sup> The time period was selected to determine if there were significant year-over-year changes in taxable sales and if any types of trends were apparent.

Table 1.4 Texas Adult Video Stores and Adult Bookstores by County and Legislative Districts

HOUSE DISTRICTS				SENATE DISTRICTS		BY COUNTY	
District	Total	District	Total	District	Total	County	Total
-- District 4	1	-- District 107	1	-- District 1	1	Bexar	6
-- District 6	1	-- District 112	1	-- District 2	1	Brazoria	1
-- District 7	1	-- District 118	1	-- District 3	2	Clay	1
-- District 10	1	-- District 120	1	-- District 6	15	Cooke	1
-- District 16	1	-- District 121	2	-- District 7	7	Dallas	11
-- District 25	1	-- District 123	1	-- District 8	3	Ector	4
-- District 34	2	-- District 125	1	-- District 10	1	El Paso	5
-- District 42	2	-- District 126	1	-- District 12	3	Gregg	1
-- District 46	1	-- District 133	3	-- District 13	4	Harris	41
-- District 47	2	-- District 134	1	-- District 14	7	Hill	1
-- District 49	3	-- District 135	1	-- District 15	10	Kaufman	1
-- District 50	3	-- District 136	4	-- District 16	4	Lubbock	1
-- District 51	1	-- District 138	7	-- District 17	6	Montgomery	1
-- District 61	1	-- District 139	2	-- District 20	2	Nueces	2
-- District 68	2	-- District 140	3	-- District 21	3	Smith	1
-- District 71	1	-- District 141	2	-- District 22	1	Tarrant	5
-- District 72	1	-- District 142	1	-- District 23	4	Taylor	1
-- District 76	4	-- District 143	2	-- District 24	1	Tom Green	1
-- District 77	1	-- District 145	5	-- District 25	7	Travis	10
-- District 81	4	-- District 146	1	-- District 26	1	Webb	2
-- District 84	1	-- District 147	5	-- District 28	2		
-- District 95	1	-- District 148	1	-- District 29	5		
-- District 97	1	-- District 149	1	-- District 30	2		
-- District 99	3	-- District 150	1	-- District 31	4		
-- District 103	9						

Note: Several outlets could not be allocated geographically.

## Revenues

Over the past year (the four quarters ending June 30, 2008), adult bookstore and adult video stores had total taxable sales of slightly more than \$59 million.

Figure 1.13 shows total taxable sales by all adult video and adult bookstores over the past six quarters. The trend has been downward over that time, except for the first quarter of 2008. Figures 1.14 and 1.15 show that the declines have occurred both in Harris County stores and in stores throughout Texas. On a percentage basis, the declines from the first quarter of 2007 to the second quarter of 2008 have been fairly similar: Harris County has had a 13.2% drop and stores elsewhere have had an 11.6% drop.

Figure 1.13 Adult Video & Book Sales – Statewide by Quarter

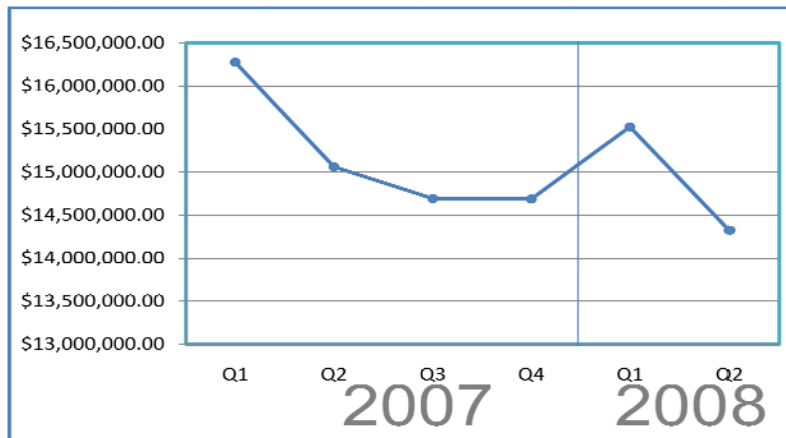


Figure 1.14 Adult Video and Book – Non-Houston by Quarter

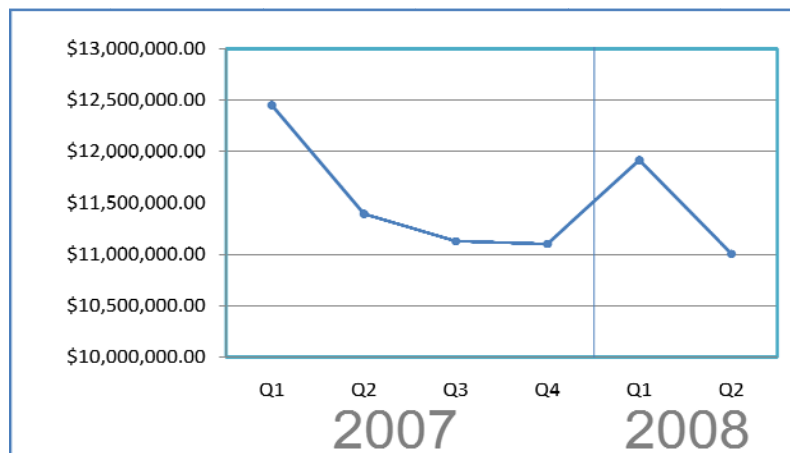
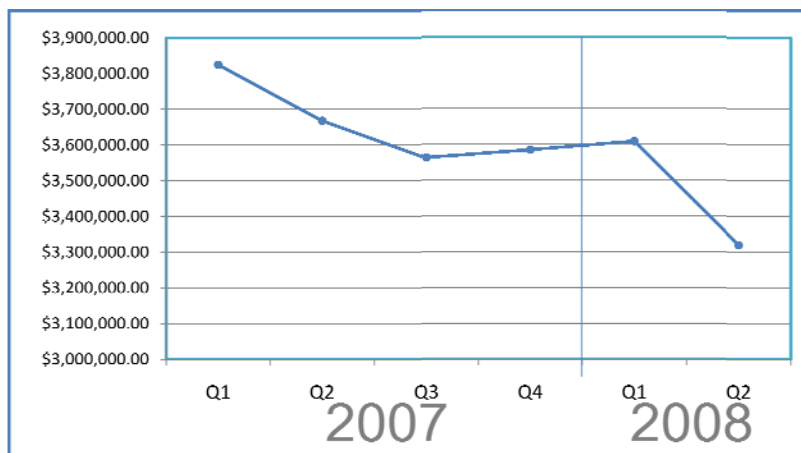


Figure 1.15 Adult Video & Bookstore – Houston by Quarter



**Table 1.5–Taxable Sales, Average Store, By County, June 2007 through June 2008**

County	Taxable Sales
Bexar	\$1,211,186
Dallas	\$1,144,549
El Paso	\$ 493,089
Harris	\$ 343,335
Tarrant	\$ 845,924
Travis	\$ 959,300

Sales in the first quarter of 2008 were lower than in the first quarter of 2007 by -4.6% statewide (-5.7% in Houston; -4.3% outside of Houston). These figures are very comparable to nationwide trends for DVD sales of all types of titles. According to Adams Media Research and Warner Brothers, DVD sales fell between 3.2% and 4.8% in 2007 after holding steady for several years. According to these same sources, DVD sales of all types of titles have continued to decline by between 2.4% and 4% during the first half of 2008. Since then, Nielsen VideoScan reported a 9% drop in third quarter sales alone.<sup>16</sup>

An average adult video or adult book store statewide has annual taxable sales of \$614,000, or approximately \$50,000 per month. This average, however, varies substantially across regions and is much lower in Harris County and El Paso County than in the other urban Texas counties (Table 1.5) In Bexar, Dallas, and Travis counties, monthly sales for an average store is in the range of \$80,000 to \$100,000.

## >Statewide Economic Impact: Adult Video Stores & Adult Bookstores<sup>17</sup>

### Total Output: Adult Bookstores and Video Stores

As reported by the Comptroller's Office of the State of Texas for the outlets provided to them by the research team's open records request, industry sales by adult book and video stores totaled \$60.7 million in 2007 and \$29.9 million in the first half of 2008. Sales during the six-month period from January through June 2008 compared to the same period in 2007 fell by 4.8% (-4.8% in Q1 and -4.9% in Q2).

Given that adult book and video stores are providing final goods and services to consumers, it is assumed that total sales represent total output. Therefore, total output, or adult book and video stores' contribution to the Texas gross state product, was \$60.7 million in 2007 and \$29.9 for 1H 2008. Applying the sports, hobby, book & music stores output multiplier to adult book and video stores output returns total indirect output of \$70.5 million in 2007 and \$34.7 million in 1H 2008.

<sup>16</sup> Barnes, Brooks, "DVDs, Hollywood's Profit Source, Are Sagging," *The New York Times*, November 20, 2008. ([http://www.nytimes.com/2008/11/21/business/21dvd.html?\\_r=1](http://www.nytimes.com/2008/11/21/business/21dvd.html?_r=1)) accessed February 23, 2009.

<sup>17</sup> For further details about methodology and background, please see the section on methodology in the earlier section: Statewide Economic Impacts of Adult Entertainment Clubs.

### **Total Employment: Adult Bookstores and Video Stores**

Direct employment at adult book and video stores was estimated at 935 in 2007. Employment decreased from 1H 2007 to 1H 2008 by 4.7% (4.6% in Q1 and 4.9% in Q2). Employment at book and video stores leads to additional employment in other industries. It is estimated that indirect employment totaled 625 in 2007, decreasing proportionally with direct employment in 1H 2008. Therefore, total employment (direct and indirect) was approximately 1,560 (935 and 625) in 2007 and 1,487 (4.7% less) in the 1H of 2008 on an annualized basis.

### **Total Wages: Adult Bookstores and Video Stores**

Direct earnings by employees at adult book and video stores totaled \$20.5 million in 2007, and nearly \$10.1 million in 1H 2008. Indirect earnings related to adult cabarets reached approximately \$19.7 million in 2007 and \$9.7 million in 1H 2008. Therefore total earnings (direct and indirect) were approximately \$40 million in 2007.

### **Taxes Paid: Adult Bookstores and Video Stores**

Total direct taxes generated by adult book and video stores were \$11.3 million in 2007, of which \$4.2 million went to the State and \$7.0 million went to sub-state governments and districts. Indirect taxes were estimated at \$3.5 million in 2007 and \$1.7 million in the first half of 2008. Therefore, total taxes (direct and indirect) generated by adult video stores and bookstores were approximately \$15 million (\$11.3 million and \$3.5 million, respectively).

## **>Key Findings**

### **Club Data**

- There are a total of 175 adult cabaret clubs in the State of Texas. Of that total, 133 clubs serve mixed-beverages and 42 clubs either have a beer and wine only license or serve no alcohol (BYOB).
- Mixed-beverage sales account for an average of 70% of sales at the clubs with mixed-beverage licenses.
- Mixed-beverage sales in the adult cabarets dropped in 2008 but taxable sales were up considerably, more than offsetting the declines.
- There are many smaller clubs and a couple of very large operations. Of the 131 clubs with mixed-beverage licenses in Q2 2008, 90 had mixed-beverage revenues of less than \$100,000 per month, with the median club selling around \$61,000 per month in mixed-beverages.
- An estimated 8,272 people, including 3,181 dancers, are directly employed by adult entertainment clubs in Texas.

### **Taxes and Fees**

- Total direct and indirect taxes generated by adult cabaret, book, and video stores were \$107 million in 2007. Of this, approximately \$33.2 million was generated for the state, and \$77.8 million for counties, cities, community colleges, and school, special, and transit districts.

- Adult cabarets alone contributed direct taxes of \$55.8 million in 2007.
- Adult Entertainment Fee (AEF) collections totaled \$11.25 million in the four quarters of 2008, far less than had been anticipated in the Comptroller's Fiscal Note developed in conjunction with HB 1751 (\$34 million in FY2008). This is because there is widespread noncompliance with the fee.
- We estimate that based on the ratio of club filings and fees collected in the first quarter of 2008, the maximum potential fee total, at the current level of \$5 per customer (even with every club filing a report) is likely to be only \$30 million, far less than the \$52 million estimated in the Fiscal Note.
- As a percentage of total club revenues, we estimate that the AEF is (or would be) about 12.8%, if all clubs paid the fee, with differential effects on revenues depending on club size.





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## Chapter 2

### Analytical Data

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In this chapter, the research team examines various hypotheses about recent trends in sales for the clubs, the potential impact of the AEF on club revenues, possible differential impacts on club revenues by club size, data about the influence of Texas' economic conditions on club revenues, and data about AEF's impact on clubs' profits. Finally, we provide analysis of AEF impacts on future tax receipts in Texas.

#### >The AEF in Perspective

HB 1751, passed by the Texas Legislature in 2007 and signed by Governor Perry, imposed a fee on sexually oriented businesses that provide live nude entertainment or performances, in an amount equal to \$5 for each entry by each customer admitted to the business. The legislation's intent was to provide fee revenue to dedicate to the sexual assault program fund to cover the costs of programs that relate to sexual assault prevention, intervention, and research provided by state, local, and nonprofit agencies. The fee collection period began January 1, 2008, with the first quarter fee totals to be remitted to the Texas Comptroller by each cabaret subject to the fee by April 15, 2008.

As percentage of total club revenues, the AEF was 7.3% in the first quarter of 2008 and 6.3% in the second quarter of 2008. However, this includes revenues from clubs not paying the AEF. For the 16 largest clubs, the AEF as a proportion of their mixed-beverage sales for the two quarters was 15.3% and 13.9%, respectively. An estimate of the AEF as a proportion of total club revenues, assuming all clubs paid the fee, is about 12.8%.<sup>18</sup>

While this is a significant amount for clubs to absorb, the effects on smaller clubs is even greater. For example, one club in West Texas had January 2008 sales of \$40,593 with a net profit of \$2,792 before paying its AEF. During that month, the club had 2,473 customers; at \$5 per person, this amounted to an AEF of \$12,365 for one month. After setting that money aside, the club's net profit of \$2,792 would become a net loss of \$9,572. This is understandable because the club's revenue averages approximately \$16.40 per customer.<sup>19</sup> Because the AEF is \$5 per customer, the club loses

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<sup>18</sup> This is calculated as follows: (1) This is calculated as follows: (1) The \$4.16 million AEF in the first quarter of 2008 came from 57% of all clubs. Had all clubs submitted their AEF, the total for that quarter would have been \$7.3 million. (2) The assumed total under full compliance (\$7.3 million) divided by total club revenues (\$57.06 million) is 12.8%.

<sup>19</sup> Data taken from Plaintiffs Exhibits 10-18, Cause No. D-1-GN-07-004179; *Texas Entertainment Association, Inc., et al. v. Susan Combs, et al.*, in the 345<sup>th</sup> Judicial District, Travis County.

about 30% of its revenues. In the short-term, and holding all else equal (sales, costs, etc.), this club will be unable to withstand the effects of the AEF.<sup>20</sup>

For larger clubs, the AEF's impacts will be less severe. Based on fees submitted to date and publicly available information, one chain of clubs has per-customer sales of about \$54. With the \$5 per-customer AEF, this chain on average suffers a 9% reduction in revenue. While substantial in the short term, and until they can raise prices or cut costs, this chain is dramatically better off than the small, West Texas club that loses 30% of its revenues by paying the AEF.

The basic conclusion is that the AEF is not an insignificant amount for these clubs, and for smaller clubs, the fee could be the difference between making a profit and taking a loss. This does not mean that larger clubs and clubs whose patrons spend more will not be impacted negatively or that clubs will not adjust their business practices to the new fee (raise cover charges, food, or drink prices; reduce staff, etc.). Some clubs may have to absorb more of the fees, while others will have more ability to maintain their pre-AEF margin by passing along costs through price increases. It is probably safe to say that business for clubs with high per-customer revenues is less elastic than for clubs with low per-customer revenues, given an identical change to cover the AEF. Therefore, the higher-end clubs are less likely to see much, if any, reduction in business if they decided to change pricing to cover the AEF. On the other hand, clubs with low per-customer revenues would have more difficulty compensating for the \$5 fee without losing business.

### >Three Hypotheses Related to Texas Adult Club Sales

The preceding data suggest the AEF may be negatively affecting club sales. Yet the pattern of mixed-beverage sales through the third quarter of 2008 generally has followed the pattern of prior years, with strong sales in the first quarter, followed by declines in the second and third quarters. Even if 2008 fourth-quarter sales are lower than third-quarter sales, which would be atypical from prior years, there can be no definitive explanation without further tests. If future quarter sales are much lower, there are a variety of possible explanations.

*The first hypothesis* would be that the adult entertainment clubs in Texas are suffering because industry or club sales nationally down. Further, because Texas's economy has generally been far stronger than the national economy, it could be reasonably expected that sales for Texas adult cabarets in the past year would be higher than for clubs elsewhere. But reliable national data do not exist; the only available data are those of clubs owned by publicly traded companies, such as Rick's Cabaret and VCG Holding Company, and many of these companies' clubs are outside Texas.

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<sup>20</sup> The month of January 2008 was not atypical for this club. A close comparison was made of the revenues, costs of sales, and expenses for 2006, 2007, and 2008. Sales were slightly down from December 2007, but still much higher than 2006. Other than the decrease in sales, everything else remained roughly unchanged. The decrease in sales was expected as December tends to be busier than January for clubs.

Total revenues (in millions of dollars) for Texas clubs for the two comparison periods were as follows:

Q2 2008	\$54.77 (Million)	Q1 2008	\$57.06 (Million)
Q2 2007	\$53.73 (Million)	Q1 2007	\$54.05 (Million)
Revenue Change	1.9 %	Revenue Change	5.6%

Data for the comparable periods for Rick's Cabaret and VCG Holding Company are:

One Calendar Year	Rick's Cabaret		VCG Holding Company	
	Q2 2008	Q1 2008	Q2 2008	Q1 2008
Same Club Revenue Growth	8.4%	8.24%	4.8%	6.4%
-- Number of Clubs *	12	12	12	12
-- Number of Texas Clubs	8	8	1	1

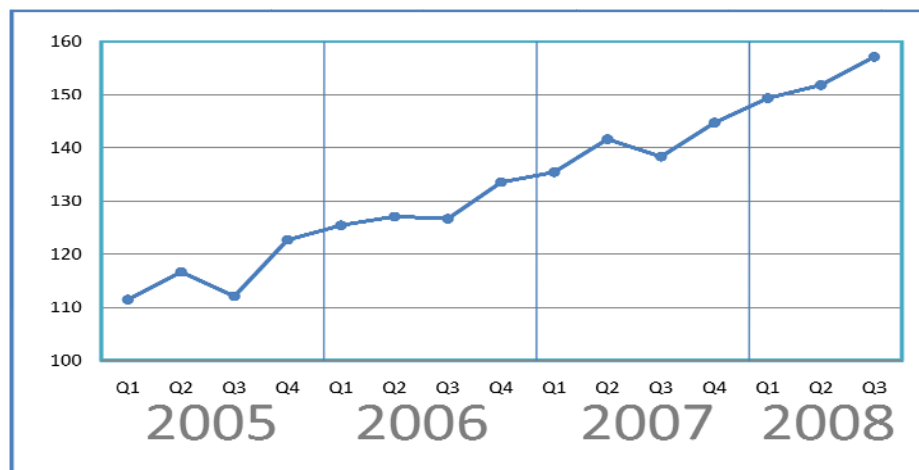
\* The "Number of Clubs" figures include clubs that have been part of the company for more than a year. The "Number of Texas Clubs" figures include clubs in Texas that have been part of the company for more than a year.

Clubs in Texas are showing lower sales increases than the 24 clubs for Rick's Cabaret and VCG Holding Company for which there is same-club revenue data. Because the Texas economy is stronger than the economies for at least 15 of the 24 clubs, this suggests the AEF may be having a slight negative effect on club revenues.

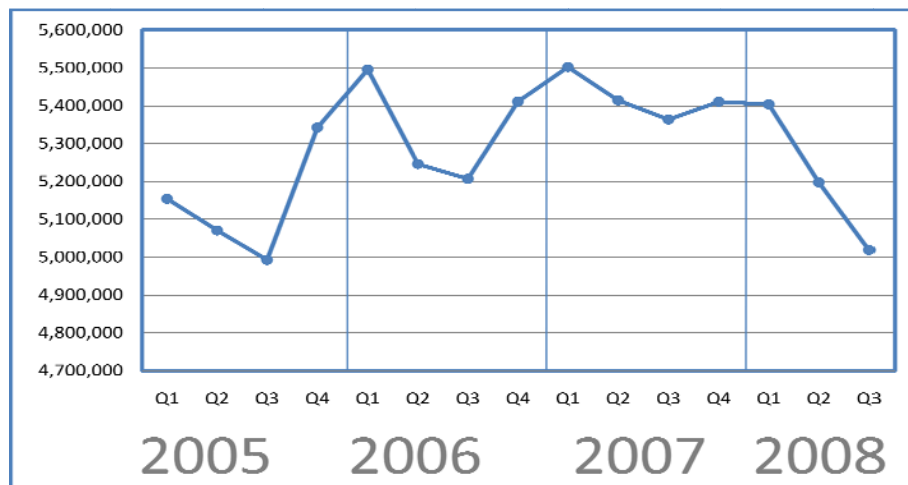
**A second hypothesis** is that sales at Texas adult entertainment clubs may be down because revenues at all drinking establishments in Texas are down. Figure 2.1 shows the pattern for mixed-beverage taxes statewide over the past three and one-half years. Except for the traditional trough period of the third quarter, the pattern of sales for all drinking establishments serving mixed drinks in Texas is clearly increasing. (The third-quarter number is actually lower than it should be because it does not include late filers of mixed-beverage taxes.)

In contrast, Figure 2.2 shows the mixed-beverage tax pattern for adult entertainment clubs in Texas. While different scales magnify the disparities, the key point is that club mixed-beverage taxes have not continued to increase from the third quarter of 2007, in contrast to the mixed-beverage taxes for

**Figure 2.1 Mixed-beverage Taxes For All Drinking Establishments in Texas**



**Figure 2.2 Mixed-beverage Taxes – All 133 Adult Cabarets (Through Q3 2008)**



all drinking establishments in Texas. For all drinking establishments, mixed-beverage taxes and, therefore, mixed-beverage sales, have increased uniformly since the third quarter of 2007, whereas for adult clubs, mixed-beverage taxes increased in the fourth quarter of 2007, but then declined.

This comparison also suggests that adult entertainment clubs' mixed-beverage sales are performing worse than Texas drinking establishments statewide. One possible explanation is that these clubs are subject to the AEF and drinking establishments are not.

**A third hypothesis** is that revenues at Texas adult entertainment clubs are primarily determined by economic conditions, these conditions have deteriorated in the past year, and the impact will be showing up particularly in the fourth quarter of 2008 and beyond. This hypothesis cannot address why Texas adult entertainment clubs are doing marginally worse than all drinking establishments in the state or slightly worse than clubs elsewhere. However, it implies that the AEF may be a factor in the downturn in revenues when compared to general economic conditions and the spending habits of club patrons.

For this hypothesis to be accepted, changes in Texas's economic conditions should mirror the changes in revenues by the clubs. In other words, when the Texas economy shows significant growth, club revenues should also increase substantially. And when the Texas economy slows, as it has in recent quarters, club revenues should slow, or even decline. If the relationship between the Texas economy and club revenues is strong, the changes should be similar. If the relationship is moderate or non-existent, then that can be detected with some straightforward statistical analysis.

A number of economic indicators were selected that are used traditionally to measure different aspects of the state's economic conditions. Two additional indicators were chosen to reflect national economic conditions. Data were collected on the following indicators for each quarter since 2005:

- Total retail sales
- Unemployment
- Housing permits

- Index of Leading Economic Indicators
- Business cycle index (Index of Coincident Economic Indicators)
- Non-farm payrolls
- Industrial production
- Consumer price index
- Gross state product
- Total personal income
- Gross domestic product (U.S.)
- Gasoline prices (U.S.)

All of these indicators were correlated with total club revenues for each quarter since 2005. The first analysis was conducted using data from the 123 clubs for which there is mixed-beverage data through the third quarter of 2008 and for all clubs' taxable sales through the third quarter of 2008. Several of the state economic indicators are very highly correlated with club revenues as shown below. (The maximum correlation is 1.00 between two variables and the minimum, if they move completely independently, is 0. Minus numbers are possible, however.)

- Total personal income .901
- Gross state product .895
- Business cycle index .834
- Non-farm payrolls .829
- Unemployment -.825<sup>21</sup>

While there are small differences, all of these five economic indicators show extremely strong relationships with club revenues since 2005. High correlations do not suggest causation but only a very strong association between two variables in the aggregate. Certainly individual clubs can improve their revenues during poor economic periods, but these high correlations imply that in the aggregate, Texas club revenues move similarly to state economic conditions, at least in the quarters since 2005. The high correlations also strongly suggest that club revenues statewide are affected much more by economic conditions than by the Adult Entertainment Fee. While there may be other explanatory variables and coincident factors that would explain the changes in club revenues, including the AEF, it is reasonable to conclude that changes in overall economic conditions are economy are the most plausible explanation for changes in club revenue.

The finding that club revenues are more strongly affected by statewide economic conditions than by the AEF does not answer the key question of whether the fee is impacting negatively club revenues, and, if so, by how much. From the prior analyses of the first two hypotheses, there is some evidence that the AEF may be a slight deterrent, but the extent of the negative impact cannot be quantified. Also, there is a crucial distinction between whether the AEF affects clubs sales and whether it affects

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<sup>21</sup> A minus sign indicates that as the number of unemployed increases, club revenues decrease – hence move in opposite directions. All other positive numbers indicate that as economic conditions improve, club revenues improve or as economic conditions decline, club revenues decline.

club profits. At least in the short term, when sales are affected negatively, there also is frequently a major impact on profits. For some clubs, particularly those with thin margins and patrons who spend smaller sums of money per visit, the AEF could mean the difference between profit and loss. For other clubs with robust margins and patrons who spend much higher sums of money per visit, the AEF could be a minor negative in the short run, and possibly of positive benefit in the long term if competitor clubs close and fewer clubs remain statewide.

## >Estimating the Impact on Taxes

Given the short amount of time that the AEF has been imposed, and a lack of detail in adult cabaret sales data, it is difficult to determine with precision what the long-term consequences on the clubs, and on tax revenues generated by club activities and economic output. If the AEF proves to be detrimental to club business activity, tax revenues may eventually decrease.

A tax sensitivity analysis was performed to probe further about the possible longer-term effects of the AEF. This analysis requires an assumption about what determines changes in club revenues. (That is, what factors affect aggregate club sales? Are they entirely determined by the AEF, Texas's economic conditions, other factors, or a combination?)

We used the most conservative assumption in the tax sensitivity analysis: that all changes in club revenues are due to changes in the Adult Entertainment Fee. Using this extremely conservative assumption, we constructed a model that examined decreases in output ranging from 0% to -20%. The model assumes that employment, and thus total wages, respond immediately to decreased activity, and infrastructure is fixed until there is a 10% decrease in sales. See Table 2.1.

Given a 0% change in output caused by the AEF in 2008 and 2009, there still is a 0.1% decrease in direct tax revenues in 2008 and a 0.2% decrease in 2009 because property tax revenues do not have a direct correlation to club sales. In addition, records show that property tax bills decreased slightly from 2007 to 2008. Assuming that there is a 4% decrease in club output, the State of Texas could expect a 5.5% decrease in tax revenues in 2008-2009. At some point, industry activity decreases to a threshold that causes some establishments to close their doors—a shift in supply. At this point (10% in this model), property taxes attributable to adult cabarets will respond accordingly, causing a greater decrease in public revenues. Therefore, a 10% decrease in industry activity results in a 13.8% decrease in total direct and indirect tax revenues.

What Table 2.1 does not show is the amount of revenue collected from the AEF. If the fee brings in more revenue than the projected decrease in revenues attributable to it, then from the perspective of state and local tax collections, the fee would be a positive contributor.<sup>22</sup> From an earlier section of this report, it was estimated that the AEF would generate about \$12 million in calendar year 2009, if current trends in fee contributions continue. Therefore, because there is about an \$8 million

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<sup>22</sup> Note, however, that the entities that are recipients of the AEF are different than the entities that receive sales and property taxes.

**Table 2.1 Cabarets and Entertainers, Total Tax Revenues (Direct and Indirect) 2007 – 2009**

% Change	2007 <sup>a</sup>	2008	2009	Δ 2007-2008	Δ 2008-2009
0%	90,267,755	90,180,104	90,033,365	-0.1%	-0.2%
-2%	90,267,755	88,968,709	86,580,690	-1.4%	-2.7%
-4%	90,267,755	87,757,313	83,197,766	-2.8%	-5.2%
-6%	90,267,755	86,545,918	79,884,592	-4.1%	-7.7%
-8%	90,267,755	85,334,523	76,641,170	-5.5%	-10.2%
-10%	90,267,755	84,123,128	73,212,868	-6.8%	-13.0%
-12%	90,267,755	82,911,732	70,058,022	-8.1%	-15.5%
-14%	90,267,755	81,700,337	66,972,927	-9.5%	-18.0%
-16%	90,267,755	80,488,942	63,957,582	-10.8%	-20.5%
-18%	90,267,755	79,277,547	61,011,989	-12.2%	-23.0%
-20%	90,267,755	78,066,151	58,136,147	-13.5%	-25.5%

Source: Bureau of Business Research, IC<sup>2</sup> Institute, The University of Texas at Austin.

<sup>a</sup> Actual.

reduction in total taxes (\$70.3 million minus \$62.1 million) for the 20% reduction scenario, and the AEF generated \$12 million, there still would be a surplus of \$4 million.

If the AEF caused a similar 20% drop in 2009, however, the situation becomes quite different. The reduction in total taxes would be about \$25 million (\$70.3 million minus \$45.4 million), whereas the AEF for the two years would be about the same. Therefore, if the AEF caused such a large drop in sales, the overall effect for state and local taxes and fees would be essentially neutral. But this scenario is implausible for several reasons. First, there is no evidence the conservative assumption, namely that all sales are determined by the AEF, is correct. In fact, there is at least preliminary evidence that the AEF and factors other than the state's economy affect more than 20%-30% of club sales in the aggregate. Second, the 20% decrease in total taxes is extreme. To date, there is no indication 2008 taxes from clubs output will decline more than 4%, and they may well increase by a small percentage. Third, AEF contributions may increase in the future if more clubs comply with the law and provide payments.

Based on the impacts to date, total taxes and fees from the AEF are contributing more resources, and there is no likelihood that these taxes and fees will become negative anytime in the future.

## >State Estimates of Other Industry Segments

### National Data for Statewide Estimates of SOB Industry Segments

While precise Texas data-based estimates could not be prepared for other SOB industry segments, national level data are available as a starting point to develop estimates for Texas. One method is to use the ratio of Texas's adult population to the total U.S. adult population, then multiply that ratio by the national totals for each SOB industry segment. For instance, Texas's adult population is approximately 7.6% of the national total, so one could assume the state's sales for each SOB industry segment would be approximately 7.6% of the national total. The Texas industry segment

**Table 2.2 National and State Estimates by Adult Industry Segment (Annual)**

	National Revenue	Texas Revenue Estimates	Actual Texas Revenues
Exotic Dance Club	\$2,044,000,000	\$155,139,600	\$216,616,162
Video Sales/Rental	\$3,979,000,000	\$302,006,100	\$60,714,695
Magazines	\$971,000,000	\$73,698,900	
Novelties	\$1,763,000,000	\$133,811,700	
Cable PPV (VOD/TV)	\$2,198,000,000	\$166,828,200	
Internet	\$2,904,000,000	\$220,413,600	
Mobile	\$40,000,000	\$3,036,000	
Video-Adjusted	\$800,000,000	\$60,720,000	\$60,714,695

Source: National revenue figures from Free Speech Coalition, State-of-the-Industry Report 2007-2008, <http://www.freespeechcoalition.com>; Texas revenue estimates based on state's adult population as a ratio (7.59%) of U.S. adult population, <http://www.census.gov/popest/states/asrh/files/SC-EST2007-18+POP-RES.csv>.

estimates are shown in Table 2.2 along with results of the estimates for exotic dance club revenue and video sales and rental revenue.

Before proceeding to a segment-by-segment approach, a review of the two segments with complete data shows a mixed picture at first. The national level population method for the clubs estimate is \$155 million, whereas the Texas data-based figure was \$216 million. However, the national level population method for video sales/rental revenue was starkly different than the figure obtained for adult video and adult bookstores in Texas: \$302 million versus \$60.7 million.

A prior analysis of the national revenue estimate for video sales/rentals provides evidence for believing the nearly \$3.98 billion number is exaggerated.<sup>23</sup> Based on data from several media research companies, a more accurate figure for adult video revenues nationally in 2001 was projected to be between \$500 million and \$1.8 billion. While there were different estimates from different media companies, a point estimate of \$800 million was the highest from Adams Media Research. That national level amount would suggest that Texas had video sales/rentals of \$60.7 million in 2001. Although this amount is almost the same as the 2007 actual amount of \$60.7 million, it is probably a coincidence. We do not know what the actual Texas sales were six years ago or even whether they were lower or higher than in 2001. Nor has a separate amount been included for adult magazines. Most adult magazines are presumably sold through adult bookstores and video stores and are already included, but some portion of the statewide magazine revenue estimate of \$73 million would be sold through “news” type outlets.

A conclusion that can be drawn from the nationally derived estimates is that for adult entertainment clubs and video stores, the estimates may be fairly accurate after adjustments are made. But the accuracy of other industry segment estimates is unknown.

<sup>23</sup>See “How Big is Porn?” by Dan Ackerman in *Forbes* at [www.forbes.com/2001/05/25/0524porn.htm.#story](http://www.forbes.com/2001/05/25/0524porn.htm.#story).



### Atlanta Metropolitan Estimates

Data in the article that appeared in the March 2000 issue of Atlanta Magazine add another perspective.<sup>24</sup> Atlanta's estimated club sales in 2000 (\$80 million-\$100 million) were slightly less than one-half those of Texas in 2007 (\$216 million). Atlanta's estimated adult bookstore/video store sales in 2000 (\$30 million) also were approximately one-half those of Texas in 2007 (\$60.7 million). Data estimated for three other segments in Atlanta were as follows:

Lingerie modeling studios and spas (massage parlors)	\$50 million
Escort services	\$26 million
Dancers' income	\$20 million

Based on the similarity of sales for adult entertainment clubs, bookstores, and video stores, is it also likely that sales in Texas would be about twice that of Atlanta's for modeling/spas, escort services, and aggregate dancers' income? For the estimate of dancers' income, it may be reasonable to double that figure because of the similarity in total club sales—provided the initial estimate of \$20 million for Atlanta is correct. Assuming conservatively that dancers' incomes in Atlanta were only \$15 million, doubling that for Texas would equal \$30 million.

In the Atlanta article, a knowledgeable source stated that prices for escort services are higher in that region than anywhere else. If so—being conservative—this would be reduced by one-third, which would provide an Atlanta-revised estimate of \$17.5 million and a State of Texas estimate of \$35 million.

There is no basis to assess the data for lingerie and modeling studios and spas. To be consistently conservative, the Atlanta estimate would be reduced by 25% (\$50 million to \$37.5 million) and then doubled to \$75 million to adjust for the scale of Texas compared to metropolitan Atlanta. Therefore, the gross direct output numbers, in millions, for each industry segment for Texas would be:

	(Millions)
Adult entertainment clubs	\$216.6
Adult video sales/bookstores	60.7
Dancers' income	30.0
Escort services	35.0
<u>Modeling and massage</u>	<u>75.0</u>
	\$417.3

Based on the Atlanta estimates of \$192 million to \$226 million in direct output, the total economic impact in that region was estimated at \$394.4 million. Therefore, the total economic impact was approximately twice the direct output.

<sup>24</sup> Burns, R. (2000). Welcome to Sex City. Atlanta Magazine.

For Texas, a conservative estimate of the direct output is \$417.3 million. Therefore, the total economic impact would be approximately \$835 million. That would be the absolute minimum for Texas.

A more reasonable point estimate could be derived by using a scale factor of 2.4, which is the mid-point factor based on club sales for the two entities (\$216 million in Texas club sales is 2.7 times larger than \$80 million in Atlanta club sales, 2.4 times larger than \$90 million, and 2.16 times larger than \$100 million). If the 2.4 scale factor is used, then direct output would be between \$460 million (\$192 million x 2.4) and \$542 million (\$226 million x 2.4). Total economic impact then would range from \$920 million to \$1.08 billion.

None of these data for Texas or Atlanta includes amounts for Internet sales or for hotel or home video-on-demand sales. Therefore, not only are these estimates conservative internally, they are incomplete by omission of two obvious industry segments. The figures are presented here solely to provide a gross estimate of the size of the industry segments within Texas.

## >Key Findings

### Effect of the AEF on Club Sales

- Compared to year-over-year, same-store sales data available for publicly traded clubs with national operations, like Rick's Cabaret and VCG Holding Company, Texas clubs are showing smaller sales increases than clubs in other states, somewhat surprising given the relative strength overall of the Texas economy compared to other states. This could indicate that the AEF is having a slight negative effect on club revenues.
- Mixed-beverage taxes paid by all drinking establishments in Texas steadily increased in 2007 and 2008, but mixed-beverage taxes collected by adult cabarets in the state have declined, leading to our belief that the AEF is having some effect on clubs' sales.
- Which has more of an effect on club revenues, the economic downturn or the AEF? We correlated statewide club revenues with a number of standard economic indicators, like the statewide unemployment rate, gross state product, and personal income. The results show that there is a higher correlation between the recession and the decline in club revenues than exists between the AEF and the decline in club revenues. This is not to say that for some smaller clubs, the remaining effect of the AEF on profit margins could not be significant, it could be and probably is, especially for clubs that have lower gross margins.

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## Chapter 3

### Infraction Data Analysis

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#### >Introduction

Is there a difference in the prevalence of crime inside adult entertainment cabarets and inside other types of drinking establishments? Secondary effects studies that use crime rates in the context of adult entertainment venues examine crime rates near the clubs, not in them. While a thorough examination of crime statistics and data in Texas was beyond the scope of this study, the Texas Alcoholic Beverage Commission (TABC), the agency that regulates all aspects of the distribution and sale of alcohol in Texas, publishes detailed data on a wide range of code violations in drinking establishments, including adult cabarets. As a proxy for crime data, we collected statewide TABC violations data for all sexually oriented businesses in Texas with mixed-beverage licenses (which excluded, by definition, adult bookstores and video stores) and compared these data to TABC violations data from the same database for a sample of non-adult entertainment club drinking establishments in Texas. The result is a rough comparison between the two groups regarding the number and types of violations, number and length of mixed-beverage license suspensions, and the amount of fines levied on the clubs.

#### Data Methodology

For the study, data on 134 adult entertainment clubs and a random sample of 134 drinking establishments, both with mixed-beverage licenses, were drawn from the online administrative violation database at the Texas Alcohol Beverage Commission. The administrative case database is available at: <http://www.tabc.state.tx.us/publicinquiry/adminviolations.aspx>. The criminal, complaints, and inspection data were provided by staff with the TABC Research and Planning Division. The sample of adult entertainment clubs was constructed from the comprehensive list of 134 adult entertainment clubs with mixed-beverage licenses from TABC operating continuously from January 1, 2005 through December 31, 2008.

For the sample of drinking establishments with mixed-beverage licenses, we drew a range of establishments that matched the adult entertainment establishments by city, county, and zip code across Texas. Establishments were selected from a range of gross revenues that were similar in size to the range for adult cabarets. As a result, we arrived at a sample with a variety of small-, medium-, and large-sized bars that matched the cabarets in existence as of October 2008. (We downloaded gross revenue data for September 2008 from the Texas Comptroller's website <http://www.window.state.tx.us/taxinfo/taxfiles.html#bev>).

According to the Comptroller's mixed-beverage receipts as of October 2008, there are currently 8182 establishments with mixed-beverages licenses, including restaurants, bars, and adult cabarets. TABC maintains a separate database of only bars and adult cabarets currently in operation (2650 in total). Our sample of 134 is derived from this second database of bars and cabarets and excludes restaurants.

For each club, all available violation data was obtained for the beginning of 2005 through the end of the fourth quarter of 2008. Fines for infractions can take more than a year to be paid; some take even longer. As a result, some of the violation records appearing in 2005 were for infractions cited by TABC prior to 2005. A spreadsheet was developed showing violation descriptions, fines, license suspensions, criminal violations, administrative violations, inspections by TABC agents, and complaints lodged against adult cabarets and bars by the public and various agencies.

TABC gives each administrative case it brings against a club or bar a unique docket number, and under a particular docket number there may be multiple administrative violations and types. The research team was particularly concerned not to double count fines and suspensions occurring under the same docket number and deleted duplicate fine and suspension records in an effort to clean the data for analysis to ensure data integrity and an accurate comparison.

### **TABC Background**

**Inspections** TABC has an inspection staff of 294 agents who have the same police authority as Department of Public Safety officers, city police, or county sheriffs in Texas. TABC inspectors conduct 128,000 – 130,000 separate inspections per year of establishments who own mixed-beverage licenses. An inspection is a visit made by agency enforcement agents or auditors to a licensed premise, a proposed license location, or any other physical location for the purposes of verifying compliance with the Alcoholic Beverage Code and other state laws. Fully 80% of all establishments with mixed-beverage licenses in the state are inspected every year. No inspection is announced ahead of time. Only a small percentage of inspections are triggered by complaints, but once a number of complaints are received on a particular establishment, inspections become more frequent.

**Complaints** TABC defines a complaint as an allegation or set of allegations received from a member of the public, other agencies, elected officials, or from agency employees indicating that violations of the Alcoholic Beverage Code or other state laws are occurring or have occurred at a licensed premise or other location. All complaints are investigated by agency enforcement agents and/or unsworn compliance personnel and appropriate criminal and/or administrative enforcement actions are taken if offenses can be documented.

**Administrative Violations** An administrative violation can result in either a “written warning” to the mixed-beverage license holder, or a “case” against the license holder. Action taken against the holder of an alcoholic beverage license for violations of the Alcoholic Beverage Code committed by the license holder or by an employee, servant or agent of the license holder could result in a fine (civil penalty), a suspension of licensing privileges, or a license cancellation. These actions are

essentially civil proceedings targeting the license(s) held by the license holder. The penalties for administrative violations start with warnings and escalate to fines or suspensions. Penalties are more severe when numerous violations are discovered during a single inspection.

**Criminal Violations** Criminal violations can result in the filing of charges for violations of the Alcoholic Beverage Code and other state laws with the appropriate prosecutor and court for criminal prosecution. Criminal charges are filed against individual human actors, both employees of the establishment and customers. If an employee of the license holder, or the license holder him/herself, is charged with a criminal violation, then an administrative case is also brought against the license holder. Criminal cases could result in fines, jail time, or both fines and jail time. In our study, we present the number of criminal violations and the type of criminal violations charged against individuals inside adult cabarets and bars in our sample.

## >Inspections

There were 2814 inspections carried out by TABC personnel on adult cabarets in our sample, and 3068 inspections on drinking establishments. Table 3.1 lists the number of inspections carried out on adult cabarets and bars in our sample. As can be seen in the data, there are about 10% more inspections carried out in bars. It should be noted that among the 115 administrative cases that resulted from inspections of adult cabarets, 73 were also criminal cases; among the 64 administrative cases brought against bars, 44 were also criminal cases. (Remember that if an employee of the license holder, or the license holder him/herself, is charged with a criminal violation, then an administrative case is also brought against the license holder.)

**Table 3.1 Inspections Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Number of Inspections per Establishment	21	22.9
Total Number of Inspections	2814	3068
Total Number of Establishments with Inspections	132	129
Highest Number of Inspections for a Single Establishment in Sample	161	332
Total Number of Administrative Cases resulting from Inspections	115	64
Total Number of Administrative Warnings resulting from Inspections	150	141
Total Number of Criminal Cases resulting from Inspections	149	364
Total Number of Criminal Warnings resulting from Inspections	5	15

**Table 3.2 Complaints Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Number of Complaints per Establishment	5.6	4.4
Total Number of Complaints	745	586
Total Number of Establishments with Complaints	121	91
Highest Number of Complaints for a Single Establishment in Sample	23	77
Total Number of Administrative Cases resulting from Complaints	188	77
Total Number of Administrative Warnings resulting from Complaints	75	72
Total Number of Criminal Cases resulting from Complaints	42	45
Total Number of Criminal Warnings resulting from Complaints	0	15

## >Complaints

Table 3.2 presents the data on complaints against establishments in our sample. It should be noted that among the 188 administrative cases that resulted from complaints against adult cabarets, 26 were also criminal cases; among 77 administrative cases brought against bars, 13 were also criminal cases. Figures 3.1 and 3.2 present data on the number and type of complaints in our sample. (See Appendix X for a more elaborate description of violation type.)

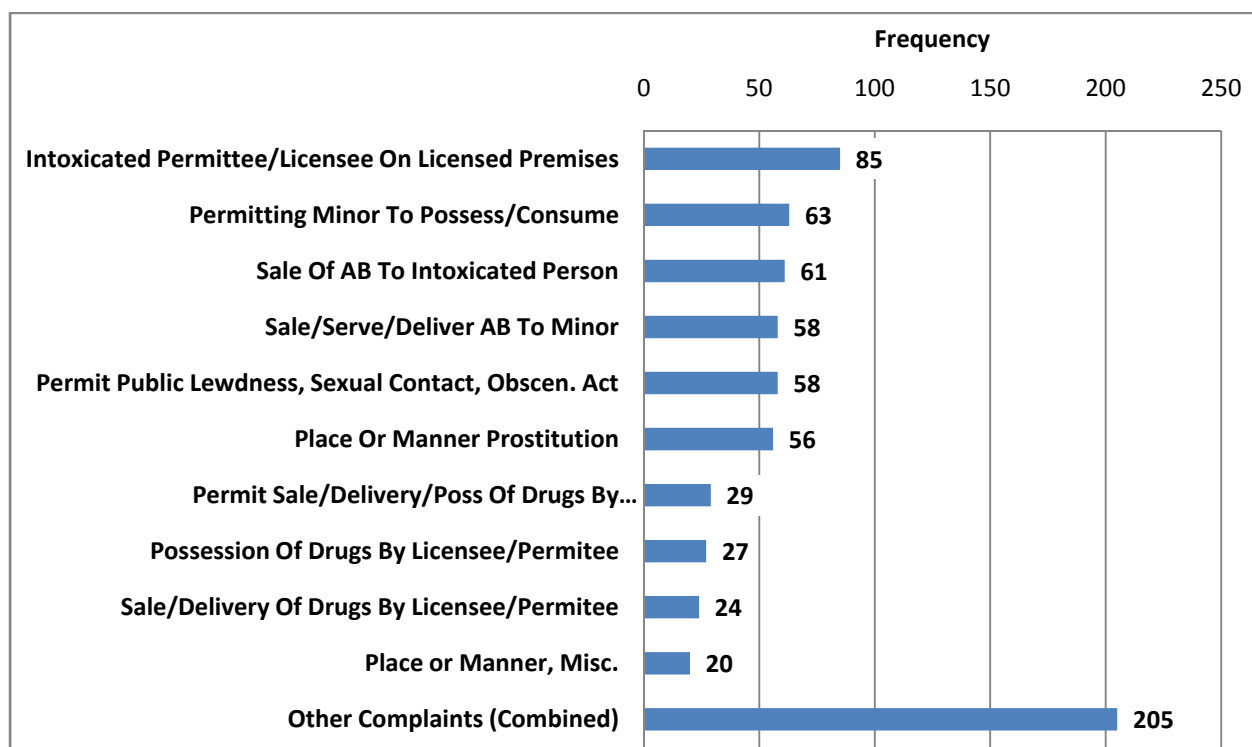
**Figure 3. 1 Number of Complaints Against SOBs, by Type**

Figure 3. 2 Number of Complaints Against Bars, by Type

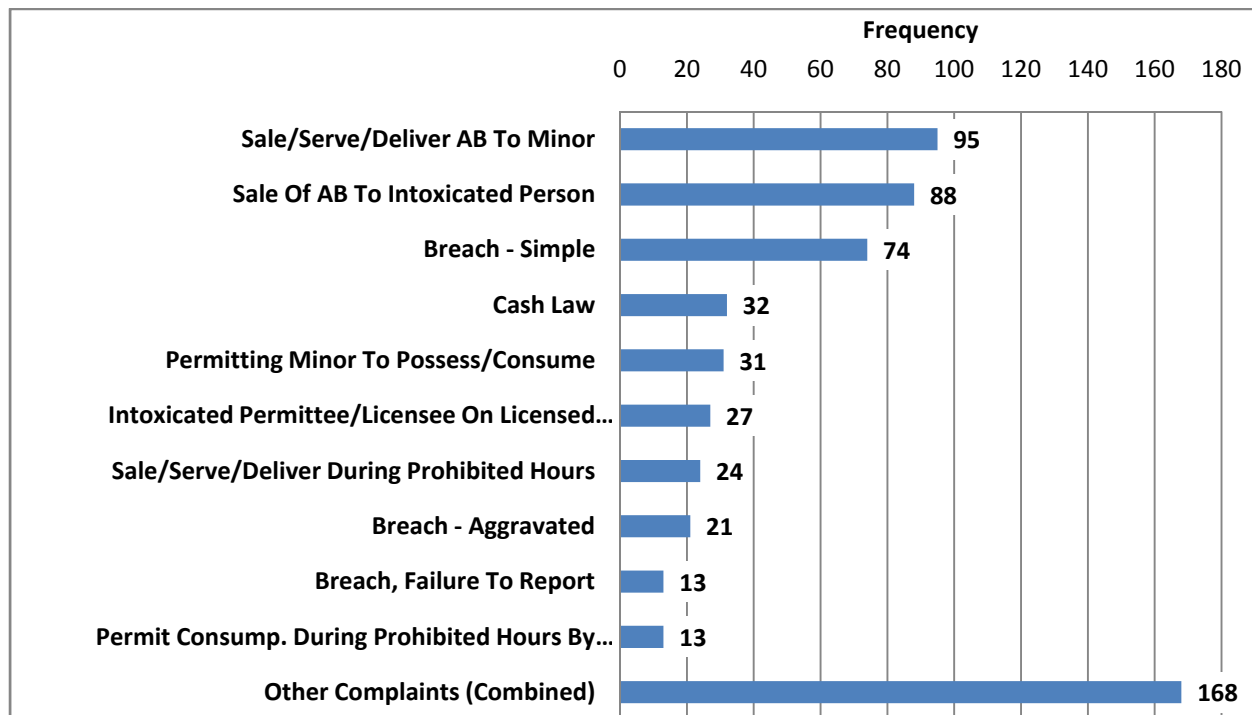


Table 3.3 shows the overlap of complaint type between the two samples. It should be noted that in the “Other” category of Figure 3.1 and 3.2, complaints about drugs and those of a sexual nature are more frequently filed against adult cabarets than bars. Our data revealed that there were 132 complaints categorized by TABC as sexual in nature reported against adult cabarets, but only 9 against bars. Similarly, there were 83 drug-related complaints against adult cabarets and 26 against bars. But complaints related to minors were more evenly distributed between the two (137 against adult cabarets, 141 against bars).

Table 3.3 Common Complaint Types Between Samples

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Breach-Aggravated	21	21
Breach-Simple	38	74
Breach-Failure to Report	19	13
Sale to Intoxicated Person	61	88
Permitting Minor to Possess/Consume	63	31
Sale/Serve/Deliver to Minor	58	95
Intoxicated Permittee/Licensee on Licensed Premises	85	27

**Table 3.4 Sex- and Drug-Related Complaints in SOBs and Bars**

SOB			
Sex		Drug	
Permit Public Lewdness, Sexual Contact, Obscen. Act	58	Permit Sale/Delivery/Poss Of Drugs By Licensee/Permittee	29
Place Or Manner Prostitution	56	Possession Of Drugs By Licensee/Permittee	27
Lewd Conduct	9	Sale/Delivery Of Drugs By Licensee/Permittee	24
Soliciting For Immoral Relations	9	Sale/Delivery/Poss Of Paraphernalia By Licensee/Permittee	2
		Possess Drugs	1
<b>Total</b>	<b>132</b>		<b>83</b>

Bar			
Sex		Drug	
Permit Public Lewdness, Sexual Contact, Obscen. Act	5	Permit Sale/Delivery/Poss Of Drugs By Licensee/Permittee	10
Place Or Manner Prostitution	4	Sale/Delivery Drugs	9
		Possession Of Drugs By Licensee/Permittee	6
		Sale/Delivery/Poss Of Paraphernalia By Licensee/Permittee	1
<b>Total</b>	<b>9</b>		<b>26</b>

## >Administrative Violations

Table 3.5 shows the number and types of administrative violations for our sample from 2005 through the fourth quarter of 2008.<sup>25</sup> For violations of a sexual nature, adult cabarets had 97 violations compared with 11 for bars in our sample. For violations related to minors, adult cabarets had 10 violations compared with 30 for bars. Table 3.7 drug-related violations, adult entertainment establishments had 19 violations compared with 1 for the bars in our sample.

**Table 3.5 Administrative Violations Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Number of Violations per Establishment	3.5	2.6
Total Number of Administrative Violations	467	351
Total Violations per Quarter	29.2	21.9
Total Number of Establishments with Administrative Violations	107	108
Highest Number of Violations by a Single Establishment in Sample	17	14

<sup>25</sup> Definition of TABC Administrative cases: Action taken against the holder of an alcoholic beverage license for violations of the Alcoholic Beverage Code committed by the license holder or by an employee, servant or agent of the license holder that could result in either fine (civil penalty), suspension of licensing privileges, or license cancellation. These actions are essentially civil proceedings targeting the license(s) held by the license holder.



Figure 3.3 Number of Administrative Violations by SOBs, by Type

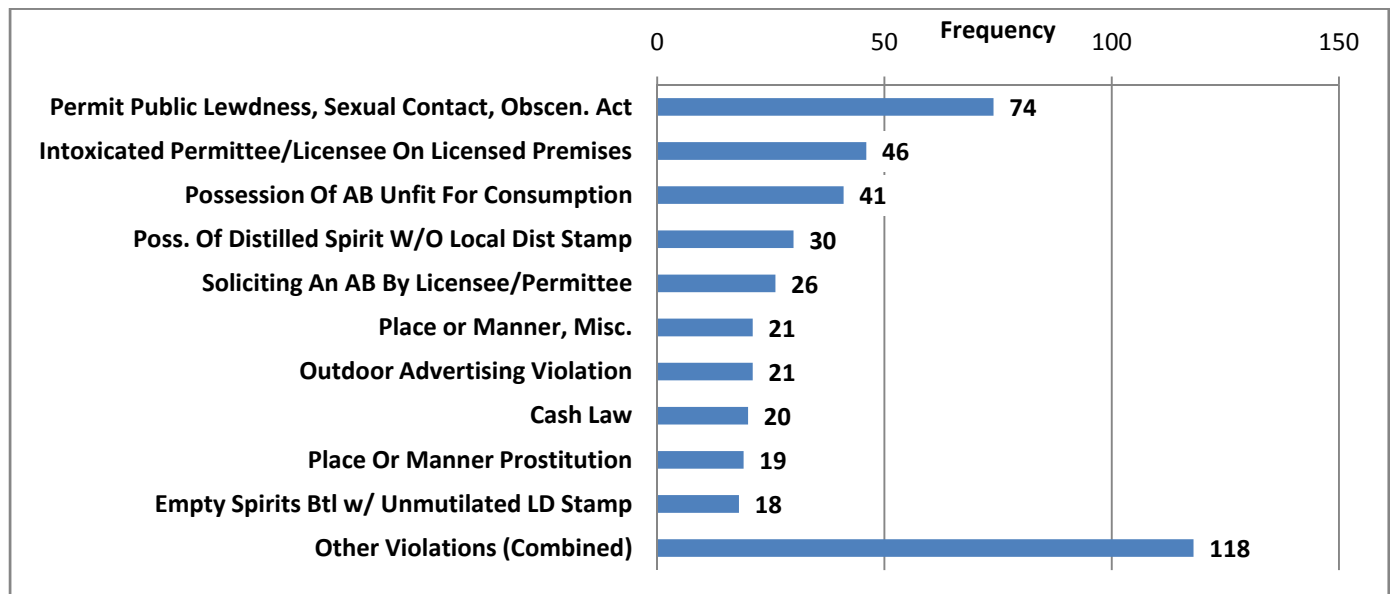


Figure 3.4 Number of Administrative Violations by Bars, by Type

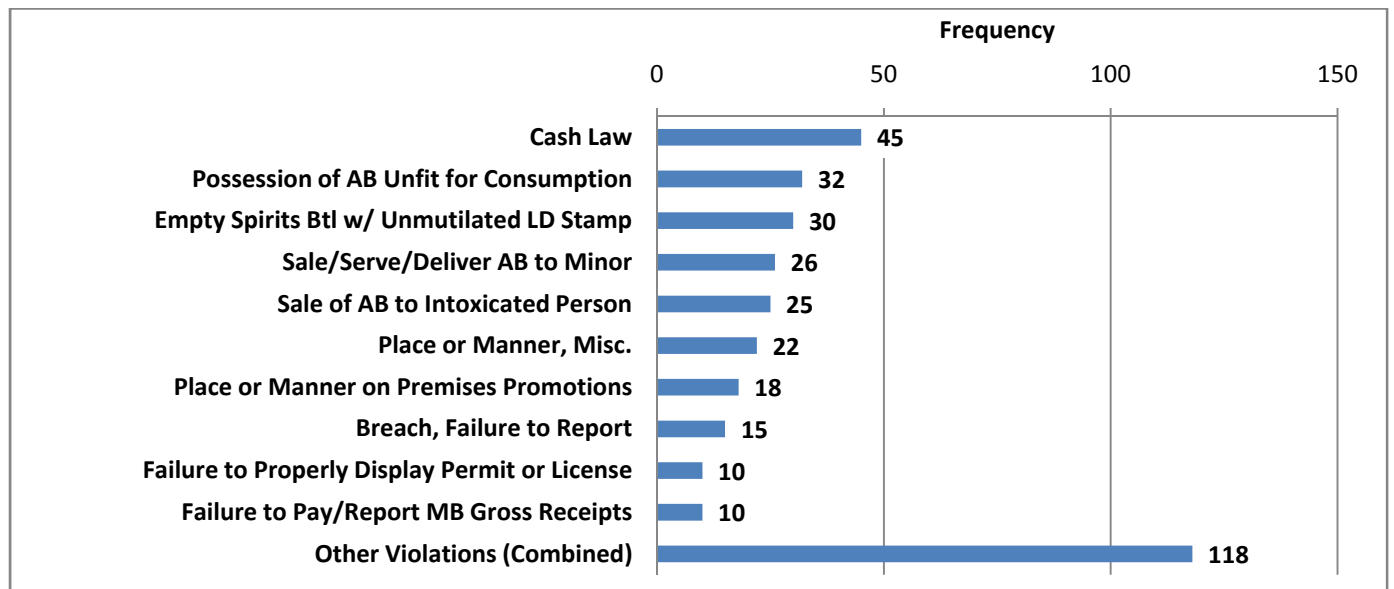


Table 3.6 compares administrative violation types that the two samples have most often in common. As one would expect, in general, the violation types that are evenly distributed between the two samples relate to alcohol, but as shown in the graphs above, violation types related to drug and sex offenses skew heavily toward adult cabarets, while violations related to minors skew toward the drinking establishments.

**Table 3.6 Common Administrative Violations Between Samples**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Breach-Failure to Report	17	15
Cash Law	20	45
Possession of AB Unfit for Consumption	41	32
Sale to Intoxicated Person	14	25
Place or Manner, Misc.	21	22
Empty Spirits Btl w/ Unmutilated LD Stamp	18	30

**Table 3.7 Sex- & Drug-related Administrative Violations by SOBs and Bars**

SOB			
Sex		Drug	
Permit Public Lewdness, Sexual Contact, Obscen. Act	74	Possession Of Drugs By Licensee/Permittee	10
Place Or Manner Prostitution	19	Sale/Delivery Of Drugs By Licensee/Permittee	8
Soliciting For Immoral Relations	4	Permit Sale/Delivery/Poss Of Drugs By Licensee/Permittee	1
Total	97		19

Bar			
Sex		Drug	
Permit Public Lewdness, Sexual Contact, Obscen. Act	6	Sale/Delivery/Poss Of Paraphernalia By Licensee/Permittee	1
Place Or Manner Prostitution	5		
Total	11		1

## >Fines

An administrative violation can result in a civil penalty (fine) or in more severe cases, a license suspension. Under TABC regulations, a license holder often has the option of paying a higher civil penalty in lieu of a license suspension. For “place and manner” violations, which essentially are the “vice” offenses, fines are generally more severe than they are for alcohol-related violations (i.e., minor in possession, selling alcohol to an intoxicated customer). Table 3.8 summarizes the results of the data analysis on fines.

**Table 3.8 Administrative Violation Fines Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Fine	\$4,011	\$979
Total Fines	\$537,475	\$131,280
Total Number of Fines	153	67
Highest Fine handed out for Violation	\$24,000	\$20,000
Largest Fine by Single Establishment	\$34,800	\$24,750
Number of Establishments with Fines imposed	87	47

## >Suspensions

Table 3.9 summarizes the experience of establishments receiving suspensions for administrative violations. As stated earlier, in some cases of administrative violations, the license holder is given the option of paying a higher fine in lieu of a suspension.

**Table 3.9 Mixed-beverage License Suspensions Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Suspension Length (days)	26	9.3
Total Suspension time (days)	3514	1246
Total Number of Suspensions	208	111
Maximum Suspension Length (days)	90	90
Most frequent Suspension length (days)	10	3
Total Number of establishments with suspensions	99	58
Total Number of Written Warnings	246	210
Total Number of Suspensions or Civil Penalties	162	78
Total Number of Mandatory Suspensions	25	16

## >Criminal Violations

Criminal violations by TABC agents in clubs or bars are levied against individuals (either customers or employees) in the establishments, not against the license holders. (If a criminal violation is by an employee or by the license holder, an administrative case is also brought against the license holder.)

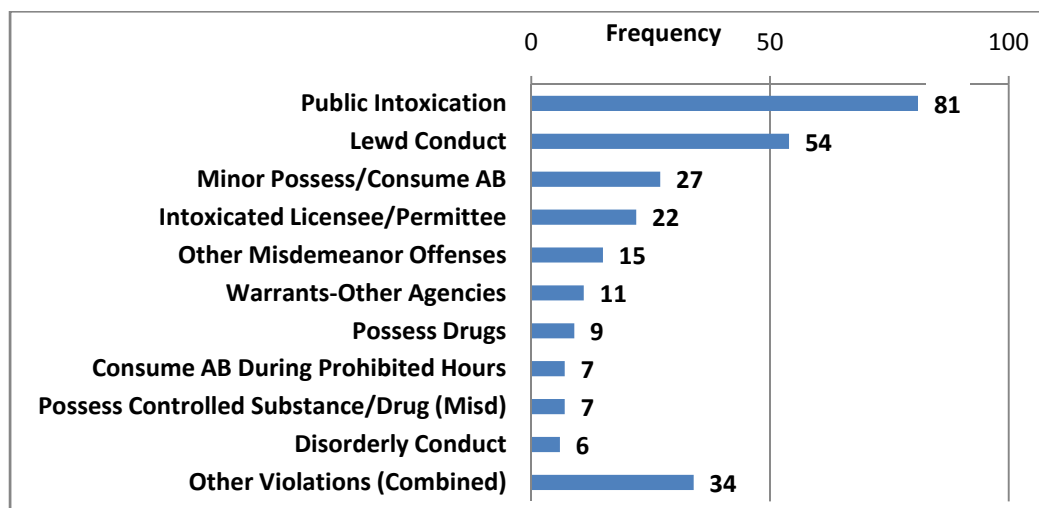
Table 3.10 presents data on the number and type of criminal violations reported by TABC agents both in adult cabarets and drinking establishments. It should be noted that in our sample of bars, the top three bars by number of criminal violations skewed the results dramatically. The top three bars with the highest number of criminal violations were responsible for 498, 140, and 127 violations, respectively. In comparison, the top adult cabaret for criminal violations was 29 during

the sample period. Removing the top 3 bars results in a mean of 2.9 (violations per bar), and the highest number of criminal violations in a single bar would have been 75.

**Table 3.10 Criminal Violations Summary**

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Average Number of Violations (n=134)	2	8.6
Average Number of Violations (Establishments with Violations)	3.7	18.3
Total Number of Violations	273	1153
Total Number of Establishments in which a Criminal Violation Occurred	74	63
Highest Number of Violations by a Single Establishment	29	498

**Figure 3.5 Number of Criminal Violations Against SOB's, by Type**



**Figure 3.6 Number of Criminal Violations Against Bars, by Type**

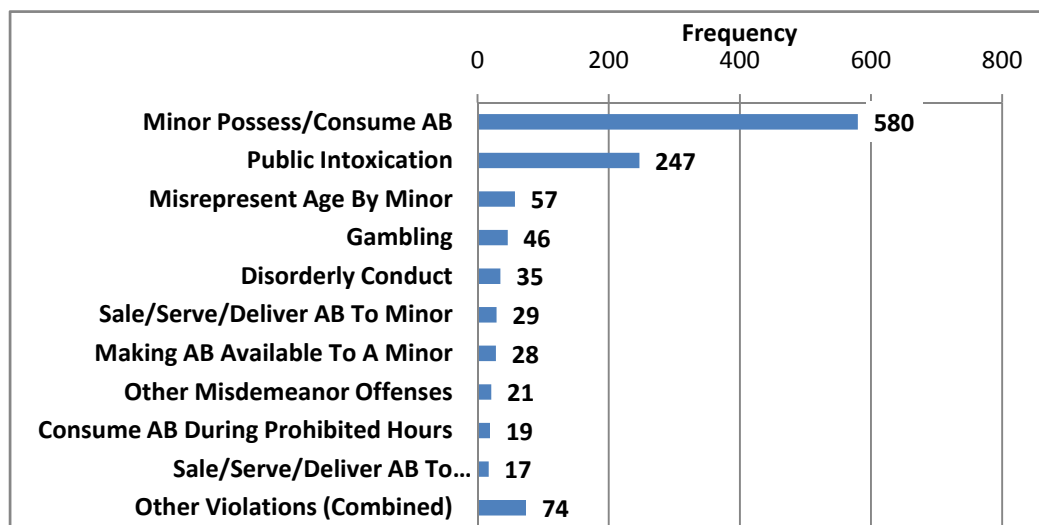


Table 3.11 Common Criminal Violations Between Samples

Description	Adult Entertainment Clubs (n=134)	Drinking Establishments (n=134)
Consume AB During Prohibited Hours	7	19
Disorderly Conduct	6	35
Minor Possess/Consume AB	27	580
Public Intoxication	81	247

Table 3.12 Sex- &amp; Drug-Related Criminal Violations in SOB and Bars

SOB			
Sex		Drug	
Lewd Conduct	54	Possess Drugs	9
		Posses Controlled Substance/Drug (Misd)	7
		Sale/Delivery Drugs	4
		Possess Drug Paraphernalia	3
Total	54		23

Bar			
Sex		Drug	
		Possess Drug Paraphernalia	7
		Posses Controlled Substance/Drug (Misd)	4
		Possess Drugs	3
		Sale/Delivery Drugs	2
Total	0		16

Again, drug- and sex-related offenses are far more likely to occur in adult cabarets than in bars and could include both employees and customers, whereas criminal violations involving minors are much more likely to occur in bars. Table 3.12 shows there were 54 criminal violations of a sexual nature in adult cabarets that were referred to local police, and none in bars. There were 23 drug-related criminal violations in adult entertainment establishments, and 16 in bars. But there were 701 criminal violations related to minors occurring in bars, and only 32 such violations occurring in adult cabarets.

## >Two sample t-Test

The two sample t-test is one of the most commonly used inference tests. Briefly, it allows a researcher to examine the observations in two samples (focusing on their mean difference) and to make a probabilistic decision regarding whether any observed difference in the sample means is either due to random error or whether there might actually be a real difference in the population

**Table 3.13 t-Test: Paired Two Sample for Means**

Dependent Variable	Inference	Adult Entertainment Club	Drinking Establishment	Difference between Two Groups
Number of Inspection	Mean	21	22.89	-1.89
	Standard Deviation	17.49	14.68	50.49
	Standard Error	1.77	4.15	4.32
	Confidence Interval	(17.49, 24.50)	(14.68, 31.11)	(-10.45, 6.66)
	p-value			<b>0.66</b>
Number of Complaints	Mean	5.57	4.38	1.19
	Standard Deviation	4.68	8.4	9.55
	Standard Error	0.4	0.73	0.83
	Confidence Interval	(4.77, 6.36)	(2.94, 5.81)	(-0.45, 2.82)
	p-value			<b>0.15</b>
Number of Administrative Violations	Mean	3.49	2.9	0.59
	Standard Deviation	3.45	2.83	3.88
	Standard Error	0.3	0.24	0.34
	Confidence Interval	(2.89, 4.01)	(2.41, 3.37)	(-0.073, 1.25)
	p-value			<b>*0.08</b>
Fines	Mean	4011.01	979.7	3031.31
	Standard Deviation	6113.48	3118.38	6917.34
	Standard Error	528.12	269.39	597.57
	Confidence Interval	(2966.39, 5055.62)	(446.86, 1512.54)	(1849.34, 4213.27)
	p-value			<b>***0.0000013</b>
License Suspension	Mean	26.22	9.3	16.92
	Standard Deviation	36.49	27.68	46.16
	Standard Error	3.15	2.39	3.98
	Confidence Interval	(19.98, 32.45)	(4.56, 14.02)	(9.03, 24.81)
	p-value			<b>***0.000041</b>
Criminal Violations	Mean	1.99	8.62	-6.62
	Standard Deviation	3.44	46.26	45.29
	Standard Error	0.29	3.99	3.91
	Confidence Interval	(1.40, 2.58)	(0.71, 16.52)	(-14.36, 1.11))
	p-value			<b>*0.09</b>
Significance Level: *** p < 0.01 ** p < 0.05 *p < 0.10				

means of the two groups. Using a set of assumptions and a level of risk of being incorrect, the researcher makes a decision on a statistical null hypothesis of having no difference in population means. If a test statistic, p-value, is less than a significant level, the null hypothesis will be rejected asserting that there is a difference in the population means of the groups.

Among t-tests, a paired t-test is conducted on pairs of observations in which they have been matched on another variable (city, county, zip code, and gross revenue in this scenario) and the test depends on a reasonable correlation. A paired t-test is used for this report. As shown in Table 3.13, we have tested the mean difference in number of inspections, number of complaints, number of administrative violations, amount of fines, length of license suspensions, and number of criminal violations.

With inspections and complaints, there is no significant mean difference between adult cabarets and drinking establishments. With respect to the number of administrative violations, it is possible to conclude that there is a slight significant mean difference between SOBs and bars with a higher mean for SOBs (p-value is 0.08). However, there is a higher mean difference between SOBs and bars indicating that the amount and length of suspensions imposed on SOBs are higher than bars (significant at the 0.01 level). This is because more sex- and drug-related offenses occur at SOBs, which carry more severe penalties.

## >Conclusions

We have used TABC violations data as a proxy for crime data to look at the prevalence of crime inside Texas adult entertainment cabarets and a sample of bars chosen to approximate the cabarets in revenue and location. From the data presented here, there is no difference between the two sample groups in the number of complaints received by TABC or inspections performed by TABC agents. There is a possible statistically significant difference, however, in the number of administrative violations, and for fines and mixed-beverage license suspensions imposed by TABC, there is definitely strong statistical evidence to show that SOBs have higher and more severe penalties than bars. In addition, for almost all the categories of violations, the number of sex- and drug-related offenses was higher for SOBs than for bars in the sample. The sample of bars has a much higher number of criminal violations than did the cabarets, primarily because of the higher incidences of minor-related infractions.

We believe that for the purposes of this study, TABC violations records are a reasonable proxy for crime data, and comparing violations records of the two sets of establishments yield important insights. As a public safety priority, TABC regulations should be reassessed to allow for more stringent and mandatory penalties of sex and drug infractions at all clubs that hold liquor licenses, including suspension of those licenses. Moreover, there is a need for innovative enforcement strategies and enhanced cooperation and data sharing among and between law enforcement agencies and TABC.





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## Chapter 4

### Regulations in other Jurisdictions

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This section describes laws, bills, and ordinances pertaining to adult entertainment clubs. Initially, select state government laws enacted outside of Texas are profiled. Then select state government bills outside of Texas are provided. A final section describes select local government laws and ordinances within Texas.

#### >State Government Measures Pertaining to the Industry

##### Laws Enacted

**Utah.** In 2004, Utah passed HB 239, the Sexually Explicit Business and Escort Service Tax. This law imposes a 10% excise tax on transactions conducted by sexually explicit businesses and escort services. (A sexually explicit business is defined in the law as “a business at which any nude or partially denuded individual, regardless of whether the nude or partially denuded individual is an employee of the sexually explicit business or an independent contractor, performs any service: (a) personally on the premises of the sexually explicit business; (b) during at least 30 consecutive or nonconsecutive days within a calendar year; and (c) for: (i) a salary; (ii) a fee; (iii) a commission; (iv) hire; (v) profit.”

For sexually explicit businesses, the tax is 10% of amounts paid for admission fees, user fees, retail sales of tangible personal property, or sales of food or drinks. For escort services, the tax is 10% of amounts charged for transactions involving providing escorts. This tax is not collected on existing sales and use taxes. The law, which became effective July 1, 2004, demands that owners or operators of a sexually explicit business or escort service maintain records, statements, books, or accounts necessary to determine the amount of tax for which the owner or operator is liable. New revenues of approximately \$1 million in 2005 were estimated. Actual tax receipts are unknown, as state officials reported that the tax is collected as part of a larger fund. According to the enrolled version of the bill:

- 60% of the tax receipts are reserved for use by the Department of Corrections for treatment services to indigent adults who are convicted, non-incarcerated sexual offenders;
- 15% is reserved for use by the Adult Probation and Parole section of the Department of Corrections to provide outpatient treatment services to individuals who have been convicted of certain sexual offenses and are not incarcerated;

- 10% is reserved for use by the Department of Corrections to implement treatment programs for juveniles who have been convicted of certain sexual offenses; and
- 15% is reserved for use by the Office of the Attorney General to fund any task force administered through the office that investigates and prosecutes individuals who use the Internet to commit crimes against children.

Bill text: <http://www.leg.state.ut.us/~2004/bills/hbillenr/hb0239.pdf>.

**Ohio.** In 2007, Senate Bill 16 set statewide standards prohibiting touching of nude dancers and requiring exotic dance clubs and adult bookstores to end most activity at midnight. The bill passed the House by a vote of 73-24; the Senate concurred, 25-8. More specifically, as described in the detailed fiscal analysis prepared by the Ohio Legislative Service Commission (<http://www.lbo.state.oh.us/fiscal/fiscalnotes/127ga/SB0016EN.htm>), the bill:

- Defines "sexually oriented business" as an adult bookstore or video store, an adult cabaret, an adult motion picture theater, a sexual device shop, or a sexual encounter center.
- Prohibits a sexually oriented business from remaining open between midnight and 6 a.m., unless the business is covered by a liquor permit that authorizes operation during those hours, in which case it may remain open until the hour specified in that permit if it does not conduct, offer, or allow sexually oriented entertainment activity in which the performers appear nude and makes a violation of the offense a misdemeanor of the first degree.
- Prohibits any patron of an SOB from knowingly touching any employee of the business who is nude or seminude and makes the violation a misdemeanor of the fourth or first degree, depending on certain circumstances.
- Prohibits employees of the SOB who appear nude or seminude on the premises and while nude or seminude to knowingly touch a patron or another employee and makes a violation a misdemeanor of the fourth or first degree, depending on certain circumstances.
- Provides that the state shall indemnify a township or a municipal corporation and its trustees from liability incurred in the enforcement of a resolution drafted in accordance with legal guidance provided by the Attorney General and that a court finds to be unconstitutional or otherwise legally defective.
- Permits the legislative authority of a municipal corporation to request the Attorney General to provide legal guidance and assistance in developing, formulating, and drafting an ordinance regarding the operation of adult entertainment establishments.
- Contains two primary offenses: (1) illegally operating a sexually oriented business, and (2) illegal sexually oriented activity in a sexually oriented business.

In general, the projected fiscal impacts were either deemed to be minimal or could not be assessed due to insufficient information. Bill text: [http://www.legislature.state.oh.us/bills.cfm?ID=127\\_SB\\_16](http://www.legislature.state.oh.us/bills.cfm?ID=127_SB_16). Bill information: See left-hand column of above site for bill analyses, synopsis of committee amendments, conference committee synopsis, fiscal notes, status report of legislation, and votes.

**Indiana.** In 2008, Indiana passed HB 1042, pertaining to selling sexually explicit materials. The key provisions require that:

- Any person who intends to offer for sale or sells sexually explicit materials register and file a statement with the Office of the Secretary of State;
- Filers pay a \$250 filing fee to the secretary of state's office;
- A person not filing with the secretary of state's office be subject to a Class B misdemeanor;
- The secretary of state's office notifies certain local officials of the county in which the person intends to sell sexually explicit materials. These materials are defined as "a product or service: (1) that is harmful to minors (as described in IC 35-49-2-2), even if the product or service is not intended to be used by or offered to a minor; or (2) that is designed for use in, marketed primarily for, or provides for: (A) the stimulation of the human genital organs; or (B) masochism or a masochistic experience, sadism or a sadistic experience, sexual bondage, or sexual domination." The bill became effective July 1, 2008.

Bill text: <http://www.in.gov/legislative/bills/2008/EH/EH1042.1.html>.

### Select Bills Introduced but Not Enacted as of December 1, 2008<sup>26</sup>

**California.** In 2008, the California Assembly introduced AB 2914, known as the Sales and Use Tax Law, which would impose a tax on the sale of or the storage, use, or other consumption of tangible personal property in the state at specified rates. This bill would impose a tax on the sale—or the storage, use, or other consumption—of tangible personal property that is adult material, as defined in the state, at a rate of 8.3%. This bill also would have created the Adult Entertainment Impact Fund, which would receive all revenues—less refunds and the costs of the administration of the tax—derived from the tax. As of June 23, 2008, AB 2914 was referred to the committee on revenue and tax. According to staff from the bill sponsor, the bill is unlikely to be reconsidered in the December special session because it would raise revenue, and there is opposition to all such measures by a group of state assemblymen and state senators. Bill information: [www.leginfo.ca.gov/bilinfo.html](http://www.leginfo.ca.gov/bilinfo.html).

Bill text: [www.leginfo.ca.gov/pub/07-08/bill/asm/ab\\_2901-2950/ab\\_2914\\_bill\\_20080619\\_amended\\_asm\\_v96.pdf](http://www.leginfo.ca.gov/pub/07-08/bill/asm/ab_2901-2950/ab_2914_bill_20080619_amended_asm_v96.pdf).

**Pennsylvania.** SR 245 directed the Legislative Budget and Finance Committee to prepare a report on the potential secondary effects of sexually oriented adult businesses on communities in the Commonwealth of Pennsylvania. Introduced in February 2008, the resolution was passed by the Committee on the Judiciary on September 17, 2008, by a vote of 11-3. It was laid on the table October 8, 2008. According to the bill's sponsor, the study would determine the number of adult-oriented businesses in the state and how much revenue might be raised by various levies. The study also could recommend whether the state or municipalities impose a tax, and what groups would receive the revenue. Based on a newspaper report, the sponsor was considering a 10% levy on the admission price to an adult-oriented business or a tax on the sale of food and drink at such businesses. Bill text: [www.legis.state.pa.us/cfdocs/billinfo/BillInfo.cfm?year=2007&sind=0&body=S&type=R&bn=245](http://www.legis.state.pa.us/cfdocs/billinfo/BillInfo.cfm?year=2007&sind=0&body=S&type=R&bn=245). Bill history: [www.legis.state.pa.us/cfdocs/billinfo/bill\\_history.cfm?year=2007&sind=0&body=S&type=R&bn=245](http://www.legis.state.pa.us/cfdocs/billinfo/bill_history.cfm?year=2007&sind=0&body=S&type=R&bn=245).

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<sup>26</sup> Please note that bills which are very similar to the Texas HB 1751 or Ohio SB 16 are not cited.

**Tennessee.** HB 2676 of 2008 would amend the current Tennessee Code (Title 7, Chapter 51, Part 11; and Title 7, Chapter 51, Part 14) by imposing a \$5 privilege tax for each customer admitted to adult cabarets or adult-oriented establishments. An adult cabaret would be liable for interest on delinquent taxes, and refusal of an adult cabaret to collect or remit the privilege tax would be a Class B misdemeanor. The bill would create a special account for the purpose of giving grants to victims of sexual abuse and domestic violence. Furthermore, the Tennessee Attorney General issued an opinion that the proposed state privilege tax would likely be held unconstitutional.

Bill text: <http://files.statesurge.com/file/155711>. Attorney General Opinion: Opinion No. 08-78, 2008 Tenn. AG LEXIS 80 SYLLABUS: [\*1] Legality of Privilege Tax on Entry of Customers into Adult-Oriented Establishments.

**Illinois.** HB 3620 of 2007-2008 provides that no message or other outdoor communication advertising an adult cabaret or a sexually oriented business may be located within the boundaries of a municipality. It may not be located within 1 mile of a municipal boundary, interstate highway, school, or place of worship unless that business is located within 1 mile of a municipal boundary, interstate highway, school, or place of worship. In that case, that business may display one message of identification of no more than 40 square feet in size that contains only the business's name, street address, telephone number, and operating hours. It further provides that nonconforming messages in use at the time of the effective date of the bill may continue in use for the term of the contract, up to one year after the bill's effective date. The bill shall not apply within a municipality with a population of more than 500,000. Bill text: [www.ilga.gov/legislation/95/HB/PDF/09500HB3620lv.pdf](http://www.ilga.gov/legislation/95/HB/PDF/09500HB3620lv.pdf).

**Florida.** HB 751 would have imposed a surcharge of \$1 per admission to establishments engaging in adult entertainment services. These services are defined as lingerie, bikini, or nude modeling; body shampoos or scrubs; private shower shows; peep shows; nude, seminude, or topless dancing; nude, seminude, or topless waitressing; lap, friction, couch, or table dancing; erotic massages or performances; nude photo sessions; and personal escort services. Revenues from the surcharge would have been appropriated to increase the personal-needs allowance of low-income nursing home residents. The bill died in the Jobs and Entrepreneurship Council on May 2, 2008.

Bill text: [www.leg.state.fl.us/data/session/2000/House/bills/billtext/pdf/h0751.pdf](http://www.leg.state.fl.us/data/session/2000/House/bills/billtext/pdf/h0751.pdf).

**Michigan.** SB 1612, the Adult Entertainment Business Employees Act, allows local governments to require any person employed at an adult entertainment business (including, but not limited to, dancers, waitresses, waiters, bartenders, dishwashers, or janitors) to obtain a permit to work. This bill defines an adult entertainment business as a nightclub, bar, restaurant, or similar commercial enterprise that provides live nude entertainment or live nude performances for an audience of two or more individuals. Local governments that adopt this ordinance may require permit applicants to provide their name and/or date of birth; these local governments must establish clear standards to review and approve/deny a permit to work at an adult entertainment business; the permit process shall not take longer than 14 days to complete from the time the permit application is filed. This bill has been referred to the Local, Urban, and State Affairs Committee. Bill text: [http://legislature.mi.gov/\(S\(Orlrqd45lj2hlwyhaevgt55\)\)/mileg.aspx?page=getobject&objectname=2008-SB-1612&query=on](http://legislature.mi.gov/(S(Orlrqd45lj2hlwyhaevgt55))/mileg.aspx?page=getobject&objectname=2008-SB-1612&query=on).

**New Jersey.** Lawmakers have proposed two bills: Assembly 646 and Assembly 3180. Assembly 646 requires municipalities to provide an adult crossing guard, police officer, or private security guard at each school, school bus stop, or child-care center located within a certain circumference – as established by ordinance, but not to exceed 3,000 feet – of a sexually oriented business during times when children are present outside and the business is in operation. This bill also authorizes municipalities to license, regulate, and impose a fee on sexually oriented businesses to reimburse the municipality for the additional cost of providing the required security to limit secondary effects of the businesses on children. This bill has been referred to the Assembly Housing and Local Government Committee. Bill text: [www.njleg.state.nj.us/2004/Bills/AL04/97\\_.PDF](http://www.njleg.state.nj.us/2004/Bills/AL04/97_.PDF).

Assembly 3180 requires that SOB's provide adequate outdoor lighting and video security surveillance in the area surrounding their businesses and that video surveillance recordings be maintained for at least 10 days. The bill also permits municipalities in which an SOB is located to conduct a negative secondary effects study after an SOB has been open for 12 months. If the municipality finds that there has been a negative impact resulting from the presence of the SOB, the municipality may impose a tax on the business at a rate of \$1 per patron visit. All money collected from this tax must be used for public safety purposes. This bill has been referred to the Assembly Housing and Local Government Committee. Bill text: [www.njleg.state.nj.us/2008/Bills/A3500/3180\\_11.htm](http://www.njleg.state.nj.us/2008/Bills/A3500/3180_11.htm).

**New York.** Lawmakers have proposed two bills: Assembly 6454, which relates to pornographic magazines at newsstands, and Assembly 6476, which relates to registering of sex performers. Assembly 6454 would prohibit the display of pornographic material by street vendors in New York City. It imposes a \$100 fine for a first offense, a \$250 fine for a second offense, and suspension of the vendor's license for a subsequent offense. This bill has been referred to the Committee on Codes. Bill text: <http://assembly.state.ny.us/leg/?bn=A06454>.

Assembly 6476 would ensure that dancers are age-appropriate, legally documented, and not subject to human trafficking. The bill requires that establishments that sell alcoholic beverages and/or food for consumption on premises and provide sexual entertainment register sex performers for three years. Owners or operators of such establishments would be required to maintain a file of all dancer permits, available for inspection by court order only. Dancer permit information also would be conveyed to the New York State Department of Labor to establish a dancer permit registry. Various penalties would be imposed if permits are not maintained, and provisions have been made for surrender and cancellation of permits. This bill has been referred to the Labor Committee. Bill text: <http://assembly.state.ny.us/leg/?bn=A06476>.

**South Carolina.** H 3679 would create a number of rules and regulations for SOB's. These regulations include such items as a no-touch rule, a minimum-distance rule, and hours of operation for adult clubs, bookstores, and video stores. No specific financial fees or taxes were to be imposed. The bill was referred to the Committee on Judiciary in March 2007, but no action has occurred. Bill text: [http://www.scstatehouse.gov/sess117\\_2007-2008/bills/3679.htm](http://www.scstatehouse.gov/sess117_2007-2008/bills/3679.htm).

**Kansas.** HB 2680, introduced in 2006 and modeled after Utah and Oklahoma bills, would impose an excise tax on certain commercial establishments, businesses, and individuals that provide sexually explicit products and services, prescribing certain powers and duties for the director of taxation. The bill would have imposed a 10% tax on any of the following transactions: (1) an admission fee; (2) a user fee; (3) a retail sale of tangible personal property made within the state; (4) a sale of food, food ingredients, or prepared food; (5) a sale of a beverage; and (6) any service. According to the fiscal note, this bill would have increased Kansas state revenues by \$916,667 in 2007. (Based on population estimates for July 2007, the equivalent revenue for Texas would have been approximately \$7.9 million.) Implementation costs for the tax would have been \$145,000.

Bill text: <http://www.kslegislature.org/bills/2006/2680.pdf>.

Bill information: <http://www.kslegislature.org/fiscalnotes/2006/2680.pdf> (Fiscal Note).

## >Local Government Ordinances for SOBs – Texas Cities & Counties

**Amarillo.** The city of Amarillo forbids prostitution at massage establishments, as well as employment of homosexuals at massage establishments. It requires a list of employees and has stringent sanitation requirements. There cannot be any operation in residential areas. Furthermore, no massage establishment shall be kept open for any purpose between the hours of 10:00 p.m. and 8:00 a.m. No such establishment shall operate or conduct business in connection with any place used for living or sleeping quarters.

Ordinance text: <http://www.municode.com/resources/gateway.asp?pid=11818&sid=43>; see chapter 14-8: massage establishments.

**Austin.** Austin City Code Section 25-2-801 defines an “adult bookstore,” “adult video store,” or other similar adult stores as businesses in which at least 35% of the gross floor space is devoted to defined adult products. Regarding zoning, an adult-oriented business may not be located on a lot that is within 1,000 feet of a lot on which another adult-oriented business is located; within 1,000 feet of a lot on which a school, church, public park or playground, or licensed day-care center is located; or where 50% or more of the lots within a 1,000-foot radius are zoned for residential use.

City Code text: [http://austintech.amlegal.com/nxt/gateway.dll/?f=templates\\$fn=default.htm\\$3.0\\$vid=amlegal:austin\\_all\\_mc\\$anc](http://austintech.amlegal.com/nxt/gateway.dll/?f=templates$fn=default.htm$3.0$vid=amlegal:austin_all_mc$anc). Type "Adult oriented business" into top center search box and click on "Chapter 25-2: Zoning" and then go to section 25-2-801.

**Corpus Christi.** Section 48 of the Corpus Christi Code of Ordinances, Chapter 48 Sexually Oriented Businesses, prohibits the operation of sexually oriented business on premises that are located within 1,000 feet of a residence or residential district. The operation of an SOB also is prohibited on premises that are located within 1,500 feet of another SOB that has been issued a permit under Chapter 48-Article II: General Operating Regulations. The operation of SOBs is permitted on premises that are located in an I-3 heavy industrial district—as defined in the Zoning Ordinance and Map of the City of Corpus Christi—and no other zoning district. The City of Corpus Christi also sets limits on on-premise advertising and signs, age, and rules regarding public health and education. Each room or compartment of the SOB to which patrons are allowed access must have a sign posted



with a sexually transmitted disease (STD) educational message in both the English and Spanish in letters not less than 1-1/2 inches in height.

Ordinance text: <http://www.municode.com/resources/gateway.asp?sid=43&pid=13945>. Click on Chapter 48.

**Dallas.** The City of Dallas's Chapter 41A: Sexually Oriented Businesses ordinance prohibits an SOB from allowing a minor to enter the premises, employing a minor, or allowing a minor to perform. It also requires sexually oriented businesses to keep files with documentation of identity, age, and criminal background check on operators and entertainers, and that SOBs name designated operators. The ordinance also states that someone must always be present during operating hours. The new ordinance reduces the effective date for license suspension or revocation from 30 days to 10 days, and prohibits private and enclosed VIP rooms.

**El Paso.** As part of Ordinance 16624 § 1 (part), 2007, the City of El Paso has regulations regarding exhibition of sexually explicit films or videos. For example, the operator, and any employees present on the premises, must insure that no sexual activity occurs in or on the licensed premises. It also has requirements for conspicuous signs stating that no loitering is permitted on the property, for exterior lighting, and for visibility and monitoring. Chapter 5.54 Sexually Oriented Businesses states that seminude employees must remain at least 6 feet from all patrons.

Ordinance text: <http://municipalcodes.lexisnexis.com/codes/elpaso>. See left hand column: El Paso Municipal Code Title 5, Business Taxes, License and Regulations; Chapter 5.54 Sexually Oriented Businesses.

**Fort Worth.** The City of Fort Worth defines a "sexually oriented business" as one that has 35% or more of "the total business operation at a particular location" devoted to adult product or activities. To determine whether the threshold is met, the city considers the amount of floor space, the inventory, and gross revenue over 90 days. In addition, "adult bookstores" and "adult video stores" are explicitly included in the definition of "sexually oriented businesses," and it appears that the presence of even a single adult magazine or video would cause the business to be characterized as a "sexually oriented business."

Ordinance text: [http://www.mediacoalition.org/legal/alameda/secondary\\_effects\\_laws.htm](http://www.mediacoalition.org/legal/alameda/secondary_effects_laws.htm). <http://www.municode.com/RESOURCES/gateway.asp?pid=10096&sid=43>. Type "sexually" into top left search box. Click on the eight results, such as the second result "Chapter 9 Definitions: Section 9.101".

**Harris County.** In 1996, Harris County enacted a detailed ordinance regulating SOBs in the county that covers a wide range of SOBs. In interviews with the research team, Harris County Sheriff's officers said that prostitution and human trafficking are problems across all types of SOBs in their jurisdiction.

#### Definitions

- A sexually oriented business enterprise is a commercial enterprise, the primary business of which is the offering of a service or the selling, renting or exhibiting of devices or any other items intended to provide sexual stimulation or sexual gratification to the customer. This

definition includes but is not limited to: sex parlors; nude studios; modeling studios; love parlors; adult bookstores; adult movie theatres; adult video arcades; adult movie arcades; adult video stores; adult motels; adult cabarets; escort agencies; and sexual encounter centers.

- SOB enterprises are classified as follows:
  - Class I – conducts business regularly at a specific location
  - Class II – offers, for compensation, a service intended to provide sexual stimulation or sexual gratification [to] patrons at any location in the County, unless that individual is an employee of a Class I enterprise working at the location permitted under a Class I SOB permit.

#### *Sections V–VIII: Permits*

- Requires that SOB owners obtain a Sexually Oriented Business Permit (SOBP) for each enterprise. The permit must be displayed at all times in an open and conspicuous place.
- The SOBP can be obtained by submitting a complete application with the Sheriff.
- Class II permits require that the individual conducting business wear a badge with the SOBP number clearly visible.
- Individuals who violate these regulations are subject to prosecution for criminal violations.
- SOBP renewals may be filed for no more than 30 days before the expiration of the current SOBP.

#### *Section IX: Existing Enterprises*

- Existing SOBs that were operating under the previous regulation that did not require SOBPs may continue to operate until the Sheriff's determination on the SOBP application is final.

#### *Section X: Duties of the Applicants and Enterprises*

- Each and every day the enterprise fails to comply with SOBP condition is considered a violation.
- Lost or stolen SOBP or badges shall be reported to the Sheriff immediately; if the enterprise fails to report the missing permit to the Sheriff, it is presumed they participated in the transfer of the permit.

#### *Section XIII: Revocation or Suspension of SOBP*

- The Sheriff has the authority and power to initiate a proceeding to revoke or suspend an SOBP if there is probable cause to believe that one or more of the conditions found in the regulation has occurred.
- If revoked, the revocation shall take immediate effect upon notice by the Sheriff.

#### *Section XIV: Employee Records*

- SOBs are required to keep the following information on file for each person employed at the enterprise: Legal name and all performing names; photocopy of valid driver's license or



Texas ID; current address and phone number; employee's height, hair color, and eye color; an updated photo; description of the capacity in which the person is employed; and certification to sell alcohol (if relevant to employee).

*Section XVI: Temporary SOBP Provisions*

- A temporary SOBP permit can be obtained, by request, if the Sheriff does not take timely action to notify the enterprise of his decision on an application.
- The request for a temporary SOBP shall be filled with the Sheriff, and shall be valid until notice is given on the decision for the official SOBP.

*Section XXII: Operating Requirements for Enterprises*

- The following shall be violations: Allowing (1) a person below the age of 18 admission during the hours of operations, (2) any person to be totally nude, (3) employees suggesting that any patron or employee become totally nude, (4) public sexual acts, (5) displays and/or advertisements visible in public that are characterized by sexual activities, (6) a person to conduct business without a valid SOBP, (7) a counterfeit SOBP, (8) false material to be submitted on a SOBP application, (9) actions that do not comply with SOBP conditions, (10) an employee to use false identification, (11) the transfer or the attempt to transfer an SOBP, (12) performers closer than six feet from the nearest patron and less than 18 inches above floor level, (13) performances without indication of the six foot zone, and (14) gratuity to be given anywhere but the hand or receptacle provided by the employee.

*Section XXIII: Additional Regulations for Adult Models*

- Evidence that a hotel/motel has been rented and vacated two or more times in less than ten hours creates a rebuttable presumption that the establishment is an adult motel.
- The enterprise is subject to these regulations if it also provides sexually explicit reproductions such as videocassettes, closed-circuit television, etc.

*Section XXIV: Exhibition of Sexually Explicit Films or Videos*

- Persons operating an enterprise which exhibits on the premises sexually explicit films or videos in rooms less than 150 square feet must have an unobstructed view of all viewing rooms.
- An employee must be present at all times when any patron is present inside the premises.

Taken from pamphlet entitled, "The Regulations for Sexually Oriented Businesses in the Unincorporated Area of Harris County, Texas, and Application for a Class I Permit," adopted August 6, 1996.

**City of Houston.** The City of Houston, the largest U.S. city without zoning laws, has wrestled with the SOB industry in and out of court since it enacted a sweeping ordinance in 1997 to regulate adult entertainment there. Whereas other cities have been able to use zoning laws to limit SOBs to certain parts of town, Houston has tried to use its ordinance to regulate the operation and growth of SOBs in the city. Many adult entertainment clubs have become "bikini bars" in an effort to avoid compliance with the ordinance and remain in business in lucrative, high-end retail areas like the Galleria.

Recently, the City has begun using its nuisance laws to close SOB's.<sup>27</sup> What follows are key provisions of Houston's ordinance.

*Article II: Adult Arcades and Adult Mini-Theatres*

- It is unlawful to knowingly allow or permit any act of sexual intercourse, sodomy, oral copulation, indecent exposure, lewd conduct or masturbation to occur in the adult arcade or adult mini-theatre or to knowingly allow or permit the adult arcade or adult mini-theatre to be used as a place in which solicitation for sexual intercourse, sodomy, or oral copulation occur.
- The interior of the adult arcade or adult mini-theatre must be configured in such a manner that there is an unobstructed view of each area of the adult arcade or adult mini-theatre to which any patron is permitted access for any purpose
- No adult arcade or adult mini-theatre can be configured in such a manner as to have any opening in any partition, screen, wall, or other barrier that separates viewing areas from other viewing areas.
- Each adult arcade or adult mini-theatre must be equipped with lighting fixtures of sufficient intensity to illuminate every place to which patrons are permitted access at an illumination of not less than 1 foot candle as measured at 4 feet above the floor level.

*Article III: Sexually Oriented Businesses*

- SOB owners are required to obtain permits and keep them up-to-date to do business within the city limits.
- It is unlawful for an owner or operator of an enterprise to allow the merchandise or activities of the enterprise to be visible from any point outside such enterprise.
- It is unlawful for the owner or operator of any enterprise or any other person to erect, construct, or maintain any sign for the enterprise other than one primary sign and one secondary sign; the signs must meet the specifications listed in ordinance.
- It is unlawful to allow a person younger than 18 years of age to enter or be on the premises of an enterprise at any time that the enterprise is open for business.
- It is unlawful for an employee to provide any entertainment to any customer in any separate area within an enterprise to which entry or access is blocked or obscured by any door, curtain, or other barrier.

*Article VIII: Sexually Oriented Business Employees, Conduct and Operations*

- Each manager or entertainer must conspicuously display his personal card upon his person at all times while acting as an entertainer or manager of or in an enterprise.
- It is unlawful for any entertainer, while engaging in entertainment or while exposing any specified anatomical areas or engaging in any specified sexual activities, (1) to touch a customer or the clothing of a customer, (2) to approach closer than 3 feet to any customer,

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<sup>27</sup> Bradley Olson and Allan Turner, "City Wins Strip Club Victory," *Houston Chronicle*, January 1, 2009, Section B.

or (3) engage in any specified sexual activities in the presence of a customer in any separate area to which entry or access is blocked or obscured by any door, curtain, or other barrier.

Ordinance text: <http://www.municode.com/Resources/gateway.asp?pid=10123&sid=43>. On the left side of the page, go to Chapter 28 MISCELLANEOUS OFFENSES AND PROVISIONS. The entire ordinance is under Article II: Adult Arcades and Adult Mini-Theatres; Article III: Sexually Oriented Businesses; and Article VIII: Sexually Oriented Business Employees, Conduct and Operations.

**Lewisville.** The City of Lewisville ordinance defines a sexually oriented business as any business that has 20% or more of its stock in trade in adult books or magazines.

Ordinance text: <http://www.cityoflewisville.com/comdev/sexbusiness.pdf>.  
[http://www.mediacoalition.org/legal/alameda/secondary\\_effects\\_laws.htm](http://www.mediacoalition.org/legal/alameda/secondary_effects_laws.htm).

**San Antonio.** Section 35-1041 of the San Antonio Municipal Code states that an "adult bookstore" or "adult video store" is an establishment that has 20% or more of its inventory or floor space devoted to adult products.

Ordinance text: <http://www.municode.com/RESOURCES/gateway.asp?pid=11508&sid=43>. Type "adult bookstore" into top left search box. Click on the second result "ARTICLE IX. NUDITY AND SEMI-NUDITY PROHIBITED AT PUBLIC PLACES AND LICENSING OF HUMAN DISPLAY ESTABLISHMENTS" and see Section 21-100: Definitions.



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## Chapter 5

### Recommendations and Options for Reform or Regulation

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The research team supports the implementation of the following recommendations in the areas of the Adult Entertainment Fee, zoning and enforcement, and further research. We support the consideration of the following options for reform or regulation in three areas: zoning and land use, refinement of existing regulatory procedures and mechanisms, and new actions.

#### >Recommendations on AEF

##### **Recommendation #1** Continue AEF at its Current Level

Based upon the economic analysis, fieldwork interviews and visits, and survey results, the current \$5 AEF is having only a slightly negative effect on the adult entertainment industry in Texas. While it is probably true that smaller establishments have been more negatively affected by the AEF than have the larger clubs, taken as a whole, however, the industry does not appear to have suffered major economic damage from the fee. Although mixed-beverage sales of adult entertainment clubs statewide are lower in the first 9 months of 2008 than they were in 2007, total revenues of adult entertainment clubs in that same time period are up about 2-3% over the comparable period in 2007.

##### **Recommendation #2** Improve Collection Rates of AEF

Based on analysis of data from the Texas Comptroller, which collects the AEF from the clubs, a significant percentage of clubs are not regularly paying the AEF or are not paying it at all.

#### >Recommendations on Zoning and Enforcement

##### **Recommendation #1** Impose More Stringent and Mandatory Penalties of TABC Violations

As a public safety priority, and given the findings of the infraction research in this study, TABC regulations should be reassessed to allow for more stringent and mandatory penalties of sex and drug infractions at all clubs that hold liquor licenses, including suspension of those licenses. Moreover, innovative

enforcement strategies and enhanced cooperation and data sharing among and between law enforcement agencies and TABC are needed.

**Recommendation #2 Stricter Penalties for License Violations at “Spa” Outlets**

Interviews conducted during the study with various state law enforcement officials – including city police officers, vice squad commanders, and sheriff’s deputies – revealed a growing problem with sex crimes occurring in non-licensed “spas.” More stringent penalties and mandatory occupational licensing of spa employees should be imposed by state agencies and monitored by law enforcement officials, similar to the statutes that currently apply to employees of massage parlors.

## >Recommendations for Future Research

**Recommendation #1 Research on Perpetrators of Sexual Violence**

New research should focus on sexual assault perpetrators, particularly those that are never reported or arrested for their crimes, and whether and how often they visit SOB, their use of the sex industry, and their consumption of alcohol as causes for the sexual violence they commit.

**Recommendation #2 Research on Women Entertainers**

More research is needed to better understand and appreciate the experiences of female SOB industry workers, including risk factors for victimization and the pernicious effects of alcohol on both perpetrators and victims.

**Recommendation #3 Minimize Virtual Prostitution Advertising**

There is a need for research-based strategies to minimize prostitution advertising in print and online publications, similar to the agreement reached for the online site Craig’s List (included in Appendix IX).

**Recommendation #4 Additional Study on SOB**

A number of special studies are needed regarding SOB, including an infractions data analysis by size of adult cabaret, an economic analysis of the AEF on small and medium-sized establishments, a detailed analysis of law enforcement data pertaining to a sample of adult entertainment establishments; a review of the impact of an increase in alcohol taxes on adult entertainment revenues in other states; and a specialized review of legislative initiatives pertaining to the adult entertainment industry in other jurisdictions.

## **Recommendation #5 Study on Escort Services and Other Industry Segments**

There is virtually no information available about other industry segments such as escort services while there is a need to understand these services in the context of the larger social and economic structures.

## **>Options for Reform or Regulation**

As a result of this research, the following are options may be considered by policymakers:

### **>Zoning and Land Use**

**Option #1** Establish statewide distance requirements for siting of new adult entertainment facilities.

**Option #2** Same as above but allow for more stringent requirements by local governments if desired.

**Option #3** Monitor closely the City of Houston's legal strategy of using the city's nuisance laws to force closure of "bikini bars" located in residential areas and operating without SOB licenses.

### **>Refinement of Existing Regulatory Procedures and Mechanisms**

**Option #1** Enhance enforcement of occupational requirements, such as Harris County's dancers' licenses.

**Option #2** Allow local city attorneys to petition for TABC action against specific clubs rather than administrative law judges only in Austin and Houston.

**Option #3** Prohibit closed rooms and other private areas in clubs, allowing only space that is visible to most patrons.

### **>New Actions**

**Option #1** Implement a statewide registry of sexually oriented businesses.

**Option #2** Implement a statewide registry of dancers and performers similar to New York State's bill, outlined here in Chapter 4.

**Option #3** Implement a drug testing policy on entertainers and other employees of adult cabarets.

**Option #4** Develop a special statewide Crime Stoppers phone number and outreach initiative to anonymously report incidents at SOBs.

**Option #5** Consider an initiative similar to New Jersey's bill on outdoor lighting and indoor video surveillance, or one like Scotland's proposal for mandatory indoor closed-circuit TV surveillance.



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## Appendix I

### Alcohol and Sexual Violence Literature Review

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#### >Introduction

Sexually oriented businesses are a booming industry in American, more than doubling in size since the 1980s (Bradley, 2008; Frank, 2005; Jeffreys, 2008; & Sloan & Wahab, 2004). Sexually oriented businesses include exotic dance clubs, massage parlors, gentlemen's clubs, exotic modeling, and all other establishments that include live, nude entertainment. The impact of these businesses on their workers, many of which are young women, is controversial. Many scholars believe that exotic dancing, or nude stripping, is empowering to women, offers superior economic opportunities, and increases power (Frank, 2005; Holsopple, 1998; Sloan & Wahab, 2004; Wood, 2000; & Farley, 2005). Other researchers have provided evidence that suggests the opposite is true: Exotic dancing is not only demeaning and dangerous for women workers, but also is a violent and traumatizing line of work that includes sexual, verbal, and physical violence as well as exploitation of female workers (Bradley, 2008; Jackson, Bennett, & Sowinski, 2007; Jeffreys, 2008; Holsopple, 1998; Plumridge, 2001; Farley, 2005; Farley et al., 2003; Raphael & Shapiro, 2004; Sanders, 2004; Sloan & Wahab, 2004; Wesley, 2002, & Wood, 2000). American women in general experience sexual violence at higher rates than their international peers (Murnen, Wright, & Kaluzny, 2002), and many researchers have suggested that working in an SOB increases a woman's risk for experiences of rape, sexual assault, and sexual harassment (Farley, 2003, Farley, 2005; Holsopple, 1998; Sloan & Wahab, 2004; & Sanders, 2004).

Many sexually oriented businesses serve alcohol. Researchers have found a positive relationship between alcohol consumption and incidents of violence perpetration and victimization (Brecklin, 2002; McClelland & Teplin, 2001; Wells, 2007; & Zhang, Welte, & Wieczorek, 2002). Sexual violence, including rape and assault, more than many other crimes is connected with alcohol consumption for both victims and perpetrators (Abbey, et al., 2007; Abbey, et al., 2001; Abbey, et al., 2003; Benson, Gohm, & Gross, 2007; Bernat, Calhoun, & Stolp, 1998; Carr & VanDeusen, 2004; Clum, Nishith, & Calhoun, 2002; Felson & Burchfield, 2004; Galvani, 2004; Gross, Winslett, Roberts, & Gohm, 2006; Norris, Davis, George, Martell, & Heiman, 2002; Parks & Miller, 1997; Testa, 2004; Ullman, Karabatsos, & Koss, 1999; & Zawacki, Abbey, Buck, McAuslan, & Clinton-Sherrod, 2003). This review of literature will attempt to explore the connection between sexual violence against women, alcohol, and sexually oriented businesses. In the absence of definitive answers from research regarding the connection between SOBs and sexual violence against women, a multidisciplinary review of literature was conducted to gather information on a possible link between such establishments and their impact on the safety of female workers. Many SOBs, especially

dancing establishments, serve alcohol, so alcohol consumption is an important variable in the equation. Using the best data available, this review will attempt to answer the following questions:

- Are sexually oriented businesses, alcohol, and the perpetration and victimization of sexual violence against women connected?
- What is the impact of alcohol consumption on possible victimization and perpetration?

## >Sexual Violence against Women

Sexual violence is an all-too-common experience for many American women. Sexual violence against women includes rape, sexual assault, and sexual harassment. Rape can be defined as sex without consent (Gross et al., 2006) or vaginal, oral, or anal penetration that occurs by force or without consent due to age, mental health status, or intoxication (Zawacki et al., 2003). Sexual assault is an umbrella term for all unwanted, forced, or nonconsensual sexual touch. Sexual harassment consists of unwelcome sexual attention and advances, as well as unwanted verbal comments (United States Equal Employment Opportunity Commission, 2002).

The level of sexual violence against women in America has reached epidemic proportions. Rape prevalence rates in America vary, and are determined greatly by the manner in which researchers ask questions about sexual violence experiences. A U.S. Department of Justice (2006) report estimated that the lifetime prevalence rate of rape is 1 in 6. In other words, 17.6% of American women have been raped in their lifetime (Tjaden & Thoennes, 2006). But Department of Justice researchers caution that this number is probably an underestimation because studies asking different types of survey questions have found higher rates of rape and sexual violence. In fact, sexual violence is one of the most underreported crimes. Sixty percent of sexual assaults are not reported to the police (Rape, Abuse and Incest National Network [RAINN], 2008). Sexual assaults are usually framed as attempted rapes, which leads to underreporting. Despite this, 49.3% of women who had experienced sexual violence reported an attempted rape (Tjaden & Thoennes, 2006), and 20% of women in Texas are estimated to have experienced a sexual assault in their lifetime (Busch, Bell, Dinitto, & Neff, 2003). Women overwhelmingly experience more sexual violence than men. Young women, either in adolescence or college-aged, are most at risk for sexual violence. In addition, minority women are more likely to experience sexual assault (Tjaden & Thoennes, 2006). Women who had experienced rape as a child were more likely to be assaulted as adults. Eighty-four percent of women were assaulted in a private location. Sexual violence is documented to have lasting mental health effects on victims, including depression, substance use and Post Traumatic Stress Disorder (RAINN, 2008).

Perpetrators of sexual violence are overwhelmingly male (Tjaden & Thoennes, 2006; RAINN, 2008). Most rapists are known to the victim, whether through a relationship or acquaintance (RAINN, 2008). In the U.S. Department of Justice survey, 66% of rapists were using drugs or alcohol at the time of the attack (Tjaden & Thoennes, 2006). Men's substance abuse is associated with perpetration of

interpersonal violence against women as well (Testa, 2004). Alcohol and drugs have a strong association with violence against women.

College-aged men, because of research availability and the high incidence of rape at the university level, are the most studied population of perpetrators (Carr & VanDeusen, 2004). A study of a random population of men who took a series of measurements and questionnaires revealed that only 36% of males had not committed any type of sexual assault. Twenty-four percent had, in fact, reported an activity that met standard legal definitions of rape (Abbey et al., 2007). Men who committed acts of sexual violence in both community and university settings reported consuming more alcohol in potential sexual situations and greater peer approval for forcing sex (Abbey et al., 2007; Abbey et al., 2001). In further studies of college-aged men, perpetrators of sexual violence were found to be more hostile about gender expectations than the other men sampled (Abbey et al., 2001). The college age may represent a culture that includes heavy alcohol consumption and emerging negative attitudes toward women or the onset of perpetration behaviors.

Research has indicated that men with strong beliefs in masculine ideals are more aggressive. Hypermasculinity has been defined as a trait of personality that predisposes men to behave in a manner that asserts physical power and dominance in interactions with women (Parrot & Zeichner, 2003). Experimental laboratory testing of hypermasculine males have revealed higher levels of physical aggression (Parrot & Zeichner, 2003). Researchers measured college-aged males' levels of physical aggression against women. In an experimental setting, a group of aggressive and not aggressive males were given a taped date-rape scenario. The aggressive males took longer to intervene on the victim's behalf than the other males. In fact, they were six times more likely to let the situation escalate to verbal threats and eight times more likely when alcohol was involved (Bernat et al., 1998). Hypermasculinity is a risk factor for the perpetration of sexual violence.

Carr & VanDeusen (2004) compiled a literature review about male sexual aggression risk factors. Hypermasculinity, alcohol use, personality characteristics, and history of child abuse and neglect were found to be the main factors associated with sexual violence perpetration. Further research conducted with a sample of undergraduate men found that sexually aggressive men used pornography, including magazines, the Internet, and videos, as well as exotic dancing clubs (Carr & VanDeusen, 2004). Heavy alcohol use, pornography consumption, and negative or hypermasculine gender expectations were predictors of violence (Carr & VanDeusen, 2004). In a meta-analysis of other studies of perpetrators, moderate support was given to the hypothesis that patriarchal views, including heightened masculinity, perpetuate violence against women (Murnen, Wright, & Kaluzny, 2002). A study of college-aged perpetrators offered increased support to the theory that masculine attitudes support acts of sexual violence. Among a sample of perpetrators, there were increased reports of histories of delinquency and dominant- and power-driven personalities (Zawacki, et al., 2003). Varied bodies of research support the hypothesis that hypermasculine ideals are held by men who commit acts of sexual violence.

Scientific research has sought to examine the relationship between pornography and sexual violence. Pornography is not the cause of rape, but is it a factor that contributes to sexual violence

against women? Experiments with males in a lab setting have found a connection between violent pornography, alcohol, and rape (Davis, Norris, George, Martell, & Heiman, 2006). In an evaluation of the possible connection between sexual violence and pornography, Jensen (2004) describes the increasingly extremes-based pornography market. Jensen (2004) argues that pornography predisposes men to want nonconsensual sex, shapes a male-dominant view of sex, provides training for abuse, and adds to difficulties managing fantasy and reality. Carr & Van Deusen (2004) found that pornography consumption was related to violent perpetration in a sample of college-aged males. In a sample of more than 2,000 women at domestic violence shelters, 40% of batterers used the sex industry in some way (Simmons, Lehmann, & Collier-Tension, 2008). Among the batterers who did use the sex industry, higher levels of aggression were found. A larger percentage of women whose partners used the sex trade had experience sexual violence in their relationships versus women whose partners did not (Simmons et al., 2008). In a review of literature of research devoted to sex offending and pornography, Bensimon (2007) found some evidence that pornography plays a role in the planning of sex offending. Furthermore, while a causal role is inconclusive, researchers agree that pornography disinhibits a person over time to sex acts that might seem otherwise unacceptable (Bensimon, 2007). Bensimon (2007) warns that much research was conducted before daily Internet use was a factor in American lives, so the past body of work is outdated (Bensimon, 2007). Pornography is linked to sexual violence and is sometimes considered a factor contributing to perpetration.

## >Alcohol and Violence

Alcohol and drug use has been found repeatedly to be a characteristic of male rapists and perpetrators of violence in general. The connection between alcohol and sexual violence begins with the link between drinking and aggression, especially in the bar or club setting. McClelland & Teplin (2001) found in a study of police interactions with people that suspects of violent crime were twice as likely to be intoxicated as suspects of non-violent crimes. Shepherd (2007) reviewed bodies of research in a meta-analysis of 30 experiments related to alcohol and violence and concluded that drinking does cause aggression. The bar or club setting increases the likelihood of aggression via the increased drinking and contact with others (Wells, 2007). Alcohol and violence of all types are clearly connected.

Debate exists on the nature and cause of the alcohol-and-violence connection. There is no consensus about the reason for the link, but several explanations are favored. One is a pharmacological explanation– that alcohol impacts brain function, causing violent behavior (Zhang, Welte, & Wieczorek, 2002; Shepherd, 2007). Another reason for the link may be that alcohol disinhibits individuals and produces an excuse for aggressive behavior (Zhang et al., 2002; Shepherd, 2007). This theory assumes that individuals drink to blame their behavior on their alcohol consumption. Finally, alcohol and aggression could be caused by personality traits or a preexisting condition of alcohol abuse (Zhang et al., 2002; Shepherd, 2007). In a random sample study of 625 young males measuring alcohol-related aggressive behaviors, evidence was found to support the idea that people who drink before perpetrating violence do so to reduce inhibitions and feel

embolden to commit violent acts (Zhang et al., 2002). It is most likely that the connection between drinking and aggression is multidimensional.

Alcohol-related violence impacts both victims and perpetrators of aggressive acts. Data from the National Crime Victim Survey, which begins with a random sample of more than 50,000 household units, found that 58.2% of perpetrators were using alcohol or drugs at the time of an intimate assault (Brecklin, 2002). Furthermore, victims were more likely to be assaulted or injured when the perpetrator was drinking, and alcohol and drug use was associated with greater use of weapons (Brecklin, 2002). McClelland & Teplin (2001) found in their random sampling of police and suspect observations that suspects are more likely to be intoxicated than victims. Wells (2006) used data from a sample of more than 900 young people for an exploratory study of drinking and aggression. Heavy episodic drinking was connected to victimization and perpetration.

## >Alcohol and Sexual Violence against Women

Much research has been devoted to studying the impact of drinking and drug use on both sexual and domestic violence. While college-aged men have been studied more than community samples, researchers have found substantial evidence that connects alcohol with sexual violence perpetration and increased risk for victimization. Alcohol is considered a tool by perpetrators of rape to increase a victim's vulnerability and make sex without consent more easily obtained (Abbey, BeShears, Clinton-Sherrod, & McAuslan, 2004). In their study of undergraduate men on a college campus, Carr & VanDeusen (2004) found that 12% of men surveyed had used alcohol to obtain sex. A study of sexual violence survivors pooled from a larger random sample found that 79% had used alcohol or drugs at the time of or right before the assault (Clum et al., 2002). Cogan and Ballinger (2006) found in their study of 482 college males that more men who committed violence had alcohol problems than non-violent men. Alcohol and other drugs are clearly a risk factor for victimization, but also contribute greatly to perpetration.

Rates of alcohol-related perpetration of sexual violence vary depending on the type of population surveyed, but across research samples a clear link remains. Felson & Burchfield (2004) found in their review of the National Violence against Women survey that there is a causal link between drinking and domestic and sexual violence and that drinking is a greater risk factor for sexual assault than physical violence. A study of more than 900 college-aged women found that 39% of victims were using alcohol at the time of the assault and 45% of perpetrators had drunk (Gross, Winslett, Roberts, & Gohm, 2006). In a review of major researcher findings, Testa (2004) found associations with men's abuse of substances and interpersonal violence perpetration and committing acts of sexual violence. In a survey of more than 300 college-aged males, 58% had committed some type of sexual violence; 54% of which involved alcohol (Zawacki et al., 2003). A random sampling of 163 men outside university communities found that men who had committed an act that met the criteria for sexual assault consumed more alcohol in sexual situations than those who had not (Abbey et al., 2007). In another study of college-aged males, 35% of assaults committed involved alcohol (Abbey et al., 2001). Alcohol use was found to be a major risk factor of sexual violence perpetration in a survey of 99 undergraduate males (Carr & VanDeusen, 2004). The range of alcohol facilitated

perpetration of sexual violence is 35%-60% in this sample of literature. Some estimates, mostly those including college campuses, are higher. There is a paucity of empirical studies of random community samples.

Some researchers theorize that male perpetrators target women who have been drinking because of increased vulnerability, and they perceive them as more available (Testa, VanZile-Tamsen, & Livingston, 2007). Among a sample of more than 300 college-aged males, those who had committed an alcohol-facilitated sexual assault were more likely to believe that alcohol provides an increase in sex drive and use their drinking as an excuse to misinterpret sexual cues (Zawacki et al., 2003). A majority of college-aged female survivors of sexual violence, 45% of which were alcohol-facilitated, reported that they felt their assailants were too aroused to stop raping them (Gross et al., 2006). Studies with perpetrators in both community and college settings found repeatedly that rapists consumed more alcohol, had more hostile gender expectations, had greater peer support of forced sex, and were more likely to misinterpret negative cues from women when they had been drinking (Abbey et al., 2007; Abbey et al., 2001; Abbey et al., 2005). Research indicates that the attitude and beliefs of the perpetrators are magnified when drinking, which causes a lower inhibitions, increased support for negative gender expectations of women, and a greater sense of entitlement for power and control over others. Attitudes and belief about gender and alcohol consumption are often cited as the major causes for the relationship between alcohol and sexual violence.

Experimental studies have revealed more about the behavior of sexually aggressive men. In a study of more than 100 college-attending males, aggressive and non-aggressive men were asked to judge when they would intervene in coercive sexual situations (Bernat, Calhoun, & Stolp, 1998). Two different groups were formed, each with aggressive and non-aggressive males. One group received a scenario that involved alcohol; the other received a scenario that did not. Aggressive males took longer to intervene overall, but they took eight times longer than non-aggressive males when alcohol was involved (Bernat et al., 1998). A study sampling 200 college-aged participants compared male and female reactions to four different sexual assault scenarios, two in which substances were voluntarily taken by the female victim and two in which they were unknowingly given. In all four scenarios, an assault occurred. Overall, the participants were less likely to view the event as a rape when the female had willingly taken drugs or alcohol. Males, however, were more likely to perceive the victims as receiving pleasure and more culpable for assault overall (Angelone, Mitchell, & Pilafova, 2007). A similar study that measured the perceived blame regarding a sexual assault situation confirmed that women are more likely to be blamed for the incident when they have been drinking (Girard & Senn, 2008). A research study conducted in a laboratory setting of more than 150 males measured the impact of mixed signals and alcohol consumption (Abbey et al., 2005). The group was divided into those that had reported perpetration and those that had not. In the lab, they were given alcohol and interacted with a female confederate, who gave signals of interest and then signs of disinterest, in a mock social setting. Those who had previously perpetrated sexual violence were more likely to engage in sexual behavior and ask to date the female confederate. The greater the amount of alcohol, the more perpetrators sexually acted out, expressing interest in dating

the confederate regardless of her level of intent (Abbey et al., 2005). In general, men who committed alcohol-facilitated sexual violence, compared to other males, have been found to hold rape-supporting attitudes and believe that alcohol use among victims is a sign of sexual interest.

Alcohol increases the level of violence in some instances of sexual assault. In a study of more than 100 college-aged males surveyed on multiple measures, the more that perpetrators drank, the more aggressive they became, until they became too drunk to be aggressive (Abbey et al., 2003). An examination of the National Violence against Women Survey (Felson & Burchfield, 2004) found that drinking was associated with higher levels of violence in assault situations. Alcohol was connected with greater injuries among women who had experienced interpersonal violence (Thompson & Kingree, 2006). Among college women who had been assaulted, drinking was correlated with more severe victimization (Ullman, Karabatsos, & Koss, 1999). These findings indicate that alcohol does contribute to the severity of the sexual assault experience, making perpetrators more likely to be violent and victims more vulnerable.

The connection between alcohol and sexual violence suggests that alcohol does not necessarily cause rape and assault, but it aids beliefs and behaviors supported by perpetrators that promote aggression. Many rapists use alcohol as a means to misinterpret sexual cues (Zawacki et al., 2003). Galvani (2004) described the victims of drinking males as facing a kind of double jeopardy, where powerful traditions of excessive substance use and hypermasculine culture collide, supporting violence against women. In a study of undergraduate females, survivors of sexual violence reported experiences that confirm the notion the alcohol impairs perceptions of how available and willing a woman is to engage in consensual sexual behavior (Benson et al., 2007). Alcohol serves as a facilitator to sexual violence by not only making victims more vulnerable, but also by impacting and supporting the perpetrator. Alcohol is viewed as an excuse for violent behavior, serves as a disinhibitor, and increases the likelihood that a male will perceive a woman as interested when she is not. Alcohol is a tool—a weapon—used by perpetrators of sexual violence.

## >Alcohol, Sexual Violence and the Bar Setting

The seeds of many alcohol-related acts of sexual aggression begin in the bar setting. Studies of the club or bar environment have revealed an increase in aggressive behaviors. In a random sample with a control group of 118 bars in Canada, the variables associated with higher rates of violence in the club setting were explored (Graham, Bernards, Osgood, & Wells, 2006). The findings revealed that aggression was more likely to occur in bars that were crowded, had a great deal of dancing, where patrons were very intoxicated, the environment was highly permissive, sexual activity was occurring, and where there was poor staff monitoring (Graham et al., 2006). In a study of more than 8,000 college students, heavy drinking at a bar was associated with being the victim of an altercation (Harford, et al., 2003). Seventy-five percent of the students surveyed attended both parties and bars. Further studies have indicated that the type of bar one attends can increase or decrease the likelihood of violence (Quigley, Leonard, & Collins, 2003). In a study of people who had experienced violence in a bar, those who had not, and individuals who had observed violence in a bar, a permissive attitude, the type of clientele and the social and physical atmosphere were factors



associated with bar violence (Quigley et al., 2003). The results of the focus groups suggest that noise, competitive games, and dancing were all associated with an increase in aggression. Findings indicate that the type and atmosphere of the club is associated with violence, based on what sort of person chooses to patronize a particular type of bar.

The bar atmosphere is designed to attract a certain type of patron and dictate acceptable gender roles. An Australian study of gender and class in the pub setting revealed that in more upscale bar settings, traditional gender roles are enacted via a decrease in drinking from female patrons (Lindsay, 2006). Homel & Clark (1995) conducted hundreds of hours of scientific observation of pubs and clubs in Australia. Higher-severity incidents were more likely to occur at establishments in high-risk parts of town. Two additional factors were heavily correlated with increased aggression: social climate, including sexual activity, and interactions between staff and patrons. In a study of electronic music clubs and raves, 60% of patrons were under the influence when they left. Nineteen percent of females had experienced unwanted sexual touch from a fellow patron (Miller, Furr-Holden, Voas, & Bright, 2005). The atmosphere and location of the bar, the type of staff and patron, high levels of intoxication, and the presence of sexual activity are all factors in the experience of victimization at the club setting.

Parks & Miller (1997) studied the victimization of women in the bar setting. In a sample of 105 women recruited through newspapers advertisements, focus groups were formed of heavy and light drinkers. The sample overall averaged two visits to a bar per week, with an average number of six drinks per visit. Seventy-six percent had been verbally insulted by a man, 47% had experienced moderate physical aggression, and 25% had experienced severe violence (Parks & Miller, 1997). Forty-eight percent had experienced sexual victimization in the bar setting. The researchers found that greater exposure to the bar environment increased the risk for victimization (Parks & Miller, 1997). In a survey of perpetrators of sexual violence at a college campus, 19.5% of assaults occurred at party or bar (Abbey et al., 2003). Felson & Burchfield (2004) found that drinking is a greater risk factor for sexual assault compared with other types of violence. In a study of victims of rape treated in emergency rooms, it was found that one of the most common locations for a rape perpetrated by someone the victim had just met or was a distant acquaintance was a bar or club (Logan, Cole, & Capillo, 2007). In a study of sexual violence at the college level, assaults that occurred at a bar or party setting were associated with higher levels of violence (Ullman, Karabatsos, & Koss, 1999). Research findings confirm that the link between alcohol and sexual violence is evident in the bar setting.

The epidemic of sexual violence has many associated risk factors, including alcohol consumption from both the victim and perpetrator. A bar or club setting, where people congregate in order to socialize and drink, may increase the possibility for victimization in many ways. First, the presence and encouragement of increased alcohol consumption increases the vulnerability of victims and the feelings of entitlement and the disinhibitions of perpetrators to commit violence. Second, the type of club setting—location, type of patron, and the gender expectation of clientele—can increase the risk of experiencing violence. Finally, variables about the individual bar environment—the level of



staffing, competitive games, crowding, presence of dancing, and the occurrence of sexual activity—can all increased the level of violence in an establishment. When bars and alcohol meet, it becomes a double threat for sexual violence because of the increase in variables that contribute to both a comfortable environment for potential perpetration and increased risk factors for victimization. One type of bar is a sexually oriented bar, where live nude dancing and modeling occurs.

## >Sexually Oriented Businesses

Over the past 20 years, sexually oriented businesses (SOBs), more commonly referred to as exotic dancing clubs, massage parlors, and modeling shows, have increased in the United States. The number of major exotic dancing clubs has more than doubled. These SOBs range from small neighborhood-style venues to large megaclubs and high-end lounges (Frank, 2005). The increased presence of sexually oriented businesses and the sex industry in general has led to a sense of legitimacy in the field (Bradley, 2008). Exotic dance is considered a career and is a profession that women with academic backgrounds now enter (Bradley, 2008). These SOBs range in variety from small clubs in more dangerous and low-resource neighborhoods to elite, high-end bars that cater to an upper-class clientele (Bradley, 2008). Even non-SOBs, such as legal firms, use these clubs to host events for their staff (Holsopple, 1998).

With the expansion of SOBs, the rules, regulations, and atmosphere inside the clubs have changed. The gradual de-censoring of SOBs and nude dancing in particular has led to an increased ability to touch dancers (Jeffreys, 2008). In the past, touching the dancer was strictly prohibited, but with the advent of the lap dance, contact may occur in some instances. Rather than paying a wage as was done in the past, most dancers are compensated solely through their tips (Jeffreys, 2008; Holsopple, 1998; Sanchez, 1997; & Wesley, 2002). Some clubs charge a stage rent fee (Jeffreys, 2008). And dancers rely now more than ever on private booth encounters, or lap dances, to make money (Holsopple, 1998; Farley, 2005; & Jeffreys, 2008). SOB owners have increased profits by not paying wages or employee benefits and earn income from door entrance fees, alcohol and food sales, and stage rental fees charged to dancers. SOBs have become more legitimate, easier to access, and more lucrative for owners.

Feminist groups, scholars, and community members continue to debate the impact of exotic dancing on female workers (Sloan & Wahab, 2004). At the core of this debate is that any sex work should be abolished because it exploits women and is violent versus the idea that sex work should be legalized because it is an empowering way for women to make more money (Sloan & Wahab, 2004). It is, however, upheld as a constitutionally protected form of expression and a legal business. Frank (2005), a researcher and former exotic dancer, discussed the possibilities for empowerment and expression for women in the SOB environment. In a qualitative study of five different types of SOBs, dancers reported feelings of power and excitement over their jobs (Philaretou, 2006). In a study of why women enter the SOB workforce, workers reported a love of dance, a freedom of expression, and high wages (Sloan & Wahab, 2004). In a sample of exotic dancers, Wesley (2002) reported that some women felt dancing was a way to get power. Some qualitative data from current and former dancers support the notion that exotic dance is empowering and economically lucrative.

On the other side of this debate is the experience of exploitation and risk, and the reality of violence that some sex workers face. Jeffreys (2008) argues that exotic dance clubs are a masculine space and hold up ideals of male dominance. Research with prostitutes supports the theory that the profession is violent and stressful. In a convenience sample of 69 prostitutes in a major Canadian city, the most commonly cited work stressors were physical and verbal abuse and fear of violence (Jackson, Bennett, & Sowinski, 2007). Dancers interviewed by Bradley (2008) reported ongoing harassment and objectification. In a study of sex workers both in the SOB industry and street prostitution, Plumridge (2001) reported a high volume of incidents of violence among workers, including those who had worked in exotic dance clubs being forced or coerced into performing sex acts on customers. In a group of 222 sex workers, the exotic dancers in the sample reported violence from their customers in the form of threatened rape and forced sex (Raphael & Shapiro, 2004). In a study of British sex workers, Sanders (2004) found increased health risks and regular reports of assaults. Recent information specifically about exotic dancers and SOBs also indicates a risk for violence among women employed at these businesses.

This debate extends to the very definition of sex work. Some scholars argue that exotic and live nude dancing is not sex work and should not be grouped as such (Frank, 2005; Sloan & Wahab, 2004). On the other hand, Farley, an academic researcher of SOBs and a former dancer, defines exotic dance and other jobs at SOBs as “indoor prostitution. Indoor prostitution includes massage parlors and saunas, brothels, strip clubs, and escorts” (Farley, 2005 p.952). Raphael & Shapiro (2004) also include exotic dance clubs and other SOBs in their definition of indoor prostitution. Many scholars and women employed by and owners of SOBs object to this term. It exists, however, to frame the argument that SOBs are exploitative and violent to women.

Researchers and community members alike have long explored what drives women to work at SOBs. In a convenience sample of 30 exotic dancers, Sloan and Wahab (2004) identified four primary types of women. “Non-conformists” were members of the middle class who enjoyed the freedom of dancing. “Workers” were women who felt the SOBs were the best-paying job available. “Survivors” were those who felt forced to dance because they lacked other options. “Dancers” were women with dance training (Sloan & Wahab, 2004). It is a popular belief that many exotic dancers were abused or raped as children. Moderate evidence supports these beliefs. In Wesley’s (2002) study of 20 dancers, 9 had been abused or molested as children. In more than 110 hours of observation at SOBs, Wood (2000) found that most customers believe that the workers have been abused as children. In studies of other sex workers, including prostitutes, women report histories of childhood sexual abuse and domestic violence (Sanders, 2004; Jackson et al., 2007). Studies sampling dancers have revealed that there is an increase of middle-class, educated women in the profession as well as victims of human trafficking (Frank, 2005; Sanchez, 1997). Thus, SOBs attract a diverse range of workers: women of varying age, class, and ethnicity, and those who have been forced to work without their consent in the modern slavery of human trafficking.

It is important to note the types of samples most used in studies of women who work at SOBs are “convenience” or so-called “snowball” samples. Researchers have noted the impossibility of finding

a random sample of sex workers and dancers (Farley, 2005). Some academic researchers are former dancers (Frank, 2005; Farley, 2005) or conduct hours of observation in clubs to collect data (Wood, 2000). Most researchers choose to use qualitative formats to supply data, and overall, only a relatively small number of studies have been done on dancers.

The customers at SOB's have been studied by a handful of researchers. Frank (2005) studied, interviewed, and observed 30 male customers at a range of low-tiered to high-end clubs in a large southern city. Only regular customers were used for the sample and the motivations of the customers were the subject of the study. Her findings revealed that the men in the sample went to clubs for several key reasons: going to the club to relax, enjoying that women approach them sexually, being in a masculine space, knowing what the rules are, having a more traditionally gendered environment, lacking sexual rejection, boosting egos, feeling young, feeling that their particular sexual desires are accepted, and being in a safe and exciting space (Frank, 2005). The men surveyed in this study enjoyed the blend of fantasy and reality. Many of the men were in serious relationships with other women. Wood (2000) observed both dancers and customers in SOB's. In her qualitative study, she concluded many customers believe that the dancers are victims of some type of abuse and feel responsible for helping them have better lives. She observed that dancers make more money from customers when a sense of intimacy is created and when the woman is viewed as available for a sexual relationship (Wood, 2000). In more than 100 hours of observations and 12 interviews, she witnessed dancers leaving the club with customers many times. The lack of willing SOB customers for studies makes the sample of available literature small. Further studies are needed to know more about the motivations, intentions, and backgrounds of male SOB consumers.

## >Female SOB Workers and the Experience of Violence

While debate continues over whether or not exotic dance is a harmful profession for women and if dancers should be considered part of the sex industry, many studies have focused on their experiences of violence and harassment at work. There is substantial evidence from qualitative studies that working at an SOB is potentially harmful to women, both physically and emotionally (Bradley, 2008; Jeffreys, 2008; Philaretou, 2006; Plumridge, 2006; Raphael & Shapiro, 2004; Sanchez, 1997; Holsopple, 1998; Wesley, 2002; Farley, 2003; Farley, 2005). In a survey of 18 women working as dancers in SOB's, all women sampled had experienced being physically and sexually abused in the club setting (Holsopple, 1998). Using qualitative interviews and quantitative surveys, the women sampled detailed the types of abuses they had suffered, including being forced to drink with customers, having breasts and buttocks grabbed, genitals penetrated with body parts or objects, verbal abuse, forced masturbation, penises rubbed on them, and rape (Holsopple, 1998). The violence was most often perpetrated by male clients, less often by owners, and still less often by club workers. Philaretou (2006) interviewed five dancers at five different clubs who reported disrespectful comments from the customers and stigma from the community about being an exotic dancer. In a snowball sample of 222 women in a large urban area working in SOB's and as prostitutes, many incidents of violence were reported (Raphael & Shapiro, 2004). Twenty-four percent of the women sampled were currently working as exotic dancers. Of the dancers sampled,

48% had been threatened by rape in the SOB setting, 23% had experienced forced sex in the SOB setting, and 19% had been threatened with violence more than 5 times. Customers were overwhelmingly the perpetrators of violence for dancers. Violence was most often reported to have occurred in back corners and private booths (Raphael & Shapiro, 2004). In a sample study of 20 women working as dancers, interviews revealed workers experienced derogatory and violent language from customers (Wesley, 2002). Farley (2005) summarized her academic research on sex workers by describing exotic dance as part of the indoor prostitution umbrella. As part of the numerous research studies she has conducted, Farley concluded that women are better controlled by indoor prostitution and that SOBs provide a legal shelter for customers who abuse women. In addition, she found no difference in the levels of post-traumatic stress disorder among indoor and outdoor sex workers. In her sample of more than 700 workers in seven different countries, half had work-related health problems. From the poll of available studies, Farley (2003) estimates the rate of rape at 65%-70%. The women studied also stated that lap dances and private booths provided a dangerous space for women because other staff members could not see they were being victimized. The research located for this literature review confirms that SOBs can be potentially dangerous places for exotic dancers.

Women working in the sex industry—including prostitution, massage parlors, and modeling studios—as well as exotic dance clubs have been studied extensively. Prostitution has been documented to be a dangerous profession for women, including higher rates of sexual and physical violence compared to other populations of women (Jackson et al., 2007; Farley 2005). In a study of 69 women working in the sex trade, the stressors of the work climate were explored via qualitative interviews (Jackson et al., 2007). Findings indicated that workers had a greater risk of being attacked or assaulted and that the stigma of being a sex worker brought great stress. In a sample of 32 women that included exotic dancers, workers reported being forced or coerced by management of the places they worked to perform sex acts that they did not want to do (Plumridge, 2001). Plumridge's (2001) sample also described the economic pressure of the competition. Because workers were no longer paid a wage, they were driven to perform services that they did not want to in order to survive financially. Plumridge (2001) told the story of a nude model who had to bill herself as submissive to gain new clients, and in doing so, was beaten by a client. Teen girls under age 18 and young women from other countries are trafficked into some SOBs and forced to work (Sanchez, 1997). In a study of health risks of the sex industry, a common complaint of workers was forced contact without a condom or having bodily fluids, including sperm, on their bodies (Sanders, 2004). Threats and acts of violence were reported by many studies surveyed for this literature review.

There is a well-documented correlation between sexual violence and alcohol and between prostitution and rape. However, no study has authoritatively linked alcohol, sexually oriented businesses, and the perpetration of sexual violence. Research suggests that some exotic dancers have experienced sexual violence at work, asserting that potential victimization is a concern for women in the exotic dance profession. What is not known is whether there is a causal relationship between sexually oriented businesses and the perpetration of sexual violence.

A causal relationship among watching violent pornography, drinking alcohol, and sexual aggression has been established. In a laboratory setting, a sample of 84 males was given alcohol and a story that depicted a non-consensual sexual situation presented in a pornographic format (Davis, Norris, George, Martell, & Heiman, 2006). Their levels of sexual arousal were then measured and compared to a control group of men who had not been given alcohol. The researchers found that alcohol facilitated the likelihood of committing a sexually aggressive act by obscuring and misinterpreting cues from women. The woman in the story was drinking as well, which led to a perception of her as more vulnerable and sexually available (Davis et al., 2006). This vulnerability and image of availability increased the opportunity for power and dominance. A higher level of arousal to the pornographic rape depiction was an indicator of men's self-reported likelihood of committing sexual violence. Participants reported a higher rate of arousal when the victim reacted with pleasure rather than disgust. The study found that alcohol-related sexual arousal, combined with violent pornography, can increase the likelihood of perpetrating sexual violence (Davis et al., 2006).

In another study measuring the likelihood of sexual aggression under the influence of alcohol when combined with violent pornography, 135 male participants were studied in a laboratory setting (Norris, Davis, George, Martell, & Heiman, 2002). The study examined the interaction between the direct and indirect alcohol-related expectancy effects when coupled with a violent pornographic story. The participants were first given questionnaires and then assigned to either a control group, placebo group, or an alcohol-receiving cohort. Alcohol-related expectancies were conceptualized as feeling more violent or sexually disinhibited as a result of alcohol consumption (Norris et al., 2002). The researchers found that men who had higher alcohol expectancies and received alcohol were more likely to report that they would commit an act of sexual aggression. Alcohol ingestion from the female character increased judgments of her enjoyment and lowered perception of the male character's force. Higher alcohol expectancies increased estimations of the female character's enjoyment. The study found ultimately that both direct and indirect alcohol-related expectancies, when coupled with violent pornographic materials, increased the likelihood for sexual aggression (Norris et al., 2002).

In a literature review and study of male domestic violence perpetrators, the relationship between battering and use of the sex industry was explored (Simmons, Lehmann, & Collier-Tension, 2008). In their review, researchers found an association between pornography and violence and hypothesized that men who use pornography and patronize SOBs have more negative views of relationships than men who do not (Simmons et al., 2008). In a sample size of more than 2,000 women at domestic violence shelters, interviews and surveys were conducted to assess the use of the sex industry by male batterers. Forty percent of male battering partners used the sex industry. Batterers that used the sex industry used more forms of aggressive and violent behavior than those who did not. The female victims of male batterers who used the sex industry were more likely to have experienced rape and other forms of sexual violence than those whose male batterers did not (Simmons et al., 2008).

These findings seemed to indicate that men who believe that alcohol increases sexual prowess, decreases inhibitions, and makes females more receptive to advances are potentially more likely to commit acts of sexual aggression. This is especially true when coupled with violent pornography and other sex industry materials. In a study of 118 adult male sex offenders, alcohol was also related to an increase of force, while use of pornography before an assault decreased force. Pornography was connected to the planning and organization of the assault (Beauregard, Lussier, & Proulx, 2005). Research has indicated that alcohol, hypermasculinity, negative gender views, and now pornography and use of the sex industry are causally linked to male sexual aggression perpetration. Does this extend to SOBs, including dance clubs?

A study of the relationship between crime and sexually oriented businesses in Charlotte, North Carolina, was conducted to determine the negative secondary effects of SOBs on neighborhoods (Linz, et al., 2004). Negative secondary effects are problematic impacts of a thing or event on another person, place, or thing. The study compared tracks of land in the city that included adult businesses with those that did not contain an SOB. The areas were matched for traffic reports, population, and demographics (Linz et al., 2004). Then, police reported incidents were used to measure levels of crime in the area. No significant difference was found, indicating that sexually oriented businesses do not increase crime in areas (Linz et al., 2004). However, the use of reported police data is problematic when measuring sexual violence. Of rape victims over the age of 18, only 19% report the crime to the police (Tjaden & Thoennes, 2006). Rape is one of the most underreported crimes to the justice system, so use of police reports to compare incidents of rape is problematic. Without the use of personal reports, it is hard to determine what impact sexually oriented businesses have on crime.

### >Connecting the Dots: Sexually Oriented Businesses, Sexual Violence, and Alcohol

In the absence of an authoritative body of research to determine what impact sexually oriented businesses have on the perpetration of sexual violence, evidence from other research has been pooled to attempt to answer the guiding question. Is there a connection between sexually oriented businesses, alcohol, and the perpetration and victimization of sexual violence against women? Based on the evidence, a tentative yes seems in order. Previous research has indicated a clear connection between alcohol and both the perpetration and victimization of sexual violence (Abbey, et al., 2002). Based on qualitative data compiled from female workers, including exotic dancers, rates of victimization of sex crimes are higher among employees of SOBs than other populations of females. Working at an SOB puts women at a greater risk for victimization, especially when combined with alcohol use.

What is not quite as clear is if patronizing an SOB contributes to the perpetration of sexual violence. There is an indication that viewing pornography contributes to perpetration of sexual violence, but clearly, exotic dance differs from pornography. Researchers found that the more a woman acted with pleasure rather than disgust in a violent pornography vignette, the more arousal grew (Davis et al., 2006). Frank (2005) and Wood (2000) both reported in separate studies that exotic nude dancers must create the illusion of sexual pleasure, acceptance, and intimacy to make more money

from customers. Dancers forced to give the illusion of pleasure may be the victims of misinterpreted advances and assaults from patrons. The creation and utilization of private booths for lap dances have been highly criticized (Farley, 2005; Holsopple, 1998) for increasing hidden spaces, making women more vulnerable. Limited studies of customers at SOBs have revealed pleasure of the masculine-dominated space and acceptance of traditional gender roles (Frank, 2005; Wood, 2000). Creating a fantasy image of a woman who is sexually available is important to clients (Frank, 2005). Research with sex offenders linked fantasy as an important prequel to aggression (Beauregard et al., 2005). Rapists also report greater acceptance of negative gender stereotypes and hypermasculinity (Carr & VanDeusen, 2004). What may be likely is that sexual assault perpetrators may seek places where there are vulnerable women. If sexual assault is the intention and alcohol is present, the situation may be dangerous.

Clearly, most men that patronize SOBs are not rapists and treat female workers with respect. Not all women who work at SOBs would consider themselves victims of sexual violence or workers in the sex industry. Patrons of SOBs do not all consume alcohol or other drugs. However, there is substantial evidence that women who work at SOBs experience more sexual violence, that alcohol is a tool used for victimization and perpetration of violence, and that pornography contributes to the likelihood that a man would commit a sexual aggressive act. The findings of this literature review indicate that there is a connection between perpetration of sexual violence, alcohol, and sexually oriented businesses due to the effects of alcohol on perpetration, the type of consumers at SOBs, and the increased risk to women workers.

## >Recommendations

Further research is greatly needed to explicitly explore the connection between sexually oriented businesses, alcohol, and perpetration of violence. This research should be undertaken in both community and college settings and focus on perpetrators' use of SOBs and alcohol. It should also focus on the experience of women working in the sex industry, including exotic dancers. Efforts to prevent sexual violence are best informed by perpetration and victimization trends. This constitutes primary prevention, where the event is prevented from ever happening (Costello & Blyth, 2004). In the instance of sexual violence, this includes focusing on perpetration and working in interdisciplinary groups to prevent assaults before they start and address male sexual aggression before it becomes rape (Costello & Blyth, 2004). In a study of prevention among potential victims, targeting risk factors and teaching self-protective skills was found to be most effective. Teaching about the dangers of alcohol is an important part of reducing assaults (Söchting, et. al., 2004). At least one state and three counties across America have limited or banned alcohol use in SOBs, partly because of fears about personal safety and increased crimes (Keen, 2008). This idea should be explored further by research to test its validity, as it might be an important key to preventing violence.

Sexual re-victimization, including repeated sexual assaults, is a pressing danger for female sex workers. Women have a higher risk of being assaulted if they have been raped before (Macy, 2007). Substance abuse is a relevant concern for the victim of repeated assaults (Macy, 2007). In a study



of more than 300 college students, the social cognitions about risk behaviors were explored with female abuse survivors (Smith, et. al., 2004). Any type of childhood abuse made sexual violence five times more likely to occur again. Social cognitions about the perception of risk were disrupted. Less risk and more benefits were perceived with alcohol and drug use among victims as compared to non-victims (Smith et al., 2004). Programs and mental health interventions are needed specifically to address re-victimization of women.

Specific interventions should address the mental and physical health of female workers. Empowering and supportive programs are needed to help women working at SOBs and to deal with the stress and stigma of their jobs (Jackson et al., 2007). The high level of violence experienced by this population indicates that mental health services need to be readily available (Raphael & Shapiro, 2004). High rates of post-traumatic stress disorder among this population confirm this need (Farley, 2003). In addition, sexually oriented business owners can help by eliminating or improving private booths that create the opportunity for violence and by hiring alert staff to create a culture of safety. SOBs can also create a climate of respect for female workers inside their clubs by having a zero-tolerance policy for sexual harassment and violence against women.

## >Conclusion

Sexually oriented businesses pose potential advantages and dangers to female workers. Exotic dance can provide the opportunity for personal empowerment and economic gain. It can also put women at risk for greater exposure to sexual violence. With the boom of SOBs in the past two decades, researchers have begun to assess the effects of the industry on the women who work in it and the communities in which the businesses exist. More information is needed about the customers of SOBs and their motivations and tendencies to sexual aggression.

The connection between crime and alcohol has been established, especially sexual violence. Research from bars and pubs suggests that violence is more likely to occur when drinking and sexual activity are combined. This might indicate that the same would be true for SOBs that serve alcohol. Both bars and SOBs increase the risk of victimization for women. Putting the pieces together, it seems that alcohol, bars, and sexually oriented businesses all increase the risk for victimization.

Sexually oriented businesses may provide an opportunity for personal empowerment and economic growth, but they also provide hypermasculine climate where violence against women thrives. By increasing private spaces, opportunities for assault have increased. When SOBs and alcohol are combined, it presents risks for victimization and perpetration. This literature review concludes that sexually oriented businesses, especially when combined with alcohol, increase the risk for both perpetration and victimization of sexual violence against women.

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## Appendix II

### Secondary Occupational Impacts on Erotic Dancers

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#### >Introduction

Sexually oriented businesses (SOBs) include adult cabarets, massage parlors, video stores, and other live nude services. Adult cabarets employ a variety of workers, but female entertainers are the major draw for customers. This industry is reported to be very lucrative and profitable (Hanna, 2005). Adult cabarets vary from the neighborhood bar model to sophisticated establishments more commonly referred to as “gentlemen’s clubs” that cater specifically to professional and business clientele. Clubs provide a range of services, including food, alcoholic beverages, and televised sports, but their main attraction is the female exotic dancers who provide stage, table, and lap dances, and the opportunity for indefinite conversation (Frank, 2005). This literature review summarizes the research related to women working as entertainers in the exotic dance club industry. This review explores the challenges and benefits of working in an SOB for female entertainers, and describes their experiences as dancers.

Skipper and McCaghy have defined an “exotic dancer” as one who removes all or most of her clothing in a sexually suggestive fashion to a paying audience in a performance environment. Entertainers are also known as “strippers,” “stripteasers,” “table dancers,” “go-go dancers,” and “adult entertainers” (Skipper & McCaghy, as cited in Bernard, C., et al. 2003, p.2). The label for women who work in this industry is among one of the ongoing debates in literature on SOBs, and the terms chosen may mostly accurately illustrate the author’s bias.

Women who work in adult cabarets come from a variety of socioeconomic and demographic backgrounds. They may be single with no children, married or single mothers, or students putting themselves through college and graduate school (Hanna, 2005). The typical entertainer, then, is not definitive. What is clear, however, is the substantial increase in the number of women working in this industry. Mestemacher & Roberti (2004) estimate 68,000 women currently work as entertainers in adult cabarets in the United States, an increase from the estimated 8,000 in the 1960s (Forsyth & Deshotels, 1997).

Studies have documented the experiences of women entertainers in adult cabarets (Thompson & Harred, 1992; Forsyth & Deshotels, 1997; Sloan & Wahab, 2004; Mestemacher & Roberti, 2004; Barton, 2007; Price, 2008; Bradley, 2008; Jeffreys, 2008; Philaretou, 2006; Wesley, 2002; Holsopple, 1998; Wood, 2000; Farley et al., 2003; Farley, 2005; Erickson & Tewksbury, 2000; Barton, 2002; Hanna, 2005; Thompson, Harred, & Burks, 2003). The research has focused on three main areas:

- motivations for becoming a dancer and successive socialization to the industry
- the stigma, challenges, and rewards attached with this profession and how entertainers manage that stigma
- entertainer-customer interactions.

Literature written on adult cabarets and the experiences of female workers is deeply divided in both tone and findings. This review acknowledges work that cites the economic and emotional rewards for women in this industry and conversely the compelling information about the challenges and hazards of being a female entertainer at an SOB.

## >The Work Environment

The environment of an SOB is created specifically for male clients as a space very different from the exterior world. In this space, women respond to men with kindness and attention right away, nudity is constant and female entertainers provide companionship and intimacy (Erickson & Tewksbury, 2000). The physical space must complement the work being performed by the women.

Entertainers' work area mainly consists of the stage, the club floor, and a private room or booth. Dancers' performances also depend on the "size of the club and stage, the city in which the club is located, and the numbers of performers composing the show" (Forsyth & Deshotels, 1997). Local and state laws and regulations dictate the "amount of clothing they may remove and their actions during the performance" (Forsyth & Deshotels, 1997). The specific club a woman works at determines the level of safety, expectation and overall work environment (Bradley, 2008).

## >Decision to Entertain & Typologies of Entertainers

Several studies have explored the reasons why women initially engage in the adult entertainment business. Skipper and McCaghy's (1970) groundbreaking study was based on 35 formal and 40 informal interviews with entertainers and reported on three conditions that characterized women's decisions to work in this profession. The characterization was based on either a tendency toward exhibitionism—by an opportunity that presented itself—and potential economic gain. More than 30 years later, Forsyth & Deshotels (1997) reported similar reasons women joined the exotic dancing industry. Thompson and Harred's (1992) structured interviews with 40 topless dancers added an additional important context to the decision-making of women entertainers. They reported that almost half the women in their study danced topless for the first time because they were either slightly or extremely inebriated and some of these women, under the influence of alcohol, were challenged to dance topless and accepted that dare. This initial event was what led them to work in the industry. Others were drawn to this profession because of the potential lucrative gains, while others were introduced to the profession by friends or social contacts. Overwhelmingly, women reported in a variety of studies that financial needs were the number one factor motivating their entry into the SOB industry (Jackson, Bennett, & Sowinski, 2007; Philaretou, 2006; Wesley, 2002; Wood, 2000; Spencer, 2005; Barton, 2002; Hanna, 2005).



Sloan and Wahab (2004) interviewed 30 dancers (13 currently employed as dancers and 17 former dancers) in three cities including a state capital, a larger urban area, and a smaller working-class city. They asked about employment and economic history prior to becoming a dancer, the reasons for becoming a dancer, and the sense of agency about this decision. The authors characterized women into four categories: survivor, nonconformist, worker, and dancer. The survivors included women with extensive histories of childhood abuse. These women often became dancers as underage teenagers without any past dance experience, but made entertaining a career. Non-conformists were characterized as rebellious women who chose to live alternative lifestyles and had the freedom and resources to enter the profession and leave when they wished. These women were mostly white, middle or upper socioeconomic status, and often college-educated. The majority of women in the workers group were working-class, never married, white, or Latina women. They chose the profession because it offered a high income. Workers often joined the industry after completing high school and remained for a few years. The final group of women—dancers—had previous training and experience as non-nude dancers and wished to continue in this line of work. This research gives important insight about the ways into or motivations for becoming a nude dancer. It signifies the importance of internal and external factors related to their decisions. It concluded that while women enter the profession of exotic dancing for lucrative monetary gain and creative expression, many stay as a means of survival and a lack of other employment opportunities at a similar wage base. The ability to leave the dance profession was more viable for women who had greater levels of education and other financial assistance (Sloan & Wahab, 2004).

Findings also suggest that the exotic dance club industry can be exploitative and dangerous or potentially dangerous for women. They face occupational dangers including harassment, mental health issues, sexual and physical violence, and decreased wages (Holsopple, 1998; Farley et al., 2003; Farley, 2005; Barton, 2002). While many women decide to work as entertainers, others do not. The supply of women to some clubs in the United States can involve human trafficking and organized crime, creating a group of forced laborers (Anderson & O'Connell Davidson, Dickson, and Monzini, as cited in Jeffreys, 2008). Jeffreys (2008) discussed the troubles created by the Canadian visa for exotic dancers. Many women and children were trafficked into Canadian clubs and forced to either perform sexual acts or face threats of stalling the visa process by their captors.

Academic research suggests that though the women who enter the dance profession may differ in personality, money is almost always the most important consideration. While women with dance training and those non-conformists looking for a new experience make the decision to dance, most new dancers entering the field are women who have little other comparable economic opportunities and who might, given a different set of circumstances make another employment decision (Holsopple, 1998; Sloan & Wahab, 2004; Plumridge, 2001; Philaretou, 2006). Many women have purely financial motivations for entering the exotic dance profession, be it dealing with the end of a relationship, putting themselves through school, paying for child care, or just needing extra money.

## >Owner/Management and Entertainer Relationship

Recent literature has provided some details about the operations of exotic dance clubs. In general, these clubs follow a hierarchy that includes a descending order of power: (a) the owner and/or the manager, (b) the disc jockeys (DJs), (c) the dancers, (d) the bartenders, and (e) the waitresses and bouncers (Forsyth & Deshotels, 1997). In many clubs, women are hired as contractors without benefits. As contractors, dancers do not receive fringe benefits such as sick leave, health insurance, or retirement benefits (Jeffreys, 2008). Contract entertainers are also not entitled to file discrimination claims or receive workers' compensation or unemployment benefits (Fischer, 1996; Mattson, as cited in Holsopple, 1998, p. 3). In some instances, dancers pay the club owner for the use of the stage in the form of a rental fee (Cooke, as cited in Holsopple, 1998; Forsyth & Deshotels, 1997; Prewitt, 1989). Entertainers earn income from tips by patrons, and some club rules dictate that they share a portion of those tips with the bouncers and DJ. In some clubs, the cost of dancing might be up to 50% of their earned tips (Forsyth & Deshotels, 1997). Some clubs also operate with a shift quota rule, where the entertainer is required to earn a minimum amount, and if she is unable to earn that quota, she may accrue a debt (Holsopple, 1998). Some women make excellent tips and annual income of a dancer has been estimated by some to be around \$63,000 (Spencer, 2005). Other dancers interviewed for research have said that SOB wages vary: One night might be lucrative, and in another, tips are not enough to cover the typical expenses or child care (Barton, 2002; Sanchez, 1997; Philaretou, 2006)

Though the dancers are considered as independent workers, they often have to follow strict club norms. Owners and managers usually have rigid scheduling and shift requirements, tipping to other staff, and price setting for table and private dances. Many clubs also control how the dancers conduct themselves during their shifts, including their bathroom usage, the number of breaks they take, and how many of them can be in the dressing room at one time (Holsopple, 1998). Clubs owners may also control the entertainers by pressuring them to shave off their pubic hair, maintain a year-long tan, or undergo surgery for breast augmentation (Lewis & Maticka-Tyndale, 1998). Clubs are known to impose rules through fines (Cooke, as cited in Holsopple, 1998; Enck & Preston, 1988; Ronai, as cited in Holsopple, 1998). Club management makes heavy fines compulsory. Penalties include \$1 per minute for being late, up to \$100 for calling in sick, and other random charges for incidents such as "talking back" to customers or staff, using the telephone without permission, and touching stage mirrors. "Women are also fined for flashing, prostitution, taking off their shoes, fighting with a customer, being late on stage, leaving the main floor before the DJ calls her off, not cashing in one dollar bills, profanity in music, being sick, not cleaning the dressing room, using baby oil on stage, dancing with her back to a customer and being touched by a customer" (Enck & Preston, as cited in Holsopple, 1998, p. 4).

## >Health

There are social, emotional, and physical health risks and benefits to working in an SOB. To protect female employees, rules of conduct are in place for customers of exotic dance clubs. Although management of these clubs commonly ban customers from touching the women, this rule is not

always strictly enforced and is often violated (Enck & Preston, 1988; Forsyth & Deshotels, 1997; Ronai & Ellis, 1989; Thompson & Harred, 1992). Some researchers report that exotic dancing usually involves prostitution (Boles & Garbin, 1974; Forsyth & Deshotels, 1997; Prewitt, 1989; Ronai & Ellis, 1989; Thompson & Harrod, 1992). Some critics of SOB's have gone so far as to call adult entertainment a form of indoor prostitution (Farley et al, 2003). Hanna (2005) argues that clubs promote positive and safe sexual expression and experiences, and asserts that dancers are supported and protected by club rules. In a sample of 36 dancers, Barton (2007) found that all women interviewed had been touched by a customer in a manner that was against club policy. However, Frank (2005) countered that in her experience as a dancer and her own academic observations, rules concerning contact between dancers and customers were followed.

Physical health concerns for exotic dancers vary from back and neck problems to sexually transmitted infections (STIs). In a study of 30 dancers, Lewis and Maticka-Tyndale (1998) found that the occupation of exotic dancing increased the risk of HIV/AIDS and STIs. In further examination, researchers found that the sample experienced chronic back and leg pain from the outfits worn at work, and encountered unsanitary workplace conditions (Maticka-Tyndale, et al., 2000). Hanna (2003) argues that dancing is a physical art form, comparing it to the manner in which athletes exercise and use their body to entertain people and earn pay.

Emotional health is a subject often explored in research about exotic dancing. Some dancers have expressed increased feelings of power, sexuality, freedom, and stability that come from working at SOB's (Frank, 2005; Philaretou, 2006; Sloan & Wahab, 2004; Wood, 2000). Barton (2007) interviewed 36 dancers who supported previous research findings that dancing brought in money and provided feelings of power, but also had negative long-term emotional effects. These included feelings of rejection, social stigma, discrimination, and violence. Over time, coping techniques emerge, such as dissociation and "othering" that entails the creation of a separate persona to cope (Barton, 2007). In a study of women across the globe working in the sex industry, rates of dissociative disorders were higher than 80% in four different samples of workers (Ross, Farley & Schwartz, 2003). High rates of depression, anxiety, and major dissociative disorders are often connected with work at an SOB (Barton, 2007; Ross, Farley & Schwartz, 2003; Maticka-Tyndale, Lewis, et al., 2000).

Many of the social concerns of women working in SOB's involve weight and body image. Using in-depth interviews with dancers, Wesely (2003) investigated body image and the ways in which women controlled their physiques. Several dancers reported a "weigh-in" criterion by owners. Failure to meet the standard often resulted in termination. Some women reported using drugs to lose or control weight (Wesely, 2003). One dancer reported, "Soon as I stopped doing crystal, girl, I gained 30 pounds. Now I do everything in the world to stay fit, but it's just not the same as that 'magical' diet" (Wesely, 2003, p.650). Extreme diets, laxatives, and excessive exercise also were reportedly used to lose or maintain the standard weight requirements.

Another important rule of dancing is to maintain a hairless pubic area. Women were frequently reminded to shave, including posting signs in the dressing rooms. Women also had to take special care to conceal when they were menstruating (Wesely, 2003).

Dancers went to extremes to get their fantasy bodies, some even considering plastic surgery. One participant said, “I did not need the liposuction. I think I weighed 125 pounds. But I was so obsessed with being skinny for the job” (Wesely, 2003, p.650). One young dancer spent about \$30,000 to have extensive cosmetic surgery, including “hair implants, nose job, cheek implants, chin surgery, breast implants, tummy tuck, and liposuction” (Wesely, 2003, p.654). She viewed these surgeries as necessary. Later she learned that her breast implants had to be removed because of a cancer diagnosis. She said, “I was pissed.... Basically, I didn’t care about the cancer. I care about me not having big boobs. And then once you get a boob job all that skin is stretched. So it was going to go back and it was going to be saggy” (Wesely, 2003, p.655).

Entertainers also used other, less extreme techniques to feel more confident and sexy. For example, one dancer shared that, “When you become a dancer, you learn to walk with, you know, your butt stuck out, your boobs, you learn to throw your shoulders back so your boobs are as firm looking as possible. You learn to carry yourself a certain way” (Wesely, 2003, p.653). Dancers reported being very conscious of how they carry their bodies and of being objectified at the workplace. In a study comparing the experiences of 43 college age women to 40 dancers, the dancers reported a significantly higher level of objectification than the college students (Downs, James & Cowan, 2006).

While management constantly pressured dancers to be thin, women also “self critique[d]” and criticized. Women compared their bodies to other dancers, and if they perceived their body as inferior, they felt pressure to improve their looks (Wesely, 2003). The competition for tips and attention among dancers caused social pressure and discomfort (Barton, 2002). Barton’s (2002) qualitative study of 22 dancers revealed that a dancer’s self-esteem was tied to how much money she made. A good night improved self-image, while a bad night or competition with other women was detrimental. Competition for money and the best customers strained relationships with other dancers (Barton, 2002).

Few studies have looked at the bigger context of sexualization, abuse, and power for the women in the exotic dance profession, both as children and adults (Wesley, 2002). Physical, emotional, and social health is influenced by the location of the club, their previous life experiences, alcohol and drug use, and workplace violence. Even fewer have examined occupational health and safety issues associated with adult entertainment. These are critical elements for exploration about sexually oriented business.

## >Workplace Violence

For many dancers working at an SOB, workplace violence is a serious concern. Holsopple (1998) conducted interviews and surveys with 18 dancers, all of whom reported experiencing workplace violence. The types of violence included having breasts and buttocks grabbed, genitals penetrated, rape, and verbal abuse. Acts were most often committed by customers and male employees

(Holsopple, 1998). Jeffreys (2008) criticized the movement toward lap dances as a main moneymaker for dancers because of the dangers of being in a private space. In a sample of 222 Midwest American female SOB workers, 48% of dancers reported experiencing the threat of rape and 23% were forced to have sex against their will (Raphael & Shapiro, 2004). Wesley's (2002) sample of 20 dancers reported histories of abuse and sexual revictimization in the SOB setting. Farley (2003) asserts that rate of rape for dancers is twice that of other North American women, and that exotic dancing is a dangerous profession.

Other academic works have explored the experience of workplace violence with more minimal results. Barton (2002, 2007) reported that while violence was a concern and reality for women sampled, rude customers and verbal harassment were a more pressing concern. Hanna's (2003) work with dancers has provided reports of empowerment and support from staff members. Fourteen Canadian SOB workers reported that most clients are respectable (Bruckert, Parent & Robitaille, 2003). While violence may not be the everyday norm, it is an occupational hazard. In this review of articles with a researched sample of SOB workers and dancers, all the groups of women reported some workplace violence or harassment. While the extent is unknown and subject to small sampling sizes, the existence of workplace violence is threatening for all dancers. The combination of alcohol, nudity, and masculinity-promoting space makes SOBs a vulnerable place to be, where male privilege thrives (Erickson & Tewksbury, 2000).

## >Alcohol and Drug Use

Rules about drinking vary among clubs. While some prohibit dancers to drink, others expect women to drink with customers, although not so much that it interferes with their ability to perform. Lewis and Maticka-Tyndale (1998) reported that the women in their study used alcohol before their first stage appearance. Many continued drinking to help them get through their shifts and to forget other life problems. Some women continued to depend on alcohol throughout their dancing careers (Lewis & Maticka-Tyndale, 1998) and reported a high tolerance to alcohol (Lewis & Maticka-Tyndale, 1998; Ronai & Ellis, 1989). However, not all of the dancers continued to drink. Some women entered the SOB profession to help pay for drugs and alcohol (Jackson, Bennett, & Sowinski, 2007). Women who stopped drinking shortly after their careers began cited safety reasons, reporting feeling more vulnerable to injury and having concerns about loss of control while dancing (Lewis & Maticka-Tyndale, 1998). Some women also chose not to drink because of the cost. Holsopple (1998) found that some women had been forced to drink on the job.

Lewis & Maticka-Tyndale (1998) found that most of the exotic dancing clubs did not have an active drug trade. In clubs where drugs were available, it was often marijuana and cocaine (a cocaine derivative) supplied by either staff or customers. It appears that the presence or absence of illicit drugs chiefly depended on policies enforced by club management. Marijuana was the most commonly used substance among the women in the club. Some entertainers used it similar to alcohol—to “get in the mood” so that they could perform— while others used it as an alternative to alcohol, trying to avoid a possible alcohol addiction (Lewis & Maticka-Tyndale, 1998). Women also reported the using hallucinogens, ecstasy, amphetamines, and heroin, though these were much less

common than marijuana and cocaine. The women's stories of addiction varied. For women reporting marijuana addiction, use occurred prior to beginning their adult entertainment careers. However, when it came to using other illicit substances, women reported using these drugs because they were available in the clubs. Some women depended on drugs to "keep them on top" of entertaining (Lewis & Maticka-Tyndale, 1998, p.13).

## >Coping Strategies Used by Dancers

Based on field observations inside exotic dance clubs (five clubs in North Carolina, Las Vegas, and Michigan) and informal interviews with five female exotic dancers, Philaretou (2006) explored some of the intrapersonal and interpersonal dynamics for entertainers. Most women had no experience related to the job; rather they had some socialization experiences from their previous employment connected to entertainment, such as dancing, singing, or acting. They learned this trade while on the job, observing and mimicking routines and other job-related responsibilities. Outside of work, women used neutralization and normalization to maintain a sense of balance (self-concept, self-esteem, and self-efficacy) (Thompson & Harred, 1992; Sykes & Matza, as cited in Philaretou, 2006). The techniques that helped women to validate the nonconforming nature of their work included the denial of injury, responsibility, and victimization. Dancers also used cognitive and emotional dissonance to bridge dislike of the job with the need to do it, often by creating another persona (Thompson, Harred, & Burks, 2003). This supports Barton's (2007) findings that dancers use "othering" to cope with the negative emotional consequences of their job.

Research also found that entertainers had a difficult time negotiating the impact of their career in their intimate relationships. Their partners were often anxious, jealous, and concerned about their safety because of late hours, precarious locations, and unruly and disrespectful customers. Many women reported being involved with fellow female dancers because of their emotional burnout with men and a shared understanding, acceptance, and respect from other dancers (Carey, Peterson, & Sharpe, 1974; Philaretou, 2006). Most women entered the profession because it was lucrative in a short period of time. However, less educated and unskilled women tended to continue with dancing, while more educated and skilled dancers tend to see their occupation as a means to an end.

In her qualitative study, Barton (2007) used observations, interviews, and focus groups and included 36 dancers in nine clubs in Silverton (a pseudonym for a midsized city in the United States) and exotic dance clubs in San Francisco, California, and Oahu, Hawaii. The author writes about boundaries or personal rules and creation of an entertainer persona. Study participants estimated approximately 20% of all customers were abusive and that they therefore needed "psychospacial" boundaries. Dancers described sexual harassment as when clients regularly asked for perform sex acts in violation of club rules and touched in offensive ways without their consent. Boundary-setting was seen as an occupational necessity. Due to the longer-term negative toll of exotic dancing on mental health, the boundaries often involved using techniques of dissociation to cope (Barton, 2007).

Women also faced discrimination at their jobs, especially during the hiring process. Some African American dancers reported that they had to work much harder than their white counterparts to achieve an equal level of sexual desirability by the customers, and thus implying the ideal body image that corresponds to whiteness (Hooks, 1997).

## >Quitting Dancing

Few studies have investigated reasons behind dancers quitting their profession. Using a combination of convenience, snowballing, and purposive sampling methods, Sloan (1997) investigated reasons why dancers quit the profession. She interviewed 30 dancers (from 1994 to 1995) in three different southwestern cities. The dancers in the study worked as topless dancers from six to 19 years. Of the 30 participants, 17 were no longer working as dancers and working in a variety of fields, including as a physician, attorney, laborer, manager, and artist. Four reasons for quitting dancing were mentioned: burnout, drinking and/or drugs, health reasons, and because they had someone to support them. Several secured other jobs and five enrolled in college. Women who cited burnout reported that they no longer enjoyed dancing; it became increasingly uncomfortable, and they were less enthusiastic about it. Other women quit because of an overuse of alcohol and drugs, and still others were tired of the party environment. Women also quit dancing because they had relationships that supported them, including parents, husbands, and friends (Sloan, 1997).

## >Dancer's Rights

In the summer 1996, at the Lusty Lady Theater in San Francisco, California, dancers unionized by joining Local 790 of the Service Employee International Union. Dancers joined to protest discriminatory practices, including hiring based on race and other infringements such as customers being able to videotape entertainers without their consent, unfair disciplinary policies, lack of health benefits, and job security. Regardless of this effort and victory, Wesely (2003) reported continued problems related to racism.

In their study of dancers, and based on interviews with 57 dancers and 36 in-depth interviews with non-dancers, Forsyth and Deshotels (1997) found that clubs consistently forced two rules on dancers: (1) that the dancers may not leave the club with customers and (2) that they not refuse a table dance or a private performance. Dancers could be fired if they broke these rules. In addition, some women are required to give lap dances and, if they refused, are threatened with losing their jobs (Forsyth & Deshotels, 1997).

## >Conclusions

Adult entertainment is a little-researched though much-argued subject. The actual experience of the dancers is relatively unknown to academic researchers. This literature review has indicated that, while many types of women enter the field, the motivations of money and power are the same for nearly all dancers. Workplace benefits include freedom of schedule and expression, money, increased self-esteem, and feelings of power and sexual excitement. The occupational hazards include violence; physical, social, and emotional health concerns; and workplace rights issues. Adult



entertaining has negative long-term burnout effects for many women. While exotic dancing may be a good career option for some women, others may experience long-term damage from the mental health and substance-use issues often associated with the profession.

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## Appendix III

### Secondary Impacts of Sexually Oriented Businesses (SOBs)

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#### >Introduction

Sexually oriented businesses include dance clubs and cabarets, massage parlors, video stores, and live nude modeling. Interestingly, amid criticism from various groups in society about the morality or legitimacy of this industry, SOBs are credited by others with helping crippling economies by raising the tax base and generating jobs. More to the point, the industry has been credited for helping to expand existing businesses and renew low-income areas (Sides, 2006). Proponents argue that the increase in the municipality's tax base contributes to improved roads, emergency services, and educational systems. City governments have even "packaged" adult entertainment to draw tourists, visitors, and their spending dollars. Large convention cities such as Atlanta, Orlando, and Dallas, in particular, have reasoned the increase of adult entertainment businesses (West & Orr, 2007) on these benefits. In many ways, SOBs have the potential to be economically lucrative and restorative, and for a variety of reasons, these businesses might be able to withstand a declining economy better than other industries.

However, others argue that SOBs also have the potential to draw criminal activity to neighborhoods and lower property values (Cooper & Kelly, 2008). Still others focus their arguments against the industry on the negative impact of working as an exotic dancer or entertainer (Holsopple, 1998; Farley et al., 2003). Because SOBs have decreased or eliminated entertainers as employees with benefits, women rely on tips from customers as the sole base of their incomes (Jeffreys, 2008). Some research also indicates that exotic dancing is a dangerous profession for women, causing an increased vulnerability to sexually transmitted infections, violence, and mental health challenges (Lewis & Maticka-Tyndale, 1998; Farley et al., 2003, & Thompson, Harred, & Burks, 2003) and, therefore, the industry is harmful to women economically, physically, and mentally (Holsopple, 1998; Farley et al., 2003).

This literature review is a summary of positive and negative secondary effects of SOBs on communities and the women who work in the industry. Findings cited in this review vary by source, and while some researchers conceptualize research on SOBs as pioneering, others argue that it is an established body of work (Frank, 2007). Adult entertainment businesses are the subject of heated and polarized debate, particularly among and between feminists. Many argue that the industry empowers women, while others argue that it is exploitative. These factions influence the research and its methodology, making a review of both perspectives necessary (Barton, 2002). This review focuses on SOBs oriented to heterosexual males.

In this review, the terms “entertaining,” “exotic dance,” and “stripping” are used synonymously, as are the terms “entertainer,” “dancer,” and “female worker.” In addition, “sexually oriented businesses,” “strip clubs,” “clubs,” and “adult entertainment businesses” are used interchangeably.

## >The Dancers as Earners: Economic Structure of SOBs

The most common and presumably well-organized business model is that of dancers or entertainers as independent contractors (Jeffreys, 2008). The club collects a rental fee from dancers for the use of the stage and private rooms. Some argue that this model, contrary to regular-paid employees, gives entertainers more autonomy and control over the hours worked, private dances accepted, and income earned based on performance quality (Spencer, 2005). Using this model, entertainers are entitled to keep the tips that they receive during that evening. However, some clubs require the dancer to share a portion of their earnings with management, bouncers, and disc jockeys (Bruckert, Parent, & Robitaille, 2003). This model is in contrast to a previous system in which entertainers received wages and benefits as employees (Jeffreys, 2008).

Most entertainers report that their work provides a way for them to earn quick money to support themselves and their families, and for some, to get an education. The chief positive secondary effect for entertainers is the potential to earn high incomes (Barton, 2002; Spencer, 2005; & Philaretou, 2006). Other positive effects include feelings of power, sexual exploration, and the ability to meet new people (Philaretou, 2006; Sloan & Wahab, 2004; & Bruckert, Parent, & Robitaille, 2003). However, some have argued that stage rental fees, for example, encourage women to dance long hours to increase their take-home income. This “over-enthusiastic-dancer” theory might specifically apply to dancers who are average-looking or have lower chances of earning more tips compared to other dancers (Taggert, 2008). Other researchers have conceptualized SOB work as another form of marginalized gendered labor, where women must work long hours to make more money for others, mostly males (Bruckert, Parent, & Robitaille, 2003). While some argue that a dancer can make an average of \$60,000 a year (Spencer, 2005), other qualitative research indicates that some women don’t make enough to pay for basic needs (Barton, 2002). This lack of consensus underscores the SOB debate around the positive economic impacts. Is it that women who work in this industry value the flexibility in their schedule and the possibility of earning large cash incomes or does the business model contribute to an exploitative gendered labor practice where male owners earn much more income than the women entertainers?

## >Patrons and Customers

Another important economic exchange in this industry is between the patrons and the entertainers. Clubs owners and the entertainers rely on customers for their significant economic gain. Among the patrons are “regulars” who can be categorized into two groups. The first group of regulars are those who frequently visit the clubs and may spend long hours, but do not spend a lot of money on the dancers. As for the second group of regulars, the dancers depend significantly on this group because of their large monetary contribution. They are known as “monetary regulars” (Brewster, 2003). These regulars may not visit the clubs frequently, but they spend a large sum of money while

at the clubs, including buying more and different dances and spending money on food and alcohol. Therefore, because of their enormous contributions, the “monetary regulars” enjoy special privileges inside the club, such as entertainers, wait staff, and other employees paying extra attention to them. In addition to earning tips from customers, entertainers may also receive additional financial support in the form of expensive gifts (Brewster, 2003). A very small percentage of patrons are considered to be “sugar daddies” or monetary regulars (Erickson & Tewksbury, 2000).

The entertainer-customer relationship has been defined as mutually beneficial or exploitative where dancers use their sexuality and male patrons use their money (Erickson & Tewksbury, 2000). Entertainers earn cash tips in a variety of ways, and those ways have changed in the past couple of decades. More cities and states have allowed women to be nude on stage, and that has led to more lap dances and private booth interactions between entertainers and customers (Sanchez, 1997). The increased contact with patrons has provided a way for entertainers to earn more income.

Another trend is for other businesses to use adult entertainment clubs to conduct their business transactions. Professionals are able to conduct business while ostensibly enjoying the entertainment at an SOB, and these avenues might increase sales and profits for companies (Spencer, 2005). As a result, some clubs have refurbished themselves to suit the needs of professional clientele by providing quality meals and meeting rooms. This trend also seems to legitimize the industry in popular culture as a mainstream professional activity (Bradley, 2008). As described, the economic exchange between entertainers and customers is positive and mutually beneficial. However, the increased reliance on individual “lap dances” may create more of an increased vulnerability toward unwanted or over-the-line remarks, exploitation, or violence by customers (Sanchez, 1997; Holsopple, 1998; & Jeffreys, 2008).

## >Secondary Effects of Working in the Club for Female Entertainers

Research findings have asserted positive and negative impacts of the adult entertainment business for female workers. Sex work has proven in social science literature to be potentially mentally and physically dangerous to women workers. However, more recent qualitative studies explored the benefits of this type of entertaining (Frank, 2005; Bradley, 2008; Philaretou, 2006; Sloan & Wahab, 2004; & Barton, 2002). The potential positive and negative impacts of adult entertainment start perhaps with definitional disputes.

The debate begins with sex work – and whether adult entertainment is considered sex work. While some assert that exotic dance is a sexualized art form (Frank, 2005; Hanna, 2003), others define exotic dancing as indoor prostitution. “Indoor prostitution includes massage parlors and saunas, brothels, strip clubs and escort services” (Farley, 2005, pp.952). Undoubtedly some owners and entertainers take offense to the “indoor prostitution” or “prostitute” label. However, research regarding the health of dancers found common ground among these labels. “What is common across all of the forms of labor is the sale of a service to satisfy a sexual fantasy, produce sexual excitement, or arousal, and/or provide sexual satisfaction to a customer” (Maticka-Tyndale, Lewis, Clark, Zubick, & Young, 2000, pp.88).

Exotic dance conceptualized as part of other forms of sex labor, under the umbrella of indoor prostitution, substantiates overwhelming negative secondary effects. In a study of 69 female sex workers, a quarter of whom were dancers, work stressors included physical, verbal, and sexual abuse, fear of violence, and harassment (Jackson, Bennett, & Sowinski (2007). The threat of violence is a reality for many dancers. Raphael & Shapiro's (2004) research with 222 female sex workers, including dancers, in Chicago revealed experiences of forced sex, threatened rape, and physical violence. While many clubs have "no-touching rules," dancers reported that bouncers often look the other way, leading to increased sexual and physical violence, especially in private booths (Sanchez, 1997). Holsopple (1998) found that all ( $n = 18$ ) of the exotic dancers she interviewed had experienced physical and sexual abuse in the club setting and, therefore, concludes that this increased risk of physical, sexual, and verbal violence is a negative secondary effect. Physical health issues also include an increased risk for HIV and other sexually transmitted infections (Lewis & Maticka-Tyndale, 1998).

There are also negative secondary effects pertaining to mental health. Increased stress over threat of violence is a reality for many women (Jackson et al., 2007). The profession of exotic dancer carries a social stigma that causes many women to establish negative mental coping mechanisms (Thompson, Harred, & Burks, 2003). These include denial of injury (where the dancer asserts that dancing hurts no one, including herself); condemnation of the condemners, (where those who oppose dance are put down), and increased cognitive and emotional dissonance, in which other personas are created to separate the dance profession from the life outside the club (Thompson et al., 2003). Dancers also report decreased self-esteem from the constant scrutiny over their bodies and competition with other entertainers for tips (Barton, 2002).

Exotic dancers working in SOBs have higher rates of trauma-related mental health issues than other populations of women and, as such, mental health disorders are a possible negative secondary effect. Ross, Farley, & Schwartz (2003) studied female workers, including dancers, around the world and found high levels of post-traumatic stress disorder (PTSD), pathological dissociation, major depression, and other severe mental health issues. PTSD was found to be a common health problem for sex workers in another sample (Jackson et al., 2007). Exotic dancing is reported by research participants to take a toll over time on female entertainers' mental health (Barton, 2002).

While the negative impacts of physical and sexual abuse, mental health concerns, and increased health risks loom large as negative impacts, positive effects have been reinforced by recent research. Philaretou (2006) studied five clubs and five dancers and found that good pay for entertainers, regardless of background and education level, was one of the motivating factors to staying in the industry. Plumridge's (2001) sample of 32 SOB workers, including dancers, confirmed the findings of other research that most women enter the industry for the economic opportunities and scheduling freedom. Spencer (2005) asserts that dancing is a lucrative career option for many women. In an analysis of job satisfaction, Barton's (2002) sample of 22 dancers at nine clubs across the United States agreed that money is the major reason for job satisfaction. While reports of

the actual income of a dancer varies widely, high income is cited as the chief positive secondary effect.

Exotic dancers working at SOBAs also reported increased feelings of freedom and creative expression. Hanna (2003) describes exotic dancing as a form of artistic expression and compares the use of the dancer's body as entertainment similar to that of an athlete for competition. For some women, exotic dance has improved their self-esteem (Barton, 2002), and higher academically achieving women are joining the industry because of these freedoms of expression and the fact that entertaining is increasingly viewed as a legitimate profession (Bradley, 2008). Exotic dancers have also reported increased feeling of power (Barton, 2002; Philaretou, 2006) and sexual titillation (Philaretou, 2006). For some dancers, there are many positive secondary effects, including increased power, artistic expression, sexual fulfillment, and monetary gain.

## >Economic and Other Impacts of Exotic Dance Clubs

There are potential positive and negative secondary effects of SOBAs on the level of crime, property values, and economic functioning of cities. Many cities rely on revenues generated through adult entertainment business to keep their municipalities in the black. For example, the city of Topeka, Kansas, has seven exotic dance clubs that add notably to the city's economy (Spencer, 2005), and in response to this potential, other cities have sought to increase zoning that limits where SOBAs can exist (Hanna, 2003).

### Secondary Effects of SOBAs: Reports/Studies from 1998-2008

A review of reports and studies available in the last 10 years on secondary effects of SOBAs indicate an interesting divide between essentially two groups of researchers. These researchers have not only reported the positive and negative secondary effects of adult entertainment businesses, but they also have critiqued and counteracted one another's results, especially with regard to the methodologies and findings (Frank, 2007; & Hanna, 2003). The major researchers and authors are: Daniel Linz, Richard McCleary, James W. Meeker, Eric Damian Kelly, Connie B. Cooper, and Judith Lynne Hanna, among others.

The government of Scotland conducted one of the most extensive analyses of the adult entertainment industry in recent years (Scottish Government, 2006). Its report examined the economic, social, and personal impacts of the SOB industry and made recommendations for regulatory changes. The study was initiated because of concerns about the lack of controls on adult entertainment activity. The recommendations include the following:

- There should be national regulations applied to adult entertainment (AE) activity, regardless of where it takes place.
- All AE activities should be, at all times, fully visible to the public visiting the premises.
- Performers should not touch, or be touched by, customers.
- There should be adequate health and safety protection for performers.

- There should be adequate security to ensure compliance with AE regulations and prevent illegal activity. Each Local Authority should have discretion to determine appropriate methods of security, but as a minimum, there should be closed-circuit television (CCTV). Recordings must be retained for at least one month and delivered to the Local Authority within three working days of request.
- There should be a minimum age of 18 for AE performers and employed staff, with an obligation on the operator to ensure compliance.
- The Local Authority should determine if full nudity is appropriate for a specific venue, taking into consideration proximity and the degree of security and oversight.
- Local authorities should be able to control the number and size of venues providing particular types of AE in specific localities.
- The Local Authority should determine the degree of external visibility allowed for AE establishments, taking into account the location of the specific premises.
- There should be a National Exemption so that the regulations do not apply to artistic representational performance. Regulations designed to minimize exploitation should not, by accident, restrict genuine artistic freedom.
- The Scottish Executive should develop a coordinated strategic approach to the issue of gender-based exploitation (Scottish Government, p.83).

In addition to the overall recommendations, one part of the Scottish study examined economic issues regarding the role of adult clubs for the leisure industry being emphasized. According to the study:

*Annual turnover (sales) in the UK Adult Entertainment industry is estimated to be in excess of £300 million and is one of the fastest growing elements in the UK's "leisure services" industry. Our research showed an estimated 110 individuals working in some form in Edinburgh, 70 in Glasgow, and 70 in Aberdeen and Dundee combined.*

As part of the overall study, a more detailed report (Quaid, 2006) examined the positive and negative economic impacts of adult entertainment in Scotland.

### **Positive Economic Impacts**

- Gross customer expenditure for the adult entertainment industry is estimated to be between \$20.39 million and \$38.36 million.
- Because dancers at the clubs make more than the average weekly salary that they could have earned elsewhere, it was estimated that the annual earnings of dancers translated into an additional \$3.63 million expenditure across the four cities.
- Police forces report that adult entertainment venues seem to have lower levels of violence and disturbance than other bars and pubs.



- Scotland as a whole benefits from the adult entertainment industry attracting group tourism. These tourists often come in large numbers, are primarily single, and have high disposable incomes.
- Group tourism benefits Scotland due to associated “adventure” tourism (e.g., go-carting and white-water rafting).
- Cities in Scotland are more competitive with other Scottish cities when they have an adult entertainment venue present.
- It was argued by Visit Scotland, the official site of Scotland’s national tourism organization, that all businesses connected with group and business tourism benefit from the adult entertainment industry.

### Negative Economic Impacts

- Guests who visit Aberdeen or Edinburgh for adult entertainment are likely to displace other visitors because accommodation is usually at capacity.
- In a certain area in Edinburgh, surrounding businesses provided evidence of an “area-wide down-market image” due to the adult entertainment industry.
- In Glasgow, negative effects are more prominent on businesses adjacent to adult entertainment establishments.
- Property specialists found that, although impacts on property values appear to be negligible, there is some evidence that the salability of nearby residential properties is negatively affected.
- Property specialists also found that properties immediately adjacent to adult entertainment establishments in Glasgow are less desirable for certain businesses.

### Consequences of Closing Down Adult Entertainment Establishments

- Closing down the adult entertainment industry would cause the current establishments to be converted to other uses (e.g., public houses or clubs).
- The conversion of exotic dancing clubs to bars and pubs would cause an overall increase in potential clients for bars and pubs, on the assumption that current clients of exotic dancing clubs would choose to drink at bars and pubs rather than at home. Closing down the industry would result in a gross annual output loss of about \$7.08 – \$11.23 million. The loss of output is estimated to be less than the current sales of the industry (gross output – dancers’ self-employed income) and the worker income. Also some establishments may be converted to other uses if exotic dance clubs were banned.
- Closing establishments would also result in lost worker expenditures, but less than \$3.63 million.
- Less than 312 direct jobs would be lost. Including indirect and induced jobs, there would be a job loss of fewer than 387 jobs.

- A consequence of closing down the industry is the possibility of a “black economy” –an unofficial, unregulated adult entertainment industry. This would directly decrease the amount of tax revenue received. (Tax revenue amounts were not broken out separately in the report.)
- Overall, cities as a whole would not be largely affected. However, sectors associated with tourism would be affected (e.g., hotels and bars).

Overall, the economic impact of the Scottish adult entertainment industry is relatively small compared to the size of other leisure economies within the cities. The positive and negative effects of the industry are mostly confined to the immediate vicinity of the establishments and are only significant at a local level.

Burns (2000) examines several aspects of adult clubs and other types of adult businesses in the Atlanta metropolitan area. She includes a history of adult clubs in the region, describes in detail some of the area’s prominent clubs, reviews support for adult businesses among many elected officials, and provides different perspectives on crime and secondary effects. Emphasis on adult clubs and the large convention industry in the region is featured prominently throughout the article.

The author provides numerous financial figures without attribution or sources. These include the costs of individual services at different adult businesses (massages, escort services), ranges of typical income for different workers in the industry (exotic dancers, lingerie models, escorts), and sales for different segments of the industry (modeling studios, adult bookstores, escort services, and adult clubs). In 2000, for instance, there were 96 escort services listed in the Atlanta yellow pages, and according to the author’s sources, lingerie models typically earned \$600-\$1,000 weekly (a hotel worker at the time earned an average of about \$400 weekly). Industry segment estimates for 2000 were as follows:

Metropolitan adult club sales	(40+ outlets)	\$80-\$100 million
Metropolitan bookstore sales	(30+ outlets)	\$16.5-\$30 million
Modeling studios and spas	(50 outlets)	\$50 million+
Escort services	(96)	\$26 million

Based on data for Texas clubs and bookstores presented elsewhere in this report, these estimates seem reasonable. (Estimates for modeling studios and escort services could not be assessed.)

From the industry segment estimates, and an estimated \$20 million in wages for the 4,000 exotic dancers in the region (no source), a total economic estimate was \$192.7 million-\$226.2 million. This figure was then used by a reputable local economist from Georgia State University to estimate a total economic impact of nearly \$400 million (\$394.4 million) for all adult businesses in the region at that time.

A separate estimate was prepared also for the adult clubs. From the \$80 million-\$100 million in estimated total sales, an economic estimate of direct and indirect economic impacts was

determined to be \$200 million-\$240 million annually. Data described elsewhere in this report suggest that the Atlanta economic impact estimate is very likely to be that large, if club sales are in the estimated range.

While the economic data in this article appear quite credible, despite lacking sources, there is no way to evaluate some other assertions, such as the importance of clubs for convention bookings. While the interviews are persuasive and would seem to provide support for this assertion, there is no conclusive or even mildly strong evidence that clubs are a major factor in attracting large conventions. Nonetheless, this article provides good background about key economic, political, and legal dimensions of both adult clubs and adult businesses. It is well-researched, even if sources are not provided and cannot be verified independently.

### Impact on Property Value

While some studies have focused on incidences of crimes in communities surrounding SOBs, others, including studies conducted by Cooper & Kelly (2008), have specifically studied the trend of property values in areas with SOBs. This study exploring the relationship of SOBs and property values in Fort Worth differed from earlier studies conducted in Indianapolis, Indiana, and Austin (Cooper & Kelly, 2008). The methods used in the earlier investigations (Indianapolis and Austin) compared trends in property values in an area with an SOB to trends in property values over the same period of time to comparable area without an SOB. Because of the challenges in finding comparable areas, the authors decided to use appraisers' opinions to measure the effect on property values. By using certified appraisers, considered to be experts on property values, the authors designed a survey that inquired about positive and negative effects of a variety of land uses (for example, religious institutions, parks, libraries shopping centers, pawn shops, and homeless shelters) (Cooper & Kelly, 2008). Findings indicate appraisers collectively agreed that adult entertainment businesses of any kind (stores, arcades, or cabarets) contributed to a decrease in single-family home property values (Cooper & Kelly, 2008). Moreover, 70% reported that the negative influence of adult entertainments businesses on general property values could extend beyond 3,000 feet or approximately six blocks. Interestingly, for single-family homes, the distance at which appraised values would no longer be affected by an adult use was shorter. More than three-quarters said that adult uses tended to decrease commercial property values, including community shopping centers. Another approximately 50% of the appraisers felt that adult-oriented businesses impacted shopping centers' appraised values beyond 3,000 feet. The only other businesses that were impacted by decreasing the property values of shopping malls were homeless shelters, pawn shops, and bars, but with a much lower degree as pointed out by the participants (Cooper & Kelly, 2008).

Another important agreement by most of the appraisers was that a concentration of SOBs had a greater negative impact than isolated uses. Furthermore, according to most of the appraisers, a maximum of three adult businesses grouped together was considered to have greater impact especially within approximately 1,000 feet of one another. They also felt the concentration did not have an impact at an average distance of 3,800 feet (as compared to approximately 2,300 feet to 2,800 feet single uses). The findings of this study are not free of biases: More than 20% of

appraisers self-reported that they felt that their answers to the survey questions might have been influenced by their personal or ethical beliefs (Cooper & Kelly, 2008).

There is a clear pattern in these survey results. Residential property values, and to a lesser extent commercial property values, are affected negatively, according to these Texas appraisers, by four types of SOBs and certain other types of outlets or facilities that often bring undesirable people, activities, or conditions. This general finding is not unanticipated. And because the sample of appraisers brings substantial experience and qualifications to this exercise, their opinions cannot be dismissed. However, some cautions are in order.

- This is opinion data only. In addition, these are opinions based not on actual observations of properties and locations but on hypothetical situations.
- Another approach based on actual, not hypothetical, properties and neighborhoods would have proven valuable. The methodological approach outlined but not chosen by the authors offered promise.
- While it may well be that locating a new SOB adjacent to residential or commercial properties will affect negatively the values of existing properties, the study is lacking estimates about the magnitudes of negative impacts. Are the impacts minor or substantial?
- In several of the tables, it should be pointed out that non-SOB entities are viewed as negatively as the SOB businesses.
- While the majority (approximately 70%) of respondents stated their appraisal opinions were unbiased by their personal, moral, or ethical views, it would have been worthwhile to have had separate tabulations that excluded results from appraisers who reported that their personal views affected their professional work.

A study similar to Cooper & Kelly (2008) was conducted in Austin in 1986 by the Office of Land Development Services. The survey of subjective opinions of real estate appraiser and lenders in Austin (N=54) comprised of three segments that asked: (1) to specify the effect of one adult bookstore on residential and commercial properties located within one block and three blocks of the bookstore; (2) to estimate the effect of residential property values within one block for a variety of commercial uses other than an adult bookstore; and (3) to estimate the degree to which property values were affected by adult businesses (Office of Land Development Services, 1986). Regarding the first question, a majority of the respondents believed that an adult book store would have a negative effect on residential property located within one block. Thirty-one percent reported that the value of residential property would decrease by 20%. Another 69% reported that the value of commercial property within one block of the bookstore would be also affected. Fifty-nine percent also indicated that the value of residential property located three blocks from the bookstore would decrease.

In response to the second question, survey respondents indicated that the residential property values would increase if the site was used for medical offices or branch libraries. In contrast, if the site was used for other businesses– a pool hall, tavern, welfare office, drug rehabilitation center, or any other adult entertainment businesses– the value of residential property will decrease. In relation to the impact on commercial properties, respondents indicated that they were affected, but to a lesser degree compared to residential properties. They also indicated that the effect of one adult entertainment business would be less than a concentration of businesses. Those who indicated no or little effect of SOBs shared that these businesses are located in areas where the property values are already in decline or some commercial properties are held by long-term leases, or there is no evidence of change in market value (Office of Land Development Services, 1986).

Real estate professionals also shed some light on a few of the factors that influence why property values are affected by adult entertainment businesses. Families, especially those with children, are concerned by the clientele that SOBs attract. This concern negatively impacts the property value by lowering them. Another negative effect that emerges from the information is that mortgage underwriters are not eager to extend credit to businesses due to declining neighborhood values in the areas with SOBs (Office of Land Development Services, 1986).

In contrast to the previously mentioned studies, a report based on a series of study analyses during 1993-2002 by McLaughlin Consulting Services, Inc. (2003) in various cities across the United States comparing control areas with those of SOBs indicated no negative secondary effects of adult entertainment businesses. This included changes in property values in the areas with SOBs that would specify a decrease or an adverse effect on the property values (McLaughlin Consulting Services, Inc., 2003). The study compared the subject areas with adult entertainment businesses and control areas such as restaurants, hotels, general commercial areas, theaters, other clubs, bars, shopping centers, bookstores, gas stations, high schools, offices, and residences. The results indicated no secondary effect for values in areas with SOBs.

Many of the studies conducted to assess the secondary effect of SOBs on property values have been surveys of real-estate appraisals. This methodology has been praised and criticized. Hanna (2003) noted that appraiser reports are speculative and thus unreliable. Cooper & Kelly (2008) said that the use of appraisers was similar to the use of any other expert and also eliminated other reliability problems, such as adequate comparisons. As previously noted, research of appraisers involved their professional opinions of real-estate value.

### **Zoning of SOBs**

Since the 1970s, zoning restrictions have been in place in major U.S. cities (Tucker, 1997) to prevent the growth of adult businesses in residential areas or near schools or religious facilities. In 1976, the City of Detroit introduced zoning laws to decentralize sex-related “adult” businesses under the presumptions of negative secondary effects of the businesses on the neighborhood areas. Detroit passed the first major law of this kind in 1972 (although it was not upheld by the U.S. Supreme Court until 1976) that stated that no more than two adult businesses could be located within 1,000 feet of each other or within 500 feet of a residential area (Ryder, 2004). Since then,

several cases have been brought to the Supreme Court to enact legislation to control zoning of SOBs and curb the presumed negative secondary effects (Paul, Linz, & Shafer, 2001; Linz, Land, Williams, Paul, & Ezell, 2004). Similar laws were passed in Seattle, Washington, and Camden, New Jersey, and zoning laws were passed in other cities (Atlanta, Georgia; Kansas City, Missouri, and Los Angeles, California) to ensure that no adult entertainment business took up residence near a school and clustering were allowed (Ryder, 2004).

Hubbard et al. (2008) have called for more investigation of SOBs because of their increasing visibility in the urban locations. This trend may be due to factors such as urban gentrification, a decrease in the stigma for the male consumer as the trend in the use of adult entertainment businesses for corporate meetings increases, and their overall economic contributions (Erikson & Tewksbury, 2000; & Frank, 2003). In a review of major studies assessing the validity of increased crime in neighborhoods with SOBs, researchers found that SOBs pose a statistically significant public safety hazard (McCleary & Meeker (2003; 2004). Moreover, Cooper & Kelly (2008) concluded their study of appraisers by concurring with the actions of many cities to zoning SOBs because of the negative secondary effects. However, a study conducted in Charlotte, North Carolina, found no significant secondary effects (Linz, Land, Williams, Paul, & Ezell, 2004) of SOBs. The issue of zoning SOBs for the need to or purposes of minimizing negative secondary effects continues to be unclear.

### **Public's Response to SOBs**

To save failing economies and or to generate new revenues for infrastructure, municipal policymakers have allowed adult entertainment businesses and SOBs to grow and thrive. The public's understanding of the economic contributions of adult entertainment businesses to the city's livelihood is not clear. West & Orr (2007), in a telephone survey of 403 Providence, Rhode Island, residents, explored the perception of citizens toward SOBs in their city. The researchers explored the public's views of morality versus economic contributions of SOBs. The findings indicated that people were concerned that too many clubs might have a negative impact on their city. Concerns included sexual content, the negative reputation clubs might have on neighborhoods, and whether families were discouraged from living in the city because of the presence of SOBs (West & Orr, 2007). Most participants (65%) said that the government should regulate SOBs rather than ban or outlaw them (10%) or operate them openly (14%). Education seems to have an impact on opinion, such that participants with less education were more likely to support banning or outlawing SOBs. Participants with a higher education were least oppositional toward SOBs or were lenient about the regulations (West & Orr, 2007).

The study questioned participants about policy remedies including police raids, levying higher taxes, tighter zoning, or clustering (West & Orr, 2007). Eighty-one percent of the participants believed that adult entertainment should be restricted to certain areas, 57% believed that zoning rules restricting sexual businesses needed to be strengthened, 53% supported adding a 25% adult entertainment club tax, and another 34% were in favor of unannounced police raids on these businesses. More research is needed regarding public opinion of the impact of SOBs. However, the findings from this study indicates that many citizens believe that there are negative effects related to SOBs, they

support regulations, and think moral considerations are as important as economic considerations (West & Orr, 2007).

### **Crime and Sexually Oriented Businesses**

Studies on the secondary effects of exotic dancing clubs have been conducted to determine the impact of SOBs regarding crime. A study by Linz, Land, Williams, Paul, & Ezell (2004) in Charlotte, North Carolina, sought to determine whether a relationship existed between adult erotic dance clubs and negative secondary effects in the form of increased numbers of crimes reported in the areas surrounding the adult businesses. The researchers concluded that fewer reported crime incidents occurred in areas surrounding adult business as compared to areas surrounding three control sites. For each of the 20 businesses in the area, a control site (compared on the basis of demographic characteristics related to crime risk) was used to compare reported crime over a three-year period (1998–2000). Reported crime incidents to the police were used. The researchers concluded that there was no evidence of an increased number of crime incidents reported in localized areas surrounding the adult entertainment (defined by circular areas of 500- and 1,000-foot radii) as compared to the number of crime incidents reported in similar localized areas without any adult business in the vicinity (Linz et al., 2004).

Linz, Paul, & Yao (2006) also conducted a study over a five-year period in San Diego, California, to test assumptions made by the government and by conservative policy advocates of a greater incidence of crime in areas surrounding peep show establishments. Levels of crime activity and the costs to law enforcement were examined by measuring the number of calls for service to the police within a 1,000-foot area on either side of the peep show establishments and comparably-sized control areas beyond the immediate 1,000-foot area. Furthermore, a more focused “late night” (2 a.m. to 6 a.m.) analysis was also considered for the study. The results indicated no differences in crime levels between the control and comparison areas. Moreover, there was no evidence of greater numbers of crime between 2 a.m. to 6 a.m. in the areas adjoining the peepshow establishments.

Paul, Linz, & Shafer (2001), in their review of governmental regulations of adult businesses through zoning and anti-nudity ordinances, have suggested commonly cited problems of those studies. According to the authors, the reliability and validity of studies exploring secondary effects associated with adult businesses are questionable because of the lack of methodological rigor and peer review. Specifically, Linz et al. (2004) have provided examples of their criticisms and methodological flaws: the Indianapolis, Indiana, study (1986) that is commonly cited by municipalities did not properly match study and control areas on important variables; the Phoenix, Arizona, study (1979) was based on crime data collected for a one-year period; and the authors of the Los Angeles study (1977) acknowledged that their study could have been exposed to contamination, as police increased surveillance of adult businesses during the study period.

According to the authors (Linz et al., 2004), studies conducted in various communities throughout the country fail to qualify the professional standards of scientific inquiry and meet the basic assumptions necessary to calculate an error rate. Based on four criteria for methodological validity, the authors found that all the studies failed at least one or all the criteria. First, most studies have



attempted to compare areas containing adult businesses to areas that are not comparable because they were not sufficiently matched regarding important characteristics, such as age of housing stock or racial makeup. This lack of comparability between study and control areas prevents researchers from determining whether neighborhood deterioration is related to the operation of adult businesses or another confounding variable (Linz et al., 2004). Second, a number of the studies using neighborhood crime measures have collected these statistics improperly. Although many studies gathered legitimate and consistent measures of crime statistics, such as police arrest reports over a sufficient period of time, a number of others used less scientifically acceptable measures, such as cross-sectional survey results of residents' opinions of levels of crime. Third, the majority of studies failed to include a sufficient period of elapsed time—both prior to and following the establishment of an adult entertainment business—when measuring the relationship between the presence of adult businesses and a number of negative outcomes, such as higher crime rates and lower property values. Without a sufficient study period, it is difficult to determine whether a relationship exists between adult entertainment businesses and negative secondary effects, or whether the data are simply a reflection of an erratic pattern of local activity. Finally, most of the studies that included survey results used non-random and, therefore, biased samples of residents and/or business owners, rendering them scientifically invalid. Even if methodologically valid, such studies offer only subjective opinions concerning the impact of adult businesses and provide little, if any, evidence of actual negative secondary effects (Linz et al., 2004).

In a 1994 study conducted in Phoenix cabarets, arcades and adult bookstores were studied. Interviews with residents, police officers, and on-site observations were conducted to determine the types of activities that took place outside adult businesses. Calls for service by the police were also analyzed by time of day. Also included was further data from the Organized Crime Bureau Vice unit about specific violations such as prostitution and disorderly conduct, noise/disturbance, and loitering. The findings from the Phoenix study disagree with the government's contentions that adult businesses contribute to crime and social problems. The business owners in the study shared that more vandalism, more crime against customers and businesses, and more money was spent on security in the control areas, compared to those with adult businesses. Also interestingly, only 2% of the police who were surveyed said that adult businesses had a lot of problems that required their attention, compared to 31% who said the control business areas had a lot of problems that required police attention (Linz et al., 2006).

McCleary & Meeker (2003; 2004) have disproved the methodologies in the studies mentioned previously, and the association of crime and adult entertainment businesses. The major critique on secondary effects of adult entertainment businesses in San Diego by Linz & Paul (2002) was conducted by McCleary and Meeker in 2003. They highlighted three major methodological limitations: (1) the measures of public safety used for the study; (2) the statistical models used to analyze the public safety measures; and (3) the quasi-experimental design used to interpret the analytic results. They explained that the serious measurement flaw with the study was the use of Calls-For-Services (CFSs) to measure public safety risk. According to the authors, and based on their review of national criminology journals for the past three years, there is no standard in the



criminology literature or in the secondary effects literature specifically for using CFSs to measure crime. Also, the authors indicate that most of the published and unpublished study they reviewed relied on Uniform Crime Reports (UCRs) to measure public safety risk. The researchers also explained that CFSs do not measure crime, and most of Linz et al.'s (2003) study findings are based on CFSs. The authors have refuted the assumptions behind using CFSs, such as: (1) Assuming that CFS addresses are the locations of crimes; (2) Assuming that the incident and CFS occur simultaneously; and (3) Assuming that CFSs pose identical public safety risks. According to these authors CFS data obtained from the San Diego Police Department by the researchers are insufficient to specify the locations, times, or natures of the incidents/crimes (McCleary, R. & Meeker, J. W., 2003). McCleary & Meeker further explain that the use of CFSs that leads to unavoidable faulty interpretations. (1) The address recorded on a CFS is the caller's address. The caller may be reporting a crime taking place somewhere else or at a neighbor's place, but the CFS belongs to the caller. (2) The time recorded on a CFS is the time that the San Diego Police Department received the call. Nearly 40% of the CFSs in the dataset used by Linz et al. were property crimes, primarily burglary and auto theft. According to McCleary & Meeker, these crimes are often discovered and reported hours (or even days) after they have occurred. (3) Also, almost half of the CFSs in the dataset caused no public safety threat because they were unfounded, cancelled, duplicated, or false alarms. Of the 20% that were precipitated by "crimes," public safety risk ranged from low (for example, vehicle recovery) to high (for example, crime-in-progress). Furthermore, all of these CFSs used in the raw total CFS index used by the authors were treated equally. Statistical problems with the study indicate not acknowledging the difference in numbers of CFS near the peep show and the controlled areas, and noting the difference as insignificant. Also, they were accused of "fishing" or replicating a study several times without the use of rigorous design conventions (McCleary & Meeker, 2003).

McCleary and Meeker (2004) also reported a methodological critique of Linz, Paul, & Yao's report to the city of Toledo, Ohio, on secondary effects of the adult entertainment businesses. An analysis of the data by the authors led to critical comments with relation to the methodology and results of the study. The results of their analysis counteracted earlier findings, indicating that Toledo was no different than any other U.S. city, and that there was a significant relationship between crime-related secondary effects and SOBs in Toledo. They used the same data and methodology used by Linz, Paul, & Yao, but arrived at different conclusions. The two main differences between the two analyses were: (1) differences in the underlying statistical assumptions; and (2) differences in the interpretation of analytic results. Besides highlighting analytical problems and faulty conclusions, the authors also denied the accuracy of using CFSs to measure crime risk, the use of an over-parameterized model, and fishing in the study (McCleary & Meeker, 2004).

In the case of *Alameda Books v. City of Los Angeles*, U.S. District Court, Central District of California, Case No. CV 95-7771, Richard McCleary (2007) in his analysis using Poisson regression analyses of crime incidents in the vicinity of 19 Los Angeles SOBs concluded that there is a significant relationship between risk of crime victimization in the vicinity and distance from the site. The author also stated that victimization risk at the site of a combined bookstore-arcade is more than double

the risk at the site of a standalone bookstore. For both subclasses of businesses, victimization risk decreased immediately with distance and at approximately 900 feet, the risks were almost equal for the two subclasses. The two relevant subclasses in this study were SOBs that sold videotapes and DVDs for off-site viewing (the “stand-alone bookstores” or “bookstores”) and SOBs that sold videotapes and DVDs for off-site viewing while also providing private or semi-private booths for on-site viewing of videotapes and DVDs (the “combined bookstore-arcade” or “bookstore-arcade”). Although both subclasses have large, significant crime-related secondary effects, there are salient qualitative differences. The geo-coded crime incident data for the neighborhoods around 19 Los Angeles SOBs supported the explanation that compared to stand-alone bookstores, combined bookstore-arcades posed higher risks for crime (McCleary 2007).

To summarize, the debate between researchers concerning the study of secondary effects of SOBs is a heated one. While researchers such as Linz argue that previous data is flawed, other researchers such as McCleary confirm the validity of previous studies. Linz’s work has been criticized for the use of reporting techniques, such as police incidents, that do not reflect the real level of crime. Research with proven data-gathering techniques is needed to establish a new and reliable knowledge base pertaining to the presence of criminal secondary effects of SOBs.

## >Conclusions

Sexually oriented businesses have both positive and negative secondary effects on communities and female workers. For female workers, positive benefits include the potential for higher wages, freedom of schedule, sexual exploration, and artistic expression. Negative effects include sexual and physical violence, harassment, health risks, and mental disorders. The literature seems to confirm that working as an exotic dancer may have more negative effects than positive, since over time, dancers gather more negative experience that contributes to overall mental and physical health decline (Barton, 2002). More exploration is needed with dancers to determine how or whether the profession can become safer for women.

Property values are impacted by SOBs. Appraisers regularly reported that SOBs are connected to lower residential sales. However, as Hanna (2003) reminds us, correlation is not causation. There could be other reasons, such as increased traffic, visual value, and overall location, which are also related to this dip. It seems that there is not an authoritative source that has been able to confirm or deny that SOBs cause these lower values. Appraisers are solid market experts; however, actual sale data may increase the validity of these studies.

Both positive and negative economic factors have been associated with SOBs. The increasing popularity and legitimization of the profession has led to a booming industry. There is a potential for high wages and earnings for club owners and workers. Some communities have experienced a restoration because of their adult-oriented businesses, while others have indicated that the clubs bring down the market value of the community, promote classless landscapes, and contribute to overall dilapidation.

Perhaps the most-debated secondary effect is the impact of SOBs on crime. There is a lack of reliable and valid research to confirm or deny that increased SOBs contribute to crime. Because many of the crimes committed at SOBs, including rape, drug-related incidents, and physical violence, are least likely to be reported to police, the interviews with club workers, patrons, and owners may be the best barometer. Since women working at SOBs have a confirmed increased risk of violence, some crimes are connected with SOBs, including those that are motivated by power and control. Again, this becomes an issue where a correlation is clear, but causation needs to be established.

There are secondary effects, both negative and positive, to SOBs. While a body of research has been established, improved methods are needed to establish increased reliability and accountability. Due to the occurrence of highly polarized opinions concerning the morality of the sex industry, it appears that impartial researchers are needed. Measures should be taken to protect female employees and maximize benefits. Greater community participation and feedback, and much more research, is needed to authoritatively answer these questions.

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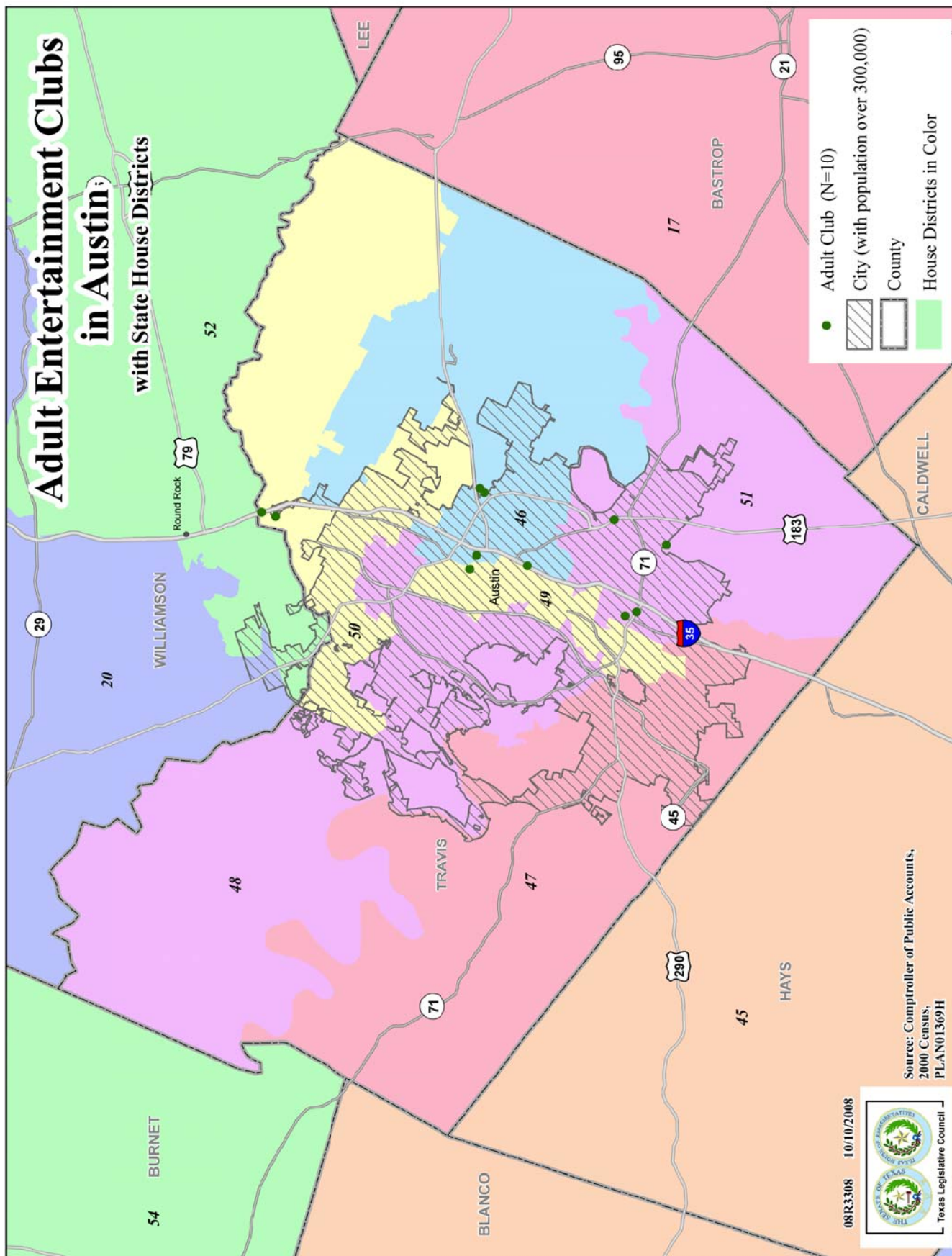
## Appendix IV

### Maps

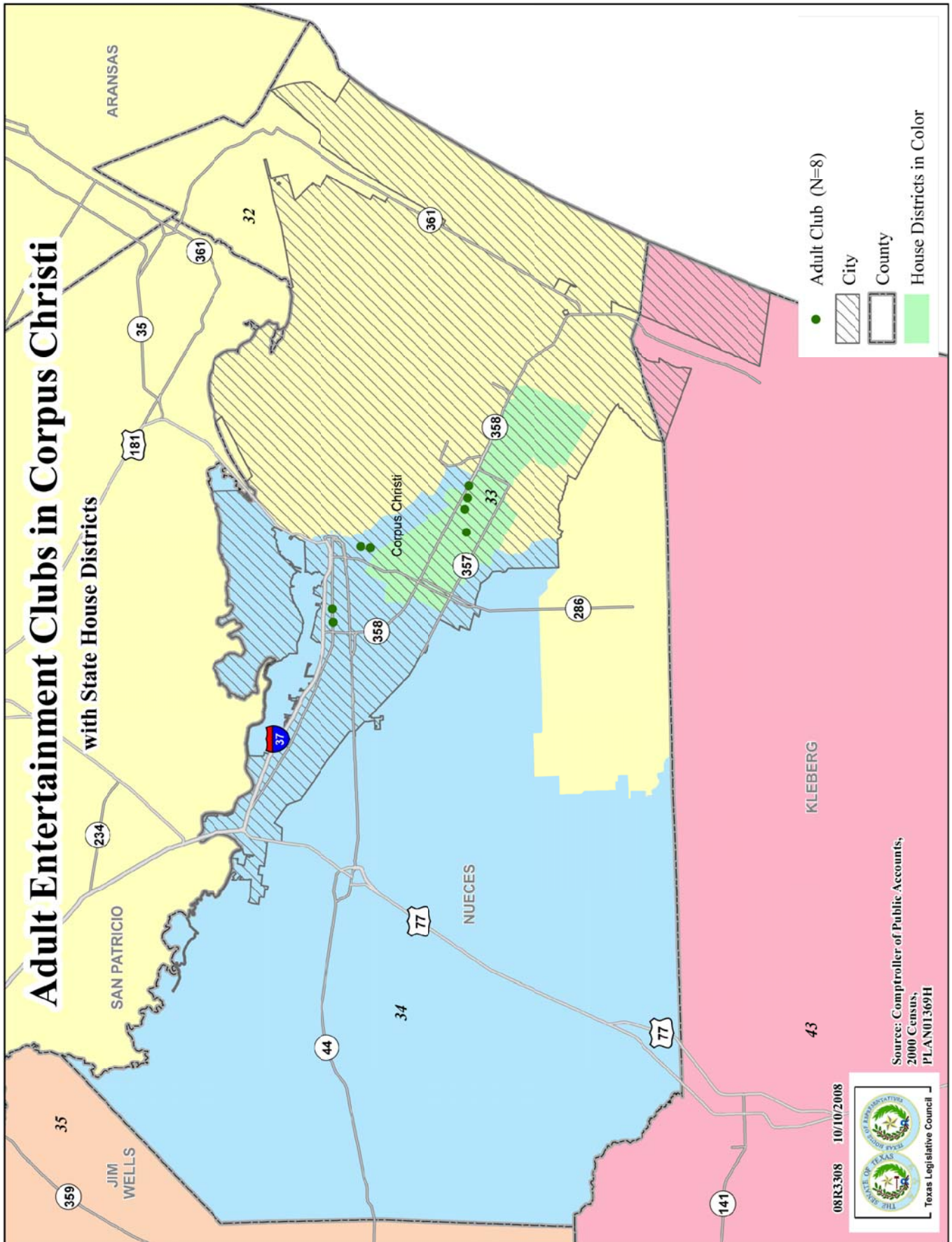
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The Reference maps that follow include:

- With State House Districts
  - Adult Entertainment Clubs in Austin
  - Adult Entertainment Clubs in Corpus Christi
  - Adult Entertainment Clubs in Dallas
  - Adult Entertainment Clubs in El Paso
  - Adult Entertainment Clubs in Fort Worth
  - Adult Entertainment Clubs in Houston
- With State Senate Districts
  - Adult Entertainment Clubs in Austin
  - Adult Entertainment Clubs in Corpus Christi
  - Adult Entertainment Clubs in Dallas
  - Adult Entertainment Clubs in El Paso
  - Adult Entertainment Clubs in Fort Worth
  - Adult Entertainment Clubs in Houston





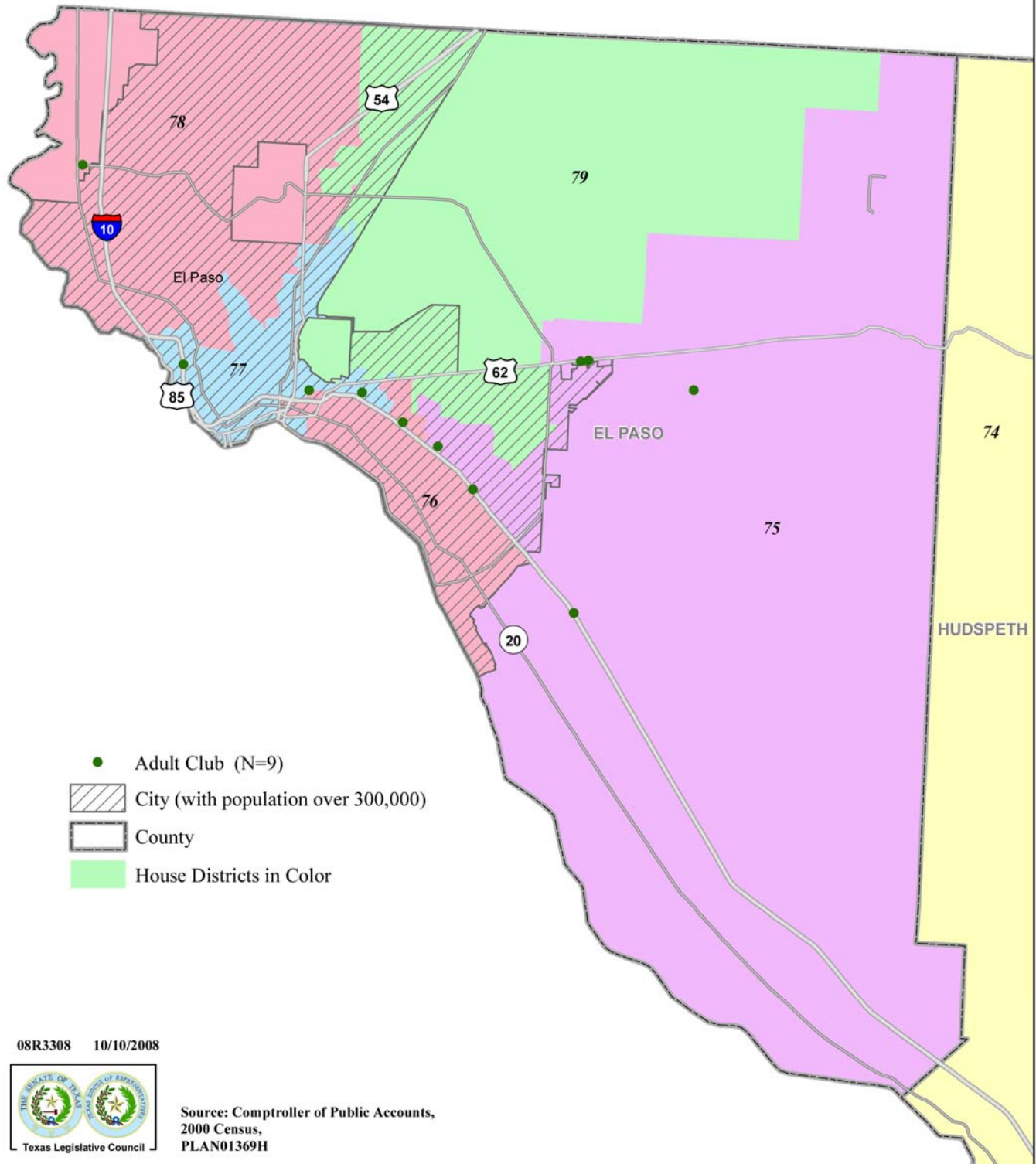




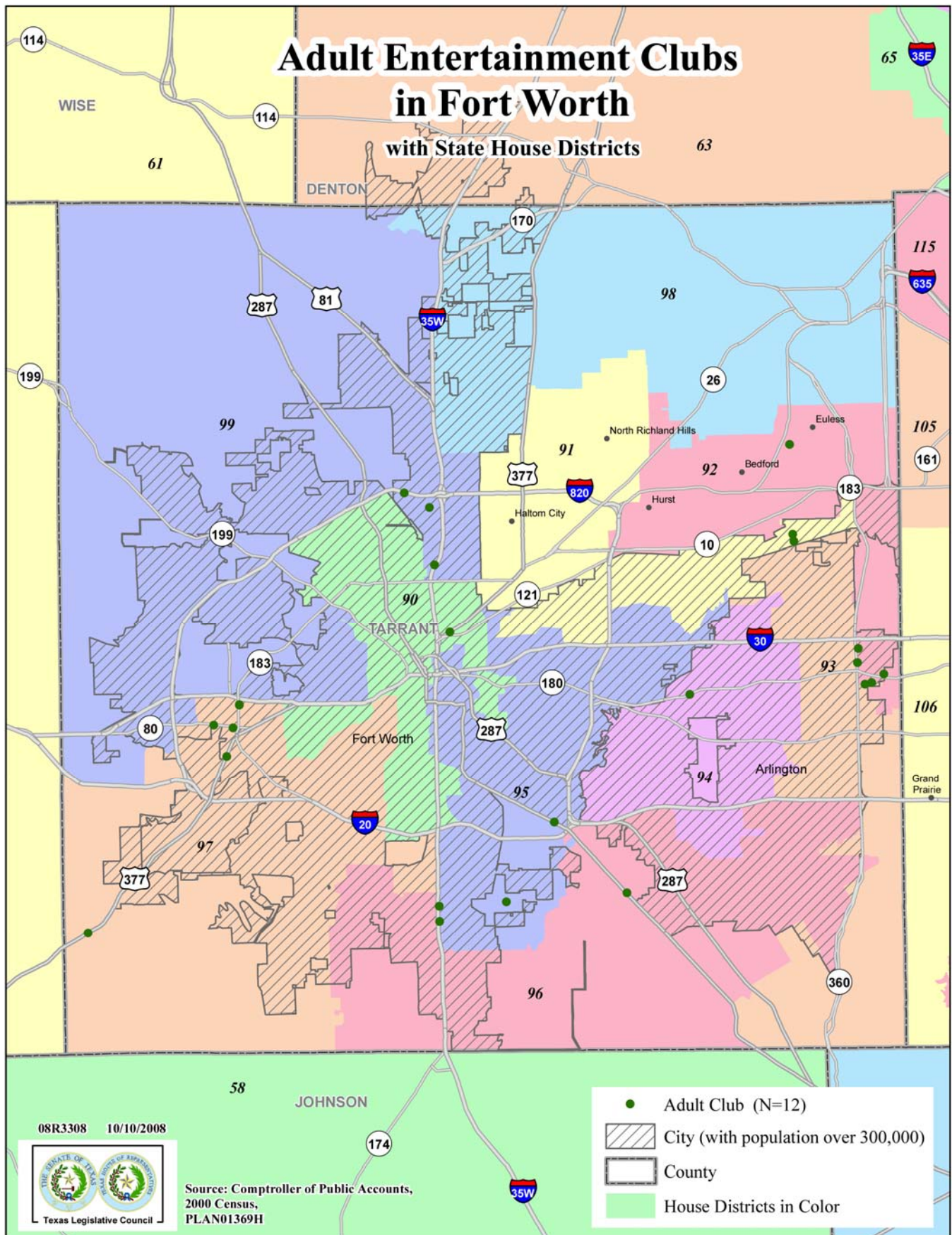


# Adult Entertainment Clubs in El Paso

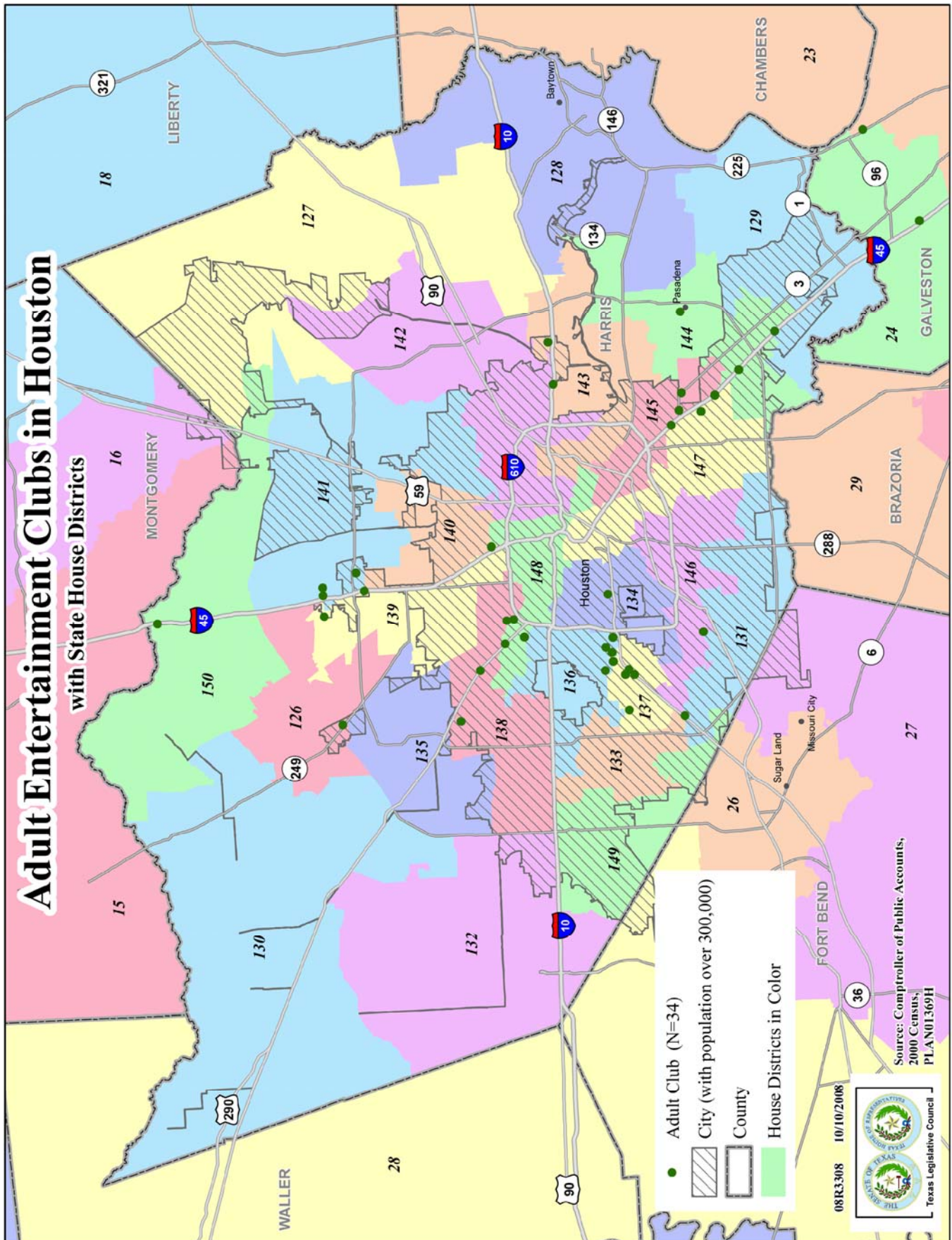
with State House Districts

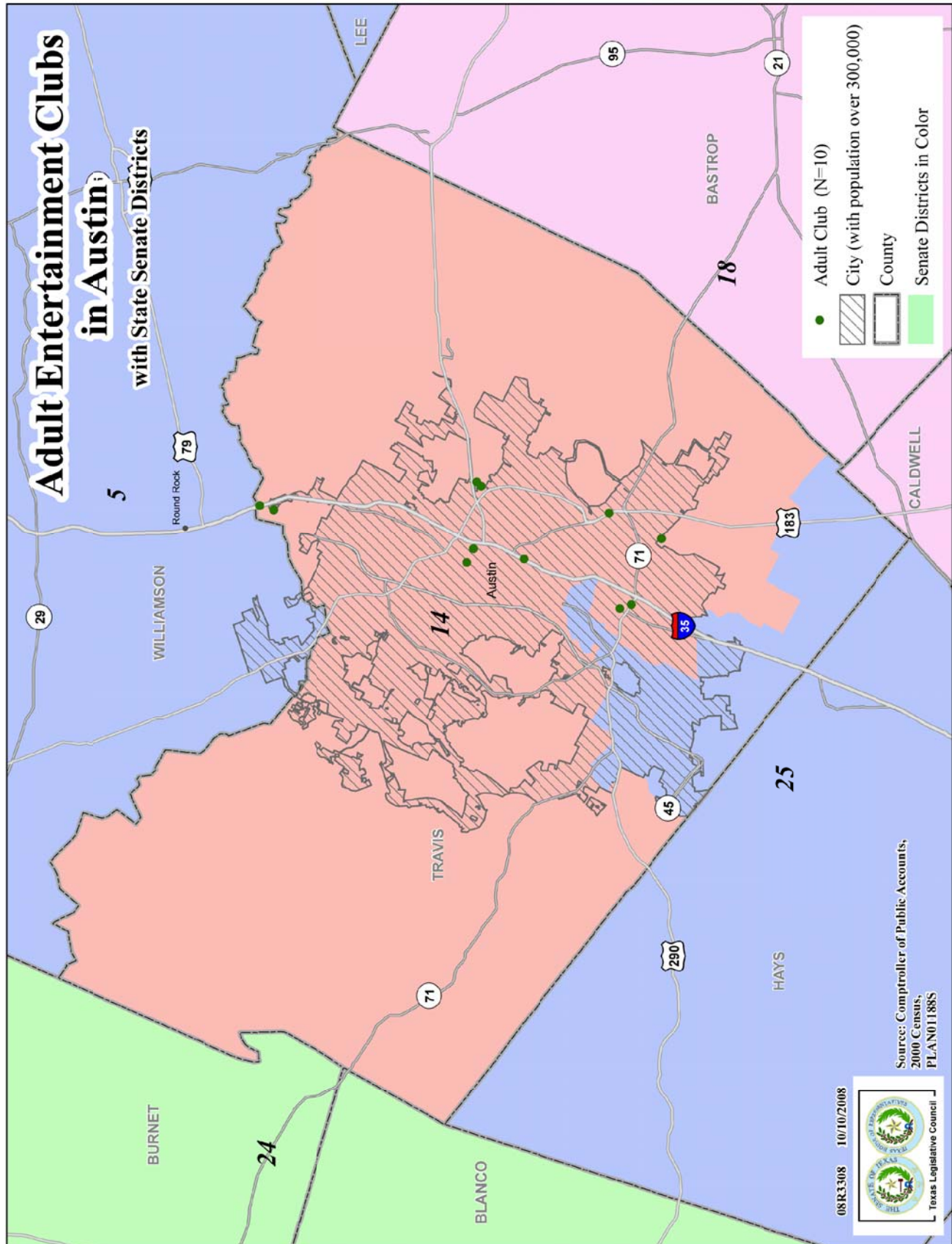




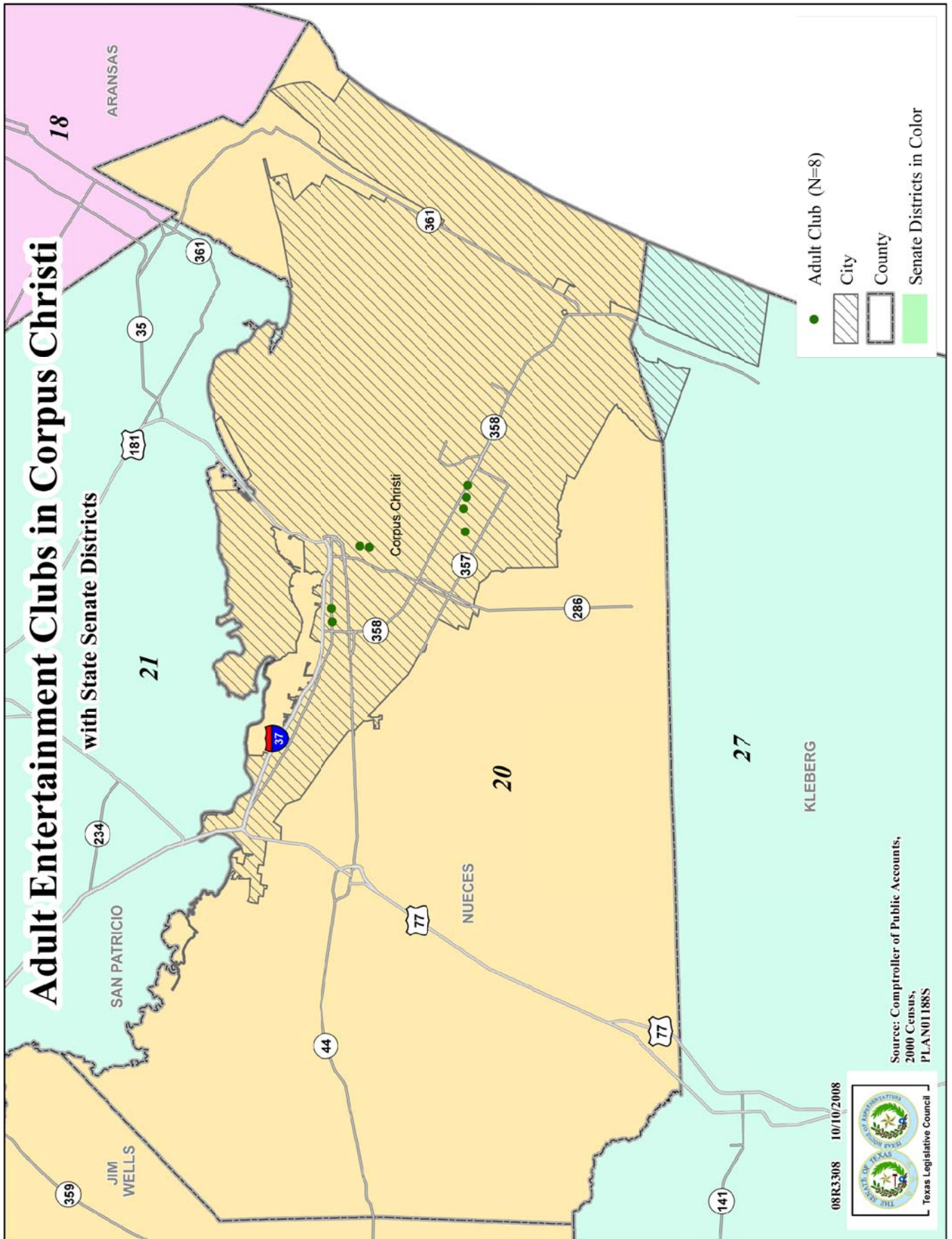




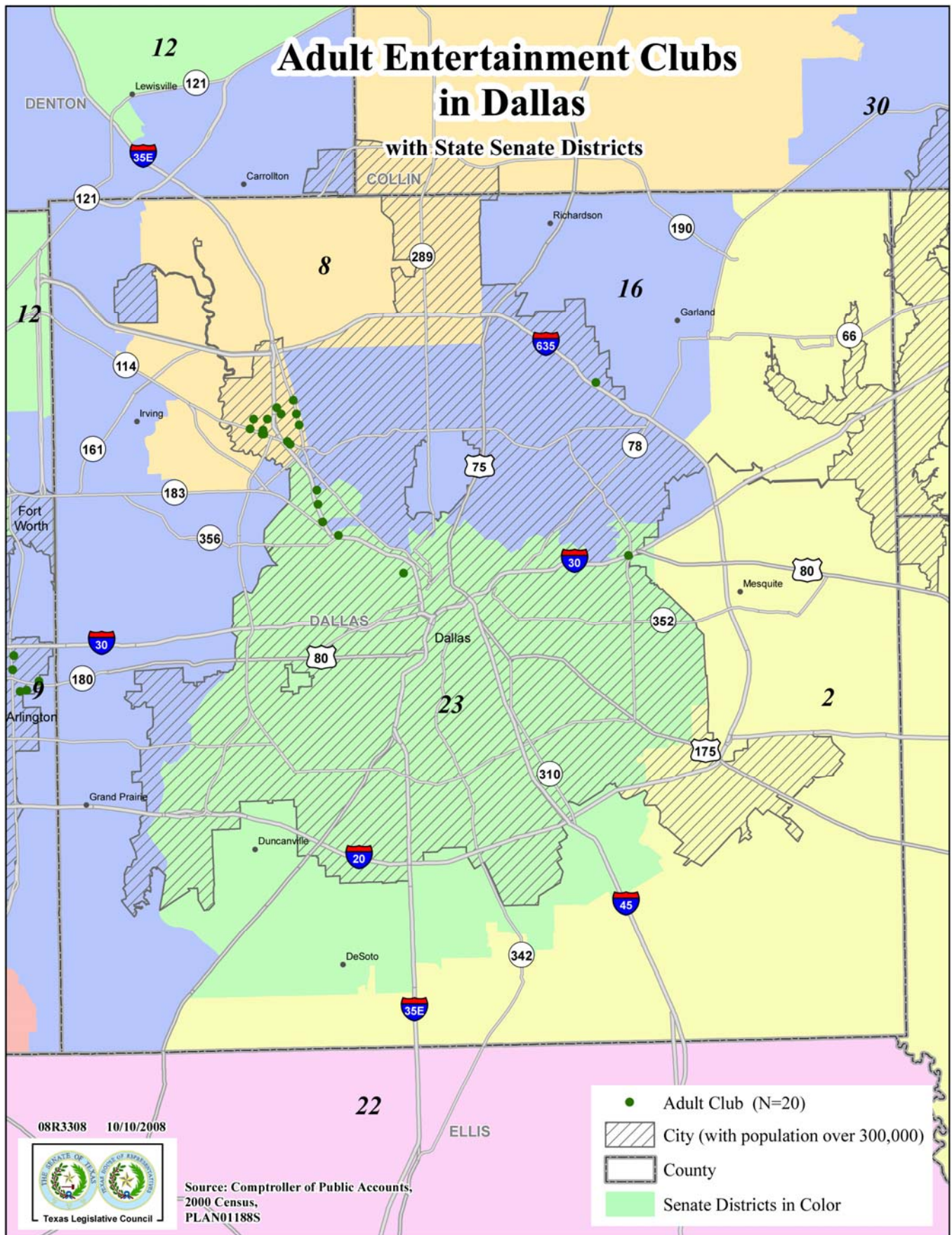








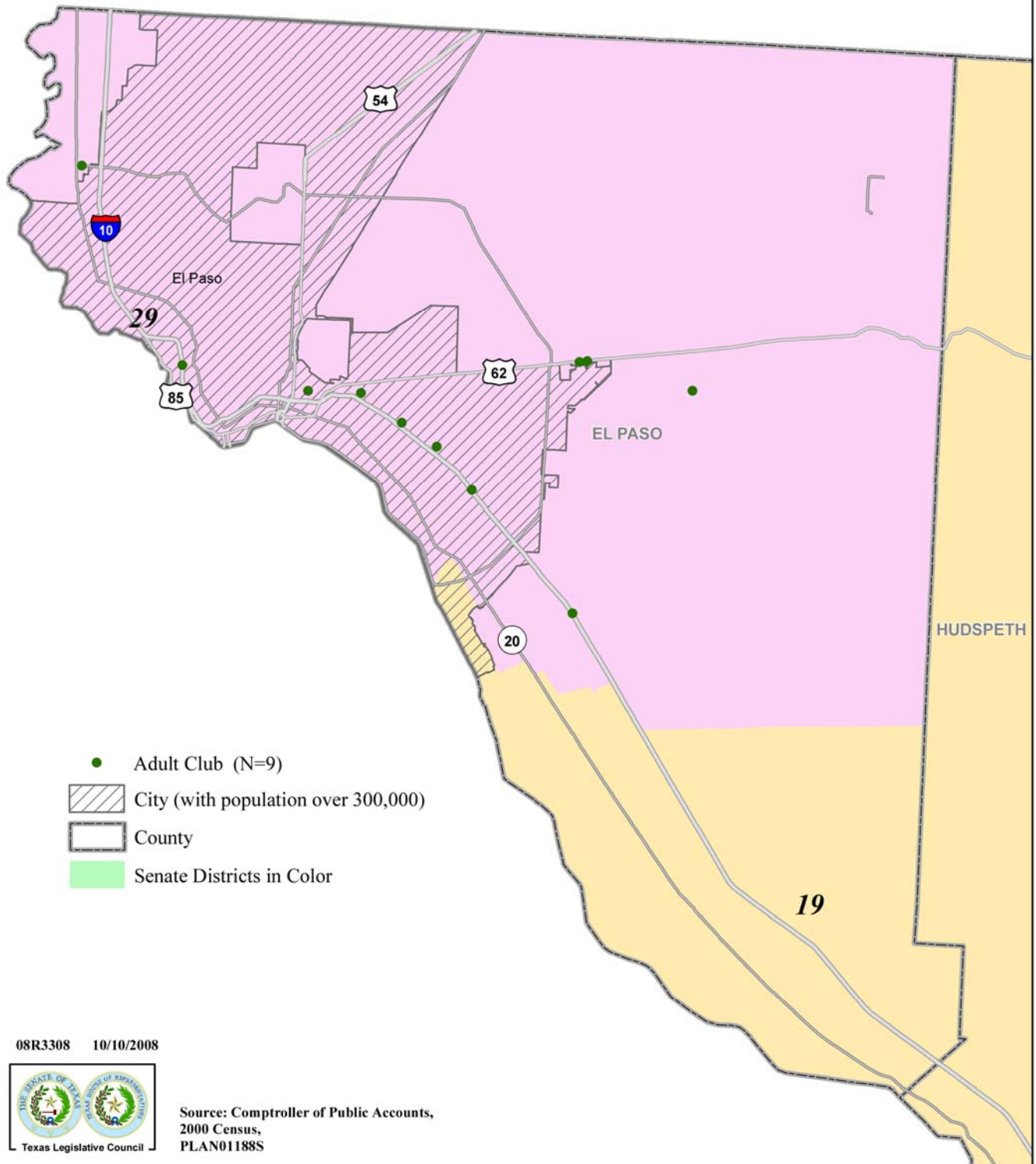


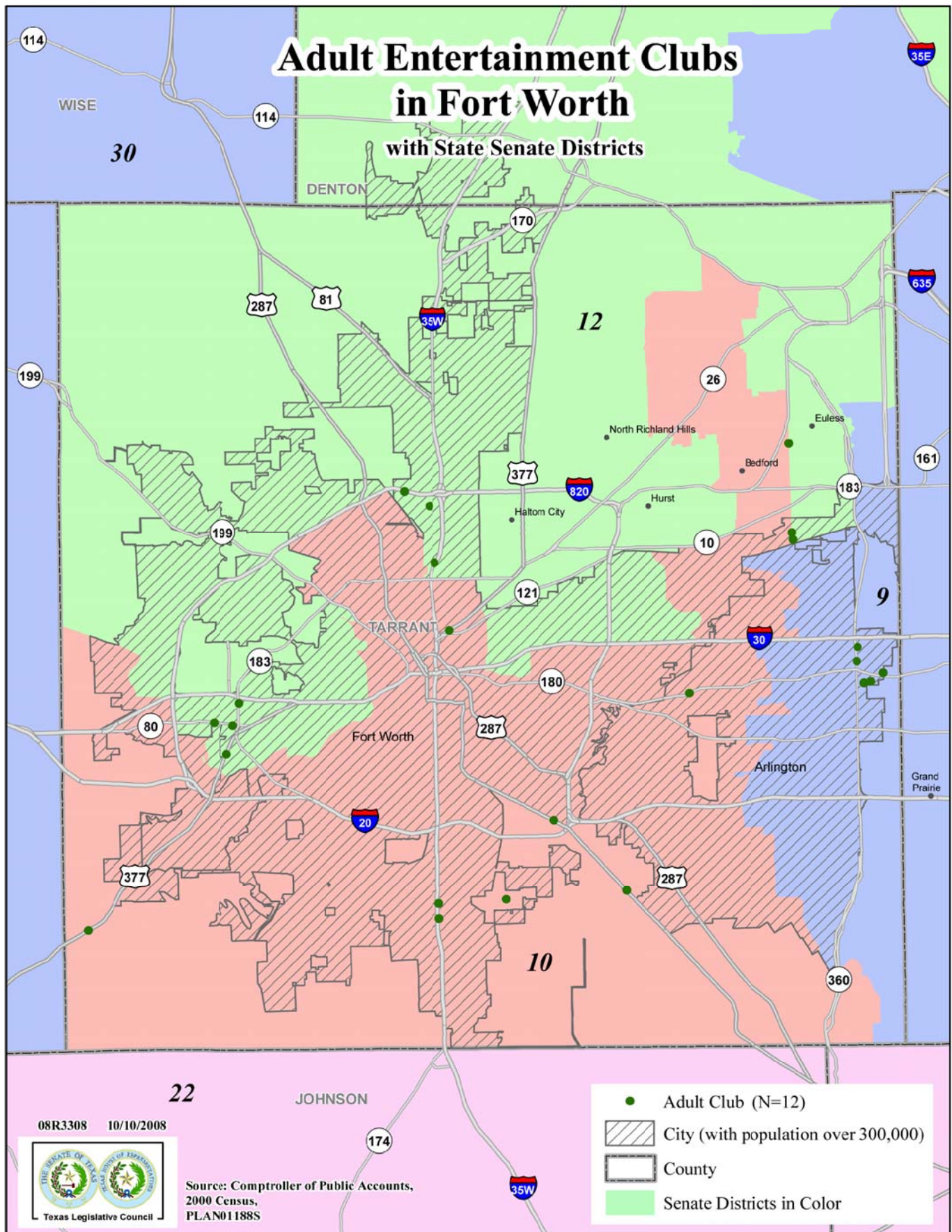




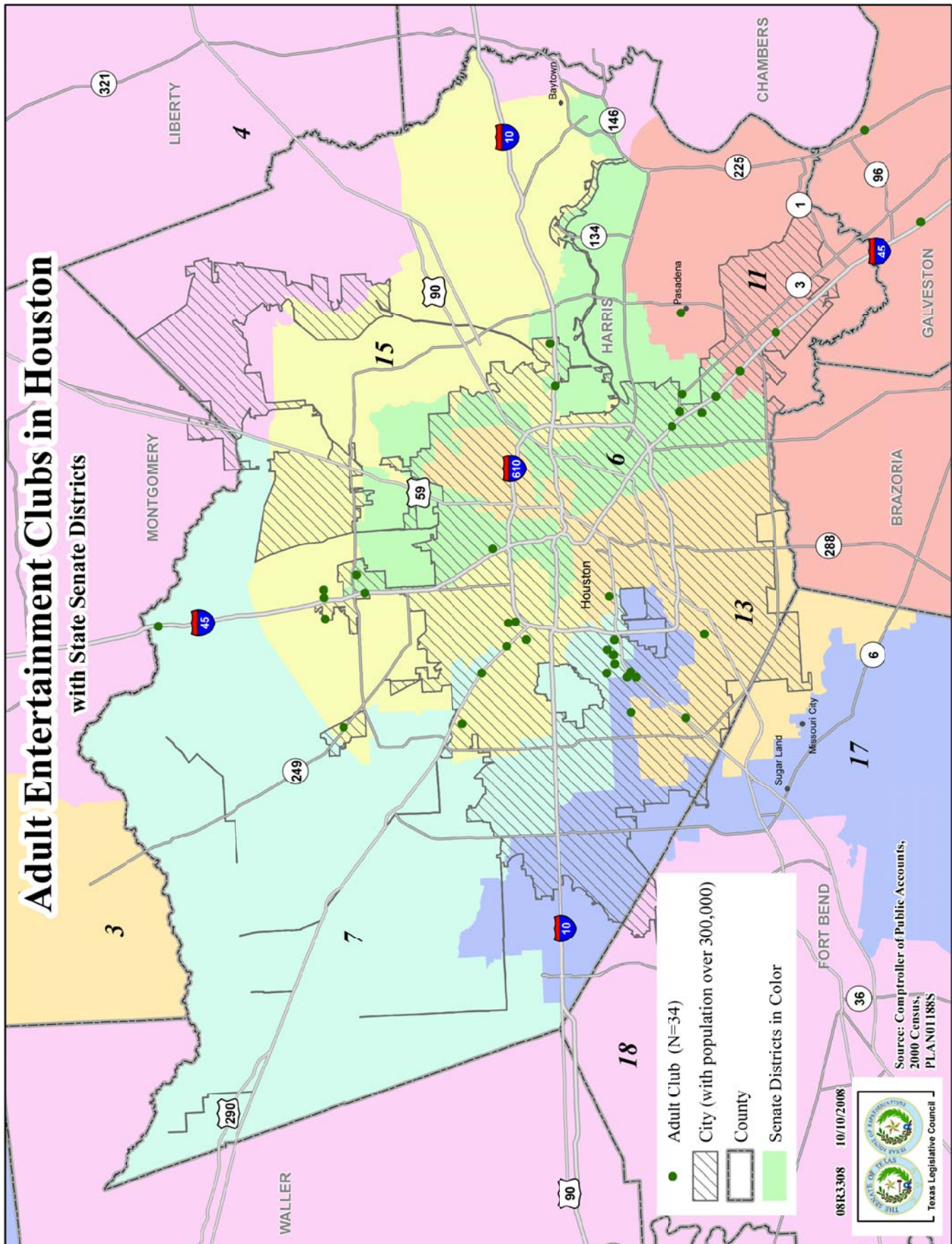
# Adult Entertainment Clubs in El Paso

with State Senate Districts











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## Appendix V

### Interview Forms

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#### >Police

##### QUESTIONNAIRE FOR POLICE FORCES

Date \_\_\_\_\_

Interviewee name \_\_\_\_\_

Position \_\_\_\_\_

Organization \_\_\_\_\_

##### Current regulation and licensing

- What is the extent, if any, of licensing/permitting SOBs in [jurisdiction]?
- What is the history and where can we obtain a copy of the current law or ordinance or regulation?
- In practice, what are the main provisions, requirements, and enforcement of the licensing?
- How is compliance? Do you believe there are unlicensed AE premises operating in [city]?
  - *If so, how often is action taken against these businesses?*
- Do you have a database of SOBs?
  - *How do you locate these SOBs? Is it up to the SOB to register itself, or are audits ever conducted?*
  - *Accuracy of said database – How often is it updated / how well is it maintained?*
  - *Can we obtain a copy?*
- Are these SOB businesses increasing or decreasing in number?

##### What are the crime and negative effects associated with SOBs?

- Is any extra policing required because of the presence of AE establishments?
  - Which of the AE businesses (clubs, video/book stores, massage parlors, nude modeling studios, escort services etc.) are the most difficult to police and which, if any, do not require additional police presence or patrolling?
  - How many manpower hours and would it be possible to roughly cost this?
  - Are there crime statistics to support this and could we be provided such data?
- What about crime WITHIN AE establishments? (Violence that goes on with the dancers, owners, etc.?)

##### Future regulation/licensing/enforcement

- What would be the effect on crime levels of closing all AE establishments within the city?
- If AE establishments continue to exist, would it be better in terms of crime levels if AE establishments were dispersed/or concentrated within the city? (Or would it make no difference?)
- Is any type of regulation appropriate for exotic dance clubs? How difficult would it be to enforce new regulations such as restricted hours for SOBs or prohibition of certain types of activities within strip clubs e.g. no touching, distance requirements between dancers and customers, advertising etc.?

##### Close

- Who else is knowledgeable about AE clubs or other AE businesses?

## >Adult Entertainment Club Lawyers

### QUESTIONNAIRE FOR Adult Entertainment Club Lawyers

Date \_\_\_\_\_

Interviewee name \_\_\_\_\_

Position \_\_\_\_\_

Organization \_\_\_\_\_

#### Current regulation and licensing

- What is the extent, if any, of licensing/permitting SOBs in [jurisdiction]?
- What is the history and where can we obtain a copy of the current law or ordinance or regulation?
- In practice, what are the main provisions, requirements, and enforcement of the licensing?
- How is compliance? Do you believe there are unlicensed AE premises operating in [city]?
- Is it up to the SOB to register itself, or are audits ever conducted?
- Are these businesses increasing or decreasing in number?

#### Future regulation/licensing/enforcement

- Is any type of regulation appropriate for exotic dance clubs?
- How difficult would it be to enforce new regulations such as restricted hours for SOBs or prohibition of certain types of activities within strip clubs e.g. no touching, distance requirements between dancers and customers, advertising etc.?
- Is any type of new regulation appropriate for other adult entertainment businesses such as video stores, massage parlours, or escort services?

#### Close

- Who else is knowledgeable about AE clubs or other AE businesses?

## >Club Owners

### QUESTIONNAIRE FOR OWNERS/MANAGERS OF AE Clubs

Date \_\_\_\_\_

Interviewee name \_\_\_\_\_

Position \_\_\_\_\_

Business Name \_\_\_\_\_

Zip code \_\_\_\_\_

#### I. Operations

##### *A. Background and History of the club*

- How long has it operated?
- Is it part of a chain or franchise?
- How long have you been involved with it?

##### *B. Data on the Club*

- How many full-time and part-time employees work here?
- (Disaggregate by types of jobs—bar tenders, waitresses, custodial, administrative, managerial etc.)
- How many dancers work at the club?
- How are they employed (contractors etc.)?
- What do dancers make in the way of tips?
- Is this a seasonal business or pretty constant throughout the year?
- What does it cost to open up a club like this (ballpark figures)

- Can you give us some idea of what your gross sales are annually?
- What proportions (very roughly) come from:
  - Dancers' fees
  - Drinks
  - Food
  - Cover charges
- What proportion of sales do you spend on advertising?

C. Customers

- How many customers do you get in an average week?
- How much does a customer spend on average?
- Where do customers come from (approx %)
  - Local (e.g. Houston, DFW etc.)
  - TX–Outside of metro area
  - Outside of Texas (conventions?)

D. Location

- What would be the effect of moving your establishment elsewhere in the metro area?
- Do you think any nearby businesses are affected either positively or negatively by your club being here?

II. Regulation

- What are your views about the recently imposed AE fee?
- How has the AE fee affected your business since its adoption?
- What are the social and economic benefits that your business provides to the community?
- Is any type of regulation appropriate for exotic dance clubs? Or for certain clubs in your industry?
- If there are future regulations considered by the Legislature, would you rather that they be financial (tax and fee-oriented) or non-financial (locations, hours, within club activities, advertising etc.)?
- Is any type of regulation appropriate for other adult entertainment businesses such as video stores, massage parlors, or escort services?

Close

- Who else is knowledgeable about AE clubs or other AE businesses?

## >Elected Officials

**Questionnaire for Elected Officials**

Date \_\_\_\_\_

Interviewee name \_\_\_\_\_

Position \_\_\_\_\_

Organization \_\_\_\_\_

- Have other Texas (or out-of-state) metro areas contacted you to emulate what [city] has done?
- We haven't really followed the [city] situation over the years—is there unanimity among city and county officials?
- What are the biggest remaining AE problems, if any?
- How does [County] do with its SOB enforcement?
- Is there any overlap with [city police department]?
- Have you received much feedback from constituents or club owners about HB 1751?
- What other concerns do you have about the industry (or specific industry segments such as massage parlors, modeling studios, or escort services)?
- Do you think any future regulation of SOBs should be implemented at the local level or the state level?



- Depending on timing: Future & Hypothetical
- Do you believe new regulations of any kind are needed for AE businesses? What about the Internet?

Close

- Who else is knowledgeable about AE clubs or other AE businesses?
- Who else should we be sure to contact?

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## Appendix VI

### State & Local Government Regulations and Bills of Secondary Importance

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**Iowa.** HB 2242, introduced in 2004 and modeled on Utah's law as described in the body of the report, would impose a 25% tax on all goods and services sold, leased, or rented by an "adult enterprise." From the bill, this appears to pertain primarily to clubs and video and book stores. Tax revenue would be earmarked for the state victim compensation fund and for grants to those providing care for victims of domestic abuse, rape, and sexual assault. The bill never came to a vote in committee.

Bill Text: <http://coolice.legis.state.ia.us/Cool-ICE/default.asp?Category=billinfo&Service=Billbook&frame=1&GA=80&hbill=HF2242> Bill Information: <http://www.legis.state.ia.us/GA/80GA/BillHistory/HF/02200/HF02242.html>

**Missouri.** SB 821, introduced in 2004, would impose an additional 5% tax on retailers' gross receipts from sales of adult entertainment and services and from charges for sexually explicit live performances.

Bill Text: <http://www.senate.mo.gov/04info/pdf-bill/intro/sb821.pdf>  
 Bill Information: <http://www.house.mo.gov/billtracking/bills041/bills/sb821.htm>

**Georgia.** HB 964, introduced in 2003, would have imposed the following additional taxes: (1) 15% of any county or municipal permit or license fee required for an adult bookstore, adult entertainment outlet, or explicit media outlet; (2) 15% of the ticket price, admission charge, or user fee for an adult entertainment outlet; and (3) 25% of the retail sale price of any item sold by an adult bookstore or explicit media outlet.

Bill Text: [http://www.legis.state.ga.us/legis/2003\\_04/versions/hb964\\_LC\\_18\\_2741\\_a\\_2.htm](http://www.legis.state.ga.us/legis/2003_04/versions/hb964_LC_18_2741_a_2.htm)  
 Bill Information: [http://www.legis.state.ga.us/legis/2003\\_04/sum/hb964.htm](http://www.legis.state.ga.us/legis/2003_04/sum/hb964.htm)

**Florida.** SB 2118, introduced in 2001, prohibits the location of adult entertainment establishments within a specified distance of a school. As enacted, SB 2118 prohibits certain sexually oriented businesses that limit admittance to adults and that carry material, or have performances, that are harmful to minors from being located within 2,500 feet of the property line of a school unless the county or municipality in which such an establishment is proposed to be situated approves the location. Bill text at <http://www.leg.state.fl.us/data/session/2001/Senate/bills/billtext/pdf/s2118.pdf>

**Michigan.** Adult Business Bill – 1999 HB 5124 would have classified any video store that devotes more than 10% of its total floor space to adult product as an "adult entertainment establishment." Such establishments would have had restrictions placed on their location and hours of operation and would have been required to be licensed. HB 5124 was not enacted.<sup>28</sup>

**Illinois.** Secondary Effects Bill – 2001 SB 609 would have prohibited any adult business within 1000 feet of a school, place of worship, public park, day care facility, mobile home park, area that is zoned residential, or another adult business. Adult businesses were broadly defined to include any video store that has a section devoted to adult product or that holds itself out to the public, through advertising, signage, displays, or other activities, as purveyor of adult product.

**Montana.** Secondary Effects Bill – 2001 SB 399 would have labeled as a "sexually oriented business" any video store that has 10% of its stock, or devotes 10% of its total floor space, or derives 10% of its income from videos that depict "specified anatomical areas" or "specified sexual activities." As a "sexually oriented business," establishments that met the 10% threshold would have been subject to restrictions on where they could be located, their hours of operation, and their signs. The measure was not enacted.

**New York.** Secondary Effects Bills – 2001 AB 652 and SB 1172 would have prohibited in cities with a population of 1 million or more, the sale or rental of any adult video or magazine within 500 feet of a church, school, or residential area. Another bill, SB 334, would have prohibited the sale or rental of any material that is harmful to minors within 200 feet of a primary or secondary school or a place of worship.

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<sup>28</sup> This entry and the next three were compiled by an outside group. The information is available also from the site: [http://www.mediacoalition.org/legal/alameda/secondary\\_effects\\_laws.htm](http://www.mediacoalition.org/legal/alameda/secondary_effects_laws.htm)

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## Appendix VII

### Survey of Texas Adult Entertainment Club Owners

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#### >About the Survey

In keeping with the study's goals of analyzing the economic impact of the adult cabaret industry in the State of Texas, we surveyed owners of Texas clubs with questions about the operation of their businesses and their opinions about the regulatory environment in Texas. We hoped to be able to use response data to compare estimates of revenues, employees, and wages made elsewhere in the report using other data sources. In addition, we hoped the responses would shed light on the number of dancers employed in the industry and their wages, data that is not easily obtained elsewhere.

#### Methodology

The population of respondents consisted of the 136 owners of all of the 174 adult entertainment clubs in Texas who would provide information on their clubs. The survey instrument was delivered in hard copy for those owners without known e-mail addresses, and by e-mail with a link to a web-based survey for those owners with known e-mail addresses.

#### Identification and Recruitment of the Sample

In cooperation with the Texas Entertainment Association (T.E.A.), the main industry association, all owners were sent either a web-based survey (hosted by SurveyMonkey.com) or a hardcopy survey instrument at their taxpayer address obtained from the Texas Comptroller. Although delivered differently, the survey instruments were identical. Respondents were promised anonymity and confidentiality in return for their participation; therefore, individual answers were not attributed in the summary of responses below.

T.E.A. supplied e-mail addresses for adult cabaret owners either belonging to the association or affiliated with it. After discussions with T.E.A. representatives, it was determined that owners who operated more than one club wanted the opportunity to complete a survey for each of their clubs, so the web-based survey allowed respondents to provide answers for up to four properties. Those receiving a hardcopy survey were sent just one survey with a pre-paid return envelope but were encouraged to contact us if they wanted to complete a survey for more than one property. There were three owners who own more than 4 properties in Texas who were contacted directly about the survey and encouraged to complete as many surveys as time permitted by contacting the research team.

## Survey Instrument

The survey instrument was based solely on key research questions about the nature of club operations and the owners' perspective on the regulatory environment in Texas. It went through a number of iterations and was vetted repeatedly with T.E.A. representatives to make sure the wording of the questions accurately solicited the information we desired, to ensure freedom from bias, and so that questions were of a nature likely to be answered by the owners and not summarily dismissed as overly intrusive. (The full survey instrument is provided after the summary of results in this appendix.)

## Desirable Properties of the Survey

From the outset, we wanted the survey results to be relatively free of random and systematic errors. In the first instance, random error essentially means that, given freedom from systematic error (bias), we wanted to have population estimates from the sample that are relatively precise or reliable. Often this has to do with sample size or the selection of the sampling unit.

The second instance is a concern that there not be sources of systematic error or bias. These can be due to several sources of biased estimates (skewed questions) and sample biases, such as systematic over- or under-representation. For example, are the respondents in the sample different, in some systematic way, from the population we tried to describe (such as respondents vs. non-respondents)?

Other than increasing the survey size and recognizing that "estimates are estimates," random error is always going to be present to some degree. Systematic error is more of a concern and can be addressed by efforts to increase the return rate. For our survey, we anticipated a low response rate because of the nature of the study (an analysis of clubs whose owners who were skeptical of a state-sponsored study about the impacts of a state-sponsored fee on their businesses). But in reality, there are many reasons for low response rates to surveys, no matter what the subject.

## Response Rate

A total of 39 e-mails were sent to the T.E.A. list, and 97 owners received the hardcopy mailing at their taxpayer I.D. address obtained from the Texas Comptroller's Office. A reminder e-mail and postcard were sent out two weeks after the original mailing to encourage owners to respond. A total of 23 survey responses were completed or partially completed on 26 clubs, for a response rate of 17% (15 out of 39 on the web survey, and 8 out of 97 on the hardcopy survey instrument). See the detailed analysis, below, for the number of responses (N=\_\_) for each question. Most questions only received between 18 and 20 answers. Total mailings and e-mailings do not total to 175 because some of the owners own more than one club.

## Potential Limitations to the Survey

The overall response rate was far lower than we would have desired, perhaps for the reason cited above. In addition, we received proportionally more survey responses from owners of the larger adult entertainment clubs in the state (as measured by gross revenues and mixed-beverage sales); owners of smaller properties are underrepresented relative to owners of larger properties.

Nevertheless, we hope that the findings may prove useful in providing information that to this point is simply not otherwise available.

## >Key Findings

According to respondents:

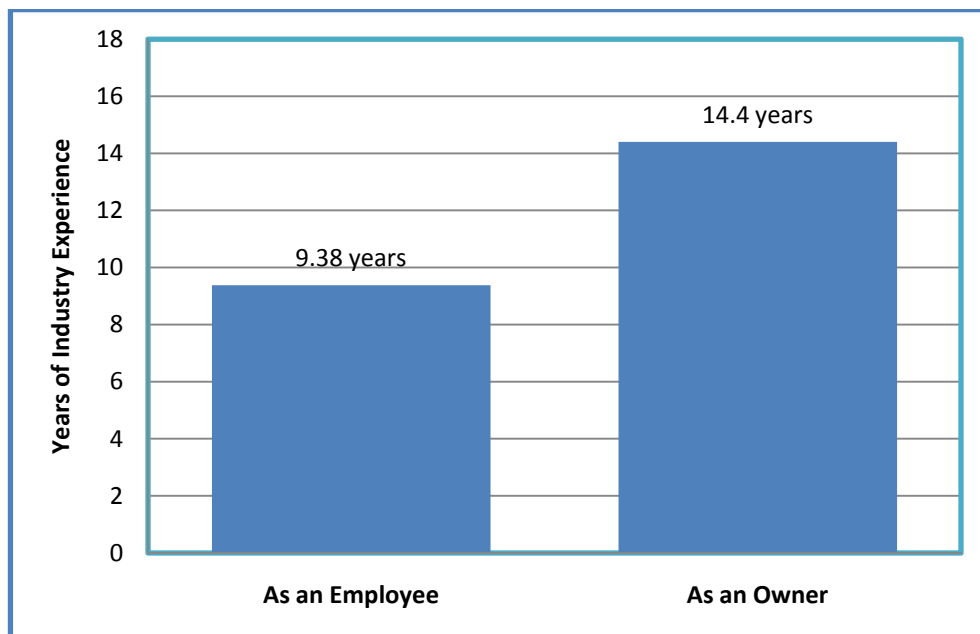
- Owners have been involved in the industry for an average of 14 years.
- Most clubs have more full-time personnel than part-time workers.
- Managers earn the highest average hourly wage (\$20.06), followed by administrative employees (\$14.00), DJ's (\$10.05), security/bouncers (\$9.50), custodial/parking attendants (\$8.67), kitchen/food staff (\$8.50), bartenders (\$6.76), and waitresses (\$5.25).
- Three-quarters of club patrons are estimated by respondents to come from the metro area around the clubs, with a quarter coming from outside the club's metropolitan area.
- An average patron spends \$45 per club visit, not including tips to dancers, which compares favorably to estimates using data from other sources.
- Employee fringe benefits: 66% of respondents say they provide at least one fringe benefit to employees, while 34% of owners do not provide any fringes.
- Dancer fringe benefits: Although 68% of respondents report that their dancers are all independent contractors and only 9% say that all of their dancers are employees, 45% of respondents say they provide some type of fringe benefit to their dancers, and 55% do not provide any benefits for them at all.
- The average entertainer works 4 7-hour shifts per week per club and is considered an "independent contractor," not an employee of the club where she dances.
- Some respondents report that their best dancers earn up to \$71,000 a year. Using survey responses and other sources of data, the research team estimates that there are approximately 3181 dancers working in Texas' adult entertainment clubs, earning an average of \$57,157 per year, and that total direct earnings by entertainers are approximately \$182 million per year.
- Respondents reported that almost half of the entertainers in their clubs are single mothers, and 16% are students.
- Respondents reported that almost 90% of their dancers have at least a high school diploma, and 11% have a college degree.
- The most frequently cited challenges that owners face with their dancers included ensuring that entertainers abide by existing laws and regulations, and getting entertainers to come to work on a regular basis.

## >Survey Results Summary

### Section I. Operations

1) *“How many years have you been involved in your industry in each of the categories listed below? As an employee?”* Respondents have been involved with the industry as an employee for an average of 9.38 years and as an owner for an average of 14.4 years, Figure VII.1. *(Response count, N=21)*

Figure VII.1. Years of Industry Experience by Owner



2) *“Excluding entertainers, how many employees work at your club or through your management company? Please select the average number of full-time and part-time employees for each category of employee.”*

#### Full-Time Employees

The largest proportion of owners (22%) indicated that they employ more than 35 full-time waitresses, followed by 15 to 19 waitresses (17%), 10 to 14 waitresses (13%), and 20 to 24 waitresses (13%). The largest proportion of owners (48%) indicated that they employ 6 to 9 full-time bartenders, followed by 1 to 5 bartenders (35%). The majority of all owners indicated that they employ 1 to 5 part-time managers (63%), kitchen/food staff (67%), custodial/parking attendants (63%), disc jockeys (70%), and administrative staff (91%), Figure VII.2. *(N=25)*

#### Part-Time Employees

The largest proportion of owners (38%) indicated that they employ 1 to 5 part-time waitresses, followed by 6 to 9 waitresses (19%) and 10 to 14 waitresses (19%). The majority of all owners indicated that they employ 1 to 5 part-time bartenders (92%), managers (80%), kitchen/food staff (78%), custodial/parking attendants (70%), disc jockeys (83%), and administrative staff (80%), Figure VII.3. *(N=25)*



Figure VII.2. Number of Full-time Employees by Category

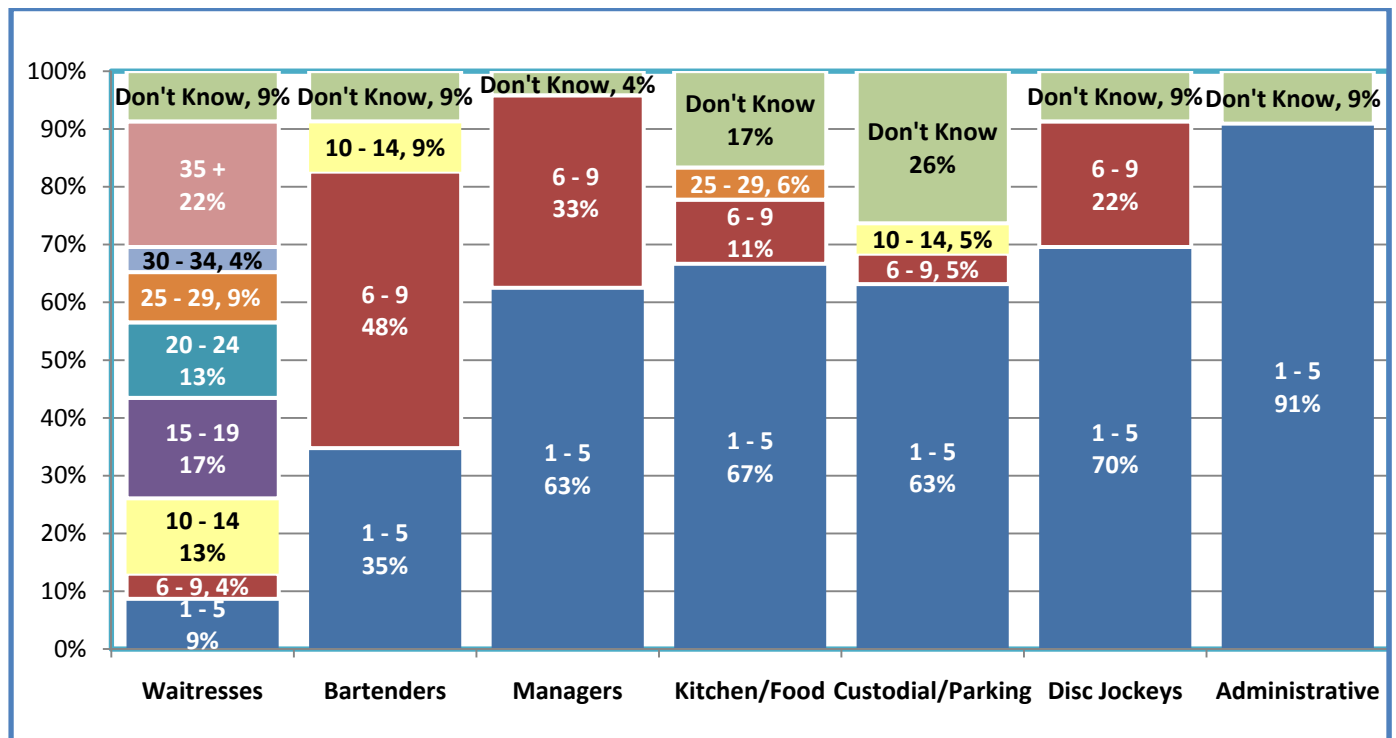
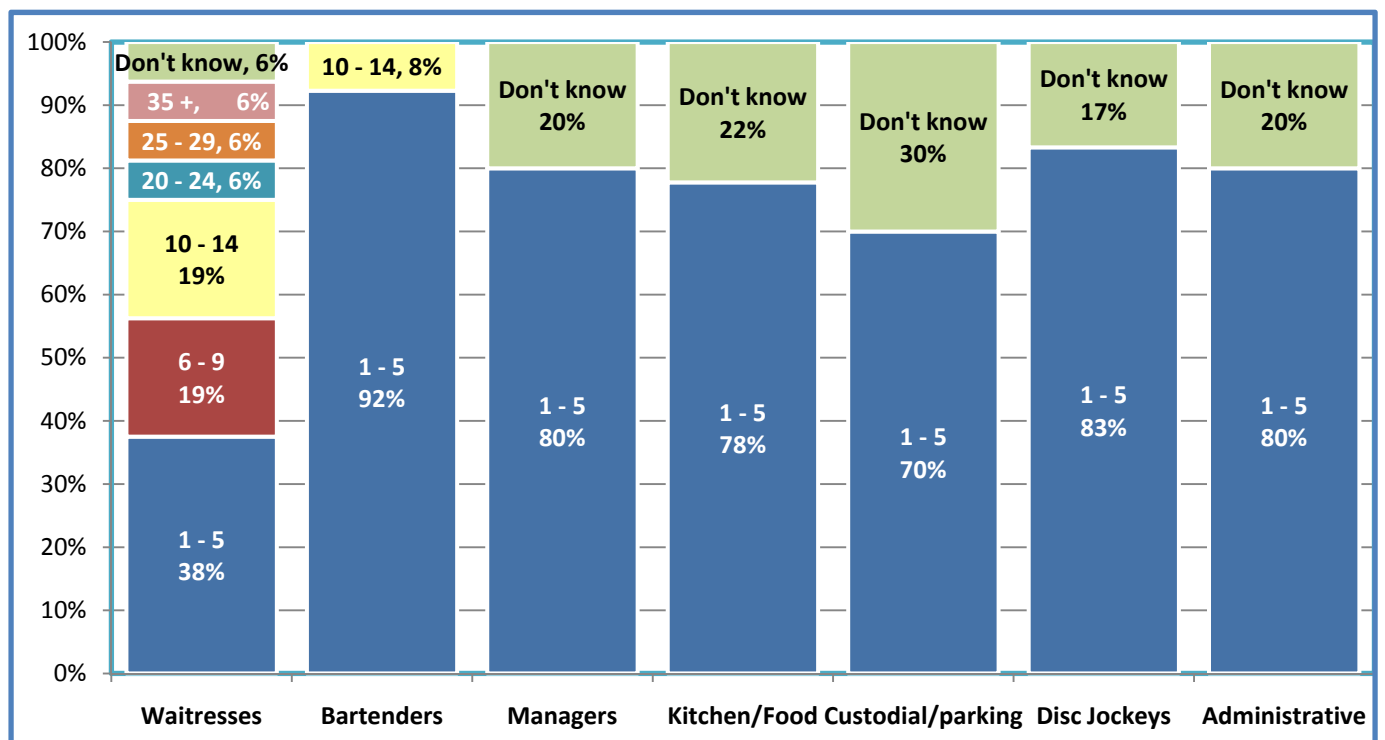
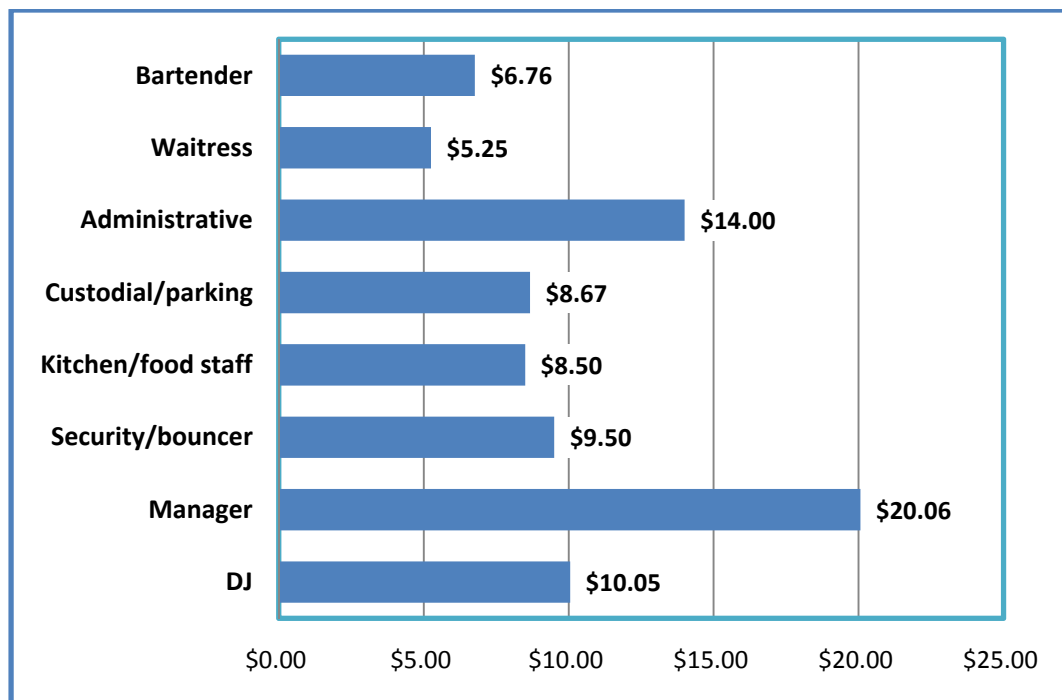


Figure VII.3. Number of Part-Time Employees by Category



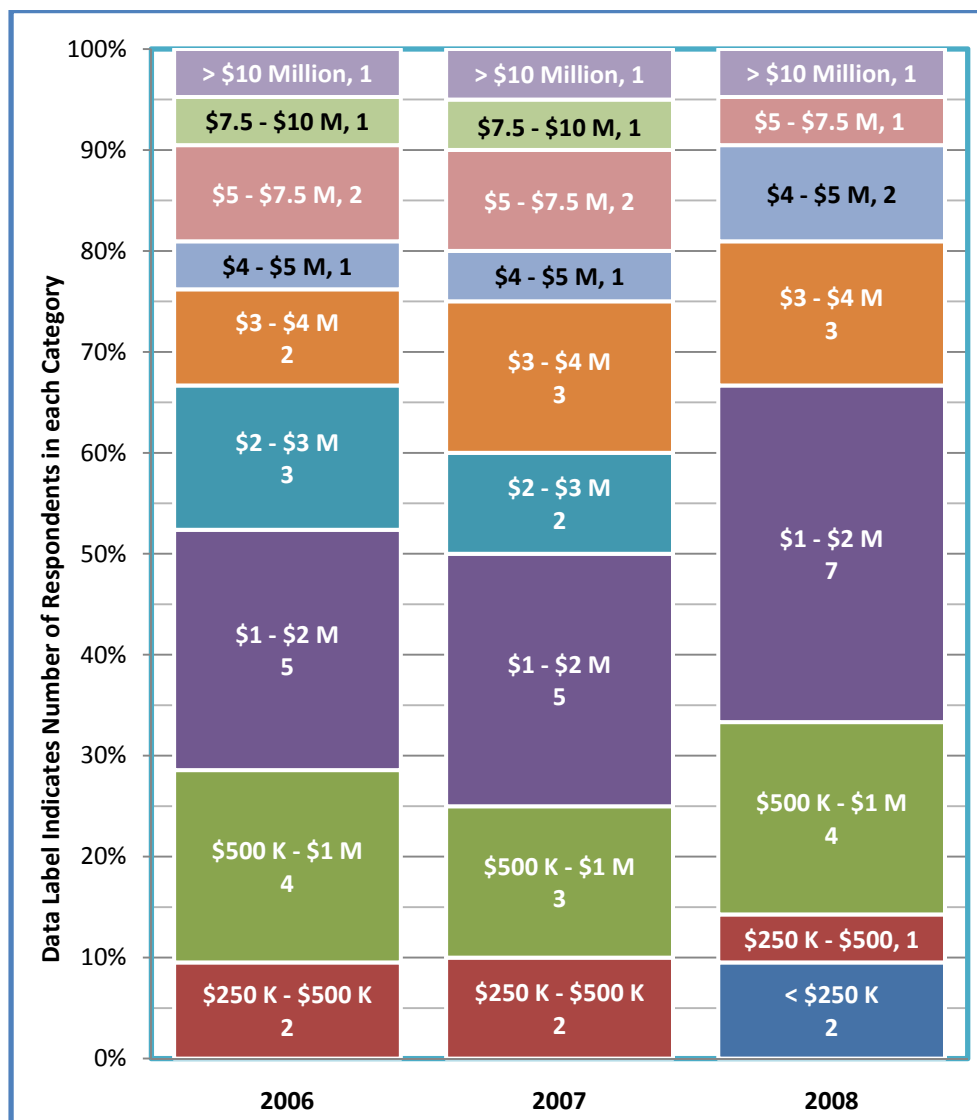
3) *“What is the average wage in dollars per hour for each of the following?”* Owners indicated that managers earned the highest hourly wage (\$20.06), followed by administrative employees (\$14.00), DJ’s (\$10.05), security/bouncers (\$9.50), custodial/parking attendants (\$8.67), kitchen/food staff (\$8.50), bartenders (\$6.76), and waitresses (\$5.25), Figure VII.4. (N=22)

Figure VII.4. Employees Average Wage by Category



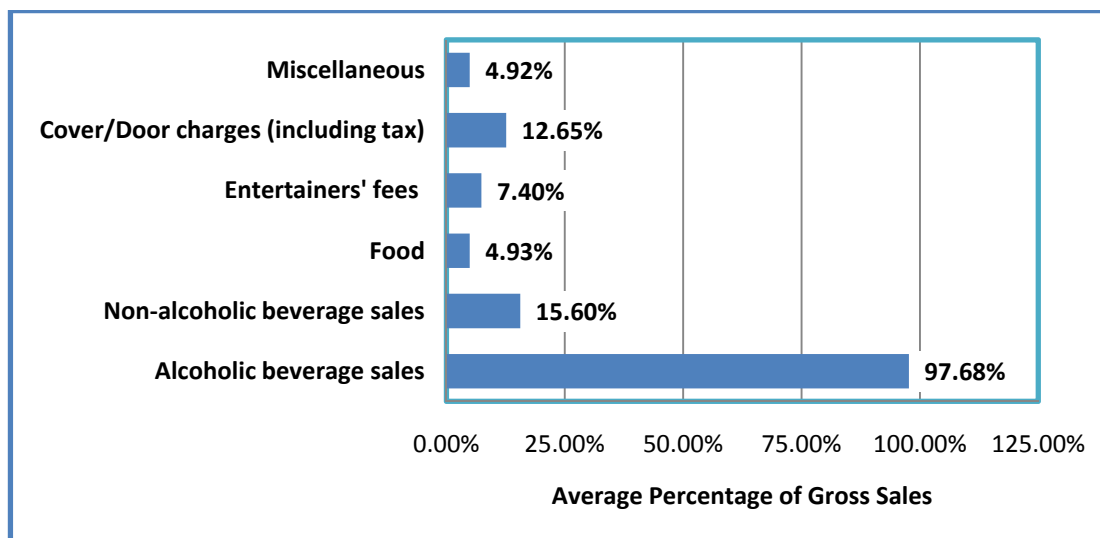
4) *“Please indicate your club’s approximate annual gross sales (all revenue sources) for each of the years listed by checking the appropriate answer.”* For 2006, the largest number of owners indicated that their club’s approximate annual gross sales were \$1 million to \$2 million (5 owners), followed by \$500,000 to \$1 million (4 owners), and \$2 million to \$3 million (3 owners). For 2007, the largest number of owners indicated that their club’s approximate annual gross sales were \$1 million to \$2 million (5 owners), followed by \$500,000 to \$1 million (3 owners), and \$3 million to \$4 million (3 owners). For 2008, the largest number of owners indicated that their club’s approximate annual gross sales were \$1 million to \$2 million (7 owners), followed by \$500,000 to \$1 million (4 owners), and \$3 million to \$4 million (3 owners), Figure VII.5. (N=22)

Figure VII.5. Total Annual Gross Sales (All Revenue Sources) 2006, 2007, 2008



5) "Of your annual gross sales, on average, what percentages (approximate) come from each of the following sources?" Owners indicated that the largest percentage of gross annual sales, on average, come from Alcoholic Beverages (69% of gross annual sales), followed by Cover/Door charges (13%), Entertainers' Fees (7%), Non-Alcoholic Beverages (5%), Food (5%), and Miscellaneous (4%), Figure VII.6. See the survey instrument, below, for the specifications of "Miscellaneous." (N=20)

Figure VII.6. Breakdown of Annual Gross Sales

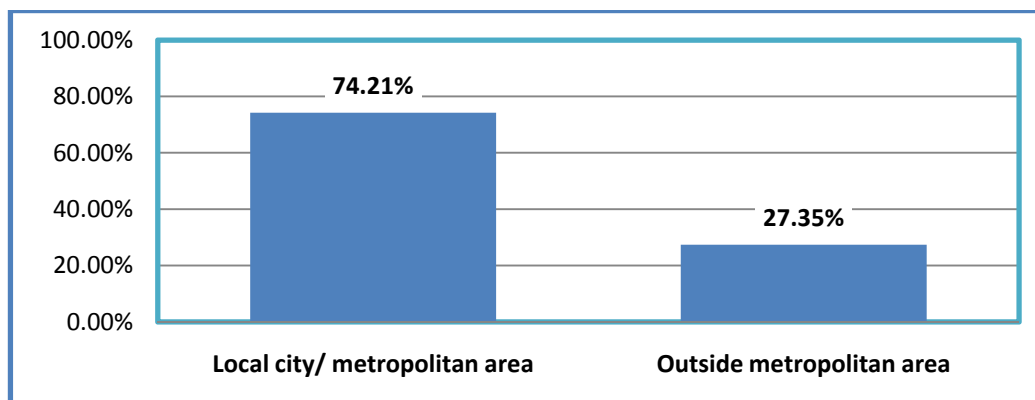


6) "If you entered an amount for miscellaneous in the previous question, please specify the source." All responses:

- ATM Fees, Membership Sales, retail store sales, locker rental fees, tobacco sales, vending revenue
- ATM income
- Clothing, t-shirts, shoes
- Service charges, ATM fees
- Pool tables, Cigarettes, Cigars, ATM fees, Promo items (hats, shirts, jackets)
- ATM fees, Membership Sales, Retail Store Sales, Locker Rental fees, tobacco sales, vending revenue
- Shoes, clothes, t-shirts

7) "Where do your club's customers live? Please specify what the approximate percentages are. (Skip question if you don't know.)" Owners indicated that the largest percentage of customers, on average, live in a local city or metropolitan area (74.21% of customers) compared to outside of the metropolitan area (27.65%), Figure VII.7. (N=19)

Figure VII.7. Estimate of Customer's Residence Location

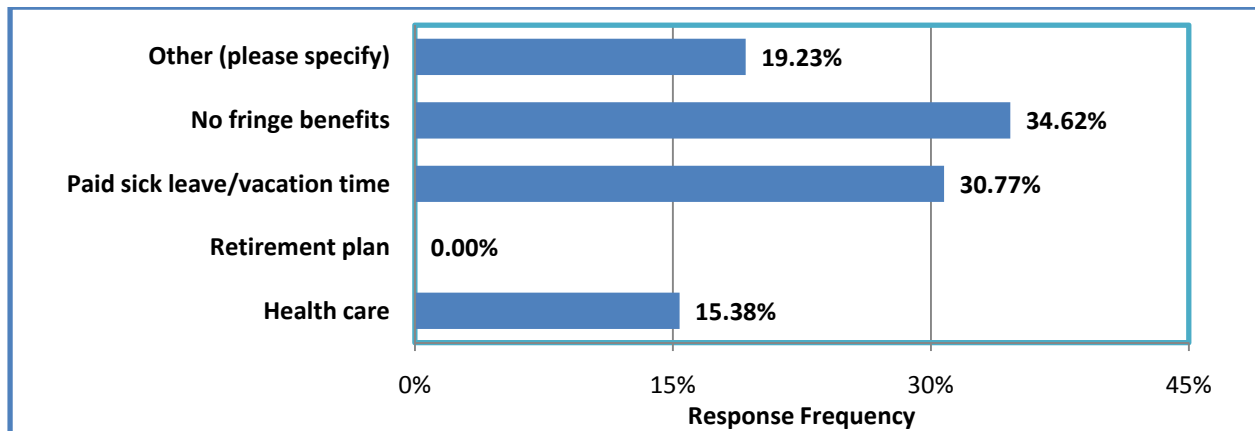


8) “How much do you estimate the average patron spends at your club per visit, excluding tips to entertainers and other independent contractors? (Skip the question if you don’t know.)” Owners indicated that **the average customer spends \$44.57 at the club, excluding tips to entertainers and other independent contractors.** (N=21)

9) “What fringe benefits do you provide to your employees? Choose all that apply.” Sixty-six percent of respondents report providing at least one fringe benefit to their employees, while 34% said they do not provide any fringe benefits. Thirty-one percent said they provide paid sick leave/vacation time, 19.2% said they provide “Other” benefits, and 15.4% said they provide health care benefits. Additionally, none of the owners indicated that they provide a retirement plan to their employees, Figure VII.8. (N=21) “Other” write-in responses include:

- *Managers are paid when sick*
- *Business [is] too small to provide*
- *Place to making a living*
- *Trips to California wineries, trips to other topless clubs in other cities*
- *Mangers are paid when sick*

Figure VII.8 Fringe Benefits Provided to Employees (Non-entertainers)

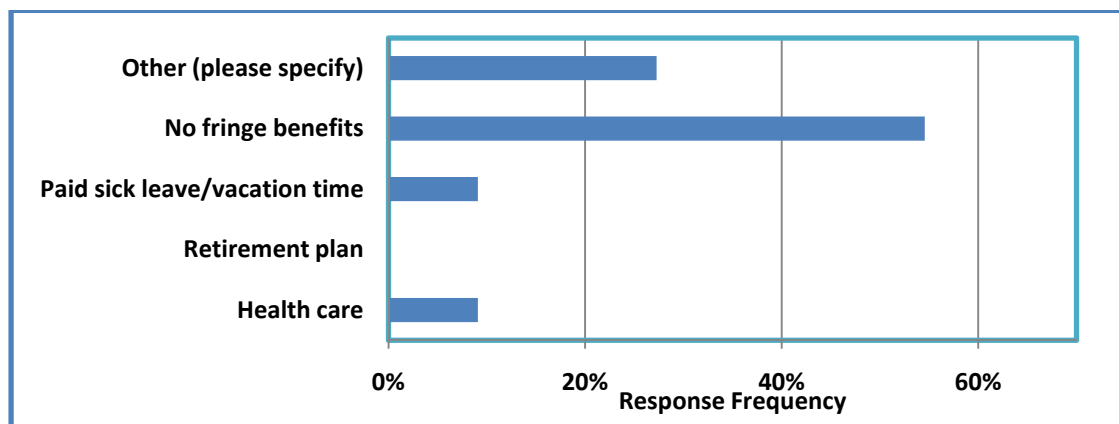


10) “What fringe benefits do you provide to your entertainers? Choose all that apply.” The largest proportion of owners indicated that they do not provide fringe benefits to entertainers (54.55%), followed by “Other” benefits (27.27%), health care (9.09%), and paid sick leave/vacation time (9.09%). Additionally, none of the owners indicated that they provide a retirement plan to their entertainers (0%), Figure 9. (N=20) “Other” write-in responses included:

- *Discount Medical Health Benefit Plan, College Tuition [covered] for entertainers meeting a certain number of shifts threshold.*
- *Health seminars, in-house costume vendors, personal assistant to staff on each shift*
- *Business [is] too small to provide*
- *Place to make a living*

- *We have an elaborate system of benefits and bonuses based on good behavior and sales. We also have a college scholarship plan. Club pays all tuition and books until graduation for qualified applicant.*
- *Medical Discount Health Plan, College Tuition Assistance Program, Seminars on Security and Safety, Tax Planning*

Figure VII.9 Fringe Benefits Provided to Entertainers



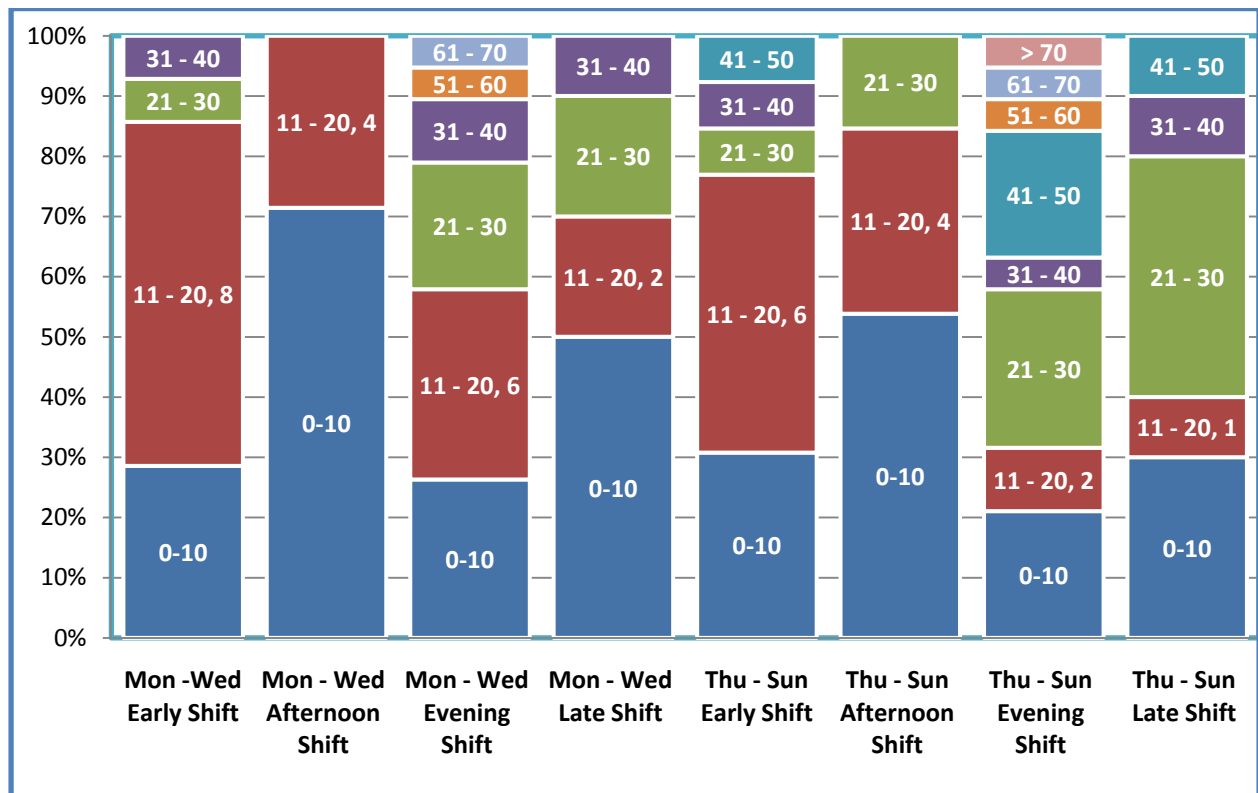
### Dancer/Entertainer Employment

Questions 11-15 addressed the issue of dancer employment and income. Dancer/entertainer employment figures are extremely difficult to obtain. Most clubs consider dancers to be “independent contractors” and require dancers to pay a fee to the club for the right to dance there. Dancers earn a combination of a percentage of revenues the club collects for private dances, and tips paid directly to dancers from patrons. To obtain accurate estimate of statewide dancer employment and income, and with the assistance of TEA representatives who reviewed the survey instrument with the research team, Question 11 divided the week among “slower” days (fewer customers requiring fewer dancers) and “busier” days (more customers and more dancers). Each day was divided into 4 shifts with some overlap among shifts to provide each respondent with as much flexibility as possible in answering accurately for his or her particular club. And because a dancer’s experience and ability can affect how much she earns, Question 15 created a three-part entertainer typology and asked respondents to estimate the average shift income for each type of dancer.

Based on the responses to these questions and considering other factors, we estimate that there are 3,181 dancers working in Texas adult entertainment clubs, who earn an average of \$57,157 per year, and that total direct earnings by entertainers are approximately \$182 million per year.

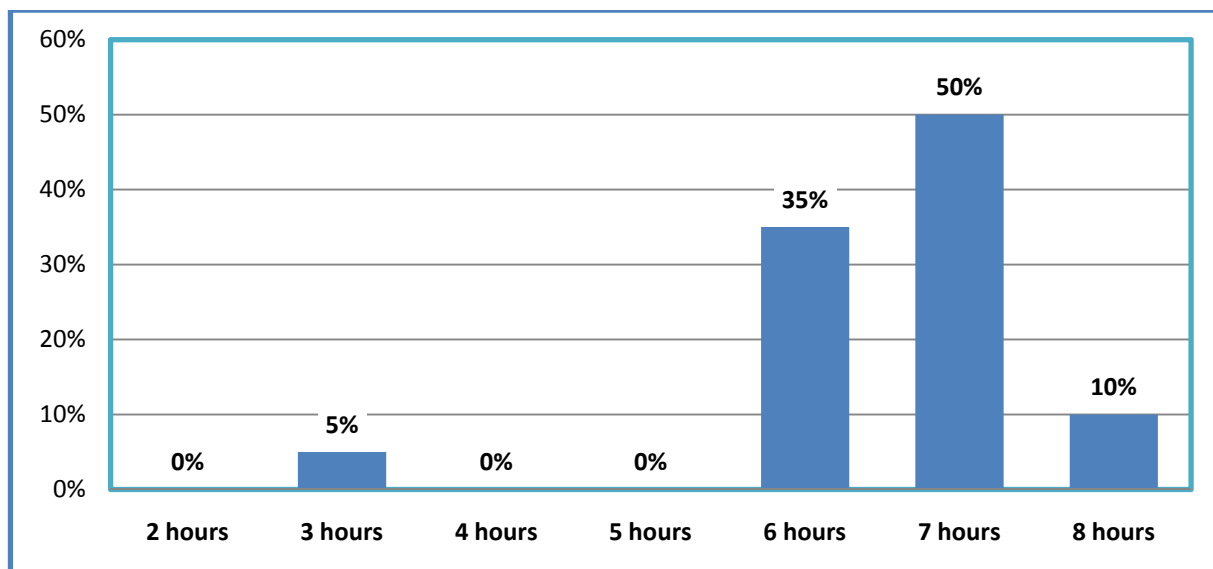
**11) “How many entertainers work per shift at your club?”** Not surprisingly, Mondays-Wednesdays are slower business days than Thursdays-Sundays, with the evening and late shifts being the busiest times of any particular day, Figure VII.10. (N=19)

Figure VII.10 Average Number of Entertainers per Shift



12) "How long does the average shift last for entertainers at your club?" The largest percentage of owners indicated that the average shift for entertainers was 7 hours long (50%), followed by 6 hours (35%), 8 hours (10%), and 3 hours (5%), Figure VII.11. (N=20)

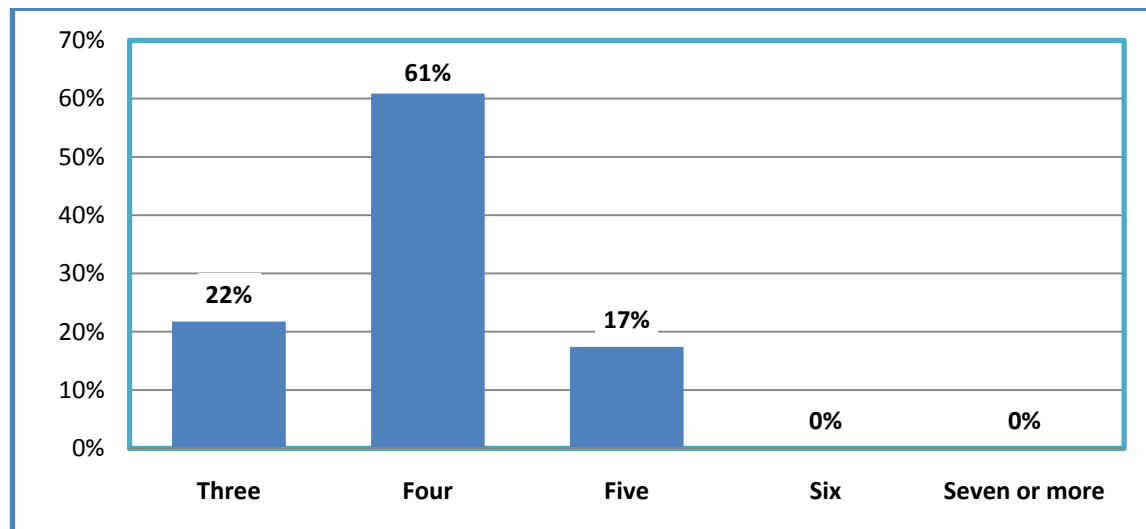
Figure VII.11 Length of Average Entertainer's Shift





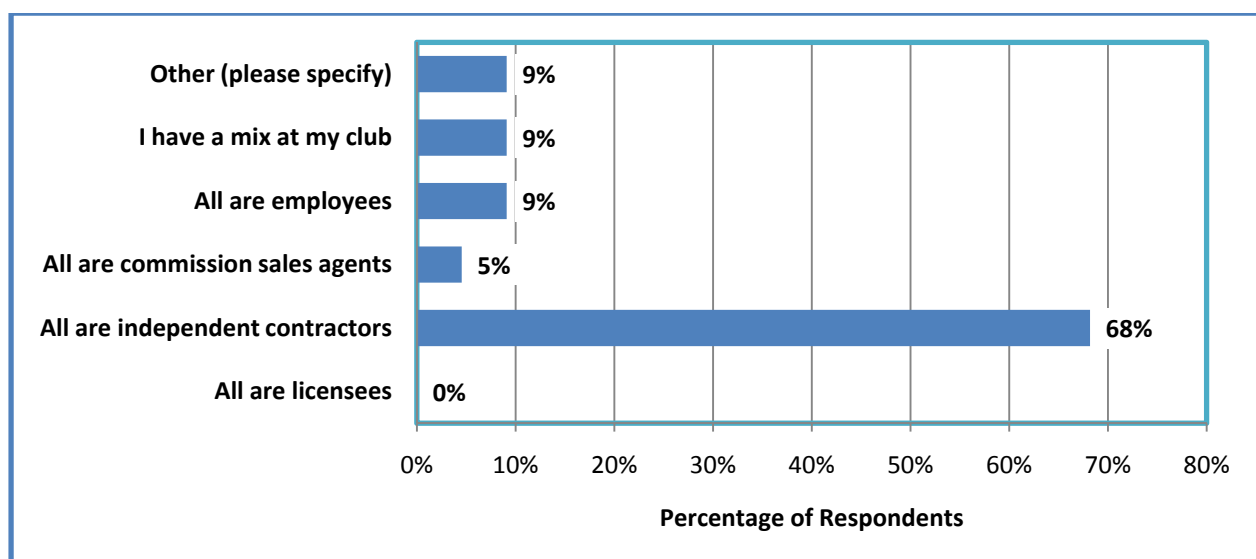
**13) “How many shifts per week does the average entertainer work?”** The largest percentage of owners indicated that the average entertainer works 4 shifts a week (61%), followed by 3 shifts a week (22%) and 5 shifts a week (17%), Figure VII.12. (N=21)

**Figure VII.12 Number of Average Entertainer’s Shifts per Week**



**14) “Please specify the employment status of your club’s entertainers.”** The largest percentage of owners indicated that all of their entertainers were independent contractors (68%), followed by a mix of entertainer employment types (9%), “Other” employment status (9%), all employees (9%), and all commission sales agents (5%), Figure VII.13. Additionally, none of the owners employ entertainers who are licensees. (N=21)

**Figure VII.13 Entertainers’ Employment Status**



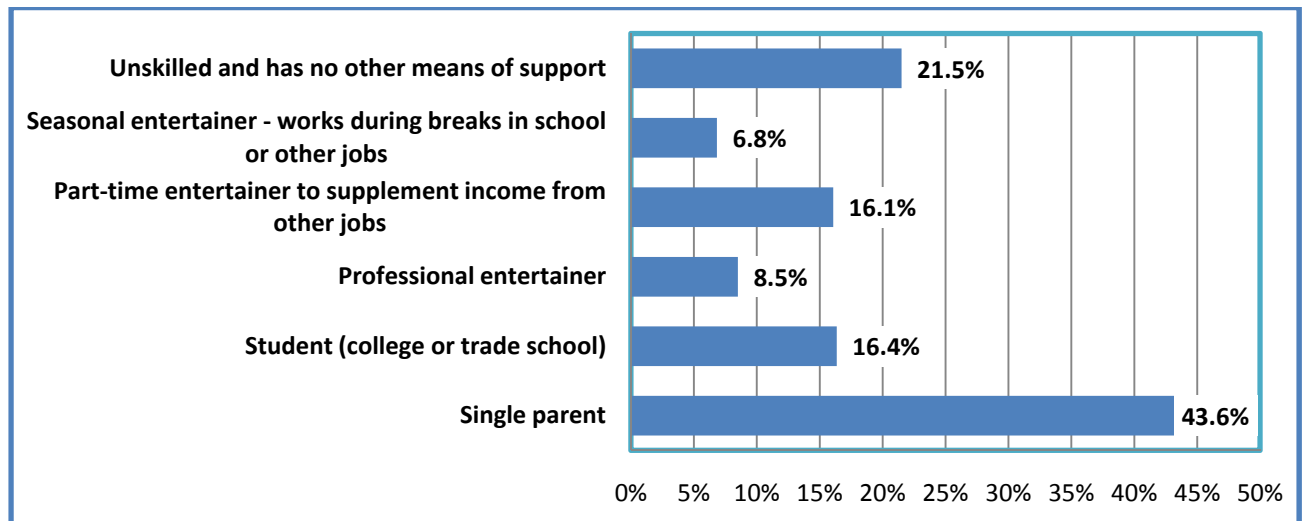
15) "Please estimate below what dancers in each category earn in tips and other compensation ("dance dollars," or other in-house scrip) during an average shift. Assume for the purposes of this question that your club has 3 categories of entertainers. The first category represents your top-earning dancers who may work primarily the night shift, have a lot of experience, and are generally considered the best dancers in your club. The second category of entertainers may work both day and night shifts, generally do not earn as much as dancers in the first category, and may be new to the industry. Dancers in the third category do not earn as much as women in the first two categories, may be shy or new to dancing, and work primarily during the day shift." The largest percentage of owners indicated that their best dancer earns \$401 to \$500 during an average shift (19%), followed by \$101 to \$200 in tips (14%), \$501 to \$600 (14%), \$201 to \$300 in tips (10%), \$301 to \$400 in tips (10%), and \$601 to \$800 (10%). The largest percentage of owners indicated that their second-best dancer earns \$201 to \$300 during an average shift (33%), followed by less than \$100 in tips (19%) and \$301 to \$400 in tips (14%). The largest percentage of owners indicated that their third-best dancer earns \$101 to \$200 in tips during an average shift (38%), followed by less than \$100 in tips (19%) and \$301 to \$400 in tips (10%), Figure VII.14. (N=21)

Figure VII.14 Dancer's Income According to Experience/Ability (Estimated by Owner)



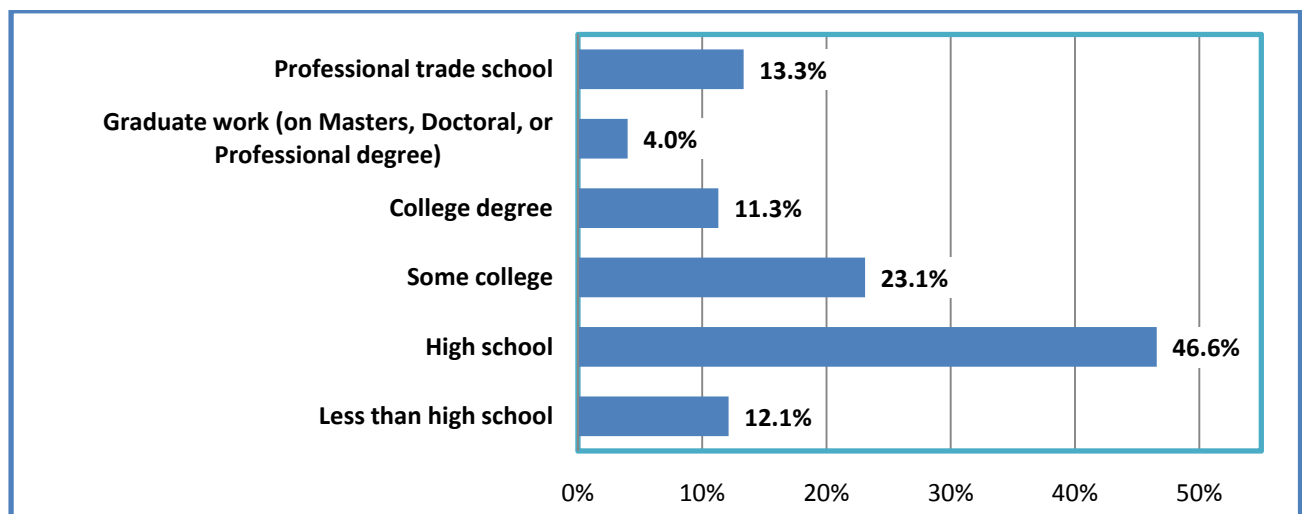
16) *“What percentage of your entertainers do you believe fall into the categories listed below?”* The largest percentage of owners indicated that their entertainers were single parents (43.6%), followed by unskilled workers (21.5%), students (16.4%), part-time entertainers (16.1%), professional entertainers (8.5%), and seasonal entertainers (6.8%), Figure VII.15. Categories are not mutually exclusive. (N=17)

Figure VII.15 Entertainers' Categories (Estimated by Owner)



17) *“Please estimate the percentage of your entertainers who have completed the following levels of education.”* Owners indicated that the largest percentage of entertainers, on average, have a high school diploma (46.6% of entertainers), followed by some college (23.1%), professional trade school (13.3%), less than high school (12.1%), college degree (11.3%), and graduate work (4.0%), Figure VII.16. Percentages do not total 100 because of respondent error. (N=19)

Figure VII.16 Education Level Attained by Entertainers (Estimated by Owner)



18) "What are the top three challenges that you face as an employee with entertainers working in your club?"

**Top challenges** listed by respondents:

- *Insuring entertainers abide by existing laws and regulations.*
- *We do not employ entertainers.*
- *Getting them to come to work on a regular basis.*
- *Working their schedules.*
- *Getting them to come to work.*
- *Finding qualified personnel.*
- *Showing up.*
- *Making stage on time.*
- *Clients.*
- *Picking music they want to dance to that customers want to hear.*
- *Transportation.*
- *Trying to maintain a high level of morale.*
- *Complaints [of] not making money.*
- *Getting them to come to work.*
- *Availability of quality entertainers.*
- *Not being able to legally search their belongings, but being held criminally responsible when they are arrested on premise with illegal [substances].*
- *Insuring entertainers abide by existing laws and regulations. Most do abide by the rules, but it is a constant challenge to monitor and make sure they do, as well as customers.*

**Second Challenges**

- *Changing clubs.*
- *Getting them off of their phones.*
- *Dependability.*
- *Managing their finances.*
- *Maintaining business.*
- *Problems with [their] boyfriends.*
- *As independent contractors, the entertainers can basically work when they want - there is typically no scheduling. Management sometimes struggles with making sure we have sufficient numbers of entertainers for each shift.*
- *Picking correct music.*
- *Incentives to get them to show up to entertain on time.*
- *Having enough staff for slower shifts.*
- *Babysitting.*
- *Controlling how each dancer conducts herself while in the state of nudity.*
- *Problems with [their] boyfriends.*
- *Lack of dependability.*
- *As independent contractor licensees, there is no set work schedule. It becomes a challenge to have sufficient numbers of entertainers on certain shifts.*

### Third Challenges

- *Getting them to work 8 hours.*
- *Professionalism.*
- *Staying motivated in slower times.*
- *Thinking responsibly.*
- *Training.*
- *Solving problems between entertainers.*
- *Dress.*
- *Persuading them to dress properly.*
- *Encouraging girls to stay in school.*
- *Falling behind in bills.*
- *Drama.*
- *Better service.*
- *Problems with other entertainers.*
- *Lack of professionalism and entertaining.*

19) *“Are there changes in the industry with regard to entertainers that would you like to see?”* Nearly half of the owners indicated that they did not want to see any changes in the industry with regard to entertainers. The following are the responses from owners who would like to see changes:

- *Stop holding clubs responsible for the actions or words of entertainers. Changes that would level the field on a statewide basis rather than local municipality regulations that give one city an advantage over another*
- *I would like to see the state of Texas reform welfare programs such as food stamps [and] housing assistance to encourage entertainers to come to work instead of asking the tax payers to support them. [Entertainers] make far in excess the amount of money club owners and people with average jobs make.*
- *[Enforce] an age requirement [of] 21 and up.*
- *[Reform] welfare so [entertainers] who make more money than your average worker will quit abusing the system by drawing food stamps and housing assistance, [only] coming to work to make enough money to party, support their boyfriend, and just get by. Some entertainers only come to work once or twice a week.*

## >Section II: Regulation

20) *“What are the social benefits (i.e., charitable contributions, scholarships for dancers) that your business provides to the community?”* All responses:

- *The adult cabaret industry throughout the United States has consistently been profitable, and historically, the largest segment of proceeds has been received by its female entertainers. This has*

*provided considerable income to women, many of whom do not have either the educational background or, because they have children or other dependents, the luxury of time to pursue educational or other career paths. Additionally, because there is less workplace rigidity within the industry than in more traditionally administered other fields of endeavor, the entertainers, are able to make their significant income during hours they choose to work, leaving significant time open during the day/night for them to go to school, pursue other fields of employment, take care of their children and/or other dependents or simply not have to work the usual 40 hours during the week. Additionally, our club(s) is/are like other businesses in the community...we're members of civic organizations, we contribute to charitable and other worthy recipients, we provide jobs for lots of people, we purchase goods and services from local and regional vendors and we provide entertainment and diversion for a significant segment of the public. The adult cabaret industry is a much more mainstream form of entertainment now than in past years. It is not just all about [men's] entertainment anymore. We have many couples that are frequent our establishments on a regular basis. 15 years ago it was commonly frowned upon for women to enter these businesses, now they are welcomed and have become a significant part of the customer base. Frequently couples come in for dinner and cocktails and just to enjoy the show.*

- *We provide a safe and enjoyable meeting place for our ethnically minority patrons to meet and socialize. Provides a place of employment to nearly 100 employees and an opportunity to practice their trade to approximately 150+ entertainers.*
- *We provide a safe environment for people to meet and socialize with others, and a place for our employees to make a good living to support and raise their families. We participate in social events to help the needy and less fortunate and contribute to local, county, and state law enforcement fund raising efforts. We work closely with local law enforce on the war on drugs campaign. We provide a place for people who are lonely and just need someone to talk to about their problems. Our employees are like counselors; they listen to people's problems and try to reassure them things will be ok. I feel this industry helps [deter] sexual violence by giving people with poor social skills a place to [interact] with others that is closely supervised to insure safety.*
- *[We] sponsor and donate to worthwhile charities and local events like charity golf tournaments, Brown Santa, Red Cross etc... [or] when a disaster occurs like Katrina or 911.*
- *The opportunity for work for the employees is the main benefit. Some prefer the bar business, some prefer the adult bar business and some are glad for the employment. These people are working and not relying on the system to take care of them.*
- *Gathering place to socialize, eat, and drink*
- *A very nice, clean, safe and fun environment to gather.*
- *We pay bonuses for all staff and entertainers who are in [a] higher education/trade school in which they receive good grades. We reduce crime!!! Allowing adults a little legal safe fun deters the other [illegal] and dangerous alternatives. We [have] seen a huge reduction in crime in our surrounding areas. We believe strongly in "elevating lives". Most staff and entertainers leave this location in a better social position. Being an operator in the business provides great opportunities to give sound, life elevating advice and direction. Texas has some great operators which steer many away from bad decisions and actions.*

- *It is a place that all ages of men can gather to drink, watch sports, and talk to women. I have customers that are in their late 70's and early 80's that look forward to having a place to hang out during the day. I think these persons would be lost without us.*
- *We contribute to the local holiday lighting, the local historical society, the local library, the police department (purchase vests), and to the local social services organizations.*
- *For customers, we provide sophisticated entertainment and fellowship in an elegant setting that ensures a safe, friendly, supervised environment for everyone. For employees and contractors, we offer flexible work schedules and high income potential that is especially valuable to and appreciated by students and single mothers. Many people use their time with us to fund their education, train for other careers, establish themselves financially, acquire property, and prepare for successful futures.*
- *Jobs, self-employment, entertainment.*
- *In [the] last year, we [hosted] three charity events for [the] Susan & Combs foundation.*
- *With the economy and ordinance now in effect we are merely trying to survive.*

**21) "What are the economic benefits that your business provides to the community?" All responses:**

- *Local civic leaders won't admit it, but the adult cabaret industry is an important part of the convention economic impact. Business travelers routinely entertain clients in our establishments. Local business leaders also frequent our establishments to entertain clients or celebrate "the closing of a deal." We provide income to a wide base of people from all different backgrounds. We pay significant taxes, [including] property tax, liquor tax, sales tax, ad valorem taxes, payroll taxes, etc.*
- *Our industry pays a large amount of tax and fees each year at the local, state, and federal levels. 14% liquor tax, 8.25% sales tax, state and federal unemployment tax, match social security tax, federal income tax, corporate tax (state and federal), [and] local and state license fees. This alone totals about 40% of our gross sales before we pay the bills or our employees. We provide a place for single mothers and female students [to] work where they can set their own schedules to work around their school schedule and the needs of their children. This industry gives women the ability to make a substantially larger [income] than someone who works a minimum wage job. Our entertainers and waitresses make in one night what most people make in a week.*
- *Provide a clean working environment for employees and entertainers to be gainfully employed.*
- *Employment to over 180 people, taxes over \$300,000 [per] year, and [consumption of] \$1,000,000 in supplies.*
- *The obvious - payment of wages, property taxes, mixed-beverage taxes, sales taxes and various other agency fees and permits. Utilities, products, and outside services are all compensated by this business which contributes to the overall welfare of the area.*
- *Employment and tax revenue.*
- *We provide high earning jobs for single and unskilled mothers. We attract a high [percentage] of out of town patrons that would otherwise not spend the additional monies.*
- *We are one of the smallest strip clubs in Texas and the country. We pay our liquor and sales tax. We provide employment to a handful of hard working, honest citizens. We took a location that was an unsuccessful eyesore and made it a hard working, taxpaying, beautiful little location. We gave the*



neighboring business a much needed boost. This area was a dark dim street with little commerce. The area is turning into a park and walk (which means neighborhood business growth). The neighboring businesses have thanked us for the revitalization of the area. We provide a very visible "no-nonsense" approach to security. This visible presence has also increased the patrons of the area.

- I employ a lot of persons that probably could not get a job in this town because of either their education or [lack] of child care. We allow them to choose their days and shifts to work around their children's or school's [schedule]. The secondary employment from my business is considerable also, from contractors, exterminators, carpet cleaners, delivery persons, all the way down the person [who] sews the costumes.
- Monies spent at area [businesses].
- 600 high paying jobs to all employees & independent contractors, most of which have low skills and low education at 21-28 years of age. Working in the adult industry keeps them from going on welfare & food stamps, [which] the taxpayers would have to pay [for].
- We provide significant tax revenue for the city and the state. We have a long history of charitable works in the community. And as noted above, we help hundreds of people at a time provide for their families, secure their places in the community, and become self-sufficient, taxpaying citizens. We are a prime destination for out-of-town visitors and convention-goers, which [contributes] significantly to the general Dallas economy and [encourages] conventions to return here. [Employees] even move here to be able to work at one of the best clubs in America. [The] club pays more than \$2 million per year in taxes.
- Jobs, entertainment, self employment, and business.

22) "Do you think any nearby businesses are affected either positively or negatively by your club? Please provide examples." All responses:

- Positively. Monies spent at area businesses.
- Whataburger, Conoco, Shell, and K-Rogers all benefit positively with sales from our employees and independent contractors.
- Only positively. Our customers, employees, and contractors shop at area stores, eat at area restaurants, stay at area hotels and add revenue to area taxi companies. We bring thousands of consumers every week to an area they probably would not come to otherwise. We maintain very good relations with neighboring businesses, including restaurants, hotels, gas stations and a Sam's club.
- Positive – the stores, restaurants, liquor stores, and flower shops.
- No.
- We are in a mainly commercial area. I don't believe we are negatively affecting anyone. [We] bring business to the gas station next door.
- Yes; businesses tend to be synergistic. Our patrons come to our sites and may stop on the way at a neighboring business to shop. Additionally, because we tend to be open later than many surrounding businesses, the presence of our patrons and workforce in the area, as well as law enforcement which keeps an eye on our location as it would for any place of public assembly, tend to make the neighborhood safer than it would be if it were simply deserted after dark and in the late evenings. Responsible operators of businesses have a positive impact on the surrounding area. Irresponsible

*operators of any type of business can have a negative impact on nearby businesses. We typically get stereotyped as being a bad business when we are not. Politicians are afraid to speak of the positive impacts of our businesses but will get out in front of the cameras anytime to talk about further regulation. The fact of the matter is that there is more crime in non-adult alcoholic beverage establishments and surrounding areas than in or around adult businesses.*

- Many restaurants in the area service both our customer and employees and entertainers. Convenience stores and gas stations are patronized by both our customers and employees and entertainers. Note: we are located in a primarily industrial area / nearest residential several miles away.*
- I feel our business positively affects our nearby businesses. Our clubs are located near a large number of hotels, and our customers tell us they stay in that area so they can walk to the club instead of driving. We keep our business in tip top shape at all times; we landscape and decorate our property to improve the area of our city in which we conduct business. We work with law enforcement to keep drugs out of our clubs and off our property. We work with our neighbors to promote business in our neighborhood.*
- Neither.*
- No.*
- Absolutely no negative effect. The area around our club has done nothing but grow since our opening. No complaints are filed and several large industrial businesses have moved into the area, developing raw property and bringing revenues to the area.*
- Positively; [we have] extended hours for security and attraction to the area.*
- Positively; the surrounding businesses are food service and hotels for the business traveler which is a very good client.*
- Positively! We took an old eyesore and turned it into something beautiful. This sparked the neighboring business to follow the positive face lift. We light up the once dark, dangerous street and watch the rift raft leave the area. We gave the area a positive pulse with safe legal commerce. We have been thanked by the neighboring businesses.*
- I am in shopping center and every business has gained business for my business. The pizza shop sells pizza to us, the Chinese restaurant sells meals to our dancers, the electronic shop has sold us all of our light shows, the BBQ place sells us tacos in the mornings, the flower shop sell us flowers every month for the different birthdays of our dancers, and the little grocery store gets the customers coming and going. So everyone is making money off of us.*

**23) "What, if any, regulations are appropriate for exotic dance clubs and cabarets?" All responses:**

- The current city and state regulations are more than adequate to control my club. If anything, we are over-regulated to the point that it is draconian.*
- Regulations to prevent prostitution, exploitation of undocumented immigrants and employment of people with criminal histories.*
- As with any place of public assembly, regulations should be maintained which mandate being a good neighbor and good corporate citizen. Adult cabarets should no more be a nuisance in the neighborhood than should a sports bar, a bowling alley, a dance club or a 24 hour convenience store. Cabarets should be required to maintain a pleasant, inoffensive exterior, keep their grounds and surrounding areas clean, restrict external noise leak from inside, and generally do everything reasonable to co-exist peacefully with their neighbors and the surrounding community. Regulations*

similar to those applicable to the above non-adult businesses should be equally applicable to cabarets; regulations penalties and regulations should be designed to curtail demonstrated misbehaving individual businesses and not adopted industry wide on the assumption that the industry, per se, is bad and that therefore strong prophylactic controls are needed in advance. There are adequate state laws of general application to deal with poorly run, bad clubs, just as mismanaged bowling alleys and sports bars will be taken care of by application of general laws AFTER misconduct has been alleged and proven...not before.

- Certainly no more than are already in place. We are one of the most heavily regulated industries in the state of Texas, with state, county, and city oversight, regulations, and fees.
- I feel we are already regulated enough. We are regulated at the state level through the TABC and the local level by the city and county.
- Lewd laws and zoning are sufficient.
- We have always worked within the rules and regulations stipulated by the governing agencies. Most are of a nature as to protect both the industry and the public, as are the majority of any laws. However, this new law regarding the "Fee" is considered at best over burdensome and at worst crippling to this industry. The financial aspect is unjustified in its very application.
- No additional regulations are necessary.
- Background checks on entertainers deter career criminals from this industry.
- I believe that exotic dance clubs should not have any more regulations than [those] of other businesses that sell alcohol.

**24) "Is any regulation appropriate for other adult entertainment businesses, such as video and bookstores, massage parlors, or escort services?"** All responses:

- Of course; bookstores and video stores—pure retail takeaway businesses—should be subject to the same regulations as Barnes and Noble bookstores. Massage parlors and escort services raise different problems and may require separate evaluation and regulations. There should be a clear distinction between adult cabarets and massage parlors and escort services. The business models are totally different and regulations should be different. All too often, adult cabarets get thrown in the same bucket as massage parlors and escort services and book stores. Any future regulation should be separate and distinct.
- What's good for one type of adult business should be good for all types of adult establishments with maybe some individual specifics only due to the nature of a particular business.
- I am not in those industries and I am not familiar with the regulations already in place.
- The same should apply.
- No.
- None come to mind at this time.
- Yes, but those businesses are not really similar to ours
- No additional regulation.
- No, massage parlors already have regulations and are not considered a sexually oriented business. Escort services cannot be a sexually oriented business unless they are offering sex and that is illegal.

*Video and bookstores should not have any more regulations than a Blockbuster or Barnes and Nobles.*

- *Yes, but I would not be surprised if they have plenty already.*
- *This question is not relevant to a properly-run bar and restaurant such as ours. Our business has nothing to do with any of those businesses.*
- *Yes.*
- *Not involved in those industries.*

**25) "Does your industry benefit from a strong working relationship with local law enforcement agencies? Please explain."** All responses:

- *Cabarets, like any other place of public assembly, can benefit greatly from a strong working relationship with local law enforcement, but all too often mutual suspicion and hostility preclude what would be a very mutually beneficial familiarity and interaction. In the best circumstances, cabarets and cops should be able to communicate with each other and to rely on each other. Cabarets [must] know that police are there to help them deal with situations involving unruly patrons or other similar non-law-abiding individuals, in the same way that at a football game, police will deal with fans who've had too much to drink or who get too partisan and thereby an irritant to other fans or a danger to themselves or others. Cabarets, in turn, if they're not fearful of police harassment, can be good providers of information and vigorously police their own establishments, safe in the knowledge that if they need it, non-threatening, non-hostile police support is only a phone call away. Sadly, and all too often, police are not supportive, but rather hostile, and therefore the cabarets lose their rights as taxpaying citizens, and the police lose the opportunity to the benefits which trusting cabarets could provide.*
- *No! Most all interaction with law enforcement is of a subversive nature (from their standpoint), with political overtones that are always negatively motivated. I do not remember the last time I was confronted by a Police officer (as I have witnessed in other types of businesses) with either a positive attitude or with a "what can we do to help you" approach.*
- *Yes, our industry benefits from a strong working relationship. We help them by notifying them when someone comes in our club who is wanted or if we have a suspected person trying to sell drugs on our property. Law enforcement helps us by stopping by occasionally for a walk through [or] coming when called if we have an altercation. We have an excellent working relationship.*
- *Yes.*
- *We strive to maintain a working relationship with both local law enforcement and governmental agencies. Our attitude is one of compliance. This is the best way to pursue a reciprocal feeling from the agencies. We want them to see us as valid businesses [that] are just like any of the other businesses that have their applicable rules.*
- *No. It could and should but it seems to be more adversarial. If authorities have a problem with a club, entertainer or employee, they should approach the owners to solve the problem.*
- *Yes. By cooperating with law enforcement, the officers can see that the business is a legitimate commercial enterprise and not some front for illegal activity.*

- Yes, we greatly benefit from having good relationship and communication with local law enforcement agencies. Communication allows both sides to understand the industry. This also allows both sides to take measures which are "reasonable and realistic" to ensure a positive legal working atmosphere. This communication also allows a city to have good legal safe places for adults to patronize. Having a good legal safe location will decrease street crime.
- No more than any other legal businesses.
- Yes, they patrol our parking lot, which helps to control car theft and break-ins.
- Yes. As is the case with any business or organization, by cooperating fully with law enforcement agencies and demonstrating that we respect the law and comply with it, we reduce the need for outside scrutiny and intervention. This is good for everyone. In many instances, we go beyond what the law stipulates; for example, by only hiring entertainers 21 or older – which removes any possibility of underage alcohol violations in the club – and maintaining strict codes of conduct on the job. At the same time, law enforcement agencies and local governments should work harder to foster good relations with law-abiding clubs. Clubs would feel more comfortable asking for assistance with problem customers and other issues if they did not worry about repercussions. This also would benefit everyone.
- I did before the Houston city ordinance came into affect revoked our S.O.B license.
- Section III: Clubs and the Adult Entertainment Fee

26) "How has the \$5 per customer Adult Entertainment Fee affected your business and how is likely to affect your business in the future?" All responses:

- The fee has had a tremendous negative impact on business. Our customer counts are off and our sales are off as well. In addition, we have picked up a new tax burden that the business cannot afford. This year alone, one of my locations has turned from profitable to losing over \$350,000. It is still open because I have other business interests that support it and we are hopeful our customer counts will improve. Further, we had to spend many thousands of dollars in legal fees fighting this unconstitutional law. This was ill thought out legislation. There is no more correlation between adult cabarets with alcoholic beverage services and sexual assault than with non adult night clubs and venues that serve alcoholic beverages. Even Rep. Cohen testified in hearings that this bill was just a funding mechanism and there was no connection between these clubs and sexual assault.
- We have not paid the fee because we feel as did Judge Jenkins, that it is unconstitutional and is therefore illegal. So there has been no impact to our business as we have not done anything different that would affect our customer. Please note our business is off approximately 20% for the year anyway so far, and falling further. If we were to write a check today for what we owe for 2008 we would definitely have to file bankruptcy tomorrow. We would probably be forced to file [for] Chapter 7 because we cannot exist and be profitable from the filing date forward.
- The tax has caused our business to drop substantially. I have a club that has lost money 9 months in a row. Our customers refuse to pay the fee. We have tried everything to try to make it better. I do not see it getting any better. The customers tell me why should they pay to come in when we can go other places and not have to pay the fee. They feel they have been singled out because they chose adult entertainment. I feel if the fee is continued we will more than likely lose our employees, entertainers,

*and our livelihood causing more unemployment and cause them to have to turn to welfare, costing the state more money than what they gain from the fee which was passed to fund a legislator's pet project. They should have to find their funding without taking it from the tax payers for a choice they make in their life.*

- *It has deterred many persons from coming to the club, especially dayshifts.*
- *As stated, this "Fee" has affected our business in the 20 - 30% negative range. Not only does it keep a lot of business away, but it is a substantial part of any amount that can be reasonably either collected or paid by the business. We can see no positive or recovering effect from this "Fee".*
- *Negatively.*
- *The fee has removed 90% of our profitability. The fee will most likely cause us to go out of business.*
- *The unconstitutional \$5 fee has basically put this location "out of business". We do not make \$5 per customer in profit. So how can we pay \$5 per customer? We are one of the smallest strip clubs in the country. We are a small struggling legal business even before adding an unconstitutional \$5 fee per customer. We have been open for approximately 3 and one half years. Like most business, the first 2 years were a complete wash. As soon as we made that two year turn things starting looking up. Then we were broadsided by an illegal, unconstitutional \$5 per customer fee. The fee has done enormous damage to our business and depleted all monies. We immediately had to close our dayshift. Our dayshift never had a cover charge and our customers refused to pay the \$5 fee. We do not make \$5 profit per customer to pay the fee ourselves. Most of our dayshift customers only have \$5 in their pocket. This illegal collection of this unconstitutional fee caused us to stop the dayshift. We had to lay off the dayshift manager, bartender, and entertainers. We lose thousands of dollars a month in business under this illegal fee. The club does not make \$5 per customer profit. In order to pay the sin taxes we have had to sell a \$20K food trailer for \$10k, take a loan, consolidate other minor debts, and pay penalties and interest due to the payment being late. We could not pay any of the sin tax payments on time because we simply did not have the money. We live very modest lives and do not splurge on anything. I have a pickup truck with no tailgate. The illegal sin tax will put us out of business. Most small and medium strip clubs do not make \$5 per customer profit. Like all other industries, this industry requires operators to streamline all monies to stay afloat. The \$5 per customer fee is not close to being realistic and reasonable. This is not a modest fee. I never thought that in America I would be forced to pay an unconstitutional fee.*
- *Yes, my beer/alcohol sales are down 20%, we have stop some of the outside contracting such as daily cleaning service, bathroom cleaning company, we have laid off some of the security persons that we had employed. I don't believe I can stay in business another 2 years with the current \$5 per customer fee.*
- *Have not changed price, so no affect. If we had charged businesses, it would have fallen off.*
- *The \$5 fee has forced us to raise cover charges and food and drink prices, a bad business strategy during a recession. It has significantly eroded our profit margins and forced cutbacks in business expenses – which affect the general economy as well as our club. We know it has dissuaded some customers from coming to the club as often as before, or from coming at all. This is particularly acute for us because some clubs that are not paying the \$5 fee have not made these changes, putting clubs that are complying with the law at a competitive disadvantage.*
- *[Fewer] customers.*



- Business has dropped 60%.
- Business has decreased by 40% (which may be in part due to the economy).

27) "Please share any negative experiences that you have had with the \$5 fee." Responses:

- Loss of business [and] customers really upset that the legislature put this law in place. Customers who used to come by for lunch don't come at all. Why come by for lunch when the non-adult restaurant down the street does not charge a \$5 fee. We have lost many customers due to the fee. Take a look at the newspaper blogs attached to the articles when the fee went into place, they are overwhelmingly in opposition to this fee. Additionally, the matter was litigated, determined unconstitutional, yet the state continues to ignore the court ruling and collect the tax. This creates unfair competition in that some establishments are paying the tax and others are not. There is a grave misconception that our business models are flush with cash and that these businesses can afford to pay the tax. It is simply not so. We have expenses just like every other business. Our profit margin is thin and our costs are sometimes higher, such as insurance and advertising.
- We have had to implement hundreds of thousand dollars in pay cuts and layoffs at all levels of employment, from administrative down, in an attempt to comply with paying the fee as well as curtail or completely cut out most advertising and promotional events, and are still unable to pay the fee and remain profitable enough to remain in business.
- loss of business, loss of revenue, loss of entertainers, loss of staff, trouble paying bills, customers refusing to pay, customers complaining, customers feel they were linked to sexual assault even though they had nothing to do with it.
- We have had many persons turn around because of the excessive cover charge which pays the fee.
- What can be more negative than the decline in number of patrons or the corresponding loss of their revenue or the reduced amount spent by the patrons who do visit? This "Fee" has been nothing but negative to our business and probably to the industry as a whole since its institution.
- Decrease in Customers. Decrease in frequency of customers. Decrease in alcohol consumption. Decrease in tipping. Decrease in entertainer income. Tremendous decrease in club profitability.
- The \$5 started an enormous downward spiral for our business. Our customer base is hard working, blue collar guys. They do not and will not pay the extra \$5 per customer fee. After paying employees, utilities, liquor taxes, sin taxes and all other misc. expenses necessary for business there is not \$5 per customer remaining. This illegal tax will put us out of business.
- My sales are down 20%. I have had to lay employees off. I have customers that do not come in any more or now come in less. My dancers work less days but longer hours. My DJ's are getting second jobs to make ends meet and my waitress turnover has tripled.
- It has a chilling effect on the average customers because they cannot afford to pay \$5.00 to get in, plus 2 drinks, which is so common at my club. We've had too many customers turn around and leave when asked to pay a cover on the day shift and even on the night shift.
- Some customers' think we are being greedy by passing along some or all of the \$5 fee, either because they are unaware of the new law, do not believe us, or are not paying additional fees at clubs that are not complying with the law. Some have come to the door and turned around rather than pay



*the tax. Most, however, seem to understand our predicament, although they believe that singling out our clubs for additional taxes is extremely unfair.*

- *Customers walking out.*
- *We are not happy [because] customers don't want to come in.*
- *Customers refusing to pay and leaving.*

**28) "If there are future regulations considered for exotic dance clubs in Texas, would you prefer that such regulations come from the Texas Legislature or from local governments, and why?"** All responses:

- *If entertainers are to be licensed, then reasonably priced, reasonably written and enforced, "one license is good throughout the state" statewide entertainer licensing legislation might be a good thing. Similarly, state preemption of the field, to eliminate all of the myriad of different rules and rely just on existing statewide criminal laws of general jurisdiction, might be a good thing. However, imposing uniform statewide conduct and operational rules throughout Texas – in both small, conservative Bible belt communities and also more cosmopolitan, urban, tourist/business travel destinations– would be impractical as well as counter-productive.*
- *State regulation would be more equitable as it levels the playing fields shared by local municipalities that are geographically connected to each other which in many instances creates an unfair business advantages. Example: The city of Dallas just enacted a no smoking ordinance for "bars" with surrounding areas such as Addison, Plano, Arlington, Garland, and Mesquite having no ordinances regulating smoking in bars, therefore creating an unfair advantage for these cities in the sense that patrons only have to drive a few blocks, in many instances, to smoke in a bar, which they can't do in the city they live in.*
- *I feel we are already highly regulated by the city, state, and counties. I feel no further regulation is needed.*
- *None.*
- *This question has a mixed answer. The Texas Legislature can be a little more objective and treat the industry as it is - a valid and supported business. However, local agencies can look at the clubs as they might impact their area and make decisions in that regard. These two parts can also work negatively in that the Legislature could make decisions that are impractical to the industry (the "Fee") and local agencies could let personal feelings or objectives dictate the attitudes governing regulations. This is a difficult situation and is probably best done by the Legislature and the local agencies working together with the clubs to adopt policies that are best for all concerned.*
- *The state—[to] promote conformity.*
- *Texas Legislature. There needs to be consistency in regulations for any business throughout at least the state. This is important for staff as well as customers. This industry is sometimes a political target and local governments would be more likely to abuse their powers to hurt the industry.*
- *Local Government! The state representatives have no idea what it takes to keep a business afloat.*
- *Neither; we are being regulated out of business.*
- *Current system has worked for years. I have not always agreed but all has worked.*

- *Local governments because the locals are more in tune to the regulations needed at a particular location and the positive or negative effects of the business in their particular neighborhood.*
- *From the Texas Legislature. Any laws on bars and restaurants, whether they concern smoking, alcohol, extra taxes, entertainers or anything else, should be applied equally throughout the state. This ensures a level playing field for businesses that are in competition.*
- *State uniformed.*
- *The state: they research their regulation and they keep true voters in mind at all times.*

## >Survey Instrument

### Survey Instrument

Thank you for taking our survey of Texas adult cabaret owners. The survey should take 20-30 minutes to complete. Please circle or mark an answer directly on this survey and mail it back to us in the enclosed postage-paid envelope no later than **December 19, 2008**.

#### Section I. Operations

1. How many years have you been involved in your industry in each of the categories listed below?

\_\_\_\_\_As an employee?

\_\_\_\_\_As an owner?

2. Excluding entertainers, how many employees or independent contractors work at your club or through your management company? Please fill in the average number of full-time and part-time employees for each category of employee.

	Full-time	Part-time
Waitresses	_____	_____
Bartenders	_____	_____
Managers	_____	_____
Kitchen/Food	_____	_____
Custodial/parking	_____	_____
Disc Jockeys	_____	_____
Administrative	_____	_____

3. What is the average wage in dollars per hour for each of the following:

DJ	\$_____
Manager	_____
Security/bouncer	_____
Kitchen/food staff	_____
Custodial/parking	_____
Administrative	_____
Waitress	_____
Bartender	_____

4. Please indicate your club's approximate annual gross sales (all revenue sources) for each of the years listed by checking the appropriate answer.

2006: Less than \$250,000 \_\_\_\_\_  
 Between \$250,000 and \$500,000 \_\_\_\_\_  
 Between \$500,000 and \$1 million \_\_\_\_\_  
 Between \$1 million and \$2 million \_\_\_\_\_  
 Between \$2 million and \$3 million \_\_\_\_\_  
 Between \$3 million and \$4 million \_\_\_\_\_  
 Between \$4 million and \$5 million \_\_\_\_\_  
 Between \$5 million and \$7.5 million \_\_\_\_\_  
 Between \$7.5 million and \$10 million \_\_\_\_\_  
 More than \$10 million \_\_\_\_\_

2007: Less than \$250,000 \_\_\_\_\_  
 Between \$250,000 and \$500,000 \_\_\_\_\_  
 Between \$500,000 and \$1 million \_\_\_\_\_  
 Between \$1 million and \$2 million \_\_\_\_\_  
 Between \$2 million and \$3 million \_\_\_\_\_  
 Between \$3 million and \$4 million \_\_\_\_\_  
 Between \$4 million and \$5 million \_\_\_\_\_  
 Between \$5 million and \$7.5 million \_\_\_\_\_  
 Between \$7.5 million and \$10 million \_\_\_\_\_  
 More than \$10 million \_\_\_\_\_

2008 (year to date): Less than \$250,000 \_\_\_\_\_  
 Between \$250,000 and \$500,000 \_\_\_\_\_  
 Between \$500,000 and \$1 million \_\_\_\_\_  
 Between \$1 million and \$2 million \_\_\_\_\_  
 Between \$2 million and \$3 million \_\_\_\_\_  
 Between \$3 million and \$4 million \_\_\_\_\_  
 Between \$4 million and \$5 million \_\_\_\_\_  
 Between \$5 million and \$7.5 million \_\_\_\_\_  
 Between \$7.5 million and \$10 million \_\_\_\_\_  
 More than \$10 million \_\_\_\_\_

5. Of your annual gross sales, on average, what percentages (approximate) come from each of the following sources?

Alcoholic beverage sales \_\_\_\_\_ %  
 Non-alcoholic beverage sales \_\_\_\_\_ %  
 Food \_\_\_\_\_ %  
 Entertainers' fees \_\_\_\_\_ %  
 Cover/Door charges (include sales tax or SOB tax) \_\_\_\_\_ %  
 Miscellaneous (please specify the source) \_\_\_\_\_ %

6. If you entered an amount under "Miscellaneous" please specify the source.

7. Where do your club's customers live? Please specify what the approximate percentages are.

Local city or metropolitan area \_\_\_\_\_ %  
 Outside of metropolitan area \_\_\_\_\_ %  
 Do not know \_\_\_\_\_

8. How much do you estimate the average patron spends at your club per visit, excluding tips to entertainers and other independent contractors?

\$ \_\_\_\_\_  
Do not know                      \_\_\_\_\_

9. What fringe benefits do you provide to your employees? Circle all that apply. .

- a. Health care
- b. retirement plan
- c. paid sick leave/vacation time
- d. other \_\_\_\_\_
- e. I don't provide fringe benefits to my employees.

10. What fringe benefits do you provide to your entertainers? Circle all that apply.

- a. Health care
- b. retirement plan
- c. paid sick leave/vacation time
- d. other \_\_\_\_\_
- e. I don't provide fringe benefits to my entertainers.

11. How many entertainers work per shift at your club? Please circle the appropriate range of numbers for each shift. The week has been divided into slower days (Monday – Wednesday) and busier days (Thursday – Sunday), and each set of days has been divided into four shifts.

Early Shift (11a – 7p )	Afternoon Shift ( 4p – 12a)	Evening Shift ( 7p – 2a )	Late Shift ( other )
<b>Mon – W</b>	<b>Mon – W</b>	<b>Mon– W</b>	<b>Mon – W</b>
Fewer than 10	Fewer than 10	Fewer than 10	Fewer than 10
11-20	11-20	11-20	11-20
21-30	21-30	21-30	21-30
31-40	31-40	31-40	31-40
41-50	41-50	41-50	41-50
51-60	51-60	51-60	51-60
61-70	61-70	61-70	61-70
More than 71	More than 71	More than 71	More than 71

Early Shift (11a – 7p )	Afternoon Shift ( 4p – 12a)	Evening Shift ( 7p – 2a )	Late Shift ( other )
<b>Thur.-Sun</b>	<b>Thur.-Sun</b>	<b>Thur.-Sun</b>	<b>Thur.-Sun</b>
Fewer than 10	Fewer than 10	Fewer than 10	Fewer than 10
11-20	11-20	11-20	11-20
21-30	21-30	21-30	21-30
31-40	31-40	31-40	31-40
41-50	41-50	41-50	41-50
51-60	51-60	51-60	51-60
61-70	61-70	61-70	61-70
More than 71	More than 71	More than 71	More than 71

12. How long does the average shift last for entertainers at your club (circle one)?

- 2 hours
- 3 hours
- 4 hours
- 5 hours
- 6 hours
- 7 hours
- 8 hours

13. How many shifts per week does the average entertainer chose to work at your club (circle one)?

- 3
- 4
- 5
- 6
- 7 or more

14. Please specify the employment status of your club's entertainers.

- All are licensees \_\_\_\_\_
- All are independent contractors \_\_\_\_\_
- All are commission sales agents \_\_\_\_\_
- All are employees \_\_\_\_\_
- I have a mix at my club \_\_\_\_\_
- Other \_\_\_\_\_

15. Please estimate below what dancers in each category earn in tips and other compensation ("dance dollars" or other in-house scrip) during an average shift. Assume for the purposes of this question that your club has 3 categories of entertainers. The first category represents your top-earning dancers who may work primarily the night shift, have a lot of experience, and are generally considered the best dancers in your club. The second category of entertainers may work both day and night shifts, generally do not earn as much as dancers in the first category, and may be new to the industry. Dancers in the third category do not earn as much as women in the first two categories, may be shy or new to dancing, and work primarily during the day shift.

Category 1 "Best Dancer"

- Less than \$100 \_\_\_\_\_
- Between \$101 and \$200 \_\_\_\_\_
- Between \$201 and \$300 \_\_\_\_\_
- Between \$301 and \$400 \_\_\_\_\_
- Between \$401 and \$500 \_\_\_\_\_
- Between \$501 and \$600 \_\_\_\_\_
- Between \$601 and \$800 \_\_\_\_\_
- Between \$801 and \$1000 \_\_\_\_\_
- Between \$1001 and \$1500 \_\_\_\_\_
- More than \$1501 \_\_\_\_\_
- Do not know \_\_\_\_\_

Category 2 "Second-Best Dancer"

- Less than \$100 \_\_\_\_\_
- Between \$101 and \$200 \_\_\_\_\_
- Between \$201 and \$300 \_\_\_\_\_
- Between \$301 and \$400 \_\_\_\_\_
- Between \$401 and \$500 \_\_\_\_\_

Between \$501 and \$600 \_\_\_\_\_  
 Between \$601 and \$800 \_\_\_\_\_  
 Between \$801 and \$1000 \_\_\_\_\_  
 Between \$1001 and \$1500 \_\_\_\_\_  
 More than \$1501 \_\_\_\_\_  
 Do not know \_\_\_\_\_

Category 3 “Third-Best Dancer”

Less than \$100 \_\_\_\_\_  
 Between \$101 and \$200 \_\_\_\_\_  
 Between \$201 and \$300 \_\_\_\_\_  
 Between \$301 and \$400 \_\_\_\_\_  
 Between \$401 and \$500 \_\_\_\_\_  
 Between \$501 and \$600 \_\_\_\_\_  
 Between \$601 and \$800 \_\_\_\_\_  
 Between \$801 and \$1000 \_\_\_\_\_  
 Between \$1001 and \$1500 \_\_\_\_\_  
 More than \$1501 \_\_\_\_\_  
 Do not know \_\_\_\_\_

16. What percentage of your entertainers do you believe fall into the categories listed below? (Categories are not mutually exclusive.)

\_\_\_\_\_ Single parent  
 \_\_\_\_\_ Student (college or Trade School)  
 \_\_\_\_\_ Professional entertainer  
 \_\_\_\_\_ Part time entertainer to supplement income from other jobs  
 \_\_\_\_\_ Seasonal entertainer – works during breaks in school or other job  
 \_\_\_\_\_ Unskilled and has no other means of support

17. Please estimate the percentage of your entertainers who have completed the following levels of education:

\_\_\_\_\_ Less than high school  
 \_\_\_\_\_ High school  
 \_\_\_\_\_ Some College  
 \_\_\_\_\_ College Degree  
 \_\_\_\_\_ Graduate Work (on Master’s, Doctoral or Professional degree)  
 \_\_\_\_\_ Professional trade school

18. What are the top three challenges that you face as an employer with entertainers working in your club?

19. Are there changes in the industry with regard to entertainers that would you like to see?

Section II. Regulation

20. What are the social benefits (i.e., charitable contributions, scholarships for dancers) that your business provides to the community?

21. What are the economic benefits that your business provides to the community?
22. Do you think any nearby businesses are affected either positively or negatively by your club? Please provide examples.
23. What, if any, regulations are appropriate for exotic dance clubs and cabarets?
24. Is any regulation appropriate for other adult entertainment businesses, such as video and bookstores, massage parlors, or escort services?
25. Does your industry benefit from a strong working relationship with local law enforcement agencies? Please explain.

### Section III. Clubs and the Adult Entertainment Fee

26. How has the \$5 per customer Adult Entertainment Fee affected your business and how is it likely to affect your business in the future?
27. Please share any negative experiences that you have had with the \$5 fee.
28. If there are future regulations considered for exotic dance clubs in Texas, would you prefer that such regulations come from the Texas Legislature or from local governments, and why?

=====

Thank you for taking the time to complete our survey. If you have any questions or further comments about this survey, please contact Dr. Bruce Kellison (bkellison@ic2.utexas.edu), 512-475-7813, or T.E.A. through AimeeBeatty@hotmail.com.



## Appendix VIII

### Valuations of Adult Entertainment Clubs

Table VIII.1 summarizes various valuation measures for two companies with multiple adult entertainment clubs that are publicly traded and one company with one club that is publicly traded. (Data were current as of October 29, 2008.) Short profiles of these publicly traded companies are also provided.

Rick's Cabaret International, Inc., through its subsidiaries, operates 19 upscale adult nightclubs (12 in Texas) serving primarily businessmen and professionals. As of October 29, 2008, Rick's had approximately 700 employees. Rick's was founded in 1982 and its headquarters are in Houston, Texas. Its stock is traded under the symbol RICK on the NASDAQ. Further information is available at <http://www.rickscabaret.com>.

VCG Holding Company operates 20 upscale clubs (two in Texas) and one dance club in 10 states. These clubs range in size from 7,000 square feet to 16,000 square feet, with the average size being approximately 10,000 square feet. As of October 29, 2008, VCG Holding had approximately 720 employees. It is headquartered in Lakewood, Colorado, and its stock is traded under the symbol VCGH on the NASDAQ. Further information is available at <http://www.vcgh.com>.

Million Dollar Saloon, Inc. owns and operates an adult cabaret in Dallas, Texas. It also owns commercial properties in the Dallas-Fort Worth Metroplex. Founded in 1987 and based in Dallas, the Million Dollar Saloon has 25 employees and is traded under the symbol MLDS on the NASDAQ pink sheets. See <http://www.milliondollar.com>.

**Table VIII.1 Club Valuation Ratios for Publicly Traded Companies**

VALUATION MEASURES	RICK	VCGH	MLDS
Market Cap (intraday)5:	56.93M	42.90M	802.34K
Enterprise Value (29-Oct-08)3:	74.90M	74.12M	N/A
Trailing P/E (ttm, intraday):	6.60	6.78	3.50
Forward P/E (fye 30-Sep-09) 1:	4.15	4.96	N/A
Price/Sales (ttm):	1.09	0.82	0.26
Price/Book (mrq):	0.86	0.71	0.29
Enterprise Value/Revenue (ttm)3:	1.45	1.41	NaN
Enterprise Value/EBITDA (ttm)3:	5.21	5.443	N/A

Key metrics for each company on a per-club basis are provided in the table AP-2 below.

**Table VIII.2 Per-Club Valuation Ratios**

VALUATION MEASURES	RICK	VCGH	MLDS
Sales (2008 per club estimate):	\$2,238,186	\$2,138,400	\$3,071,000*
Market Cap (per club)	2.99M	2.145M	802.34K
Enterprise Value (per club)	3.94M	3.71M	N/A
Price/Sales (ttm):	1.09	0.82	0.26
Price/Book (mrq):	0.86	0.71	0.29

\* Fourth quarter total ending September 30, 2007.

Table VIII.2 shows that there is some variation across the three companies in the key metrics of sales per club, market capitalization per club, and price/sales. That is to be expected, given that numerous factors are important in valuation of any particular club. These include club location, capacity/square footage, club licenses, beverage mix, number of entertainers, number of stages, typical clientele, inventory, and current and past sales.

#### **Additional Information on Club Valuations – Proposed Transactions**

Initially, researchers planned to compile a number of actual club transactions to supplement this review of club valuations. No such transactions could be identified, so data on 13 proposed transactions were collected. These clubs were listed for sale on various internet sites, and key information was drawn from the for-sale listings. Table VIII.3 shows that the clubs vary significantly in terms of their sizes and locations. Averages are shown in the last row. Most of the clubs are smaller in size and have lower sales compared to per-club data for RICK and VCGH.

**Table VIII.3 Proposed Club Transactions**

Club Location	Ask Price	Sales	Net Income	Ask Price/ Sales	Ask Price/ NI
Yuma, AZ	\$950,000	N/A	\$122,000	N/A	7.79
New York City, NY	\$1,200,000	\$1,000,000	N/A	1.20	N/A
San Diego, CA	\$3,000,000	\$650,000	\$300,000	4.62	10.00
Los Angeles, CA	\$900,000	\$365,000	\$204,000	2.47	4.41
Dayton, OH	\$600,000	\$750,000	\$200,000	0.80	3.00
Flint, MI	\$18,300,000	\$9,360,000	\$4,500,000	1.96	4.07
Ohio	\$1,800,000	\$900,000	\$250,000	2.00	7.20
Baton Rouge, LA	\$115,000	\$75,000	\$50,000	1.53	2.30
Los Angeles County, CA	\$2,200,000	\$700,000	\$180,000	3.14	12.22
Burlington County, NJ	\$1,600,000	N/A	\$239,000	N/A	6.69
Indiana	\$500,000	\$285,000	N/A	1.75	N/A
Jacksonville, FL	\$900,000	\$1,200,000	\$480,000	0.75	1.88
Nassau County, NY	\$899,000	\$1,000,000	\$544,700	0.90	1.65
<b>AVERAGES</b>	<b>\$2,535,692</b>	<b>\$1,480,455</b>	<b>\$642,700</b>	<b>1.92</b>	<b>5.56</b>

Table VIII.4. Revised Group of Proposed Club Transactions

Club Location	Ask Price	Sales	Net Income	Ask Price/ Sales	Ask Price/ NI
Dayton, OH	\$600,000	\$750,000	\$200,000	0.80	3.00
Flint, MI	\$18,300,000	\$9,360,000	\$4,500,000	1.96	4.07
Ohio	\$1,800,000	\$900,000	\$250,000	2.00	7.20
Baton Rouge, LA	\$115,000	\$75,000	\$50,000	1.53	2.30
Jacksonville, FL	\$900,000	\$1,200,000	\$480,000	0.75	1.88
Nassau County, NY	\$899,000	\$1,000,000	\$544,700	0.90	1.65
<b>AVERAGES</b>	<b>\$3,769,000</b>	<b>\$2,214,167</b>	<b>\$1,004,117</b>	<b>1.32</b>	<b>3.35</b>

The table also shows that the three California properties are somewhat outliers in their valuations. If these three clubs and other clubs with missing data are omitted, then a set of six proposed club transactions exist (Table VIII.4). This set of proposed club transactions is quite similar to the per-club valuations for RICK and VCGH, particularly on the ask price/sales ratio. That is, the ask price/sales ratio of 1.32 for the proposed transactions is not that different from the price/sales ratios of 1.09 and 0.82 for RICK and VCGH, respectively.



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## Appendix IX

### Recent Actions by Communication Companies

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#### Craigslist Agrees to Curb Sex Ads, By BRAD STONE

Published: November 6, 2008

SAN FRANCISCO — The online classifieds company Craigslist said Thursday that it had reached an agreement with 40 state attorneys general and agreed to tame its notoriously unruly “erotic services” listings. Prostitutes and sex-oriented businesses have long used that section of Craigslist to advertise their services. Along with their ads, they often include pornographic photos.

Earlier this year, the attorney general of Connecticut, Richard Blumenthal, representing 40 states, sent a letter to Craigslist demanding that it purge the site of such material and better enforce its own rules against illegal activity, including prostitution. The two sides began a series of conversations about what Craigslist could do to prevent such ads from appearing.

“They identified ads that were crossing the line,” said Jim Buckmaster, chief executive of Craigslist. “We looked at those ads, we saw their point and we resolved to see what we could do to get that stuff off the site.”

In March, Craigslist took the initial step of asking its erotic services advertisers to provide a valid phone number. An automated system then called these advertisers and read a series of digits, which the advertiser had to type into a Web page before their ad would appear on the site. Craigslist said that reduced a majority of the illicit material.

Under the broader agreement announced Thursday, Craigslist is going further, asking that advertisers provide valid identification. It said it will charge erotic services vendors a small fee — Mr. Buckmaster said around \$10 — and require that they provide a valid credit card. It will donate the money to charities working on child exploitation and human trafficking issues.

On Wednesday, Craigslist also filed 14 lawsuits in San Francisco against companies that were helping advertisers circumvent the telephone verification system by generating Internet telephone numbers that could be used temporarily and then discarded.

Mr. Blumenthal said the new measures would discourage many sex operators from using Craigslist. “The mere act of authentication will be a very significant deterrent,” he said. “There are very few prostitutes who want to be called by Craigslist and asked to give additional identifying information.”

[www.nytimes.com/2008/11/07/technology/internet/07craigslist.html?partner=rssyahoo&emc=rss](http://www.nytimes.com/2008/11/07/technology/internet/07craigslist.html?partner=rssyahoo&emc=rss)

## Ning puts the handcuffs on porno networks

December 2, 2008 11:22 AM PST

There's no more room for smut and naughty bits on build-your-own social network service Ning, according to a post on the company blog. Ning has announced that it will shut down its "Red Light District" of adult content, and on January 1 will formally ban it.

"We are exploring ways for adult networks that will no longer be available on Ning to export their content in addition to their members," the post by CEO Gina Bianchini read. The reasoning, she explained, is that it's costly and problematic—something you just can't deal with in a recession.

Advertisers don't like it, Bianchini said. "Our ad partners aren't big fans of the adult networks and therefore require us to identify adult networks or risk our healthy advertising revenue," she explained. "We don't want to be in the policing business and, unchecked, that's where this is heading."

And if legal adult-content networks are allowed, the illegal ones invariably weasel their way in, Bianchini said, and that means more work for a small team. The number of Digital Millennium Copyright Act (DMCA) takedown notices is also higher for adult networks: "Compared to our other social networks on the Ning Platform, the additional work created by adult networks alleged to have violated the copyrights of others is enough for us to discontinue adult networks in favor of investing time and energy in growing the Ning Platform from here," Bianchini wrote.

See <http://blog.ning.com/2008/12/the-end-of-the-red-light-district.html> for more details.

Ning isn't the only site to be cracking the whip on porn. YouTube, owned by Google, said on Tuesday that it's "tightening the standard for what is considered 'sexually suggestive.'"

## A YouTube for All of Us

December 02, 2008 | Posted by: The YouTube Team | Permalink

As a community, we have come to count on each other to be entertained, challenged, and moved by what we watch and share on YouTube. We've been thinking a lot lately about how to make the collective YouTube experience even better, particularly on our most visited pages. Our goal is to help ensure that you're viewing content that's relevant to you, and not inadvertently coming across content that isn't. Here are a few things we came up with:

**Stricter standard for mature content** - While videos featuring pornographic images or sex acts are always removed from the site when they're flagged, we're tightening the standard for what is considered "sexually suggestive." Videos with sexually suggestive (but not prohibited) content will be age-restricted, which means they'll be available only to viewers who are 18 or older. To learn more about what constitutes "sexually suggestive" content, [click here](#).

**Demotion of sexually suggestive content and profanity** - Videos that are considered sexually suggestive, or that contain profanity, will be algorithmically demoted on our 'Most Viewed,' 'Top Favorited,' and other browse pages. The classification of these types of videos is based on a number

of factors, including video content and descriptions. In testing, we've found that out of the thousands of videos on these pages, only several each day are automatically demoted for being too Graphic or explicit. However, those videos are often the ones which end up being repeatedly flagged by the community as being inappropriate.

The preservation and improvement of the YouTube experience is a responsibility we share. Let's work together to ensure that the YouTube community continues to thrive as a positive place for all of us.

The YouTube Team

[http://www.youtube.com/blog?entry=AEX3\\_7h40mk](http://www.youtube.com/blog?entry=AEX3_7h40mk)





## Appendix X

### TABC Violation Descriptions

A detailed description of major violations is listed in the table below, provided by the TABC Open Records Office. TABC provides rules (see “R” in the table)

<http://www.tabc.state.tx.us/leginfo/rules/ALLRULES.PDF> and codes (see “Code” in the table)  
<http://www.tabc.state.tx.us/leginfo/code/80th/AllTitles.pdf> for the violations.

**Table X.1 Violation Descriptions**

Violations	Statute
Permitting Minor To Possess/Consume	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, with criminal negligence permitted a minor to possess or consume an alcoholic beverage. By permitting a minor to possess or consume an alcoholic beverage, Respondent violated Texas Alcoholic Beverage Code § 106.13.
Breach - Simple	On or about _____, 200_, a breach of the peace occurred on the premises, or on the premises under Respondent’s control. Said breach of the peace was not beyond the control of Respondent, (his, her, its) agent, servant, or employee, and resulted from the Respondent’s improper supervision of persons permitted to be on the licensed premises or on premises under Respondent’s control. By allowing a breach of the peace on the licensed premises that was not beyond the Respondent’s control and resulted from the Respondent’s improper supervision of persons on the premises, Respondent violated Alcoholic Beverage Code §§ 22.12, 28.11, 32.24, and/or 69.13.
Breach - Aggravated	On or about _____, 200_, a breach of the peace occurred on the premises, or on the premises under Respondent’s control. Said breach of the peace was not beyond the control of Respondent, (his, her, its) agent, servant, or employee, and resulted from the Respondent’s improper supervision of persons permitted to be on the licensed premises or on premises under Respondent’s control. By allowing a breach of the peace on the licensed premises that was not beyond the Respondent’s control and resulted from the Respondent’s improper supervision of persons on the premises, Respondent violated Alcoholic Beverage Code §§ 22.12, 28.11, 32.24, and/or 69.13.
Breach, Failure To Report	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, failed to promptly report a breach of the peace on the licensed premises to the Commission. By failing to promptly report a breach of the peace on the licensed premises to the Commission, Respondent violated Texas Alcoholic Beverage Code §§ 11.61(b)(21), 61.71(a)(31), and/or and 32.17(a)(8).

Cash Law	On or about _____, 200_, Respondent or Respondent's agent, servant, or employee, gave a check or draft for the purchase of beer that was dishonored when presented for payment. By giving a check or draft for the purchase of beer that was dishonored when presented for payment, Respondent violated Texas Alcoholic Beverage Code §§ 61.73 and 102.31. On or about _____, 200_, Respondent or Respondent's agent, servant, or employee, gave a check or draft for the purchase of beer that was dishonored when presented for payment. By giving a check or draft for the purchase of beer that was dishonored when presented for payment, Respondent violated Texas Alcoholic Beverage Code §§ 28.12, 61.73 and 102.31.
Credit Law	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, failed to timely collect credit payments from a retailer. By failing to timely collect credit payments from a retailer, Respondent violated Texas Alcoholic Beverage Code §§ 11.61 (b) (2) and 102.32 (Vernon 1995 and Supp. 2004). (WHOLESALE) On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, failed to timely pay for liquor from a wholesale dealer. By failing to timely pay for liquor from a wholesale dealer, Respondent violated Texas Alcoholic Beverage Code §§ 61.71 (a) (1) and 102.32 (Vernon 1995 and Supp. 2004). (RETAILER)
Possession Of Drugs By Licensee/Permittee	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, possessed or permitted others to possess a narcotic on the licensed premises. By possessing or permitting others to possess a narcotic on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 104.01(9) and 11.61 (b)(2) and/or 61.71(a)(1), and 16 Texas Administrative Code ' 35.41 (b).
Sale/Delivery Of Drugs By Licensee/Permittee	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold or permitted others to sell a narcotic on the licensed premises. By selling or permitting others to sell a narcotic on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 61.71(a)(17), and/or 11.61(b)(7), and 16 Texas Administrative Code § 35.31.
Permit Sale/Delivery/Poss Of Drugs By Licensee/Permittee	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold or permitted others to sell a narcotic on the licensed premises. By selling or permitting others to sell a narcotic on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 61.71(a)(17), and/or 11.61(b)(7), and 16 Texas Administrative Code § 35.31.
Sale/Delivery/Poss Of Paraphernalia By Licensee/Permittee	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, possessed, delivered, or sold, or permitted others to possess, deliver, or sell equipment used or designed for administering a narcotic on the licensed premises. By possessing, delivering, or selling, or permitting others to possess, deliver, or sell equipment used or designed for administering a narcotic on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 104.01(9) and 61.71(a)(1) and/or 11.61(b)(2), and 16 Texas Administrative Code § 35.41(b).
Sale Of AB To Intoxicated Person	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold, served, or delivered an alcoholic beverage to an intoxicated person. By selling, serving, or delivering an alcoholic beverage to an intoxicated person, Respondent violated Texas Alcoholic Beverage Code §§ 11.61(b)(14) and/or 61.71(a)(6).
Intoxicated Permittee/Licensee On Licensed Premises	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, was intoxicated on the licensed premises. By being intoxicated on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 104.01 (5), 11.61(b)(13), 25.04 and/or 61.71 (a) (1).

Inspection Refusal	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, refused to permit or interfered with an inspection of the licensed premises by an authorized Commission representative or peace officer. By refusing to permit or interfering with an inspection of the licensed premises by an authorized Commission representative or peace officer, Respondent violated Texas Alcoholic Beverage Code §§ 11.61(b)(2), 32.12, 32.17(a)(8), 61.71 (a) (14) and/or 101.04.
Open Saloon - Sale to Non-Member	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold, offered for sale, purchased, or held title to an alcoholic beverage so as to constitute an open saloon. By selling, offering to sell, purchasing, or holding title to an alcoholic beverage so as to constitute an open saloon, Respondent violated Texas Alcoholic Beverage Code §§ 32.01 (a), 32.17 (a) (1) and 32.17 (b).
Permit Public Lewdness, Sexual Contact, Obscen. Act	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, engaged in or permitted an act of sexual contact intended to arouse or gratify sexual desires. By engaging in or permitting an act of sexual contact intended to arouse or gratify sexual desires, Permittee violated Texas Alcoholic Beverage Code " 104.01 (6), 11.61(b)(2), 25.04(b), and/or 61.71(a)(1) and 16 Texas Administrative Code ' 35.41(a).
Failure To Properly Display Permit Or License	On or about _____, 200_, Respondent, (his, her, its) agent, servant or employee, failed to display his/her/its permit or license in a conspicuous place at all times at the licensed premises. By failing to display his/her/its permit or license in a conspicuous place at all times on the licensed premises, Respondent violated Texas Alcoholic Beverage Code §§ 11.04 and 11.61 (b)(2) or §§ 61.01 and 61.71 (a)(1).
Sale/Serve/Deliver During Prohibited Hours	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold or offered to sell mixed-beverages during prohibited hours. By selling or offering to sell mixed-beverages during prohibited hours, Respondent violated Texas Alcoholic Beverage Code §§ 11.61 (b) (2) and 105.03. (LIQUOR) On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold or delivered, or offered to sell or deliver, wine or beer during prohibited hours. By selling or delivering, or offering to sell or deliver, wine or beer during prohibited hours, Respondent violated Texas Alcoholic Beverage Code §§ 61.71 (a) (1) and 105.04. (BEER and WINE) On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold or delivered, or offered to sell or deliver, beer during prohibited hours. By selling or delivering, or offering to sell or deliver, beer during prohibited hours, Respondent violated Texas Alcoholic Beverage Code §§ 61.71 (a) (1) and 105.05. (BEER)
Consumption During Prohibited Hours By Lic/Perm	Consumption during prohibited hours by Licensee/Permittee/Employee
Permit Consump. During Prohibited Hours By Lic/Perm	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, consumed or permitted others to consume an alcoholic beverage on the licensed premises during prohibited hours. By consuming or permitting others to consume an alcoholic beverage on the licensed premises during prohibited hours, Respondent violated Texas Alcoholic Beverage Code §§ 105.06, 11.61(b)(2), 61.71(a)(18) and/or 32.17(a)(7).
Refilling Distilled Spirits Bottle On License Premise	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, refilled a container that contained distilled spirits on which tax had been paid. By refilling a container that contained distilled spirits on which tax had been paid, Respondent violated Texas Alcoholic Beverage Code §§ 28.08, 11.61(b)(2) and/or 32.17(a)(8).

Permitting Removal Of AB From License Premise	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, permitted a person to take an alcoholic beverage purchased or stored on the licensed premise from the premises where sold or served. By permitting a person to take an alcoholic beverage purchased or stored on the licensed premises from the premises where sold or served, Respondent violated Texas Alcoholic Beverage Code §§ 28.10, 11.61(b)(2), and/or 32.17(a)(4).
Permit Consumption On Premise During Suspension	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, purchased, sold, offered to sell, distributed, or delivered an alcoholic beverage, or consumed an alcoholic beverage, or permitted the consumption of an alcoholic beverage on the licensed premises while the license was under suspension. By purchasing, selling, offering to sell, delivering, consuming, or permitting the consumption of an alcoholic beverage on the licensed premises while the license was suspended, Respondent violated Texas Alcoholic Beverage Code §§ 11.68, 11.61(b)(2), 61.71(a)(22) and/or 61.84(b).
Soliciting An AB By Licensee/Permittee	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, solicited or permitted solicitation of a person to buy drinks for consumption by Respondent or any of his, her, its employee. By soliciting or permitting solicitation of a person to buy drinks for consumption by Respondent or any of his, her, its employee, Respondent violated Texas Alcoholic Beverage Code §§ 104.01(4), 11.61(b)(2) and/or 61.71(a)(1).
Poss. Of Distilled Spirit W/O Local Dist Stamp	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, possessed or permitted another to possess on the premises distilled spirits in a container not bearing a serially numbered identification stamp. By possessing or permitting others to possess on the premises distilled spirits in a container not bearing a serially numbered identification stamp, Respondent violated Texas Alcoholic Beverage Code " 11.61(b)(2), 28.15(a), 32.17(a)(8), and/or and 32.20(a).
Empty Spirits Btl w/ Unmutilated LD Stamp	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, failed to immediately mutilate the identification stamp on an empty bottle that contained distilled spirits. By failing to immediately mutilate the identification stamp on an empty bottle that contained distilled spirits, Respondent violated Texas Alcoholic Beverage Code §§ 28.09(a), 11.61(b)(2) and/or 32.17(a)(8) and 16 Texas Administrative Code § 41.72.
Possess Uninvoiced/Unauthorized AB	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, possessed or permitted the possession of alcoholic beverages not covered by invoice. By possessing or permitting the possession of alcoholic beverages not covered by invoice, Respondent violated Texas Alcoholic Beverage Code §§ 28.06 (a) & (b), 11.61(b)(2) and/or 32.17(a)(8) and 16 Texas Administrative Code § 41.50(h)(2).
Knowingly Possess Uninvoiced Alcoholic Beverages	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, knowingly possessed or permitted the possession of alcoholic beverages not covered by invoice. By knowingly possessing or permitting the possession of alcoholic beverages not covered by invoice, Respondent violated Texas Alcoholic Beverage Code §§ 28.06 (c) & (d).
Sale Of Unauthorized AB	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold alcoholic beverages without the proper permit. By selling alcoholic beverages without the proper permit, Respondent violated Texas Alcoholic Beverage Code §§ 11.01(a), 11.61(b)(2), 61.01, and/or 61.71(a)(1) & (9).

Possession Of AB Unfit For Consumption	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, possessed alcoholic beverages unfit for consumption. By possessing alcoholic beverages unfit for consumption, Respondent violated Texas Alcoholic Beverage Code § 11.61(b)(7), 61.71(a)(17) and/or 11.61 (b) (9).
Fail To Pay Local Fees Under Sec. 11.38 Or 61.36	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, failed to pay a local fee. By failing to pay a local fee, Respondent violated Texas Alcoholic Beverage Code § 61.36. On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, sold an alcoholic beverage without first paying a local fee. By selling an alcoholic beverage without first paying a local fee, Respondent violated Texas Alcoholic Beverage Code § 61.36. On or about _____, 200_, Respondent failed to pay a local fee. By failing to pay a local fee, Respondent violated Texas Alcoholic Beverage Code § 11.38. On or about _____, 200_, Respondent sold an alcoholic beverage without first paying a local fee. By selling an alcoholic beverage without first paying a local fee, Respondent violated Texas Alcoholic Beverage Code § 11.38
Misc. Violations	MISC. VIOLATIONS
Outdoor Advertising Violation	C §108.52
Place or Manner, Misc.	R §35
Place Or Manner Prostitution	R §35.31(b)(12)
Place Or Manner On Premises Promotions	R §45.103
Failure To Post Required Sign	On or about _____, 200_, Respondent, (his, her, its) agent, servant, or employee, _____. By _____, Respondent violated Texas Alcoholic Beverage Code 11.041.







## **Bureau of Business Research & the IC<sup>2</sup> Institute:**

Organized Research Units at The University of Texas at Austin

The Bureau of Business Research (BBR) was established in 1926 to provide Texans with applied economic research and data to strengthen the state's business environment. The BBR moved to the IC<sup>2</sup> Institute in 2005, where it continues its mission to contribute to the competitiveness of Texas industries. The IC<sup>2</sup> Institute was established in 1977 with the vision that science and technology are resources for economic development and enterprise growth. In addition to the BBR, the Institute oversees several targeted research programs that include the Austin Technology Incubator (with industry-specific incubation assistance for business start-ups in the *software*, *clean energy*, *wireless*, and *bioscience* technology sectors), the Master of Science in Technology Commercialization degree program, the Global Commercialization Group, and more. The IC<sup>2</sup> Institute is directed by Professor John Sibley Butler.

## **Institute on Domestic Violence and Sexual Assault**

Also part of The University of Texas at Austin

The mission of the Institute on Domestic Violence and Sexual Assault (IDVSA) is to advance the knowledge base related to domestic violence and sexual assault in an effort to end violence. IDVSA accomplishes this through supporting research on domestic violence and sexual assault and by providing training, technical assistance, and information dissemination to the practitioner community and the community at large. It is the vision of IDVSA that its multi-disciplinary, researcher-practitioner, collaborative approach will enhance the quality and relevance of research efforts and their application in service provision.