



2010 ANNUAL REPORT

COLORADO DIVISION OF GAMING

LIMITED GAMING CONTROL COMMISSION

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Roxy Huber
Executive Director
Department of Revenue

Ron Kammerzell
Division Director
Division of Gaming

Meyer M. Saltzman
Chair
Colorado Limited Gaming
Control Commission

Vickie Floyd
Controller

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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 and maintaining the integrity of 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 19-year mark on October 1, 2010, 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 19 years, casinos paid \$1.4 billion in gaming tax revenues to the state on \$10.8 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.

COMMISSION REPORT

When voters statewide approved Amendment 50 in November 2008, one of the biggest selling points was that a majority of the increased tax revenues that would be generated as the result of increased bet limits, the games of craps and roulette, and 24-hour casino operations would be distributed to community, junior and district colleges throughout the state. With the successful implementation of these changes on July 2, 2009, the oft-asked question of how Amendment 50 would impact casino revenues and ultimately gaming tax revenues to community colleges lingered into 2010. That question has now been answered.

Gaming tax revenues increased by 13.4 percent during the first year of Amendment 50, following declines the two previous fiscal years. The tax increase corresponded to a 9.0 percent growth in casino revenues. As a result, community colleges and other institutions received more than \$6.1 million in revenues from the Limited Gaming Fund at the end of the fiscal year. At the same time, the original recipients of the Limited Gaming Fund—the General Fund, the State Historical Society, and the gaming cities and counties—realized a 4.1 percent gain in distributed funds after two years of declines. Without Amendment 50, they likely would have experienced a third year of decreasing distributions.

Amendment 50 was, therefore, a success in bringing increased revenues to casinos, the State, and the recipients of Limited Gaming Funds, both new and old. How much of a success is in the eye of the beholder. In the perspective of the casino industry, the increased revenues were a welcomed boost during tough economic times, but the wealth was not evenly distributed. Some casinos prospered, while others continued to struggle. For those that prospered, the increased revenues were still not enough to cover past losses and the increased capital and overhead costs that were incurred due to Amendment 50. From this perspective, the casino industry asked the Commission to consider a reduction in the gaming tax. While we as a Commission were sympathetic to the economic situation of the casinos, and in fact, all businesses during these economic times, we recognized that any tax relief to casinos would come at a cost to the recipients of the Limited Gaming Fund, especially the newest recipient, community colleges. In addition, the Commission was concerned that if the gaming tax was lowered, could it be increased to its current level without a vote by the citizens of Colorado? We, therefore, voted to maintain the existing tax rate structure. We anticipate that the industry will again make a plea for lower taxes during our annual tax setting hearings in 2011. Again we will weigh that request with the needs of Limited Gaming Fund recipients and economic conditions.

We will also be making a decision on alternative proposed gaming regulations that were presented to us in late 2010 and upon which we will decide in early 2011. The original constitutional amendment authorizing limited gaming prescribes that Limited Gaming Funds distributed to the three gaming cities and two gaming counties be distributed “in proportion to the gaming revenues generated” in each city and county. Historically, funds have been distributed based upon the casino revenues, or market share, of each city and county. When voters approved Amendment 50, that constitutional amendment provided that the additional tax revenues be distributed to the cities and counties “based on the proportion of gaming tax revenues” paid by casinos in the cities and counties. Gilpin County has proposed a gaming regulation in which the original constitutional amendment be interpreted in the same manner as Amendment 50. The Division of Gaming has proposed an alternative regulation that codifies the historical interpretation and distribution. The Commission commenced rulemaking hearings in October 2010 and will decide the matter in February.

COMMISSIONERS

Meyer Saltzman
Chair, CPA Member, Denver

Philip Baca
Vice Chair, Law Enforcement
Member, Commerce City

Florence Hunt
Citizen Member, Pueblo

Larry Gaddis
Attorney Member,
Colorado Springs

Debbie Jessup
Business Member, Centennial

—MEYER M. SALTZMAN
Chair, Colorado Limited Gaming Control Commission

DIVISION REPORT

In 2010, the Division of Gaming continued to monitor and respond to the impacts of Amendment 50 after its implementation in July 2009. In February, the Division presented the Gaming Commission with a series of proposed rule changes updating the original rules related to Amendment 50 based upon lessons learned in the field during the first six months of Amendment 50. The changes included a controversial request from the industry to reduce the allowable odds for the payment of blackjack wins from 3-2 to 6-5. Many people interpreted the rule change to be a mandate to casinos to reduce the odds, when in fact it was a permissive change, allowing the casinos to do so, not requiring them. In fact, most casinos continued to offer 3-2 odds, with only a few offering the 6-5 odds on single-deck pitch blackjack, a variation that casinos had not offered in the past because it was not economically feasible to do so with 3-2 odds.

At the end of the fiscal year, the Division's accounting staff was tasked with determining the distribution of the Limited Gaming Fund based upon new statutory and regulatory guidelines established for Amendment 50 funds, as well as statutory changes to the General Fund distribution of original limited gaming funds. During that process, Gilpin County challenged the Division's historical practice of distributing original limited gaming funds to the cities and counties "in proportion to the gaming revenues generated" in each city county. That led to the county filing a petition of declaratory order with the Commission challenging the Division's practice. The Commission rejected the petition, and in turn, remanded the decision to the rulemaking process, which will be decided in early 2011.

The addition of Division staff to effectively regulate Amendment 50, combined with other increased overcrowding at the Department of Revenue's 1881 Pierce building, resulted in the Division moving its administrative headquarters from the Pierce Building to Golden in September. Much of the cost of moving and paying a lease at the new facility was absorbed by the purchase of the building that houses the Division's Cripple Creek office at the end of the fiscal year and no longer having to pay a lease there.

In 2011, the Division anticipates, as do all State agencies, that changes may occur with the transition in the governor's administration and with continued belt tightening in fiscal year 2012. But as we have demonstrated with the implementation of Amendment 50, the Division is able to adapt quickly and effectively, and we will continue to do so in 2011.

—RON KAMMERZELL
Director, Colorado Division of Gaming

GAMING TAX

On May 20, 2010, 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 2011

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 to the original recipients of the Limited Gaming Fund:

- 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 to fund the following programs:
 - Local Government Limited Gaming Impact Fund,
 - Colorado Travel & Tourism Promotion Fund,
 - Colorado Department of Transportation,
 - Bioscience Discovery Evaluation Grant Program,
 - New Jobs Incentives Cash Fund,
 - State Council on the Arts Cash Fund (replaced by Creative Industries Cash Fund in FY11),
 - Innovative Higher Education Research Fund
 - Colorado Office of Film, Television, and Media Operational Account Fund (replaced by Creative Industries Cash Fund in FY11), and
 - Clean Energy Fund

The tax revenues attributable to the implementation of Amendment 50 are 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 2010

Limited Gaming Revenues	\$	110,809,510
<i>plus</i> Previous year's escrow	\$	3,031,507
<i>minus</i> Division and Commission expenses	\$	12,372,541
<i>minus</i> Current year's escrow	\$	4,726,075
TOTAL AMOUNT DISTRIBUTED.....	\$	96,742,401
General Fund.....	\$	16,200,000
Local Government Local Gaming Impact Fund	\$	3,772,780
Tourism Promotion Fund	\$	14,208,015
State Council on the Arts Cash Fund	\$	1,121,726
Colorado Office of Film, Television, And Media Operational Account Fund	\$	407,997
New Jobs Incentive Cash Fund	\$	1,291,231
Innovative Higher Education Research Fund	\$	1,904,251
Bioscience Discovery Evaluation Program	\$	5,500,000
State Historical Society.....	\$	24,867,360
Counties of Gilpin and Teller	\$	10,657,440
Cities of Black Hawk, Central and Cripple Creek	\$	8,881,200
TOTAL ORIGINAL RECIPIENTS	\$	88,812,000
Colorado Community College System.....	\$	5,360,539
Other Community Colleges & Institutions	\$	825,174
Counties of Gilpin and Teller	\$	951,648
Cities of Black Hawk, Central and Cripple Creek	\$	793,040
TOTAL AMENDMENT 50 RECIPIENTS	\$	7,930,401

COMBINED STATEMENT

Colorado Division of Gaming
 Combined Statement of Revenues, Expenditures,
 and Changes in Fund Balance—June 30, 2010
 (Audited)

	Extended Gaming Fund	Limited Gaming Fund	Total Fund Balance
REVENUES			
Gaming taxes	\$ -	\$ 107,669,366	\$ 107,669,366
License and application fees	-	634,639	634,639
Background investigations	-	358,247	358,247
Fines and other	-	61,443	61,443
Interest income	-	1,099,905	1,099,905
Net increase in fair value of investments	-	985,910	985,910
Total revenues	-	110,809,510	110,809,510
EXPENDITURES			
Salaries and benefits	-	6,595,537	6,595,537
State agency services	-	3,976,102	3,976,102
Materials, supplies, and services	-	286,606	286,606
Travel and automobiles	-	164,466	164,466
Computer services	-	129,776	129,776
Professional services	-	46,782	46,782
Other	-	48,449	48,449
Telephone	-	73,205	73,205
Background investigation	-	64,961	64,961
Leased space	-	150,478	150,478
Capital outlay	-	836,179	836,179
Total expenditures	-	12,372,541	12,372,541
Excess of revenues over expenditures	-	98,436,969	98,436,969
Other Funding Uses			
Limited gaming distribution	-	(88,812,000)	(88,812,000)
Transfer to Extended Gaming Fund	-	(7,930,401)	(7,930,401)
Transfer from Limited Gaming Fund	7,930,401	-	7,930,401
Net change in fund balance	7,930,401	1,694,568	9,624,969
Fund balance, beginning of year	-	3,031,507	3,031,507
Fund balance, end of year	\$ 7,930,401	\$ 4,726,075	\$ 12,656,476