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## 2005 ANNUAL REPORT

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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. Seven initiatives to expand gaming to other locales and venues 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 14-year mark on October 1, 2005, a total of 46 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 \$69.9 million in July 2005.

During the first 14 years, casinos paid \$934.9 million in gaming tax revenues to the state on \$7.0 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.

**April 2005** — The Commission issued an order denying a petition of declaratory order submitted by a large Black Hawk casino, which challenged the Division of Gaming’s historical interpretation that building space outside the historical commercial district defined in the Colorado Constitution could not be used in calculating the maximum square footage that can be used in compliance with the constitutional mandate that no more than 35 percent of any building or 50 percent of any floor in a building can be devoted to gaming space. The Commission removed any ambiguity about this subject by approving a rule change in August that codified this interpretation.

**June 2005** — After three months of testimony, the Commission retained the tax structure that has been in place since July 1999, due in large part to a request from the industry to retain the tax structure and use any increase in tax revenues due to an anticipated growth in casino revenue to hire additional Division staff to meet the growing need for timely system audits. As a result of this voiced concern, the Division implemented a new system approval process that places a greater burden on casinos during the initial testing phase, but drastically reduces the time in which casinos could implement their new accounting or ticketing systems. Based upon projections from the Division of Gaming, an anticipated \$106.7 million in gaming tax revenues will be paid into the Limited Gaming Fund in fiscal year 2006 as a result of the maintained tax structure, up from \$99.0 million in fiscal year 2005.

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## COMMISSIONERS

### **James Alderden**

Law Enforcement Member,  
Fort Collins

### **Florence Hunt**

Citizen Member, Pueblo

### **William J. Hybl**

Attorney Member,  
Colorado Springs

### **Patty Imhoff**

Business Member, Greenwood  
Village

### **Meyer M. Saltzman**

CPA Member, Denver

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**April 2005** — The Division of Gaming assisted in the raid of an illegal poker tournament at a restaurant in Palmer Lake that resulted in 23 arrests. The Division provided training, undercover surveillance and technical assistance during the operation.

**June 2005** — The Division collected a record \$99.0 million in gaming tax revenues for fiscal year 2005 on a record \$743.4 million in adjusted gross proceeds earned by casinos. As a result, in August the Division was able to distribute \$92.9 million from the Limited Gaming Fund to constitutional and statutory recipients.

**July 2005** — In response to industry demand for more timely approvals of computer systems, especially new ticket-in, ticket-out systems, the Division revised its approval process to assign more responsibility to the casinos to perform and review the preliminary tests needed to ensure the systems are reliable. To implement the changes, the Division revised the internal control minimum procedures that casinos must follow, developed specific testing criteria for casinos to use, and provided in-depth mandatory training to the industry. Casinos are able to implement systems sooner after certifying they performed the necessary tests, while the Division continued to provide final certification to ensure the casinos complied with the new testing standards.

**November 2005** — The Division, with approval from the Gaming Commission, entered into stipulations and agreements with three Black Hawk casinos resulting in fines totaling \$270,000 for the casinos' failure to prepare statistical reports, failure to properly complete variance investigations and other accounting irregularities. The casinos also agreed to follow-up measures to ensure future compliance.

On June 16, 2005, 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 2006**

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)
- 49.8%** to the General Fund, of which the following are designated:
  - An amount to be determined annually to the Colorado Department of Transportation
  - At least 13% to the Local Government Gaming Impact Fund
- 0.2%** to the Colorado Travel and Tourism Promotion Fund

◆ GAMING FUND DISTRIBUTION

**FISCAL YEAR 2005**

<b>LIMITED GAMING REVENUES</b> .....	<b>\$ 100,571,614</b>
<i>plus</i> Previous year's escrow .....	\$ 1,859,108
<i>minus</i> Division and Commission expenditures .....	\$ 8,379,343
<i>minus</i> Two months' escrow .....	\$ 1,121,174
<b>TOTAL AMOUNT DISTRIBUTED</b> .....	<b>\$ 92,930,205</b>
General Fund .....	\$ 40,238,779
Local Government Limited Gaming Impact Fund .....	\$ 6,040,463
Colorado Travel & Tourism Promotion Fund .....	\$ 185,861
State Historical Society .....	\$ 26,020,457
Counties Total .....	\$ 11,151,624
Gilpin County .....	8,893,755
Teller County .....	2,257,869
Cities Total .....	\$ 9,293,021
Black Hawk .....	6,587,172
Central City .....	824,291
Cripple Creek .....	1,881,558
<b>TOTAL AMOUNT DISTRIBUTED</b> .....	<b>\$ 92,930,205</b>



◆ COMBINED STATEMENT

**Colorado Division of Gaming  
Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balance—June 30, 2005**

*(Audited)*

REVENUES	
Gaming Taxes	\$ 99,080,505
License and Application Fees	592,937
Background Investigations	238,401
Fines & Other	12,092
Interest Revenue, Net	1,351,345
Investment Income	<u>(703,666)</u>
TOTAL REVENUES	<u>100,571,614</u>
EXPENDITURES	
Personal Services	4,571,081
Operating	714,541
Leased Space	<u>54,384</u>
EXPENDITURES—SUBTOTAL	5,340,006
Payments to Other State Agencies	<u>2,999,003</u>
TOTAL DIVISION EXPENDITURES	<u>8,339,009</u>
Background Expenditures	<u>40,334</u>
TOTAL EXPENDITURES	<u>8,379,343</u>
EXCESS OF REVENUES OVER EXPENDITURES	92,192,271
FUND BALANCE AT JULY 1, 2004	<u>1,859,108</u>
Distribution Out	<u>(92,930,205)</u>
FUND BALANCE AT JUNE 30, 2005	\$ <u><u>1,121,174</u></u>