



# 2006 ANNUAL REPORT

COLORADO DIVISION OF GAMING • LIMITED GAMING CONTROL COMMISSION

**M. Michael Cooke**  
Executive Director  
Department of Revenue

**David F. Dechant**  
Senior Director  
DOR Enforcement

**Ron Kammerzell**  
Division Director  
Division of Gaming

**James Alderden**  
Chairman  
Colorado Limited Gaming  
Control Commission

**Don Burmania**  
Communications Director

**Vickie Floyd**  
Controller

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*Visit our website at: [www.revenue.state.co.us/Gaming/home.asp](http://www.revenue.state.co.us/Gaming/home.asp)*

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 15-year mark on October 1, 2006, 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 \$74.2 million in July 2006.

During the first 15 years, casinos paid \$1.0 billion in gaming tax revenues to the state on \$7.8 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.

The year 2006 was marked with dramatic change from the very beginning. In January, Gov. Bill Owens replaced the chairman and vice chairman of the Gaming Commission. At the same time, another Commissioner resigned because of time commitments. As a result, three new Commissioners were appointed on January 25.

Those three Commissioners had to adapt quickly to meet the challenges facing the Commission as a whole. In March, the Division of Gaming proposed sweeping rule changes that dramatically altered the method of slot machine inspections in the state from the primary responsibility of the Division to the primary responsibility of the casino industry. The Commission approved the changes with assurances from the industry that casinos supported the changes and were willing to assume the responsibilities.

In April, the Commission commenced a condensed two-month tax setting process rather than the three months taken in the past. The three new Commissioners were able to absorb and process the large amount of information that was presented during the hearings, and the Commission as a whole decided to retain the existing tax structure that has been in place since 1999.

Also in April, the Commission heard testimony from the Colorado State Patrol that the need exists for additional troopers to patrol the highways leading to Black Hawk, Central City and Cripple Creek. The Commission informally encouraged the agency to pursue adding additional troopers as a decision item for its FY 2008 budget. In December, the State Patrol reported back to the Commission that it planned to seek four additional FTE in FY 2008.

In the fall, the Commission's approval of rule changes in March shifting the burden of inspecting slot machines to the industry came full circle. A total of 16 casinos were fined after Division of Gaming compliance investigators found revoked or unapproved software in the casinos. While none of these violations impacted how much money was paid to casino patrons, they proved why the Division wanted to free up resources to devote to checking the compliance of existing slot machines on casino floors and how these resources were being effectively used to detect these violations.

As the Commission looks forward to 2007, we foresee even more challenges and changes. We anticipate rule changes addressing new technologies, along with our annual obligation to approve budgets and set the gaming tax rates.

—JAMES ALDERDEN

*Chair, Colorado Limited Gaming Control Commission*

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## COMMISSIONERS

### **James Alderden**

Law Enforcement Member,  
Fort Collins

### **Florence Hunt**

Citizen Member, Pueblo

### **Patty Imhoff**

Business Member,  
Greenwood Village

### **Meyer M. Saltzman**

CPA Member, Denver

### **vacant**

Attorney Member

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## DIVISION REPORT

Since my appointment as director of the Colorado Division of Gaming in January 2006, I have stressed improved efficiencies. One of the first areas that the Division tackled was a backlog in slot accounting system approvals. After exploring alternatives with the Department of Revenue, we formed the systems audit group by reallocating existing resources within the Division. At the same time, we restructured the systems approval process to focus only on high risk areas. These changes reduced the approval time, thereby facilitating the elimination of the backlog. We are now positioned to ensure future success in this area.

In March, the Division proposed a major rule change in the way slot machines were inspected. Division compliance inspectors were spending a majority of their time responding to casino requests to inspect and approve new machines and game changes, leaving little time to verify that the more than 17,000 slot machines that were already on casino floors were in compliance. Casinos were affected as well, often having to delay placing new machines on the floor while waiting for a Division compliance inspector to become available.

From the time the rule changes were approved in March until the changes took effect on May 30 and since, Division compliance staff have held numerous meetings with the industry describing how casinos should prepare for the change. The Division provided casinos with the training and the tools they needed to ensure that all new devices they placed on their floors were approved in Colorado and that all their existing inventory of machines was in compliance. Unfortunately, we discovered that several casinos did not follow that instruction, and as a result, we found unapproved or revoked software in 16 casinos, which were fined. The casinos have received the message and understand that the Division has a zero tolerance for unapproved software. As a result, there have been no further violations to date.

In December, the Division also proposed changes to its slot machine rules to make Colorado rules and standards consistent with those in other states. An independent group is working to establish industrywide standards for slot machines and slot accounting systems. Many of these standards have been adopted in Nevada and other gaming jurisdictions.

In 2007, the Division of Gaming will continue to explore ways to improve efficiencies, to examine and implement best practices, and to keep up with new and emerging technologies. As the industry evolves, we will make every effort to perform timely and thoughtful assessments of the associated regulatory challenges and to deal with the volume, complexity and timely approvals for all technology on the gaming floor. We anticipate more rule changes in 2007 that will advance technologies and improve regulation of the industry. Throughout it all, we will demand compliance from the industry to these new rule changes, as well as existing regulations, and hold the industry accountable when warranted.

—RON KAMMERZELL  
*Director, Colorado Division of Gaming*

On May 30, 2006, 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 2007**

- 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)
- 50%** to the General Fund, from which the following amounts are designated:
  - **13%** to the Local Government Limited Gaming Impact Fund,
  - **\$19 million** to the Colorado Travel & Tourism Promotion Fund (adjusted annually by rate of inflation), and
  - **\$3 million** to the New Jobs Incentives Cash Fund (adjusted annually by rate of inflation), and
  - **\$1.5 million** to the State Council on the Arts Cash Fund (adjusted annually by rate of inflation), and
  - **\$500,000** to the Film Incentives Cash Fund (adjusted annually by rate of inflation), and
  - an annually determined amount to the Colorado Dept. of Transportation

 **GAMING FUND DISTRIBUTION****FISCAL YEAR 2006**

<b>LIMITED GAMING REVENUES .....</b>	<b>\$ 108,017,574</b>
<i>plus</i> Previous year's escrow .....	\$ 1,121,174
<i>minus</i> Division and Commission expenditures .....	\$ 8,701,433
<i>minus</i> Two months' escrow .....	\$ 289,849
<b>TOTAL AMOUNT DISTRIBUTED .....</b>	<b>\$ 100,147,466</b>
General Fund .....	\$ 17,564,148
Local Government Limited Gaming Impact Fund .....	\$ 6,509,585
Tourism Promotion Fund .....	\$ 19,000,000
State Council on the Arts Cash Fund .....	\$ 1,500,000
Film Incentives Cash Fund .....	\$ 500,000
New Jobs Incentive Cash Fund .....	\$ 3,000,000
Bioscience Discovery Evaluation Grant Program .....	\$ 2,000,000
State Historical Society .....	\$ 28,041,290
Counties Total .....	\$ 12,017,696
Gilpin County .....	9,616,921
Teller County .....	2,400,775
Cities Total .....	\$ 10,014,747
Black Hawk .....	7,110,170
Central City .....	903,931
Cripple Creek .....	2,000,646
<b>TOTAL AMOUNT DISTRIBUTED .....</b>	<b>\$ 100,147,466</b>



 **COMBINED STATEMENT**

**Colorado Division of Gaming  
Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balance—June 30, 2006**

*(Audited)*

REVENUES	
Gaming taxes	\$ 106,142,555
License and application fees	561,634
Background investigations	233,306
Fines and other	290,146
Interest income	1,770,462
Net decrease in fair value of investments	<u>(980,529)</u>
TOTAL REVENUES	<u>108,017,574</u>
EXPENDITURES	
Salaries and benefits	4,553,534
State agency services	3,266,758
Materials, supplies, and services	340,719
Travel and automobiles	163,058
Computer services	91,491
Professional services	99,230
Other	50,540
Telephone	37,686
Background investigation	44,033
Leased space	<u>54,384</u>
TOTAL EXPENDITURES	<u>8,701,433</u>
EXCESS OF REVENUES OVER EXPENDITURES	99,316,141
Gaming distribution	<u>(100,147,466)</u>
NET CHANGE IN FUND BALANCE	(831,325)
FUND BALANCE, BEGINNING OF YEAR	<u>1,121,174</u>
FUND BALANCE, END OF YEAR	<u>\$ 289,849</u>