

♠ 2007

♥ ANNUAL

♣ REPORT

♦ COLORADO DIVISION OF GAMING
GAMING CONTROL COMMISSION

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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 16-year mark on October 1, 2007, a total of 41 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 \$76.5 million in July 2007.

During the first 16 years, casinos paid \$1.1 billion in gaming tax revenues to the state on \$8.6 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.

Looking back at 2007 actually requires looking forward to 2008.

During the 2007 annual tax hearings, the Commission received testimony about the profitability of mid-sized casinos that prompted Commission members to signal that they may look at a potential tax rate or tax structure change during the 2008 tax hearings to address giving these casinos tax relief.

One of the main reasons the Commission chose not to change the tax rates was because of the unknown impact of the casino smoking ban that went into effect on January 1, 2008. Casinos were initially exempted from the Colorado Clean Indoor Air Act when it was passed in 2006. During the 2007 legislative session, that exemption was removed. No one knows what revenue impact the smoking ban will have on Colorado casinos. As a result, the Commission chose not to change tax rates in 2007, knowing that the study of the impact of any tax change would be hindered by introducing an unknown variable, such as the smoking ban, during the same fiscal year.

Another bill passed in the 2007 legislative session will impact how the casino industry conducts business in 2008. The Gambling Payment Intercept Act will require casinos to check a registry containing information on individuals who owe outstanding child support whenever a casino patron wins a large cash prize that requires taxes to be withheld. If the patron's name appears on the registry, the casino is required to withhold the amount of the child support delinquency and submit that amount to the registry to ultimately be delivered to the Department of Human Services to be applied to the delinquency. The Division of Gaming is working hard to develop a web-based application to meet the requirements of this legislation. However, it is anticipated that there will be a learning curve on both the part of the casino and of casino patrons as this process will add to the time that it takes to pay off big cash awards.

Also ahead in 2008, the Commission supports efforts by the Division to seek legislative changes that will clean up outdated or redundant provisions in the Limited Gaming Act and that will extend the licensing period for business licenses from one year to two years. The latter will reduce the amount of paperwork that businesses must file and the Division must produce for the Commission to approve every year. The Division will still conduct a review of these licensees each year and bring to our attention any suitability issues, but this can be accomplished without the annual onslaught of paperwork.

To keep up with an ever-changing casino industry and real world, we need to keep looking ahead—a lesson learned in 2007 and to be applied in 2008.

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

Vince Buzek

Attorney Member, Broomfield

—JAMES ALDERDEN

Chair, Colorado Limited Gaming Control Commission

The old adage that the only constant is change was evident in 2007 for the Colorado Division of Gaming.

Prior to 2007 the Division had a long-standing constant dating back to 1995—the same level of staffing despite tremendous growth in the industry since then. That changed when the Gaming Commission approved four additional employees for the Division. Two employees were added to the financial background unit because the complexity of background investigations has grown over the years, along with the number of investigations. Two compliance investigators were added to the Field Operations section to inspect slot machines and devices to ensure they comply with software, configuration and technical regulatory standards. Again, the number and complexity of slot machines and devices have grown steadily over the years.

The Division also undertook a massive change to the internal control minimum procedures (ICMP) that casinos must follow in their day-to-day operations. Casinos have the right to request variances to the ICMPs, and over the years the Division has granted numerous variances. This round of revisions was designed to incorporate many of these variances into the ICMPs, with the goal of reducing the number of variances. The Division sought the input of the industry and received a large amount of feedback. As a result, the Division solicited additional feedback after the initial responses were incorporated into the changes. This second round of input has never been solicited in the past. As a result, we feel that we have a set of ICMPs that will be a solid standard for years to come.

For several years the Division office in an old church in Cripple Creek was a constant. That changed as well in 2007. The Division moved into a new modular office building in August. The new office marks the first time that the Cripple Creek staff will be housed in a new facility, and the first time there is adequate space in which to expand if needed in the future. The Division is currently leasing the space, but is looking at the option of purchasing the building at a later date.

As mentioned in the Commissions Report by Chairman Alderden, the Division is anticipating even more change in 2008. The Division has made it clear to the industry that although we are not the “smoking police” and will not be the enforcement authority for the smoking ban, we are concerned with their compliance with the ban as it relates to their suitability to hold a gaming license by adhering to all local, state and federal laws. We are also working with the Department of Revenue, the state web portal and the Department of Human Services to implement a web program and to adopt rules to comply with the Gambling Payment Intercept Act. And, finally, we are seeking legislative changes to the Limited Gaming Act to make our regulation of the casino industry even more effective. Fulfilling our legislative mandate and our mission of ensuring honesty and integrity in the Colorado gaming industry is one constant that will never change.

—RON KAMMERZELL
Director, Colorado Division of Gaming

♠ GAMING TAX

On May 17, 2007, 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 2008

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),
 - **\$7 million** to the Clean Energy Fund (remaining portion of General Fund Share starting in FY08),
 - **\$3 million** to the New Jobs Incentives Cash Fund (adjusted annually by rate of inflation),
 - **\$2.5 million** to the Bioscience Discovery Evaluation Grant Program (FY2007 only),
 - **\$1.5 million** to the State Council on the Arts Cash Fund (adjusted annually by rate of inflation),
 - **\$600,000** to the Film Incentives Cash Fund (adjusted annually by rate of inflation), and
 - an annually determined amount to the Colorado Department of Transportation

♣ GAMING FUND DISTRIBUTION

FISCAL YEAR 2007

LIMITED GAMING REVENUES	\$ 116,034,394
<i>plus</i> Previous year's escrow	\$ 289,849
<i>minus</i> Division and Commission expenditures	\$ 9,012,970
<i>minus</i> Current year's escrow	\$ 954,559
TOTAL AMOUNT DISTRIBUTED	\$ 106,356,714
General Fund	\$ 6,547,294
Colorado Department of Transportation	\$ 5,259,411
Local Government Limited Gaming Impact Fund	\$ 6,913,186
Tourism Promotion Fund	\$ 19,676,799
State Council on the Arts Cash Fund	\$ 1,553,431
Film Incentives Cash Fund	\$ 621,373
New Jobs Incentive Cash Fund	\$ 3,106,863
Bioscience Discovery Evaluation Grant Program	\$ 2,500,000
Clean Energy Fund	\$ 7,000,000
State Historical Society	\$ 29,779,880
Counties Total	\$ 12,762,806
Gilpin County	10,317,452
Teller County	2,445,354
Cities Total	\$ 10,635,671
Black Hawk	7,530,055
Central City	1,067,821
Cripple Creek	2,037,795
TOTAL AMOUNT DISTRIBUTED	\$ 106,356,714

◆ COMBINED STATEMENT

Colorado Division of Gaming Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—June 30, 2007

(Audited)

REVENUES		
Gaming taxes	\$	112,005,553
License and application fees		550,209
Background investigations		331,281
Fines and other		280,347
Interest income		2,220,723
Net increase in fair value of investments		646,281
Total revenues		<u>116,034,394</u>
Expenditures		
Salaries and benefits		4,709,659
State agency services		3,349,013
Materials, supplies, and services		243,225
Travel and automobiles		177,813
Computer services		111,959
Professional services		67,504
Other		66,509
Telephone		54,529
Background investigation		69,233
Leased space		144,646
Capital outlay		18,880
Total expenditures		<u>9,012,970</u>
Excess of revenues over expenditures		107,021,424
Gaming distribution		<u>106,356,714</u>
Net change in fund balance		664,710
Fund balance, beginning of year		<u>289,849</u>
Fund balance, end of year	\$	<u><u>954,559</u></u>