The Impacts of Gaming Taxation in the United States

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Executive Summary

Gaming: A Golden Goose?

Gaming has more exposure to tax increases than any other sector of the economy. Always short of money, lawmakers look eagerly for taxes they can safely raise — and gaming is an easy choice. This predilection is reinforced by a widely held myth of casino super-profitability. Casinos, everyone thinks, are magical money pumps exempt from the economic laws that govern other activities — and able to pay whatever taxes are needed to make budgets balance (at least on paper), no matter how high.

Tens of billions of dollars are invested in state-licensed gaming industries (excluding tribal casinos) that employ nearly 350,000 people and pay more than $5 billion in gaming privilege taxes annually. Many of those jobs and, ironically, much of the gaming privilege taxes are now being placed at risk by rising tax rates that discourage the capital investment needed to maintain and increase gaming revenues.

Eight of the 11 casino states have seen increases in effective tax rates since 2002. In 2004, state-licensed casinos paid $4.6 billion in gaming privilege taxes, $394.1 million (or 9.4 percent) more than the $4.2 billion they paid in 2003. At the same time, state-licensed casino gross gaming revenue (GGR), the underlying tax base, grew by $1.8 billion, or only 6.7 percent. Gaming privilege taxes are rising faster than the tax base is growing.

Tax Rates and Capital Investment

Capital investment and tax rates are inversely related. As tax rates rise, capital investment falls. More than $53 billion has been invested in U.S. commercial casinos and racetrack casinos since 1989. Of this amount, $26.7 billion is invested in Nevada, where the effective tax rate is 8.4 percent. That represents 50 percent of all capital projects in the commercial gaming sector during this period. New Jersey, with the second-lowest tax rate, attracted $8.7 billion in capital spending, or 16.4 percent of the U.S. total. Added together, the two jurisdictions with the lowest tax rates attracted 67 percent ($35.4 billion) of all the capital

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invested in or committed for commercial gaming projects in the United States since 1989.

Tax Rates and Jobs

Invested capital creates jobs. As gaming privilege tax rates rise, gaming-related employment falls. Gaming industries in Nevada, New Jersey and Mississippi support the greatest number of jobs: 266,053 people, or 76.2 percent of U.S. gaming industry employment. Not surprisingly, these three states have the lowest rates of gaming privilege tax. Higher rates of gaming privilege tax discourage job creation. New York, with the highest tax rate (61 percent), was unable to attract the capital needed to refurbish the two metropolitan area racetracks designated in law enacted in 2001 for machine operations. As a result, the jobs (only 1,813 to date) and tax revenues New York anticipated haven't materialized. Bowing to necessity, New York lowered its tax rate in April 2005.

Tax Rates and the Community

When they set tax rates, lawmakers effectively decide the kind of gaming facility that is built. High tax rates mean straight gaming without entertainment of other kinds. High tax rates discourage capital investment and job creation. High tax rates trade jobs for short-term government revenues.

Tax rates in the 20 percent range shift the emphasis away from revenue generation and toward economic development. In most markets, a 25 percent tax rate allows riverboats or racinos, with the capital investment and payrolls riverboats and racinos require. Rates higher than about 35 percent foreclose the riverboat/racino option in all but very large markets (such as Chicago) or markets that are grossly undersupplied. Rates below 20 percent (such as Mississippi's 12 percent rate) maximize job creation and capital investment while still generating substantial government revenue.

Single digit tax rates in large markets make the development of labor-intensive, diversified entertainment properties possible. **Lawmakers electing single-digit rates are putting economic development (and diversified entertainment) and long-term government revenues first and short-term government revenues second.** They are saying they want job creation and economic development as permanent parts of their communities.

The Impacts of Gaming Taxation in the United States

This white paper examines the sometimes conflicting fiscal and economic policy issues that rates of gaming privilege tax raise. Gaming taxation is not a simple matter. The best tax rate is not necessarily the one that generates the most tax revenue in the short term. Gaming is an industry. It keeps hundreds of thousands of Americans employed. Tax rates affect the industry's ability to attract capital and the number of jobs it provides. In a larger and perhaps even more important sense, tax rates determine the type of gaming facilities communities that authorize it receive: from storefront video poker to resorts that offer hotel rooms, restaurants, retail, spas and recreations of every description in addition to blackjack tables and slot machines.

Lawmakers in every gaming state face a policy choice: maximum tax revenues today, or jobs tomorrow? High gaming tax rates, or a full-employment economy? Tax revenues satisfy government's immediate fiscal needs, and their importance is obvious. But there are economic needs as well, and gaming makes important contributions to the economy. When legislatures set rates of gaming privilege tax, they weigh short-term fiscal demands against long-term economic policies. Nevada and New Jersey sought to maximize gaming's economic contributions and kept tax rates low. Lawmakers in newer gaming jurisdictions have been opting for higher tax rates. Today gaming privilege tax receipts are growing faster than the tax base. Gaming tax collections rose by 9.4 percent in 2004, while casino gross gaming revenue (GGR) — the tax base — rose by only 6.7 percent.

High rates of gaming privilege tax maximize short-term government revenues but foreclose the construction of capital-intensive, labor-intensive resorts unless the market is very large. High tax rates sacrifice gaming's positive economic contributions to short-term fiscal needs; if rates are too high, taxes that will be spent this year are raised at the cost of lost jobs and capital outflows to lower-tax jurisdictions for years, or even decades, to come.

Even in the best of times, gaming has more exposure to tax increases than any other sector of the economy. Chronically short of revenues, lawmakers look eagerly for taxes they can safely raise — and gaming, still a vice for some Americans and without a natural constituency, is an easy choice. This legislative predilection is reinforced by a widely held myth of casino super-profitability. Casinos, everyone thinks, are economic Harry Potters — magical money pumps exempt from the economic laws that govern other activities — and therefore able to pay whatever taxes are needed to make budgets balance (at least on paper), no matter how high.

Lawmakers in every gaming state face a policy choice: maximum tax revenues today, or jobs tomorrow? High gaming tax rates, or a full-employment economy? Tax revenues satisfy government's immediate fiscal needs, and their importance is obvious. But there are economic needs as well, and gaming makes important contributions to the economy.

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The fiscal as well as the economic stakes are high. Billions of dollars are invested in state-licensed gaming industries that employ more than 350,000 people (not including tribal casinos) and generate more than $5.7 billion in annual gaming privilege tax receipts. Rising rates of gaming privilege tax discourage the capital investment on which gaming industries depend. High tax rates throttle gaming industries and put the jobs and tax revenues they provide at risk. And rates of gaming privilege tax are rising.

Taxes and Other Statutory Revenue Distributions

Gambling businesses, including state-licensed casinos and racinos, pay gambling privilege taxes (taxes additional to normal business income or real estate taxes) for the privilege of conducting gambling operations. Some states define gambling privilege taxes very simply, as a single percentage of GGR. New Jersey, for example, imposes a gambling privilege tax on Atlantic City casinos of a flat 8 percent of GGR. Other states have sliding scales and/or various fees, which may be levied by local governments. Nevada, for example, allows counties and municipalities to impose machine license fees, which most operators have to pay, in addition to the top tax rate of 6.75 percent of GGR imposed on all unrestricted licensees. Sliding scales and miscellaneous fees make it difficult to compare the tax obligations of licensees in different jurisdictions. How, for instance, does Atlantic City's flat 8 percent tax compare with the sliding scale Illinois levies on its riverboats, which currently has a top rate of 70 percent for riverboats winning more than $250 million a year?

The best way of dealing with this complication is to calculate effective tax rates. Effective tax rates are actuarial: to derive them, add up the gross gaming revenue in a jurisdiction, sum the jurisdiction's gaming privilege tax receipts, and divide total tax receipts into the total GGR. This procedure is reflected in Exhibits 1, 2, 5 and 8, which present effective rates of gaming privilege tax in jurisdictions that license casinos, riverboats or racinos. Taxes, of course, are used for public purposes, such as funding government budgets. Lawmakers may also allocate portions of gross gaming revenue to private parties. Laws governing racinos, for example, often distribute percentages of racetrack machine revenues to horsemen (in the form of purse supplements), equine breeding funds and racetracks. Statutory distributions of gaming revenue to private parties are subsidies, not taxes, since money so allocated is not available to state treasuries and budget officers. The distinction is material: in New York, for example, the provision of the Omnibus Gambling Law of 2001 allocating a percentage of racetrack VLT revenue to purses has been ruled unconstitutional on the grounds that revenues derived from the state lottery, including video lotteries, must be paid into the New York State General Fund and used exclusively for the support of education.[1]

Exhibit 1

Rates of Gaming Privilege Tax in 1994

Casinos and Racinos	1994 Gross Gaming Revenue ($M)	1994 Taxes ($M)	Effective Tax Rate
Nevada	$6,935.9	$520.0	7.5%
New Jersey	3,422.8	272.0	7.9%
Illinois	979.6	230.0	23.5%
Mississippi	1,464.3	166.0	11.3%
Louisiana	600.1	130.0	21.7%
Colorado	325.7	43.0	13.2%
Missouri	110.3	30.0	27.2%
Iowa	104.8	17.0	16.2%
South Dakota	45.5	4.0	8.8%
Total	$13,989.0	$1,412	10.1%

Sources: State gaming control boards, State tax commissions, Harrah's estimates and Christiansen Capital Advisors, LLC

A third category of statutory distributions of gross gaming revenue is sometimes encountered in gaming law: funds set aside or earmarked for community economic development or re-development. The most prominent example is New Jersey's Casino Reinvestment Development Authority (CRDA), established by the state of New Jersey in 1984 for the purpose of "maintaining public confidence in the casino gaming industry through the reinvestment of a portion of gaming industry revenues to revitalize Atlantic City and other areas throughout New Jersey."[2] Under the CRDA law, licensees (i.e., casinos) are required to pay 2.5 percent of their gross revenues as a tax or to invest 1.25 percent of their gross revenues in obligation deposits to the CRDA. The obligation deposits can be utilized in three ways: for direct investments, for bond issues or as donations to finance CRDA-approved projects. Among other things, CRDA funds have been used for casino capital expansion projects; Atlantic City's convention center; improved transportation access including roads, parking and a train station linked to the convention center; and improvements to Atlantic City including new residential housing (since its inception in 1984, the CRDA has funded and completed construction of 1,897 housing units, thereby increasing Atlantic City's housing stock by 12 percent). CRDA funds have been distributed across New Jersey, financing a great variety of public-sector infrastructure improvements throughout the state.

A fourth statutory claim on gross gaming revenue is license fees. Annually recurring license fees, such as the county and municipal fees imposed on many holders of gaming licenses in Nevada or the $25 million annual assessment that is shared equally among the three Detroit casino licensees, are effectively gaming privilege taxes and are treated as such in this report. One-time license fees, such as the $518 million Isle of Capri agreed to pay the state of Illinois for Illinois' 10th and last riverboat license (in Rosemont) in March 2004, are a different case, more akin, in their impact on licensee financial statements, to capital expenditures. One-time fees of this magnitude are likely to be

Exhibit 2

2004 State-Licensed Casino and Racino Gross Gaming Revenue (GGR), Gambling Privilege Taxes, and Effective Tax Rates

	2004 Total Win ($M)	2004 Taxes ($M)	2004 Effective Tax Rate
Nevada	$10,562.2	$887.0	8.4%
New Jersey	4,806.7	470.7	9.8%
Mississippi	2,780.7	333.0	12.0%
Indiana	2,369.7	760.5	32.1%
Illinois	1,718.0	801.7	46.7%
Louisiana	1,562.1	334.2	21.4%
Missouri	1,473.4	403.1	27.4%
Michigan	1,189.3	279.4	23.5%
Iowa	726.9	154.4	21.2%
Colorado	725.9	99.5	13.7%
Louisiana (Harrah's NO)	320.0	60.1	18.8%
South Dakota	78.0	11.9	15.3%
Total	$28,312.9	$4,595.5	16.2%

	2004 Total Win ($M)	2004 Taxes ($M)	2004 Effective Tax Rate
West Virginia Tracks	$854.9	$327.6	38.3%
Delaware Tracks	553.3	196.3	35.5%
Rhode Island Tracks	383.8	234.1	61.0%
Iowa Tracks	337.5	98.3	29.1%
Louisiana Tracks	281.0	42.7	15.2%
New York Tracks	192.4	136.6	71.0%
New Mexico Tracks	149.7	37.4	25.0%
Totals	$2,752.6	$1,073.0	39.0%
Grand Total (Casino and Racino)	$31,065.5	$5,668.5	18.2%

Indiana: Riverboat casinos pay either a flat tax of 22.5 percent or at the operator's option may participate in a second "flexible system" sliding scale with casinos winning less than $150 million annually taxed at 15 percent and casinos winning more than $150 million annually taxed at 35 percent.

Iowa: Small casinos pay 5 percent tax on their first $1 million of revenue and 10 percent on the next $2 million; rates escalate for casinos winning more money. Casinos on "excursion riverboats" pay a flat 22 percent tax. Racetrack casinos wining up to $100 million annually also pay 22 percent on this amount, then 24 percent on annual win (GGR) exceeding $100 million.

Louisiana: Riverboat casinos pay a flat tax of 21.5 percent. Harrah's New Orleans pays a flat tax of 21.5 percent through 2014. Racetrack slot machines pay a flat 15.2 percent. Bars and restaurant machines (not included in this report) pay a flat tax of 26 percent. Truck stop machines (not included in this report) pay a flat tax of 32.5 percent.

South Dakota: An additional gaming tax of $2,000 per device has been applied, defined as the number of devices (machines and tables) licensed for operation. 2004 total tax was estimated using 8 percent of CY 2004 win plus a device tax on 3,154 devices (number of devices as of December 2004).

Nevada: Graduated state tax rate with a maximum tax of 6.75 percent on gross gaming revenue; additional fees and levies that may be imposed by counties, municipalities and the state add approximately 1 percent to the tax burden.

West Virginia: Fiscal year data is used to more accurately reflect tax payments.

Source: State regulatory agencies

financed rather than paid out of annual gross gaming revenue, and are consequently treated separately in this report.

Tribal gaming is not included in Exhibits 1, 2, 5 and 8 because federally recognized tribes, sovereign entities in their relationships with states, are not subject to state tax authorities. Tribes may voluntarily agree to share revenues from Class III gaming with states in the compacting process set forth in the Indian Gaming Regulatory Act (IGRA) provided the Secretary of Interior approves.

In 1994, gaming privilege taxes, expressed as percentages of GGR, ranged from a low of 7.5 percent in Nevada[3] to a high of 27.2 percent in Missouri (Exhibit 1). For the country overall, gaming privilege tax rates averaged 10.1 percent.

Exhibit 2 shows where gaming privilege tax rates are today (2004). Nevada still has the lowest tax rate (8.4 percent including local fees and levies paid by most licensees) and New Jersey still has the second lowest, taxing its casinos at 8 percent plus 1.25 percent to the CRDA.[4] Everywhere else, tax rates have gone up — way up in some states, notably in Illinois, where effective tax rates now stand at 46.7 percent, double their 1994 level.

For the United States as a whole, casino taxes now average 16.2 percent. That's a 60 percent increase in tax rates in 10 years. Racinos, which weren't really a factor in 1994, are taxed at considerably higher rates than casinos. Racino taxes range from 15.2 percent in Louisiana to 71 percent in New York.[5] Average effective racino tax rates for the U.S. overall were 39 percent in 2004, more than twice the 16.2 percent average effective tax rate for state-licensed casinos. The blended 2004 casino/racino average effective tax rate was 18.2 percent.

Should Tax Policy Serve Fiscal Needs or the Needs of the Economy?

As Exhibit 2 shows, that 18.2 percent average effective tax rate yielded $5.67 billion in gaming privilege tax revenue in 2004. Is this good policy? That depends. Government can always use more tax revenue, and the $5.67 billion gaming generates is needed. But, as noted, high tax rates put short-term fiscal needs ahead of long-term economic considerations: jobs and the invested capital that keeps people employed. Fiscal policy matters: states can't print money, and ultimately their budgets have to balance. When they do, all's well. When they don't, the slope gets slippery pretty fast. Michigan raised its rate of gaming privilege tax in 2004 from 18 percent to 24 percent; Iowa raised taxes on its racinos from an effective 20.7 percent in 2003 to 29.1 percent in 2004; Louisiana's governor has proposed a tax increase for 2005; and in Mississippi, which has the lowest tax rate among the riverboat states, a bill was filed in 2005 that would raise casino tax rates by 1 percent and increase the existing 3 percent tax on winnings of more than $1,200 to 5 percent (the governor promised to veto any gaming tax increase).

But budget deficits pass. Economies are forever. Economic policy matters too, especially in the long run. Jobs matter; and in times of rising unemployment, they matter most. If gaming privilege tax rates are too high, taxes that will be spent this year are raised at the cost of lost jobs and capital outflows to lower-tax jurisdictions for years, or even decades, to come. Harry Potter economics is dangerous: only in fairy tales can super-profitable casinos pay extortionate rates of gaming privilege tax and attract the capital that puts thousands of people to work and keeps them employed.

State-Licensed Gaming Revenue In Relation to Taxes

State-licensed gaming remains a growth industry. GGR from state-licensed casinos grew by 6.7 percent, or $1,786.6 million, to a record $28,312.9 million, in 2004 (Exhibit 3).

Tax revenue contributed by state-licensed casinos is likewise growing. Exhibit 4 presents state-licensed casino tax payments in 2002, 2003 and 2004, and the percentage changes in these tax payments by state.

Exhibit 3

State-Licensed Casino Win by State 2002, 2003 and 2004

	2002 Total Win ($M)	2003 Total Win ($M)	2004 Total Win ($M)	2002-2003 Percentage Change	2003-2004 Percentage Change
Nevada	$9,450.1	$9,625.0	$10,562.2	1.9%	9.7%
New Jersey	4,359.1	4,488.6	4,806.7	3.0%	7.1%
Mississippi	2,724.3	2,700.0	2,780.7	-0.9%	3.0%
Indiana	2,061.6	2,229.9	2,369.7	8.2%	6.3%
Illinois	1,832.1	1,709.9	1,718.0	-6.7%	0.5%
Louisiana	1,609.9	1,566.4	1,562.1	-2.7%	-0.3%
Missouri	1,278.8	1,331.3	1,473.4	4.1%	10.7%
Michigan	1,125.1	1,130.2	1,189.3	0.5%	5.2%
Colorado	719.7	698.3	725.9	-3.0%	4.0%
Iowa	656.2	694.3	726.9	5.8%	4.7%
Louisiana (Harrah's NO)	262.4	282.0	320.0	7.5%	13.5%
South Dakota	66.3	70.4	78.0	6.1%	10.9%
Total	$26,145.6	$26,526.3	$28,312.9	1.5%	6.7%

Source: State regulatory agencies

Exhibit 4
State-Licensed Casino Tax Payments
2002, 2003 and 2004 and Percentage Change

	2002 Taxes ($M)	2003 Taxes ($M)	2004 Taxes ($M)	2002-2003 Percentage Change	2003-2004 Percentage Change
Nevada	$718.7	$779.2	$887.0	8.4%	13.8%
Illinois	666.1	719.9	801.7	8.1%	11.4%
Indiana	544.7	702.7	760.5	29.0%	8.2%
New Jersey	403.2	414.5	470.7	2.8%	13.6%
Missouri	357.6	369.0	403.1	3.2%	9.2%
Louisiana	334.2	332.9	334.2	-0.4%	0.4%
Mississippi	331.7	325.0	333.0	-2.0%	2.5%
Michigan	249.1	250.2	279.4	0.4%	11.7%
Iowa	132.6	141.3	154.4	6.5%	9.3%
Colorado	98.2	95.6	99.5	-2.7%	4.2%
Louisiana (Harrah's NO)	62.6	60.0	60.1	-4.2%	0.3%
South Dakota	10.9	11.3	11.9	3.6%	5.3%
Total	$3,909.6	$4,201.5	$4,595.5	7.5%	9.4%

Source: State regulatory agencies

State-licensed casinos paid $4,595.5 million in gaming privilege taxes in 2004, an increase of $394.1 million, or 9.4 percent, over the $4,201.5 million in gaming privilege taxes they paid in 2003 (Exhibit 4). In other words, gaming privilege taxes paid by state-licensed casinos outpaced growth in state-licensed casino GGR, rising by 9.4 percent while the tax base, casino GGR, rose by only 6.7 percent. Rates of gaming privilege tax continued to rise in 2004.

Exhibit 5 presents state-licensed casino average effective tax rates (or aggregate gaming privilege tax payments as a percentage of gross gaming revenue) and percentage change by state for the years 2002, 2003 and 2004. The average effective rate of gaming privilege tax for all state-licensed casinos was 16.2 percent in 2004, up by 3.7 percent from an average effective casino tax rate of 15.8 percent in 2003.

Exhibit 5
State-Licensed Casino Average Effective Tax Rates and
Percentage Change by State 2002, 2003 and 2004

	2002 Effective Tax Rate	2003 Effective Tax Rate	2004 Effective Tax Rate	2002-2003 Percentage Change	2003-2004 Percentage Change
Illinois	36.4%	42.1%	46.7%	15.8%	10.8%
Indiana	26.4%	31.5%	32.1%	19.3%	1.8%
Missouri	28.0%	27.7%	27.4%	-0.9%	-1.3%
Michigan	22.1%	22.1%	23.5%	0.0%	6.1%
Louisiana	20.8%	21.3%	21.4%	2.4%	0.7%
Iowa	20.2%	20.3%	21.2%	0.7%	4.4%
Louisiana (Harrah's NO)	23.9%	21.3%	18.8%	-10.9%	-11.6%
South Dakota	16.4%	16.1%	15.3%	-2.4%	-5.0%
Colorado	13.6%	13.7%	13.7%	0.3%	0.2%
Mississippi	12.2%	12.0%	12.0%	-1.1%	-0.5%
New Jersey	9.2%	9.2%	9.8%	-0.2%	6.0%
Nevada	7.6%	8.1%	8.4%	6.4%	3.7%
Average	15.0%	15.8%	16.2%	5.9%	2.5%

Source: State regulatory agencies

The Illinois Experiment

With the nation's highest casino gaming tax rate (effectively 46.7 percent in 2004 on a sliding scale with a 70 percent top), Illinois GGR was essentially unchanged in 2004 (+0.5 percent), following a 6.7 percent, $122.2 million decline in 2003. Gaming tax receipts increased by $81.8 million, but the increased taxes were generated at the cost of lost business. The tax increase went into effect in July 2002. At $1.718 billion, 2004 GGR was $114.1 million below 2002's $1.832 billion. In other words, the casino revenue tax base, post-tax increase, is eroding. The net effect of the 2002 tax increase was to increase gaming privilege tax receipts from $666.1 million in 2002 to $801.7 million in 2004, a gain for the state treasury of $135.6 million, or 20.4 percent. That fiscal improvement was far short of the $300 million in annual government revenues the higher tax rate was supposed to produce.

Illinois riverboats paid more gaming privilege taxes in 2004 than any other state-licensed casino industry except Nevada's. The $135.6 million increase in annual gaming privilege tax collections between 2002 and 2004 came at a price to the Illinois economy: employment in Illinois riverboats declined from 9,101 in 2003 to 8,628 in 2004, a loss of 473 jobs, or 5.5 percent. The increased tax payments also reduced return on invested capital, which translated into postponed or curtailed capital spending programs by Illinois licensees — a bad sign for the future of the Illinois gaming industry.

Meanwhile, next door in Indiana, where the gaming privilege tax rate was effectively 32.1 percent in 2004, GGR was up by $139.8 million, or 6.3 percent. Gaming privilege tax collections rose by $57.8 million, or 8.2 percent, on top of a $158 million, 29 percent gain in 2003. Rising tax collections from a rising tax base (casino GGR) are healthier than rising tax collections from an eroding tax base.

These numbers are a verdict on the Illinois experiment with extortionate gaming privilege tax rates: they say current rates are too high. The Illinois gaming privilege tax sliding scale is to sunset back to a 50 percent top when the current law expires (on July 1, 2005). Letting tax rates fall back to where they were in 2002 would appear to be in the best interests of Illinois. The numbers say that somewhere around the 40 percent level, higher rates of gaming privilege taxes produce diminishing returns. Declining GGR and declining payrolls are high prices to pay for marginal gains in tax collections.

License Fees

Illinois leads the nation in another respect: auctioning off gaming licenses to competing bidders. License fees effectively raise gaming privilege taxes: if they are large, they have to be financed, adding debt to balance sheets and debt service to income statements, squeezing after-interest margins and reducing the industry's ability to make regular maintenance and periodic refreshment capex. The March 2004 auction by the state of Illinois of its 10th and last riverboat license to Isle of Capri (for a location in Rosemont) produced final bids of $518 million (Isle), $520 million (Harrah's Entertainment, for a riverboat in Waukegan), and $476 million (Midwest Gaming, a consortium led by Neil Bluhm, for a riverboat in Des Plaines). The auction impressed lawmakers in Pennsylvania, which imposed a flat $50 million license fee in its 2004 slot machine law. Maryland seems to be considering multi-million dollar license fees if it ever authorizes machines; and it's a safe bet that other states will look at this as well.

Exhibit 6

State-licensed Racino Win by State 2002, 2003 and 2004

	2002 Total Win ($M)	2003 Total Win ($M)	2004 Total Win ($M)	2002-2003 Percentage Change	2003-2004 Percentage Change
West Virginia Tracks	$595.9	$717.1	$854.9	20.3%	19.2%
Delaware Tracks	565.9	502.0	553.3	-11.3%	10.2%
Rhode Island Tracks	299.1	333.5	383.8	11.5%	15.1%
Iowa Tracks	316.1	330.6	337.5	4.6%	2.1%
Louisiana Tracks	114.6	168.9	281.0	47.4%	66.3%
New York Tracks	n/a	n/a	192.4	n/a	n/a
New Mexico Tracks	141.4	149.8	149.7	5.9%	-0.1%
Total	$2,033.0	$2,201.9	$2,752.6	8.3%	25.0%

Source: State regulatory agencies

Racino Gross Gaming Revenue

Exhibit 6 presents state-licensed racino win (GGR) by state for the years 2002, 2003 and 2004, and percentage changes for these years.

Racinos won $2.75 billion in 2004, an increase of $550.7 million, or 25 percent (Exhibit 6). In percentage terms, the gain handily outpaced state-licensed casinos (2004 GGR +6.7 percent). Racetrack machines in West Virginia and Delaware won $1.4 billion, just under a third (29 percent) of 2004's Borgata-stimulated Atlantic City win. With 61,000 slot machines authorized in Pennsylvania, most of them at racetracks, VLTs likely to operate at Aqueduct and Yonkers in the New York City metropolitan area someday, and more VLTs proposed at The Meadowlands by New Jersey Governor Richard Codey, the region's racinos will probably win more money than Atlantic City by the end of the decade. The racino sector's burgeoning size is due in no small part to the relatively moderate gaming effective tax rates in Delaware (35.5 percent) and West Virginia (38.3 percent[6]), which allow racinos in these states to freshen their properties with new capital investment that should offer some protection from machines in Maryland and/or Pennsylvania.

Racino Taxes

Exhibit 7 presents state-licensed racino tax payments in 2002, 2003 and 2004, and percentages changes for these years.

Racinos paid $1,073 million in gaming privilege taxes in 2004, $308.4 million, or 40.3 percent, more than they paid in 2003 (Exhibit 7). The increase in racino tax collections was partly due to higher tax rates.

Exhibit 7

State-Licensed Racino Tax Receipts and Percentage Change by State 2002, 2003 and 2004

	2002 Taxes ($M)	2003 Taxes ($M)	2004 Taxes ($M)	2002-2003 Percentage Change	2003-2004 Percentage Change
West Virginia Tracks	$229.5	$268.6	$327.6	17.0%	22.0%
Rhode Island Tracks	159.8	188.8	234.1	18.1%	24.0%
Delaware Tracks	198.1	175.7	196.3	-11.3%	11.7%
New York Tracks	n/a	n/a	136.6	n/a	n/a
Iowa Tracks	82.7	68.4	98.3	-17.3%	43.7%
Louisiana Tracks	17.4	25.6	42.7	47.3%	66.6%
New Mexico Tracks	35.4	37.5	37.4	5.9%	-0.2%
Total	$722.9	$764.6	$1,073.0	5.8%	40.3%

Source: State regulatory agencies

Exhibit 8 presents state-licensed racino average effective tax rates (or aggregate gaming privilege tax payments as a percentage of gross gaming revenue) and percentage change by state for the years 2002, 2003 and 2004.

Racino tax rates in West Virginia, Delaware, Louisiana,

Exhibit 8
State-Licensed Racino Effective Tax Rates and Percentage Change by State 2003 and 2004

	2002 Effective Tax Rate	2003 Effective Tax Rate	2004 Effective Tax Rate	2002-2003 Percentage Change	2003-2004 Percentage Change
New York Tracks	n/a	n/a	71.0%	n/a	n/a
Rhode Island Tracks	53.4%	56.6%	61.0%	5.9%	7.7%
West Virginia Tracks	38.5%	37.5%	38.3%	-2.7%	2.3%
Delaware Tracks	35.0%	35.0%	35.5%	0.0%	1.4%
Louisiana Tracks	15.2%	15.2%	15.2%	-0.1%	0.2%
Iowa Tracks	26.2%	20.7%	29.1%	-20.9%	40.7%
New Mexico Tracks	25.0%	25.0%	25.0%	0.0%	-0.1%
Average	35.6%	34.7%	39.0%	-2.3%	12.3%

Source: State regulatory agencies

Rhode Island and New Mexico were relatively stable in 2004, but in Iowa they shot up by 40.7 percent. Iowa's action raised the sector's average effective tax rate from 34.7 percent in 2003 to 36.6 percent in 2004. Add in New York's 61 percent racino tax rate (71 percent including the allocation to lottery administrative costs), and the racino industry's 2004 average effective tax rate was 39.0 percent. For comparison, the average effective tax rate for state-licensed casinos in 2004 was 16.2 percent. As far as tax rates go, casinos represent the better investment opportunity. If gambling privilege tax rates influence the financial markets, more capital should flow into this sector of the gaming industry. That's exactly what is happening.

With the exception of New York, racinos are doing fairly well with tax rates that are on average higher than the rates applied to casinos. There are three reasons for this.

First and most importantly, many racinos do business in markets that are grossly undersupplied. Rhode Island's racinos, for example, are the closest gaming facilities to Boston — and Boston is a very large market. Delaware racinos are intercept sites for Philadelphia, West Virginia machines draw from Washington D.C., and Delta Downs has the closest machines to Houston. Pennsylvania slot machines will adversely impact Delaware and Maryland, and Massachusetts would adversely impact Rhode Island and West Virginia if they legalize gaming, but up to now racinos along the Eastern Seaboard have enjoyed some of the best market economics in the United States.

A second and related reason for the racino sector's strong performance is that machines-only gaming has lower capital and operating costs than full-service casino facilities do.

Third, many racino markets are still in the growth phase of their market cycles. Like the rapidly growing riverboat markets of the early 1990s, most racino markets are not yet mature. Racinos are still meeting locally unsatisified demand for gaming. Until this latent unsatisified demand is satisifed and racino markets mature, these businesses can be profitable even under relatively high rates of gaming privilege tax.

Exhibit 9

Capital Spending in the Gaming Industry Since 1989

	Estimated Total Cost ($M)	2004 Effective Tax Rate
Nevada	$26,692.8	8.4%
New Jersey	8,694.2	9.8%
Mississippi	4,415.1	12.0%
Louisiana	2,844.1	20.9%
Indiana	2,300.0	32.1%
Missouri	1,800.0	27.4%
Colorado	1,700.0	13.7%
Iowa	1,081.7	21.2%
Illinois	1,000.0	46.7%
Michigan	585.0	24.0%
South Dakota	95.6	16.1%
Commercial Casino Total	$51,208.50	16.3%
Racetrack Casinos		
West Virginia	$574.2	49.5%
Louisiana	546.0	15.2%
Delaware	287.5	35.5%
Iowa	229.0	29.1%
New Mexico	100.0	25.0%
New York	61.7	71.0%
Rhode Island	40.0	61.0%
Racetrack Casino Total	$1,838.40	42.4%
Commercial Casino and Racetrack Casino Total	$53,047.0	18.6%

Note: Rhode Island, New Mexico, and West Virginia are CCA estimates.
Source: Christiansen Capital Advisors, LLC; State Regulatory Agencies

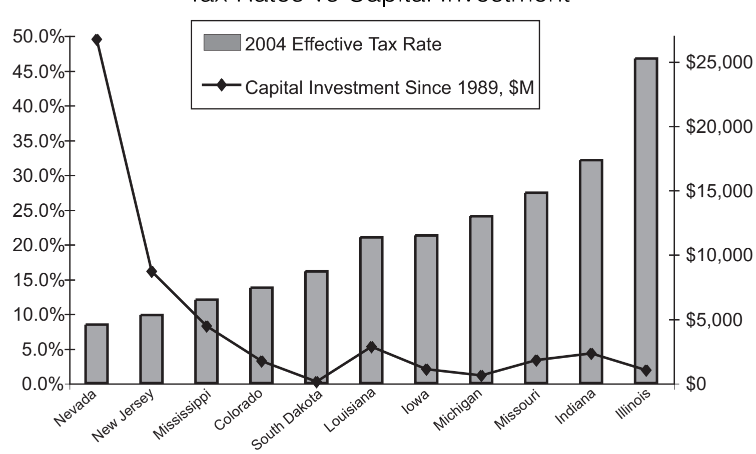
Tax Rates and Capital Investment

Capital investment and gaming privilege tax rates are inversely related. As tax rates rise, capital investment falls. Exhibit 9 summarizes capital investment in the gaming industry by state since 1989 (including racinos), and provides state totals of such investment together with average effective gambling privilege tax rates in 2004.

More than $53 billion has been invested in major U.S. casinos, casino/resorts and racinos since The Mirage opened in November 1989. Of this amount, $26.7 billion is invested in Nevada, where the effective tax rate (in 2004, including local fees and levies) is 8.4 percent. That represents 50 percent of all capital projects in the gaming sector during this period. In other words, 50 percent of the capital invested in gaming is flowing to the jurisdiction with the lowest rate of gaming privilege tax. Nevada's low tax rate has bought this state $26.7 billion in invested capital and 191,620 casino industry jobs (Exhibit 14). New Jersey, the state with the second-lowest tax rate, attracted $8.7 billion in capital spending, or 16.4 percent of the U.S. total. Added together, these two states attracted 67 percent ($35.4 billion) of all the capital invested in gaming projects in the United States since 1989. Their low tax rates have given Nevada and New Jersey an enormous advantage in the competition for gaming-related capital

Exhibit 10

Tax Rates vs Capital Investment



Note: Rhode Island, New Mexico, and West Virginia are CCA estimates.
Racetrack casinos are not included in this exhibit.
Source: Christiansen Capital Advisors, LLC; State Regulatory Agencies

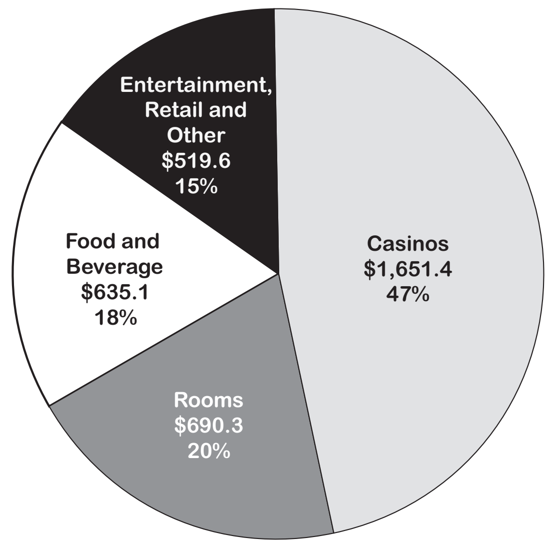
As this exhibit illustrates, the scale of casino capital projects falls as tax rates rise. Low tax rates make diversified, full-service entertainment gaming resort investments feasible. As tax rates increase, the feasibility of large, diversified, full-service entertainment gaming resort properties decreases. Single-digit tax rates make diversified entertainment properties like Wynn Las Vegas, Bellagio and Borgata possible; they mean that gaming investments will add more than gaming to the communities in which they are located: the retail, restaurants, spas, lavish hotels, purpose-built showrooms and theme park-quality attractions that define Las Vegas today can't be built if rates of gaming privilege tax are high. Low tax rates stimulate gaming property diversity. As Exhibit 11 shows, MGM MIRAGE, with properties concentrated along the Las Vegas Strip (and a half ownership interest in Borgata), derives less than half (47 percent) of its corporate revenue from gaming; the balance (53 percent) is generated from entertainment, retail, rooms, and food and beverage. Tax policies formulated to extract the last dollar from gaming operations effectively preclude investments of the kind that make up the bulk of MGM MIRAGE's portfolio.

investment. That advantage is a powerful argument for keeping gaming privilege tax rates in these two states low.

Low tax rates do more than attract investment capital. They make larger, more diverse gaming facilities feasible. Full-service resort facilities offering a diverse menu of recreations contribute to communities in more ways than machines-only facilities do. Machines-only gaming satisfies a single appetite: the appetite for machines. Full-service resorts satisfy many appetites: for shopping, for dining, for shows and entertainment, for spas and pampered relaxation, or for a stay in a good hotel as a break from everyday routines, in addition to gaming at tables and machines. Full-service resorts enrich local economies by diversifying their consumer offerings and by providing well-paying jobs.

Exhibit 11

MGM MIRAGE Sources of Revenue (9 months ending 9/2004)



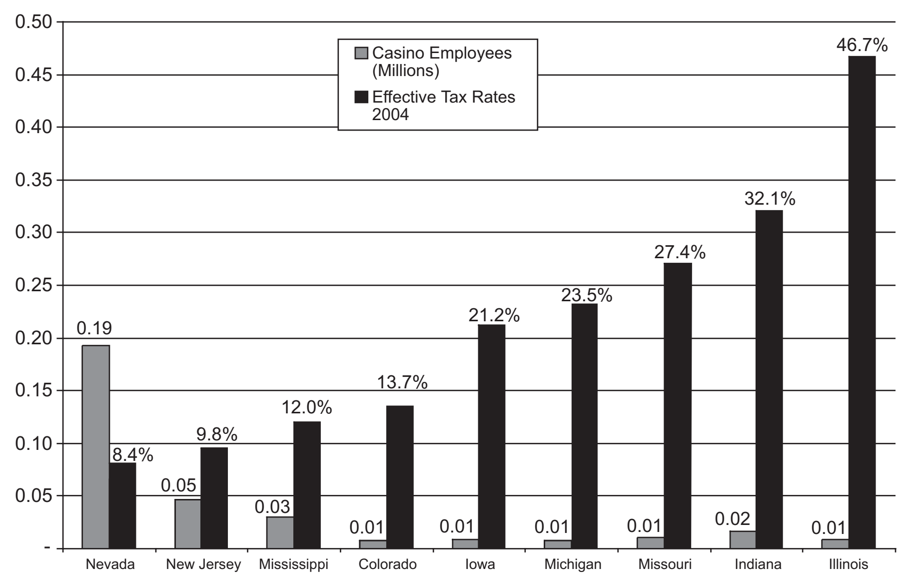
Source: MGM MIRAGE Form 10-Q

Exhibit 10 relates the size of gaming capital projects to gaming privilege tax rates for casinos and casino riverboats (excluding racinos).

As this exhibit illustrates, the scale of casino capital projects falls as tax rates rise. Low tax rates make diversified, full-service entertainment gaming resort investments feasible. As tax rates increase, the feasibility of large, diversified, full-service entertainment gaming resort properties decreases. Single-digit tax rates make diversified entertainment properties like Wynn Las Vegas, Bellagio and Borgata possible; they mean that gaming investments will add more than gaming to the communities in which they are located: the retail, restaurants, spas, lavish hotels, purpose-built showrooms and theme park-quality attractions that define Las Vegas today can't be built if rates of gaming privilege tax are high. Low tax rates stimulate gaming property diversity. As Exhibit 11 shows, MGM Mirage, with properties concentrated along the Las Vegas

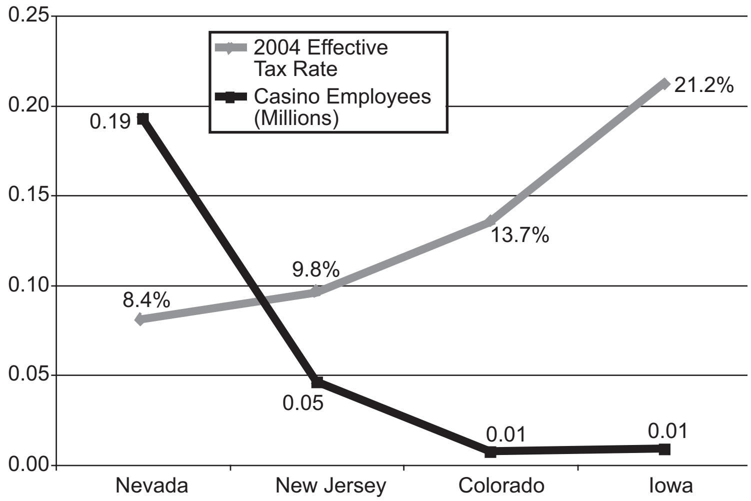
Exhibit 12

Tax Rates as Compared to Casino Employment



Source: State regulatory agencies; Christiansen Capital Advisors, LLC

Exhibit 13
Tax Rates as Compared to Casino Employment



Source: State regulatory agencies; Christiansen Capital Advisors, LLC

Exhibit 14
Nevada and New Jersey (2004)

	Number of Casinos	Number of Jobs	Invested Capital since 1989	Gambling Privilege
Nevada	258	191,620	$26,692,812,742	$886,992,000
New Jersey	13	45,187	$8,694,212,000	$470,669,501

Source: State regulatory agencies

Strip (and a half ownership interest in Borgata), derives less than half (47 percent) of its corporate revenue from gaming; the balance (53 percent) is generated from entertainment, retail, rooms, and food and beverage. Tax policies formulated to extract the last dollar from gaming operations effectively preclude investments of the kind that make up the bulk of MGM Mirage's portfolio.

Tax Rates and Jobs

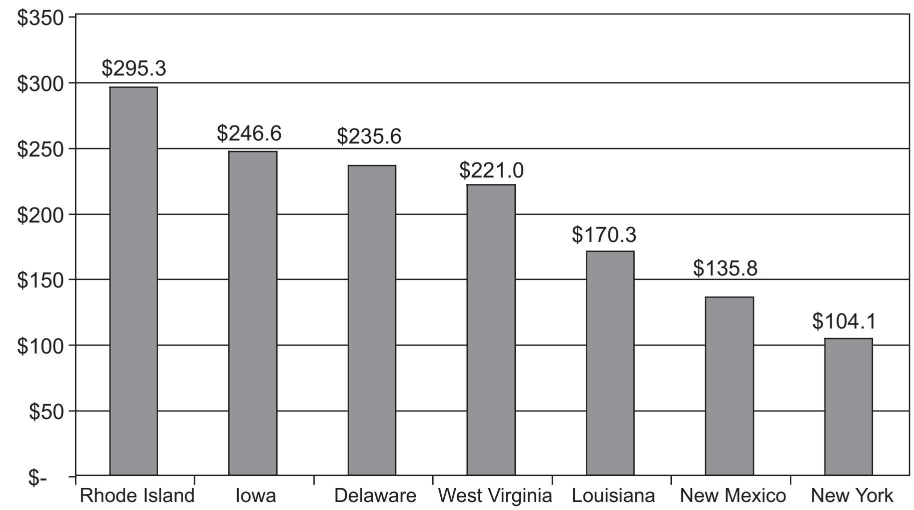
Invested capital creates jobs. As gaming privilege tax rates rise, gaming-related employment falls. Exhibits 12 and 13 illustrate this relationship by presenting direct employment in gaming industries and gaming privilege tax rates. Gaming industries in Nevada, New Jersey and Mississippi support the greatest number of jobs; not surprisingly, these three states have the lowest rates of gaming privilege tax. States that impose higher rates of gaming privilege tax effectively discourage job creation. These states place a higher priority on immediate fiscal needs than a full-employment economy.

Low tax rates do not necessarily mean small gaming privilege tax collections. Exhibit 14 presents number of casinos, number of jobs, dollar amount of direct capital investment in gaming and gaming privilege tax receipts for Nevada and New Jersey, the states with the lowest rates of gaming privilege tax.

The single-digit tax rates in these two states have attracted capital investment totaling $35.4 billion since 1989. That invested capital employs 237,000 people. Contrary to arguments often put forward in support of high rates of gaming privilege tax, the investment-friendly, full-employment tax policies adopted by Nevada and New Jersey produced gaming privilege tax receipts totaling $1.3 billion in 2004 — nearly one third (29.54 percent) of all state gaming privilege tax receipts in 2004. Moreover, on-going capital projects in both states ensure that gaming will be a reliable source of tax revenues in future years — regardless of the spread of gaming to other jurisdictions.

New York: What Happens When Tax Rates Are Too High

Exhibit 15
Win per Machine per Day in Racino States (FY 2003)



Source: Christiansen Capital Advisors, LLC

New York provides a case study of what happens when gaming tax rates are set too high. New York authorized video lottery terminals (VLTs) at racetracks through its lottery law in October 2001 (the 2001 Omnibus Gambling Law). The law left too little machine revenue for operators to make the capital cost of re-fitting old racetracks as machine gaming facilities feasible, and no racinos opened. Following lengthy negotiations between the racetracks and the state, the tax structure was amended to the following distribution percentages: 61 percent of VLT win to government, 10 percent to the lottery's administrative and regulatory costs, and 8.7 percent to horsemen and breeders, leaving 20.3 percent to racetrack operators. This was still the highest gaming tax rate in the United States, and it made capital hard to find. Finally, in January 2004, more than two years after machines were authorized, New York's first racino (Saratoga Raceway) opened. Three more racinos, all located in Upstate New York, opened during the first half of 2004. Starved of capital by New York's 61 percent tax rate, all four racino facilities are basic operations, far from the lavish full-service entertainment racinos operating so successfully in Delaware and West Virginia under far lower tax rates (Exhibit 8). Bowing to necessity, in April 2005 New York lowered its tax rate, increasing the share of VLT gross gaming revenue allocated to racetracks to 32 percent of the first $50 million and 29 percent of the next $100 million.

Exhibit 15 presents machine productivity for racino devices. Not all racino machines are exactly like New York's central determination system VLTs, but the comparison, in terms of consumer experience, is closer than the consumer experience with reel-spinning casino slots. The most productive racino VLTs are Rhode Island's: $295.3 per device per day. New York racino VLTs, unsurprisingly, rank at the bottom ($104.1 per device per day).

Exhibit 16

Lost New York State Tax Receipts ($M)

	Estimated VLT Revenue	Estimated Tax Receipts
3rdQ 2002	$250.0	$87.5
CY2003	1140	399
CY2004	1402.3	490.8
CY2005	1570.6	549.7
Total	$4,362.9	$1,527.0

Source: Christiansen Capital Advisors, LLC

Lost Taxes

The end results are low gaming employment, a contribution to local leisure economies limited to machine gaming, and gaming tax receipts far below the state's expectations. The State of New York budgeted $240 million in VLT tax revenue in FY05 and, according to The New York Times, expected $2 billion a year from VLTs "eventually."[7] New York in fact received less than $140 million in 2004 because its under-capitalized VLT facilities are performing significantly below pre-opening expectations. If all of the authorized racinos had been up and running by September 30, 2002 (a year after the enactment of the 2001 Omnibus Gambling Law), with tax rates at the U.S. average, 35 percent, racino tax revenues would have totaled $977 million through the end of calendar year 2004 — approximately $840 million more than New York State will actually receive from its VLTs. In other words, New York's uneconomically high tax rate has cost the state $840 million in lost tax revenue as of the end of calendar year 2004.

The VLT tax receipts that could have been generated for education in 2002, 2003, 2004 and 2005 if the New York tax on VLTs had been set at 35 percent, are lost. Exhibit 16 shows what those tax receipts would have totaled assuming a 35 percent tax rate and seven racinos in operation by September 30, 2002. Through December 31, 2005, the lost tax receipts come to $1.5 billion — $1.5 billion for New York education, lost and gone for good.

Even lawmakers are subject to economic law, and economic law says a 61 percent gaming privilege tax rate is too high. New York's VLT law is a failure. Four years after its enactment, only four of the seven racinos it authorized have managed to scrape up even the minimal amount of capital needed to build modest (and in Monticello's case, temporary) facilities. Aqueduct and Yonkers, the two metropolitan area racetracks authorized in 2001 to conduct VLT operations, haven't produced one dollar of VLT tax revenue. The four or five year head start Aqueduct and Yonkers had over The Meadowlands in 2001 has been piddled away.

Casinos and Community Contribution

Tax rates do more than affect the number of jobs gaming industries create and the amount of tax revenues they contribute to governments. Tax rates determine the kind of gaming a community that authorizes it gets.

The tax rate a state imposes on gaming opens some policy options and forecloses others. Tax rates don't simply establish government claims on gambling revenue. They largely determine the kind of gambling operation that generates the revenue government wants to tax. Diversified resort properties relate to communities in different ways than racinos do; racinos in turn have different community impacts than video poker machines installed in neighborhood businesses. When lawmakers set gambling privilege tax rates, they effectively decide whether communities get casino resort properties that offer a broad range of entertainment or machines-only facilities that offer gaming and nothing else.

High rates of gambling privilege tax maximize government revenues but foreclose the construction of capital-intensive, labor-intensive facilities unless the market is very large. It is not coincidental that the largest gaming resort, Steve Wynn's new Wynn Las Vegas, is in the state with the lowest rate of gaming privilege tax. This $2.7 billion diversified full-service entertainment casino/hotel resort simply wouldn't be feasible in a jurisdiction that imposed double-digit rates of gaming privilege tax.

The reason Wynn Las Vegas was built in Las Vegas instead of Chicago or New Orleans is that Wall Street demands threshold returns on invested capital if the capital needed to build diversified casino resorts (or anything else) is to flow. That threshold is a moving target; it depends on interest rates, liquidity in financial markets, the attractiveness of casino investments relative to investments of other kinds, the outlook for gaming, travel and perhaps other kinds of consumption and, depending on the year, additional variables. But at any given point in time, this threshold is an inelastic bar. Pro forma, initial (first 12 months) return on invested capital (ROIC) for Wynn Las Vegas is 13 percent. The ROIC bar for capital investment in diversified gaming resort properties is thus currently about 13 percent.

Exhibit 17 presents the estimated initial returns together with actual initial-year returns for 15 major properties opening on the Las Vegas Strip between 1989 and 2005. The exhibit shows that returns on capital invested in large, diversified casino resort properties have been declining since The Mirage and Excalibur opened more than 15 years ago. The Mirage returned 30 percent in its initial year of operations. Excalibur returned 29 percent (1990). Initial returns generated by subsequent resorts declined through the 20 percent range to 11 percent for The Venetian and 17 percent for Paris, both opening in 1999.[8]

These percentages are good indications of where the ROIC threshold for big-cap casino resorts currently stands. Taxed at 35 percent, even the largest market wouldn't support such investment. In markets that are fully supplied, even if they are large and robust like Las Vegas (which markets to the world), gambling privilege tax rates higher than 15 percent probably foreclose future resort development on the scale of Wynn Las Vegas or Bellagio.

Tax rates have similarly complex implications for employment.

Exhibit 17
Initial Return on Invested Capital: Major Resort Properties

Property	Company	Date Opened	Estimated Cost ($M)	*Estimated Initial EBITDA ($M)	Estimated Initial Yield on Cost
The Mirage	MGG	Nov-89	$620	$187	30%
Excalibur	MBG	Jun-90	300	88	29%
Treasure Island	MGG	Oct-93	470	99	21%
Luxor	MBG	Oct-93	400	90	23%
MGM Grand	MGG	Dec-93	990	182	18%
Stratosphere	Carl Icahn	Apr-96	550	11	2%
Monte Carlo	MGG/MBG	Jun-96	355	92	26%
New York-New York	MGG	Jan-97	460	130	28%
**Bellagio	MGG	Oct-98	1,300	260	20%
Mandalay Bay	MBG	Mar-99	1,100	85	8%
Venetian	LVS	May-99	1,400	150	11%
Paris Las Vegas	CZR	Sep-99	785	135	17%
***Aladdin	RE/BH LLC	Aug-00	1,300	34-60	4%
Borgata	Boyd/ MGM MIRAGE	Jul-03	1,100	109	10%
Wynn Las Vegas	Wynn Resorts	Apr-05	2,700	358	13%

* *For the first full calendar year of operation*
** *Hard facility cost. Not counting art collection costing approximately $300 million.*
*** *Estimated cash flow. The company reported a loss of $47.18 M for the quarter ended March 31, 2001. As of March 31, 2001 the equity in Aladdin Gaming LLC had a negative value of $4.4M.*

Source: Christiansen Capital Advisors, LLC

Neighborhood machines operated by lottery agents (as in Oregon or South Dakota) or in private non-gambling businesses like bars (Montana) or truck stops (Louisiana) minimize capital and labor costs while maximizing revenues. This form of machine gaming can support high rates of gaming privilege tax and hence is efficient as regards revenue generation but inefficient as regards the creation of jobs.

Governments make choices when they decide on tax regimes for casinos and machines. Undersupplied markets give legislators some flexibility in these choices. But fully supplied market conditions impose iron constraints on gambling privilege tax rates. Set them too high and nothing happens, as proved to be the case in New York, where an October 2001 law authorizing VLTs at racetracks remained unimplemented for two years because its high tax rate left too little money for tracks and horsemen and made construction of racino facilities impossible to finance. Even in undersupplied markets, tax rates higher than Mississippi's 12 percent limit the effectiveness of gaming as an engine of diversified economic development. Diversified entertainment properties like the ones MGM Mirage operates, which generate only about half their revenue from gaming and contribute a broad range of leisure activities to the economy but cost a billion dollars or more to build, can't be financed with tax rates much higher than Nevada's effective 8.4 percent.

What Kinds of Gambling Tax Rates Buy

In deciding on tax rates, lawmakers should ask themselves this question: what kind of gambling industry do the people of their state and the communities within it want?

High tax rates mean machines-only facilities: straight gaming with no offsetting entertainment of other kinds. High tax rates mean minimal capital investment and minimal job creation. Lawmakers who impose gambling privilege taxes higher than 50 percent are trading jobs for government revenues.

Tax rates in the 20 percent range shift the policy emphasis away from revenue generation and toward economic development. In most markets, a 25 percent tax rate allows the operation of riverboats or racinos, with the capital investment and payrolls riverboats and racinos require. Rates higher than about 35 percent foreclose the riverboat/racino option in all but very large markets (such as Chicago) or markets that are grossly undersupplied. Rates below 20 percent, such as Mississippi's 12 percent rate, maximize job creation and capital investment while still generating substantial government revenue.

Single digit tax rates in large markets make the development of labor-intensive diversified entertainment properties possible. Lawmakers electing single-digit rates are putting economic development (and diversified entertainment) first and government revenue second. They are saying their communities want a new Wynn Las Vegas, not a riverboat or a racino and not storefront video poker.

Eugene Christiansen is CEO of Christiansen Capital Advisors LLC (CCA), which provides unparalleled professional gambling and entertainment industry analysis and management services. Christiansen has been active as an executive and consultant to the commercial gambling and entertainment industries since 1976. In the area of commercial gambling, he has conducted studies of the economics, taxation, financial structure and regulation of casino gaming, pari-mutuel wagering and lotteries and is the author of numerous articles in trade, professional and academic publications. Christiansen prepares authoritative studies and statistical reports that are widely used domestically and abroad, including an annual analysis of the gross wager of the United States. These works are recognized throughout the world as the most comprehensive and authoritative descriptions of the gambling industries within the United States.

Endnotes

[1]This decision is being appealed; in the interim New York racinos continue to operate.

[2]Casino Reinvestment Development Authority Mission Statement. The statutory purposes of the Casino Reinvestment Development Authority or CRDA include maintaining "public confidence in the casino gaming industry as a unique tool of urban redevelopment for the city of Atlantic City and to directly facilitate the redevelopment of existing blighted areas and to address the pressing social and economic needs of the residents of Atlantic City and the State of New Jersey by providing eligible projects in which [gaming] licensees shall invest" and "to provide licensees with an effective method of encouraging new capital investment in Atlantic City…". N.J.S.A. 5:12-160. The CRDA was established by Chapter 218 of Public Law 1984, effective December 19, 1984.

[3]Nevada's state gaming privilege tax was 6.5 percent in 1994; various fees and local levies raised effective rates to about 7.5 percent for most licensees.

[4]Plus, in 2004, a "comp" tax that yielded $26 million.

[5]Includes additional 10 percent of VLT gross win allocated to lottery administrative costs; the unexpended portion of this 10 percent is distributed by the lottery to the general fund. A number of Wall Street analysts include statutory distributions to racetrack operators and/or purses in racino tax rates incorrectly: taxes are monies collected by governments; statutory distributions of racetrack machine win are allocations of funds, or subsidies, to non-governmental private parties (i.e., racetracks and horsemen).

[6]38.3 percent includes amounts paid to state and local governments as well as to other sources (tourism/misc.). Purses and horse/dog development funds are not included in this figure.

[7]Greg Winter, "Court Panel Says New York Schools Need Billions More," *The New York Times,* December 1, 2004.

[8]Stratosphere and Aladdin entered bankruptcy and consequently generated negative returns on the equity invested in these properties.

The data and comments presented in this white paper are solely those of the author and do not represent the positions of the American Gaming Association. The AGA assumes no responsibility for errors or omissions in these materials.

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