



# 2009 ANNUAL REPORT

**COLORADO DIVISION OF GAMING**

**LIMITED GAMING CONTROL COMMISSION**

**Roxy Huber**  
Executive Director  
Department of Revenue

**Ron Kammerzell**  
Division Director  
Division of Gaming

**Patty Imhoff**  
Chair  
Colorado Limited Gaming  
Control Commission

**Don Burmania**  
Communications Director

**Vickie Floyd**  
Controller

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*Visit our website at: [www.colorado.gov/revenue/gaming](http://www.colorado.gov/revenue/gaming)*

## OVERVIEW

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" at the time was 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.

On November 4, 2008, Colorado voters approved Amendment 50, giving the electorate in Black Hawk, Central City and Cripple Creek the option to approve raising the maximum wager limit up to \$100, add the games of craps and/or roulette, and allow 24-hour gaming effective July 2, 2009. The amendment earmarks additional State revenues generated by the changes to community colleges and to the gaming towns and counties. It also requires voter approval for any increase in gaming tax rates. Voters in all three towns approved the changes for casinos in their communities, and the changes went into effect July 2, 2009.

Prior to the passage of Amendment 50, seven initiatives to expand gaming to other locales and venues had 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 18-year mark on October 1, 2009, a total of 40 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 \$76.1 million in July 2009.

During the first 18 years, casinos paid \$1.2 billion in gaming tax revenues to the state on \$9.5 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 REPORT

The most significant event of 2009 for the Colorado gaming industry was the implementation of Amendment 50 on July 2nd.

In November 2008, the statewide electorate approved a constitutional amendment granting voters in Central City, Black Hawk and Cripple Creek the opportunity to increase bet limits, allow 24-hour gaming, and add the games of craps and roulette for the casinos in their communities. The elections that followed in the three gaming towns overwhelmingly afforded Colorado's 40 casinos permission to implement the new rules effective July 2, 2009. The State Legislature and the Gaming Commission were then presented with the challenge of interpreting and codifying the mandates of Amendment 50.

The intention of Colorado's voters was for the State's Community College System to reap the majority of additional tax revenue generated by the increased limits, hours and games. What was not readily apparent however, was the means by which to quantify that additional revenue. Many believed that the Commission, in conjunction with the Division of Gaming, could simply identify a method for casino management to specifically assign each dollar of revenue as being "pre-Amendment 50" or "post-Amendment 50." In reality, no efficient process existed to formulate such a method, given the inordinate number of factors involved. The only prudent alternative was to build a forecasting model that would illustrate how the industry would have performed absent Amendment 50 and attribute the remaining revenue to Amendment 50's changes. This proved to be a particularly difficult task, given the volatile economic climate. The Legislature was able to carve out such a model in House Bill 1272, the enabling legislation for Amendment 50.

Once House Bill 1272 was enacted, the Gaming Commission was charged with the task of reviewing and approving rule changes to cover the day-to-day regulation of the new limits, hours and games. It was also necessary for the Commission to address a significant unanswered question from the amendment - how to determine the expense side of the Amendment 50 equation. The Division of Gaming staff carefully analyzed extraordinary amounts of data, as well as input from the casino industry, and suggested a solid set of rules to regulate expenses associated with the changes that went into effect July 2. These rules were then reviewed and adopted by the Commission. We believe the rules to be a straightforward, common-sense approach to the expense issue, as they reconcile the expenses associated with the implementation of Amendment 50 to the corresponding revenues.

Looking ahead to 2010, we anticipate revisiting the rules to determine if modifications are necessary based upon actual experiences during the first six months of their use. We also expect that the gaming industry will again request that the Commission carefully weigh the effects of lowering tax rates on both the gaming industry and the gaming fund recipients. As the impact of Amendment 50 collides with the worst economic environment the Colorado gaming industry has ever seen, the commitment of the Commission is to work towards solutions that balance the interests of all of those we serve – the gaming industry, the beneficiaries of the gaming fund and the state as a whole.

—PATTY IMHOFF

*Chair, Colorado Limited Gaming Control Commission*

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## COMMISSIONERS

### **Patty Imhoff**

Chair, Business Member,  
Greenwood Village

### **Meyer Saltzman**

Vice Chair, CPA Member,  
Denver

### **Florence Hunt**

Citizen Member, Pueblo

### **Larry Gaddis**

Attorney Member,  
Colorado Springs

### **Philip Baca**

Law Enforcement Member,  
Commerce City

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## DIVISION REPORT

The year 2009 could actually be divided into two years, because July 2 served as the dividing line between “pre-Amendment 50” 2009 and “post-Amendment 50” 2009.

This tale of two years is most noted in the revenues that casinos posted. During the first six months of the year, casino revenues were down 18.7 percent from the same period in 2008. Over the last six months, casino revenues were up 9.2 percent. As a result, gaming tax revenues were up 18.4 percent during the same period.

For the Division of Gaming, the start of 2009 looked a lot different than it did on July 2. At the beginning of the year, the Division employed 79 FTE. By July 2, that number had grown to 92 FTE because of the extra bodies needed to regulate the new limits, games and hours. Most of the extra FTE were used to staff an additional shift to cover the new hours of operation from 2 a.m. to 8 a.m. The rest were needed to inspect and regulate the new games of craps and roulette, as well as to audit the additional revenues generated by Amendment 50.

The Gaming Regulations, under which the casinos operate and which the Division enforces, also changed between the beginning of the year and July 2. Division staff spent countless hours researching rules in other jurisdictions and received extensive training in order to understand and craft a regulatory scheme to regulate the new games. The existing rules also had to be scoured to accommodate additional changes related to increased limits and 24-hour gaming. The casino industry shared the Division’s zeal for ensuring a smooth transition to the July 2 changes by providing valuable input to the Division during the rulemaking process and by providing comprehensive training to its employees.

The Division also offered its assistance to legislators and legislative staff in drafting House Bill 1272, the enabling legislation for Amendment 50. The Division provided technical assistance for the bill, as well as insight on the process of accounting for casino revenues and Division expenses.

In 2010, the Division anticipates further changes. At the end of the fiscal year, the Division’s accounting staff will have the task of accounting for and distributing the new revenues attributable to Amendment 50, in addition to possible legislative changes to how the General Fund share of the Limited Gaming Fund is distributed as the result of budget issues facing the State.

We also anticipate receiving and investigating new applicants for casino and slot machine manufacturer licenses in 2010. At this point, we only expect these to be smaller operations while larger national interests take a wait-and-see approach to the effects of Amendment 50, as well as a loosening of the financial markets, before entering the Colorado market. A few national and international slot machine manufacturers have also indicated an interest in entering Colorado as a result of the higher bet limits.

Finally, we anticipate making limited changes to the Gaming Regulations, as we have six months of experience under our belts after implementing the large scale changes approved last year. As the industry evolves, so does the Division of Gaming and its regulation of the industry.

—RON KAMMERZELL  
*Director, Colorado Division of Gaming*

# GAMING TAX

On May 20, 2009, the Colorado Limited Gaming Control Commission retained the gaming 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 \$5 million, 9 percent from \$5 million to \$8 million, 11 percent from \$8 million to \$10 million, 16 percent from \$10 million to \$13 million and 20 percent above \$13 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. Under Amendment 50, the Commission cannot raise the tax rates above the current rates without statewide voter approval.

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

## **July 2008 - June 2010**

0.25%	\$0 - \$2 million
2%	\$2 million - \$5 million
9%	\$5 million - \$8 million
11%	\$8 million - \$10 million
16%	\$10 million - \$13 million
20%	Above \$13 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),
  - an annually determined amount to the Colorado Department of Transportation,
  - \$5.5 million (fiscal year 2010) to the Bioscience Discovery Evaluation Grant Program
  - \$3 million to the New Jobs Incentives Cash Fund (adjusted annually by rate of inflation),
  - \$1.5 million to the State Council on the Arts Cash Fund (adjusted annually by rate of inflation),
  - \$1 million to the Innovative Higher Education Research Fund
  - \$600,000 to the Film Incentives Cash Fund (adjusted annually by rate of inflation), and
  - Remaining portion to the Clean Energy Fund, unless the General Fund is in a deficit at the end of the fiscal year, in which case the remaining portion would be directed to the General Fund

After FY2010, the tax revenues attributable to the implementation of Amendment 50 will be distributed as follows:

- 78% to the Colorado Community College System
  - To the State's public community colleges, junior colleges, and local district colleges to supplement existing State funding for student financial aid and programs and classroom instruction programs
- 12% to Gilpin and Teller counties (in proportion to the gaming tax revenues generated in the respective counties)
- 10% to the towns of Cripple Creek, Central City and Black Hawk (in proportion to the respective gaming tax revenues)

# GAMING FUND DISTRIBUTION

## Fiscal Year 2009

LIMITED GAMING REVENUES .....	\$ 97,445,021
<i>plus</i> previous year's escrow .....	\$ 2,119,297
<i>minus</i> Division and Commission expenditures .....	\$ 11,251,725
<i>minus</i> current year's escrow .....	\$ 3,031,507
TOTAL AMOUNT DISTRIBUTED .....	\$ 85,281,086
Colorado Department of Transportation .....	\$ 10,127,274
Local Government Limited Gaming Impact Fund .....	\$ 5,543,271
Tourism Promotion Fund .....	\$ 15,578,699
State Council on the Arts Cash Fund .....	\$ 1,200,026
Film Incentives Cash Fund .....	\$ 480,011
New Jobs Incentive Cash Fund .....	\$ 1,400,052
Innovative Higher Education Research Fund .....	\$ 1,000,000
Bioscience Discovery Evaluation Grant Program .....	\$ 4,500,000
State General Fund .....	\$ 2,811,210
State Historical Society .....	\$ 23,878,704
Gilpin County .....	\$ 8,196,195
Teller County .....	\$ 2,037,535
Black Hawk .....	\$ 6,056,663
Central City .....	\$ 773,500
Cripple Creek .....	\$ 1,697,946
TOTAL AMOUNT DISTRIBUTED .....	\$ 85,281,086



# COMBINED STATEMENT

Colorado Division of Gaming  
Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balance—June 30, 2009

(Audited)

REVENUES	
Gaming taxes	\$ 94,906,581
License and application fees	632,999
Background investigations	242,760
Fines and other	12,818
Interest income	1,202,511
Net increase in fair value of investments	<u>447,352</u>
Total revenues	<u>97,445,021</u>
Expenditures	
Salaries and benefits	6,363,941
State agency services	3,778,776
Materials, supplies, and services	327,313
Travel and automobiles	218,866
Computer services	136,022
Professional services	70,867
Other	57,528
Telephone	70,241
Background investigation	28,712
Leased space	158,074
Capital outlay	<u>41,385</u>
Total expenditures	<u>11,251,725</u>
Excess of revenues over expenditures	86,193,296
Gaming distribution	<u>85,281,086</u>
Net change in fund balance	912,210
Fund balance, beginning of year	<u>2,119,297</u>
Fund balance, end of year	\$ <u><u>3,031,507</u></u>