



2011 ANNUAL REPORT

COLORADO DIVISION OF GAMING

LIMITED GAMING CONTROL COMMISSION

Barbara Brohl
Executive Director
Department of Revenue

COLORADO DIVISION OF GAMING **2011 ANNUAL REPORT**

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Division Director
Division of Gaming

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Chair
Colorado Limited Gaming
Control Commission

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Controller
Division of Gaming

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 20-year mark on October 1, 2011, there were a 40 gaming establishments open in Colorado.

Gross revenues generated by casinos on a monthly basis have increased from nearly \$8.4 million during the first month of operation to a high of more than \$76.1 million in July 2009.

During the first 20 years of gaming in Colorado, casinos paid nearly \$1.6 billion in gaming tax revenues to the state on just over \$11.8 billion in adjusted gross revenues. That money has been used to fund state historical restoration projects, mitigate the impacts to state and local governments caused by gaming, and finance the on-going regulation of the gaming industry.



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, adding the games of craps and/or roulette, and allowing 24-hour gaming effective July 2, 2009. The amendment earmarks additional State revenues generated by the changes to be distributed to community colleges and to the gaming towns and counties. It also requires voter approval for any increase in gaming tax rates beyond the rates and levels in place as of July 1, 2008. 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.

COMMISSION REPORT

When voters approved Amendment 50 in November 2008, increasing bet limits, introducing the games of craps and roulette and allowing 24-hour casino operations, the expectation was for substantially increased gaming revenues that would help provide needed funds for community, junior and district colleges throughout the state. But Amendment 50 also greatly reduced the Gaming Commission's regulatory authority by capping tax rates at 2008 levels and making permanent the existing progressive tax rate structure.

Following implementation of Amendment 50 on July 2, 2009, the state saw an initial increase to casino revenues and, by definition, increased gaming tax revenues. But, with the national economy experiencing a downturn, and the excitement generated by Amendment 50 changes fading, revenues did not grow as much as expected.

For several years running, a lackluster national and local economy prompted the previous Gaming Commission to consider, but ultimately reject, proposed reductions in the gaming tax rates. Eventually, in the spring of 2011, the previous Limited Gaming Commission voted to reduce tax rates, intending to help those casinos hardest hit by the economic downturn.

Looking for a broader perspective and fresh approach on the Commission, Governor Hickenlooper decided to take the Gaming Commission in a new direction, and appointed five new members – the entire commission -- in July 2011.

It is now apparent that the lower tax rates have produced a net reduction in tax revenues thereby reducing the amount of funds available to community colleges and other recipients. This Commission will evaluate whether the rate reduction achieved the prior Commission's goal of helping the industry through lean economic times and whether the cost in reduced tax revenues is warranted.

In spite of the controversy that has been generated, I assure you the gaming industry continues to play an important role in Colorado's economy. In these challenging times, the Commission has been charged with fairly regulating the industry. We must look at whether our policies will help the industry remain economically viable, whether there is unfair competition, and how market conditions can be considered when setting tax rates. The key word remains balance, as we juggle the needs of our gaming communities and other Fund recipients with the overall financial health of the industry.

Each commissioner brings his or her own experiences and perspectives. Each of our five newly-appointed commissioners works to identify areas where we can make the greatest impact to benefit the state. We are actively listening to the voices of the Fund recipients, industry representatives and the experienced Gaming staff to forge a path through the complexity of gaming regulations, while supporting the sustainability of the gaming industry in our state.

– Robert Webb, Chair
Colorado Limited Gaming Commission

COMMISSIONERS

Robert Webb
Chair,
CPA Member

Roger Hutson
Vice Chair,
Business Member

Douglas Darr
Law Enforcement Member

Jannine Mohr
Attorney Member

Charles Murphy
Registered Voter Member

2011 certainly seemed to be the year under the microscope for the Division of Gaming.

For most of the year, we were the subject of a performance audit conducted by the Office of the State Auditor. The audit was completed in the Fall and presented to the Legislative Audit Committee. The report contained five recommendations involving the taxation policy on commonly owned contiguous casinos, revenue audit and compliance coverage, Division database utilization, the gambling payment intercept program and progressive discipline. We will be working into 2012 to address these findings.

The Division also underwent an annual financial statement audit. This audit was completed with no audit findings and a clean audit opinion. This makes the 17th year in a row that the Division has received a clean financial audit opinion with no audit findings.

Earlier in the year, the Division also received notice from the Office of Regulatory Reform in the Department of Regulatory Agencies that our agency will begin a sunset review this year. The fieldwork for the process began this Fall and it is expected that a draft sunset review report will be completed by late summer of 2012. The Division of Gaming is scheduled to sunset July 1, 2013.

During the year, the Department and the Division worked with Colorado Interactive and the Judicial Department to implement legislation (HB10-1338) passed by the general assembly in the 2010 legislative session to expand the gambling payment intercept registry to include outstanding criminal restitution. This legislation was implemented on July 1, 2011.

For all of 2011, the Division worked on drafting rules and internal control standards to allow the industry to implement electronic promotional credit systems (EPCS) in their casinos. The rules went into effect at the end of the year and will allow the casinos to download promotional credits from either player club accounts or other promotional accounts to slot machines for play by their patrons. This was a very important and highly sought after rule change by the industry.

— Ron Kammerzell
Director,
Colorado Division of Gaming

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 tax rates above the July 2008 levels 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.

At its meeting on May 19, 2011, the Colorado Limited Gaming Control Commission adopted tax rates for FY2012 that represent a five percent reduction of the previous rates.

In setting the tax rate, state law directs the Commission to consider the need to provide monies to the cities of Central, Black Hawk, and Cripple Creek for historic restoration and preservation; the impact on the communities and any state agency including, but not limited to, infrastructure, law enforcement, environment, public health and safety, education requirements, human services, and other components due to limited gaming; the impact on licensees and the profitability of their operations; the profitability of the other "for-profit" forms of gambling in this state; the profitability of similar forms of gambling in other states; and the expenses of the commission and the division for their administration and operation.

The current rates, which became effective July 1, 2011, are:

<i>Tax rate as of July 1, 2011</i>	<i>Adjusted gross proceeds (AGP)</i>
0.2375%	\$0 - \$2 million
1.90%	\$2 million - \$5 million
8.55%	\$5 million - \$8 million
10.45%	\$8 million - \$10 million
15.20%	\$10 million - \$13 million
19%	Above \$13 million

Historical Gaming Tax Rates 1991—2011	October 1996 - June 1999
<p>October 1991- September 1992</p> <p>4% \$0 - \$440,000 AGP</p> <p>8% \$440,000 - \$1.2 million</p> <p>15% Above \$1.2 million</p>	<p>2% \$0 - \$2 million</p> <p>4% \$2 million - \$4 million</p> <p>14% \$4 million - \$5 million</p> <p>18% \$5 million - \$10 million</p> <p>20% Above \$10 million</p>
<p>October 1992 - September 1993</p> <p>2% \$0 - \$1 million</p> <p>20% Above \$1 million</p>	<p>July 1999 - June 2008</p> <p>0.25% \$0 - \$2 million</p> <p>2% \$2 million - \$4 million</p> <p>4% \$4 million - \$5 million</p> <p>11% \$5 million - \$10 million</p> <p>16% \$10 million - \$15 million</p> <p>20% Above \$15 million</p>
<p>October 1993 - September 1994</p> <p>2% \$0 - \$1 million</p> <p>8% \$1 million - \$2 million</p> <p>15% \$2 million - \$3 million</p> <p>18% Above \$3 million</p>	<p>July 2008 - June 2011</p> <p>0.25% \$0 - \$2 million</p> <p>2% \$2 million - \$5 million</p> <p>9% \$5 million - \$8 million</p> <p>11% \$8 million - \$10 million</p> <p>16% \$10 million - \$13 million</p> <p>20% Above \$13 million</p>
<p>October 1994 - September 1996</p> <p>2% \$0 - \$2 million</p> <p>8% \$2 million - \$4 million</p> <p>15% \$4 million - \$5 million</p> <p>18% Above \$5 million</p>	

AGP is defined simply as the amount of money wagered minus the amount paid out in prizes.

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.

All revenues generated from gaming — gaming tax revenues along with license and application fees paid by casinos and miscellaneous revenues — are placed in the Limited Gaming Fund. 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.

The formula for the remaining monies for this year's distribution:

50% to the “state share,” which was statutorily distributed to:

- the State General Fund
- the Local Government Limited Gaming Impact Fund
- the Colorado Travel and Tourism Promotion Fund
- the Bioscience Discovery Evaluation Cash Fund
- the Innovative Higher Education Research Fund
- and the Creative Industries Cash Funds

28% to the State Historical Fund

- 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 AGP generated in the respective counties)

10% to the towns of Cripple Creek, Central City and Black Hawk

(in proportion to the AGP generated in the respective towns)

The tax revenues attributed to the implementation of Amendment 50 are as follows:

78% 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

Limited stakes gaming in Black Hawk, Central City and Cripple Creek generated more than \$95.3 million in fiscal year 2011 for historic preservation, community colleges, local governments and the benefit of state residents. The Colorado Limited Gaming Control Commission certified the distribution of \$95,327,351 in gaming funds generated during fiscal year 2011 ending June 30 — down 1.5 percent from \$96,742,402 distributed at the end of fiscal year 2010.

The Limited Gaming Fund receives all revenues generated from gaming, primarily gaming taxes paid by casinos, as well as license and application fees and miscellaneous revenues. In fiscal year 2011, gaming taxes were \$104.8 million on \$754.1 million in adjusted gross proceeds (AGP) — down from \$107.7 million in gaming taxes on almost \$765.0 million in AGP the previous year. Sluggish economic conditions contributed to the decrease. Additionally, the excitement generated by new games and expanded gaming hours allowed in 2009 by Amendment 50 has waned. The passage of Amendment 50 allowed local voters in Central City, Black Hawk and Cripple Creek to decide to extend casino hours of operation, to allow more games including roulette and craps, and to allow maximum single bets up to \$100.

For the fiscal year ending June 30, 2011, a total of \$8,916,605 was designated to recipients of tax revenues attributable to Amendment 50. Of that total, almost \$7 million, or 78 percent, was directed to the State's public community colleges, junior colleges and local district colleges, while the remainder went to the cities of Black Hawk, Central and Cripple Creek and the counties of Gilpin and Teller.

GAMING FUND DISTRIBUTION FY2011

Funds Distribution for FY2011

	<u>FY 2010</u>	<u>FY 2011</u>
Limited Gaming Revenues	\$ 110,809,510	\$ 105,949,859
plus previous year's escrow	\$ 3,031,507	\$ 4,726,076
less Division and Commission expenses	\$ 12,372,539	\$ 12,097,096
Two months' escrow	\$ 4,726,076	\$ 3,270,844
Interest earned in Extended Gaming Fund	\$ 0	\$ 19,356
TOTAL AMOUNT DISTRIBUTED	\$ 96,742,402	\$ 95,327,351

ORIGINAL RECIPIENTS

State General Fund	\$ 16,200,000	\$ 20,400,269
Local Govt. Ltd. Gaming Impact Fund	\$ 3,772,780	\$ 3,600,806
Colorado Travel & Tourism Promotion Fund	\$ 14,208,015	\$ 12,002,686
Colorado Council on the Arts Cash Fund	\$ 1,121,726	\$ 0
Creative Industries Cash Funds	\$ 0	\$ 1,200,269
Film Incentives Cash Fund	\$ 407,997	\$ 0
New Jobs Incentive Cash Fund	\$ 1,291,231	\$ 0
Innovative Higher Education Research Fund	\$ 1,904,251	\$ 1,680,376
Bioscience Discovery Evaluation Cash Fund	\$ 5,500,000	\$ 4,320,967
State Historical Society	\$ 24,867,360	\$ 24,195,009
Counties of Gilpin and Teller	\$ 10,657,440	\$ 10,369,289
Cities of Black Hawk, Central and Cripple Creek	\$ 8,881,200	\$ 8,641,075
TOTAL ORIGINAL RECIPIENTS	\$ 88,812,000	\$ 86,410,746

AMENDMENT 50 RECIPIENTS

Colorado Public Community Colleges, Junior Colleges and Local District Colleges	\$ 6,185,713	\$ 6,954,952
Counties of Gilpin and Teller	\$ 951,648	\$ 1,069,993
Cities of Black Hawk, Central and Cripple Creek	\$ 793,040	\$ 891,660
TOTAL AMENDMENT 50 RECIPIENTS	\$ 7,930,401	\$ 8,916,605

COMBINED STATEMENT

Colorado Division of Gaming Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—June 30, 2011

	Extended Gaming Fund	Limited Gaming Fund	Total Fund Balance
REVENUES			
Gaming taxes	\$ -	\$ 104,807,976	\$ 104,807,976
License and application fees	-	620,701	620,701
Background investigations	-	209,430	209,430
Fines and other	-	76,583	76,583
Interest income	19,356	904,959	924,315
Net increase in fair value of investments	135,116	(669,790)	(534,674)
Total revenues	<u>154,472</u>	<u>105,949,859</u>	<u>106,104,331</u>
EXPENDITURES			
Salaries and benefits	-	6,637,933	6,637,933
State agency services	-	4,230,488	4,230,488
Materials, supplies, and services	-	414,321	414,321
Travel and automobiles	-	169,717	169,717
Computer services	-	112,194	112,194
Professional services	-	57,583	57,583
Other	-	104,866	104,866
Telephone	-	110,994	110,994
Background investigation	-	39,040	39,040
Leased space	-	194,512	194,512
Capital outlay	-	25,449	25,449
Total expenditures	<u>-</u>	<u>12,097,097</u>	<u>12,097,097</u>
Excess of revenues over expenditures	154,472	93,852,762	94,007,234
Other Funding Uses			
Limited gaming distribution	(7,930,401)	(86,410,747)	(94,341,148)
Transfer to Extended Gaming Fund	-	(8,897,249)	(8,897,249)
Transfer from Limited Gaming Fund	8,897,249	-	8,897,249
Net change in fund balance	1,121,320	(1,455,234)	(333,914)
Fund balance, beginning of year	<u>7,930,401</u>	<u>4,726,075</u>	<u>12,656,476</u>
Fund balance, end of year	<u>\$ 9,051,721</u>	<u>\$ 3,270,841</u>	<u>\$ 12,322,562</u>

The Colorado Division of Gaming

*Our Mission — to Insure Honesty and Integrity
in the Colorado Gaming Industry.*

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