

ANNUAL

**COLORADO
DIVISION OF GAMING**

2020

**COLORADO LIMITED GAMING
CONTROL COMMISSION**

REPORT

2002 ANNUAL REPORT

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Executive Director
Department of Revenue

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Division of Gaming

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Controller

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The basic framework of limited gaming in the State of Colorado is outlined in a Constitutional amendment approved by voters in the state on November 6, 1990. Limited gaming is allowed only in the mountain towns of Black Hawk, Central City and Cripple Creek. Gaming was approved as a means of revitalizing these three communities.

“Limited gaming” is defined as a maximum single bet of \$5 on slot machines and live blackjack and poker games. Slot machines by definition include video poker, blackjack and keno machines.

To change the location of gaming in Colorado, to increase the betting limits or to change the types of games allowed would require a change in the Constitutional amendment through a statewide vote of the people. Six initiatives to expand gaming to other locales have appeared on ballots since 1992. Each of those has been defeated by at least a 2-to-1 margin.



Gaming started in Colorado on October 1, 1991, with a total of 11 casinos statewide. It has grown to as many as 75 casinos operating statewide at one time in September 1992. At the 11-year mark on October 1, 2002, a total of 42 gaming establishments in Colorado were open.

Gross revenues generated by casinos on a monthly basis have increased from nearly \$8.4 million during the first month of operation to more than \$64.6 million in July 2002.

After just over 11 years of gaming (through December 2002), casinos had paid \$665.9 million in gaming tax revenues to the state on \$5.0 billion in adjusted gross revenues. That money has been used to fund state historical restoration projects, the impacts to state and local governments caused by gaming, and the on-going regulation of the gaming industry.



COMMISSION'S REPORT

For the gaming industry, like everyone else, the year 2002 will be remembered as a year of transition in the wake of 9/11. It was marked with economic and geopolitical uncertainty combined with guarded optimism about the future.

While many states turned to gaming in 2002 as a "solution" to state and local budget woes, the Gaming Commission maintained the status quo when we undertook our annual duty of establishing the gaming tax rates. Each year we are faced with the task of balancing the fiscal needs of the government entities impacted by the gaming industry with the need to maintain profitability within the industry so that casinos that make sound business decisions can stay in business, and in turn continue to generate tax dollars to meet the governmental needs.

We believed that by keeping the tax rates the same, we would achieve that balance. A review of the first six months of this current fiscal year (July through December), indicates that we are well on our way to reaching that objective. Revenues earned by casinos grew 3.5 percent during that time, while tax receipts increased by 6.8 percent. While these numbers are not as high as in recent past years, they still represent growth in a stagnant economy.

The year 2002 will also be remembered as a year of transition for the Commission. It was the last full calendar year that we got the benefit of the service of Marilyn Wheeler, whose second and final term ends June 30, 2003. Marilyn will be the first Commissioner to serve two full terms. Normally in these reports we recognize Commissioners after their service has ended. I wanted Marilyn to know how much we will miss her before she left. Her length of tenure has provided us with a unique perspective, but it's not her historical knowledge that we will miss the most. Losing her calm and stabilizing demeanor, financial expertise and thoughtful, analytical insight will leave a void on the Commission. Marilyn is greatly respected by other Commissioners, Division of Gaming staff and the gaming industry, among many others. I, for one, will greatly miss her. Thank you, Marilyn, for your years of dedicated service, and we all look forward to serving six more months with you.

As we look ahead to 2003, we anticipate that we will be able to face whatever transitions still lie ahead. I believe the solid foundation that we established in 2002 and in the past will get us through anything 2003 has to offer.

—NATALIE MEYER
Chair, Colorado Limited Gaming Control Commission

COMMISSIONERS

Natalie Meyer
Chair/Business
Member, Denver

Phil Walter
Vice Chair, Law
Enforcement Member,
Glenwood Springs

Marilyn Wheeler
CPA Member,
Boulder

Shirley O. Harris
Citizen Member,
Denver

Rob Millman
Attorney Member,
Colorado Springs



DIRECTOR'S REPORT

The Colorado Division of Gaming continued with innovative programs in calendar year 2002 designed to reflect and enhance our commitment to outstanding customer service and philosophy of reasonable regulation.

Division staff met with every licensed casino as a means of assessing our regulatory programs. The results were positive programmatic changes to the service provided to the gaming industry and increased efforts to identify critical regulatory issues in their early stages before they become major problems. We have increased our industry training initiative, adding pertinent classes and working with casinos to identify training opportunities. We have changed our approach to compliance inspections and revenue and information systems audits, and have worked with casino management on recognizing and documenting enforcement issues.

While these efforts have been rewarding, we know the real challenge lies ahead. In order for the Division to continue to work in a proactive manner and assist the gaming industry in coupling compliant systems with market needs, the Division must be willing to understand and embrace new technology. Work in that area is already underway with development of online personnel and device tracking systems to be utilized by casinos. This is an extension of the Casino EZ File online gaming tax system implemented last year. The Division uses digital fingerprint technology, and gaming applicant prints are sent directly to the Colorado Bureau of Investigations. We are using state of the art auditing software designed to identify areas of risk and to allow us to complete objectives faster and with less interference to the gaming licensee.

Fortunately, the Colorado Limited Gaming Control Commission shares this vision of utilizing and understanding technology, and they have supported this effort. The Commissioners are interested in the work done by our Systems and Machine Approval Committee (SMAC) which is charged with certifying gaming devices and studying emerging technologies.

The coming year offers new challenges to be met, and the Division is up to the task. In our development we must always look for ways to serve all our customers in maintaining a well-regulated, competitive gaming industry.

—TOM KITTS
Director, Colorado Division of Gaming

On June 20, 2002, the Colorado Limited Gaming Control Commission retained the tax structure in which casinos pay, on an annual basis starting July 1, 0.25 percent on the first \$2 million in adjusted gross proceeds (AGP), 2 percent from \$2 million to \$4 million, 4 percent from \$4 million to \$5 million, 11 percent from \$5 million to \$10 million, 16 percent from \$10 million to \$15 million and 20 percent above \$15 million. AGP is most easily defined as the amount of money wagered minus the amount paid out in prizes. The Commission is required by the constitutional amendment to set the gaming tax rate on an annual basis. The gaming tax is paid on a monthly basis, with casinos required to file returns by the 15th of the following month.

Below are the historical tax rates:

October 1991- September 1992

4%	\$0 - \$440,000
8%	\$440,000 - \$1.2 million
15%	Above \$1.2 million

October 1992 - September 1993

2%	\$0 - \$1 million
20%	Above \$1 million

October 1993 - September 1994

2%	\$0 - \$1 million
8%	\$1 million - \$2 million
15%	\$2 million - \$3 million
18%	Above \$3 million

October 1994 - September 1996

2%	\$0 - \$2 million
8%	\$2 million - \$4 million
15%	\$4 million - \$5 million
18%	Above \$5 million

October 1996 - June 1999

2%	\$0 - \$2 million
4%	\$2 million - \$4 million
14%	\$4 million - \$5 million
18%	\$5 million - \$10 million
20%	Above \$10 million

July 1999 - June 2003

0.25%	\$0 - \$2 million
2%	\$2 million - \$4 million
4%	\$4 million - \$5 million
11%	\$5 million - \$10 million
16%	\$10 million - \$15 million
20%	Above \$15 million



LIMITED GAMING FUND

The Division of Gaming is a cash-funded organization, meaning no general tax dollars are used for its operation or expenses. The Division operates on the revenues generated from the gaming tax, application and license fees, any fines levied by the Division and other miscellaneous revenues.

Before any monies are distributed via the Limited Gaming Fund, the expenses of running the Commission and the Division of Gaming must be paid and two months of operating expenses for the Division must be placed in escrow. After these obligations are met, the remaining money is distributed according to the following formula:

- 28%** to the State Historical Society
 - 20% (of the 28%) distributed by the State Historical Society to the governing bodies of Cripple Creek, Central City and Black Hawk (in proportion to the revenues generated in the respective cities)
 - 80% (of the 28%) used for historic preservation and restoration throughout the state
- 12%** to Gilpin and Teller counties (in proportion to the gaming revenues generated in the respective counties)
- 10%** to the towns of Cripple Creek, Central City and Black Hawk (in proportion to the respective gaming revenues)
- 0.2%** to the Colorado Travel and Tourism Promotion Fund
- 49.8%** to the General Fund, of which the following are designated:
 - At least 13% (of 50%) to the Local Government Gaming Impact Fund
 - An amount to be determined annually to the Colorado Department of Transportation

LOCAL GOVERNMENT IMPACT FUND

The Local Government Impact Fund allocates at least 13% of the general fund share of the Limited Gaming Fund to the two host counties, the eight counties surrounding those two counties, and three counties in southwestern Colorado near tribal gaming facilities, along with the municipalities (excluding the three gaming towns) and emergency service districts in those counties, to help offset financial impacts associated with increased highway traffic, higher law enforcement incidents, increased demands on social services caused by gaming and other demands on county and city resources. The money is distributed to those political entities based solely on applications to the Department of Local Affairs. At the end of FY 2003, the fund increases from at least 11% to at least 13% of the general fund share with the inclusion of the 2% that was previously allocated to the Municipal Impact Fund which provided direct funding to Woodland Park and Victor. That fund will be eliminated, and the two municipalities will become involved in the Local Government Impact Fund program, for which they were not previously eligible.



GAMING FUND DISTRIBUTION

Fiscal Year 2002

LIMITED GAMING REVENUES	\$ 99,842,110
<i>plus</i> Carryover Escrow from 2001	\$ 2,515,250
<i>minus</i> Division and Commission expenditures	\$ 9,256,726
<i>minus</i> Two Months' Escrow	\$ 3,404,416
TOTAL AMOUNT DISTRIBUTED	\$ 89,696,218
General Fund	\$ 34,076,145
Local Government Limited Gaming Impact Fund	\$ 4,933,292
Municipal Impact Fund	\$ 896,962
Woodland Park	672,722
Victor	224,240
Colorado Dept. of Transportation	\$ 4,762,318
Tourism Promotion Fund	\$ 179,392
State Historical Society	\$ 25,114,941
Counties Total	\$ 10,763,546
Gilpin County	8,622,677
Teller County	2,140,869
Cities Total	\$ 8,969,622
Black Hawk	6,472,838
Central City	712,726
Cripple Creek	1,784,058
TOTAL AMOUNT DISTRIBUTED	\$ 89,696,218



COMBINED STATEMENT

Colorado Division of Gaming Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—June 30, 2002

(Audited)

REVENUES	
Gaming Taxes	\$ 95,625,913
License and Application Fees	619,669
Background Investigations	263,023
Fines & Other	472,165
Interest Revenue, Net	2,119,864
Investment Income	741,476
TOTAL REVENUES	<u>99,842,110</u>
EXPENDITURES	
Personal Services	4,675,678
Operating	900,165
Legal Services	114,205
Leased Space	42,000
Capital Outlay	29,600
Building	730,000
EXPENDITURES—SUBTOTAL	<u>6,491,648</u>
Payments to Other State Agencies	<u>2,715,309</u>
TOTAL DIVISION EXPENDITURES	<u>9,206,957</u>
Background Expenditures	49,769
TOTAL EXPENDITURES	<u>9,256,726</u>
EXCESS OF REVENUES OVER EXPENDITURES	90,585,384
FUND BALANCE AT JULY 1, 2001	<u>2,515,250</u>
Distribution Out	<u>(89,696,218)</u>
FUND BALANCE AT JUNE 30, 2002	\$ <u>3,404,416</u>