



2012 ANNUAL REPORT

COLORADO DIVISION OF GAMING

LIMITED GAMING CONTROL COMMISSION



Barbara Brohl
Executive Director
Department of Revenue

COLORADO DIVISION OF GAMING **2012 ANNUAL REPORT**

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Department of Revenue

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Colorado Limited Gaming
Control Commission

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ABOUT THE DEPARTMENT OF REVENUE

Vision

To become a premier Department of Revenue known for its outstanding customer service, innovation, and dedicated employees.

Mission

The Department of Revenue will provide quality service to our customers in fulfillment of our fiduciary and statutory responsibilities while instilling public confidence through professional and responsive employees.

About

The Department of Revenue is one of the few state agencies that provides service for almost every citizen of the state. From administering the collection of sales and income taxes, issuing driver licenses and vehicle registrations, administering the state and multi-state Lottery jackpot and Scratch games, to the enforcement and regulation of gaming establishments, horse racing, liquor sales, auto dealers and, most recently, medical marijuana dispensaries, the scope of the department is broad and wide-reaching.

Additionally, the Department of Revenue conducts comprehensive programs to provide information and education to serve the public and encourage voluntary compliance.

Five Goals of the Department of Revenue

Although each of our Divisions performs many different functions, we are all committed to five overarching goals.

- 1. Customer Service**
DOR works to provide processes that are clear, simple, timely and convenient for -- and respectful to -- the customer.
- 2. Fiduciary Responsibility**
At DOR, we are devoted to providing responsible financial, resource and project management that builds a sustainable foundation, utilizing a high standard of care.
- 3. Statutory Responsibility**
Each and every one of the divisions works to promote fairness and consistency in the application of the law -- regardless of the task or project.
- 4. Employees**
DOR prides itself in recruiting, developing and retaining a high-quality, diverse workforce in an environment that promotes collaboration, professional development and employee innovation.
- 5. Public Confidence**
Because DOR serves the public, it's important to maximize public trust through responsible stewardship and transparent processes.

Our success in accomplishing these goals is dependent on our relationships with our customers, stakeholders, and our employees, and aids us in meeting Governor John Hickenlooper's goals of being more *efficient, effective and elegant*.

REVENUE DIVISIONS AND FUNCTIONS

Enforcement Business Group

The Enforcement Business Group is responsible for licensing and regulating businesses throughout the state through its divisions, and carrying out state laws.

- Division of Gaming
- Division of Racing
- Division of Liquor and Tobacco Enforcement
- Auto Industry Division
- Medical Marijuana Enforcement Division

Lottery Division

Creates and sells Lottery games of chance that are held to the highest standards of public confidence, integrity, entertainment and efficiency, in order to maximize revenue for the Lottery beneficiaries and the people of Colorado.

Motor Vehicle Business Group

Issues driver licenses and state identification cards, and maintains all driver records. The division also provides oversight and support for vehicle titling, all registration processes including the International Registration Plan for Commercial Trucks, and the state's vehicle emissions program.

Taxation Business Group

Collects, manages and enforces the following business-related taxes: sales, use, withholding, fuel, severance, alcohol, cigarette and tobacco. Taxation also collects, reviews and enforces individual, corporate, partnership and trust income tax returns.

ABOUT THE DIVISION OF GAMING

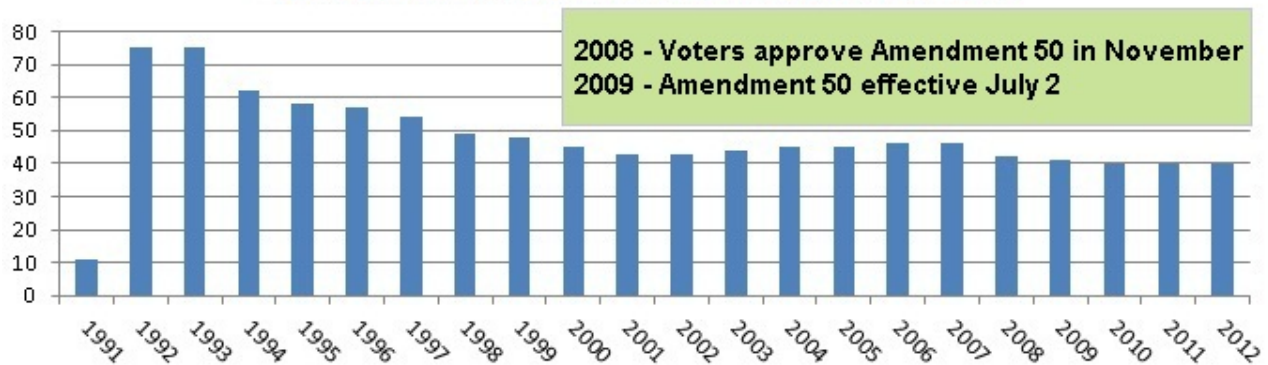
Mission

To insure honesty and integrity in the Colorado gaming industry

Division Overview

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 22-year mark on October 1, 2012, there were 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.

Average Number of Casinos in Colorado 1991 - 2012



During the first 22 years of gaming in Colorado, casinos paid nearly \$1.7 billion in gaming tax revenues to the state on nearly \$12.6 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 Constitution 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.

LETTER FROM THE COMMISSION

Since Colorado voters approved gaming in three Colorado towns more than 22 years ago, tax revenues from this industry have contributed nearly **\$1.7 billion** back into Colorado. These tax revenues have funded historic preservation projects and, since the passage of Amendment 50, contributed to community colleges, as well as assisted gaming towns and counties for the associated costs of gaming, such as increased law enforcement and infrastructure.

From a high of about 75 casinos in the first years of legalized gaming in the state, Colorado has seen a drop in the number of active casinos, leveling to an average of 40 establishments. However, despite fewer casinos overall, we are seeing higher Adjusted Gross Proceeds (AGP). The increase in AGP relates to many factors, including Amendment 50's increased bet limits from \$5 to \$100, introduction of roulette and craps, increased operating hours allowed and the recovering economy.

One change behind the scenes is the new ownership of some of these casinos, which is a result of mergers and acquisitions, and investment in Colorado by the gaming industry, from both inside and outside our state. In the calendar year 2012, seven casinos either re-opened with new owners or changed hands. Some licenses were issued to out-of-state investors looking to bring large capital investment into our state.

We see this investment as a sign of confidence in a robust and growing industry which enjoys a stable business environment.

The Colorado Limited Gaming Control Commission is responsible for setting gaming tax rates annually, but statutorily cannot increase rates above those in 2008 without a vote of the people. The commission members strive to determine rates each year that will provide the greatest economic benefit to the people of Colorado, through distribution to the designated entities, while staying aware of the financial impact to the casinos and owners. Too high a tax rate can make it difficult for casinos to stay in business, and can discourage improvements and re-investment into the industry, but a tax rate that is too low means that recipients of the Limited Gaming Fund and Extended Gaming Fund recipients would not get the revenues upon which they rely.

In May 2012, the Commission set tax rates for FY2013 to the same rates used in FY2011. Compared to other states with legalized casino gaming, Colorado's sliding scale with a maximum of 20 percent is still moderate, with some states lower and some states' rates much higher. (Nevada is one of the lowest, at less than 7 percent, while Illinois and Indiana each have a gaming tax rate as high as 50 percent.) It is our belief that the slow, but steady upturn in the economy and continued investment in Colorado will continue to provide for a strong and healthy gaming industry.

*Roger Hutson, Chairman
Colorado Limited Gaming Control Commission*

COMMISSIONERS

Roger Hutson
Chairman
Business Member

Jannine Mohr
Vice Chair
Attorney Member

Douglas Darr
Law Enforcement Member

William Hughes
CPA Member

Charles Murphy
Registered Voter Member

LETTER FROM THE DIVISION

More than a year ago, the Division was notified by the Office of Policy, Research and Regulatory Reform in the Department of Regulatory Agencies (DORA) that we would undergo a sunset review, which is an analysis of the performance of each division or board scheduled for termination. The State Legislature will consider DORA's recommendations during its 2013 session.

The sunset review was completed and a final report was released on October 15, 2012. The report recommendations include:

- that the Division be continued until 2022;
- amending certain definitions in the Gaming Act to make it clear that electronic versions of games and gaming equipment are permitted;
- creating a new type of license to be issued to suppliers or equipment used remotely or directly in connection with gaming, including equipment used to monitor, collect, or report gaming transactions data or to calculate adjusted gross proceeds and gaming taxes, and define terms related to the new type of license;
- redefining "vintage slot machine" to exclude slot machines introduced on the market before 1984 but fitted with component parts manufactured in 1984 or thereafter;
- requiring the Colorado Limited Gaming Control Commission to promulgate rules concerning the conditions under which the division may authorize a retail gaming license applicant to own or possess slot machines;
- permitting the Commission to promulgate rules regarding procedures for depositing and accounting for tips or gratuities; and
- clarifying that the statute concerning possession of slot machines includes retailers among the persons who may legally possess slot machines.

These recommendations address dynamic changes to the gaming industry in Colorado.

Availability of new technology and interest from the industry prompted the Division to finalize rules and internal control minimum procedures (ICMP) to allow casinos to implement electronic promotional credit systems (EPCS) in 2012. Casinos are able to download promotional credits from either player club accounts or other promotional accounts to slot machines for play by their patrons. Other regulatory reform efforts in 2012 included rule changes to allow casinos to use non-cashable chips for table games play.

*Laura Manning, Acting Director
Colorado Division of Gaming*

The largest source of revenue for the Division is from gaming taxes paid by casinos. Taxes are paid on a graduated scale ranging from 0.25 percent to 20 percent of adjusted gross proceeds (AGP).

The Commission is required by the Constitution 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.

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 preservation and restoration; 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; the impact on recipients of limited gaming tax proceeds; and the expenses of the commission and the division for their administration and operation.

At its meeting in May 2011, the Commission adopted tax rates for Fiscal Year 2012 that represented a 5 percent reduction of the previous rates. In May 2012, the Commission voted to restore tax rates for FY2013 equal to the FY2011 rates.

The Commission assesses taxes based on AGP. Tax rates for fiscal years 2013, 2012, and 2011 are below:

Casino AGP	2013 and 2011	2012
Up to \$2 million	0.25 percent	0.2375 percent
over \$2 million and up to \$5 million	2 percent	1.90 percent
over \$5 million and up to \$8 million	9 percent	8.55 percent
over \$8 million and up to \$10 million	11 percent	10.45 percent
over \$10 million, up to \$13 million	16 percent	15.20 percent
over \$13 million	20 percent	19 percent

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 agency, meaning no state general fund 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 revenues.

All revenues generated from gaming — gaming tax revenues along with license and application fees paid by casinos and other 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,
- Colorado Travel & Tourism Promotion Fund,
- Bioscience Discovery Evaluation Cash Fund,
- Film Incentives Cash Fund,
- Local Government Limited Gaming Impact Fund,
- Innovative Higher Education Research Fund,
- New Jobs Incentives Cash Fund, and
- Creative Industries Cash Funds

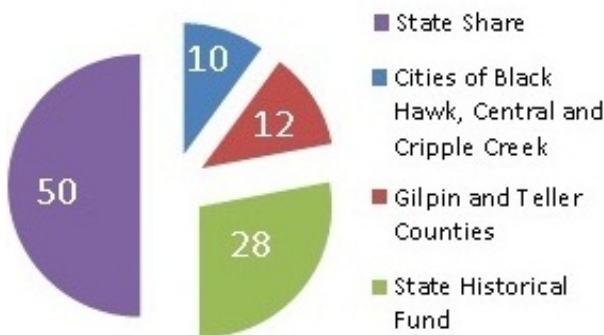
28% to the Colorado State Historical Fund;

- 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 gaming revenues generated in these counties

10% to the cities of Black Hawk, Central and Cripple Creek in proportion to the gaming revenues

Limited Gaming Fund Distribution 2012



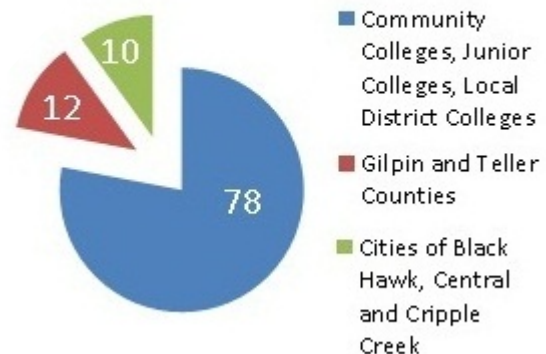
The tax revenues attributed to the implementation of Amendment 50 are as follows:

78% to the state's public community colleges, junior colleges, and local district colleges to supplement existing state funding

12% to Gilpin and Teller counties in proportion to gaming tax revenues generated in each county

10% to the cities of Black Hawk, Central and Cripple Creek in proportion to gaming tax revenues generated in each city

Amendment 50 Revenue Distribution



GAMBLING PAYMENT INTERCEPT

As of July 1, 2008, casinos are required to check a database of persons who are delinquent in child support payments prior to awarding cash jackpot prizes that require an IRS form. If the winner of the cash prize is listed, the casino is required to withhold the amount of the child support delinquency and submit it to the state. The withheld funds are directed to the Colorado Department of Human Services to be applied toward the delinquency. If the delinquency is less than the cash prize, the remainder is paid to the winner.

On July 1, 2010, the intercept program was expanded to include debts for outstanding criminal restitution, and was expanded again effective January 1, 2012 to include certain unpaid debts to the state. As of this writing, implementation of the third expansion is pending. Casinos perform a single search for arrears in child support, criminal restitution, and state debt. In the event a patron has debt in all three areas, his/her winnings are intercepted and the debts are applied in the following priority: Colorado Department of Human Services, State Judicial Department, and finally Colorado Department of Personnel and Administration (when implemented). Any remaining winnings after satisfying any outstanding debt with these agencies are paid to the prize winner.

The amount collected from July 1, 2008 through the end of 2012 for delinquent child support payments was nearly \$1.77 million and approximately \$430,000 has been collected for criminal restitution, bringing the total collected for all Gambling Payment Intercept debts by the end of 2012 to nearly \$2.2 million.

GAMING FUND DISTRIBUTION

Limited stakes gaming in Black Hawk, Central City and Cripple Creek generated almost \$91.2 million in fiscal year 2012 for historic preservation, community colleges, local governments and the benefit of state residents. The Commission certified the distribution of \$91,197,385 in gaming funds generated during fiscal year 2012 ending June 30 — down 4.33 percent from just over \$95.3 million distributed at the end of fiscal year 2011. Tax rates were lowered for one year in FY2012.

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 2012, gaming taxes were just over \$102.1 million on a little more than \$759.6 million in adjusted gross proceeds (AGP) — down from nearly \$104.8 million in gaming taxes on slightly more than \$754.1 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 Black Hawk, Central City and Cripple Creek to decide to extend casino hours of operation, to allow the games of roulette and craps, and to allow maximum single bets up to \$100.

For the fiscal year ending June 30, 2012, a total of nearly \$8.6 million was designated to recipients of tax revenues attributable to Amendment 50. Of that total, just over \$6.7 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 FY2012

Funds Distribution for FY2012

	<u>FY 2011</u>	<u>FY 2012</u>
Limited Gaming Revenues	\$ 105,949,859	\$ 103,557,500
plus previous year's escrow	\$ 4,726,076	\$ 3,270,844
less Division and Commission expenses	\$ (12,097,096)	\$ (12,305,062)
Two months escrow	\$ (3,270,844)	\$ (3,340,325)
Interest earned in Extended Gaming Fund	\$ 19,356	\$ 14,428
TOTAL AMOUNT DISTRIBUTED	\$ 95,327,351	\$ 91,197,385
 ORIGINAL RECIPIENTS		
State General Fund	\$ 20,400,269	\$ 20,304,942
Local Govt. Ltd. Gaming Impact Fund	\$ 3,600,806	\$ 3,314,827
Colorado Travel & Tourism Promotion Fund	\$ 12,002,686	\$ 11,049,424
Creative Industries Cash Funds	\$ 1,200,269	\$ 883,954
Film Incentives Cash Fund	\$ 0	\$ 220,989
New Jobs Incentive Cash Fund	\$ 0	\$ 0
Innovative Higher Education Research Fund	\$ 1,680,376	\$ 1,546,920
Bioscience Discovery Evaluation Cash Fund	\$ 4,320,967	\$ 3,977,793
State Historical Society	\$ 24,195,009	\$ 23,127,355
Counties of Gilpin and Teller	\$ 10,369,289	\$ 9,911,723
Cities of Black Hawk, Central and Cripple Creek	\$ 8,641,075	\$ 8,259,770
TOTAL ORIGINAL RECIPIENTS	\$ 86,410,746	\$ 82,597,697
 AMENDMENT 50 RECIPIENTS		
Colorado Public Community Colleges, Junior Colleges and Local District Colleges	\$ 6,954,952	\$ 6,707,757
Counties of Gilpin and Teller	\$ 1,069,993	\$ 1,031,963
Cities of Black Hawk, Central and Cripple Creek	\$ 891,660	\$ 859,969
TOTAL AMENDMENT 50 RECIPIENTS	\$ 8,916,605	\$ 8,599,689

COMBINED STATEMENT

Colorado Division of Gaming
**Combined Statement of Revenues, Expenditures,
 and Changes in Fund Balance — June 30, 2012**

REVENUES	Extended Gaming Fund	Limited Gaming Fund	Total Fund Balance
Gaming taxes	\$ -	\$ 102,080,861	\$ 102,080,861
License and application fees	-	629,594	629,594
Background investigations	-	221,817	221,817
Fines and other	-	184,774	184,774
Interest income	14,428	599,775	614,203
Net increase in fair value of investments	<u>(16,649)</u>	<u>(159,321)</u>	<u>(175,970)</u>
Total revenues	<u>(2,221)</u>	<u>103,557,500</u>	<u>103,555,279</u>
EXPENDITURES			
Salaries and benefits	-	6,691,729	6,691,729
State agency services	-	4,350,751	4,350,751
Materials, supplies, and services	-	257,948	257,948
Travel and automobiles	-	223,141	223,141
Computer services	-	114,991	114,991
Professional services	-	127,273	127,273
Other	-	67,423	67,423
Telephone	-	92,767	92,767
Background investigation	-	28,524	28,524
Leased space	-	268,380	268,380
Capital outlay	<u>-</u>	<u>82,135</u>	<u>82,135</u>
Total expenditures	<u>-</u>	<u>12,305,062</u>	<u>12,305,062</u>
Excess of revenues over expenditures	(2,221)	91,252,438	91,250,217
Other Funding Uses			
Gaming distribution	(8,916,605)	(82,597,697)	(91,514,302)
Transfer to Extended Gaming Fund	-	(8,585,260)	(8,585,260)
Transfer from Limited Gaming Fund	<u>8,585,260</u>	<u>-</u>	<u>8,585,260</u>
Net change in fund balance	(333,566)	69,481	(264,085)
Fund balance, beginning of year	<u>9,051,721</u>	<u>3,270,841</u>	<u>12,322,562</u>
Fund balance, end of year	<u>\$ 8,718,155</u>	<u>\$ 3,340,322</u>	<u>\$ 12,058,477</u>

Division of Gaming Offices

Golden (main office)

17301 W. Colfax Ave., Suite 135
Golden, CO 80401
(303) 205-1355
(303) 205-1342 (fax)

Central City/Black Hawk

142 Lawrence St.
P.O. Box 721
Central City, CO 80427
(303) 582-0529
(303) 583-0535 (fax)

Cripple Creek

350 W. Carr Ave.
P.O. Box 1209
Cripple Creek, CO 80813
(719) 689-3362
(719) 689-3366 (fax)

Website:

www.colorado.gov/revenue/gaming

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