



# The Effect of a Gaming Tax Increase on the State of Iowa

December 2002

Prepared By:

RSM McGLADREY, INC.  
220 North Main Street, Suite 900  
Davenport, Iowa 52801  
(563) 888-4000

and

Strategic Economics Group  
45 – 30<sup>th</sup> Street  
Des Moines, Iowa 50312  
(515) 246-0764

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# Preface

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RSM McGladrey, Inc. and Strategic Economics Group performed this study for the Iowa Gaming Association. The purpose of the study was to estimate the effects of a gaming tax increase on the State of Iowa.

- Throughout this report the terms, "gross revenues", "gross gaming revenues", "adjusted gross receipts", and "adjusted gross revenues" are used. The terms are synonymous and represent gross gaming receipts or the amount of money wagered less the money paid back to bettors. The gaming taxes paid by the casinos is computed off of the adjusted gross receipts.
- This report deals with the 13 casinos that pay taxes to the State of Iowa and does not include the three native American casinos which are not taxed by the State of Iowa.

## Scope of the Project

The major work steps to complete the study were as follows:

- To assess the current situation, financial and operating data was obtained from all Iowa based casinos, excluding the native American casinos. This included financial information related to the types of taxes paid by the casinos including gaming, sales and use, property, and lodging taxes. Casinos were also asked to provide information on employment, supplies purchases, contributions to non-profits and payments to local governments.
- Based on direct Iowa casino industry statistics (Total sales, labor income, value added, and jobs), the economic multiplier effect was determined using the State of Iowa configured Input-Output (I-O) model. Other secondary effects such as tourism, changes in employment in the lodging and restaurant industry in Iowa, and the Vision Iowa program were also considered.
- The current Iowa gaming tax structure was evaluated and compared to the gaming tax structure in other states. In addition, the current status of other states considering gaming legislation was evaluated.
- A financial model was developed to project each Iowa casino's earnings and cash flow through 2006 based on various stated assumptions.
- Fifteen publicly traded gaming companies were selected and analyzed with respect to expected return on investment and these values were compared to similar rates of return among Iowa based casinos, both currently and projected.
- Finally, the effect of a gaming tax increase on the State of Iowa was analyzed under various scenarios of a reduction in adjusted gaming receipts due to reduction of investment in the properties and/or the closing of one, two, or three casinos due to an assumed gaming tax increase. Similar to above, the Input-Output model was again used to determine the secondary economic effect under the three scenarios.

We would like to acknowledge the following organizations who provided information to complete the study and whose sources are referenced in the report.

- Individual Iowa based casinos
- Iowa Racing and Gaming Commission
- Iowa Legislative Fiscal Bureau
- Iowa Department of Revenue and Finance
- Iowa Workforce Development

- IMPLAN Model for Iowa and U.S. Department of Commerce, Bureau of Economic Analysis
- Vision Iowa Program
- Riverboat Development Authority
- Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-2003 Edition
- Edgar-Online

## About RSM McGladrey, Inc. and Strategic Economics Group

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RSM McGladrey, Inc. ([www.rsmmcgladrey.com](http://www.rsmmcgladrey.com)) and its affiliated accounting firm, McGladrey & Pullen, LLP, provide business consulting, accounting and tax services to mid-sized businesses from more than 100 offices nationwide. Accounting Today ranks RSM McGladrey, Inc. as the seventh largest tax and accounting service provider in the United States. RSM McGladrey, Inc. is focused on meeting the needs of mid-sized, owner-managed businesses (i.e., companies with \$5-250 million in annual revenues). We offer middle-market companies business and tax consulting, wealth management, retirement resources, payroll services and corporate finance, with more than 4,400 employees nationwide. We are also the U.S. member of RSM International, the seventh largest tax, accounting and consulting organization in the world, with more than 500 offices in 70 countries. RSM McGladrey, Inc. maintains an alternative practice structure with McGladrey & Pullen, LLP, who provides our clients with a way to meet their audit and attest needs.



Robert L. Larsen



Michael C. Poster

Strategic Economics Group, Inc. (SEG) provides business consulting, economic impact and trend analyses, planning and policy assessment for businesses and governmental entities. **Harvey Siegelman**, former State Economist of Iowa, founded SEG in July 2001. Harvey retired as State Economist after serving for 20 years in that position. For the past 20 years, Harvey has also been and continues to be an Adjunct Professor of Economics at Drake University. He also serves on a number of government advisory boards.

SEG is a partnership of individually recognized and highly skilled economists. The senior analyst on this project is **Dr. Daniel Otto**. Dr. Otto is Professor of Economics at Iowa State University. His specialty areas include: economic impact analysis, economic forecasting and input-output modeling activities, and studying the relationship of a changing rural economy to public finance issues in rural areas.

The SEG calculations of the economic consequences employ the use of the IMPLAN Input Output modeling system, originally developed by the U.S. Forest Service but which has been extensively revised and improved to assess industrial and commercial sector activities in the U.S. economy and its sub regions. The Iowa models are maintained at Iowa State University and are widely used by regional scientists to estimate economic impacts.



Harvey Siegelman



Dr. Daniel Otto

# Executive Summary

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The effect of a gaming tax increase on the State of Iowa would likely have a significant detrimental effect on many different groups including the State of Iowa, the local counties and cities where the casinos are located, the non-profit gaming license holders, and the casino operators. It would also have significant effects on employment levels in the communities where gaming occurs, other vendors in the State and on economic development in the State.

## Direct and Secondary Economic Effects

Iowa's casinos paid approximately \$200 million in gaming taxes to the State of Iowa and their local counties and cities for the fiscal year ended June 30, 2002. These taxes are used to supplement the General Fund, fund the Vision Iowa program and pay for infrastructure and school programs.

The casinos pay approximately \$7.5 million in property taxes to their local communities, and collect \$6.3 million and \$1.4 million in sales and use taxes and lodging taxes, respectively.

The Iowa casinos employ almost 10,000 individuals. The Iowa casinos as a whole are the fourth largest employer in the State. Only Hy-Vee, Rockwell Collins and the Principal Financial Group employ more individuals. These casino employees are paid approximately \$180 million in salaries and wages, and receive another \$37 million in benefits.

In 2001, Iowa's casinos purchased \$240.2 million in goods and services from other Iowa companies. They contributed \$40 million dollars to non-profit organizations in their communities. In addition, they paid \$9.5 million in attendance fees to their local communities, and paid \$16.8 million in rent to local governmental entities.

The Iowa casinos have secondary effects on the Iowa economy. The \$915.6 million in gross gaming revenues are linked to \$453.8 million of additional spending in the rest of the Iowa economy. Overall, an estimated \$1.4 billion of gross sales or output in the economy is directly or indirectly related to the Iowa casino industry. This includes 17,811 jobs, \$367.6 million in salaries and wages and \$815.0 million of value added to the Iowa economy.

## Gaming Tax Structure

Iowa's casinos pay to the State of Iowa a 5% gaming tax on the first \$1 million of gross gaming revenue, 10% on the next \$2 million and 20% on gross gaming revenues over \$3 million. In addition to these taxes, the casinos pay additional taxes and fees to Not-For-Profit License holders and city governments. The casinos also fund their regulatory (Iowa Racing and Gaming Commission) and enforcement (Department of Criminal Investigation) costs. These additional taxes and fees put the Iowa gaming effective tax rate at greater than 25%. This puts Iowa's gaming tax rates somewhere in the upper end of those charged by other states.

A further illustration will show that the amount of taxes and statutory payments paid by Iowa's casinos is extraordinarily high compared to other industries. By adding up all the statutory payments required of Iowa's casinos, the effective tax rate as a percentage of pre-tax income is actually 94.75%. Statutory payments are defined as state and federal income taxes, gaming taxes, contributions to the non-profit license holder, admission fees, subjective rent payments, and other required payments to the local counties and cities. By contrast, a non-casino corporation with similar pre-tax income would have an effective tax rate of only 40.70%.

Iowa casinos have shown a history of re-investing profits into new development including new hotels, convention centers, restaurants, and other amenities. A gaming tax increase will decrease the amount of money that is available for investment and marketing. Over time, this reduction in investment and marketing dollars will inevitably cause Iowa's casinos to become less competitive with casinos in other states and other forms of entertainment. This will cause gaming revenues to stagnate or decline, which will reduce the amount of gaming taxes paid to the State of Iowa. In addition, a gaming tax increase will certainly cause the casinos to reduce the number of employees at their casinos as certain services will be reduced or eliminated. Fewer employees and increased unemployment will, to some extent, offset some of the additional gaming taxes the state may receive.

Iowa casino operators have other investment options if the Iowa gaming tax structure changes significantly. Of the 11 eleven states that offer casino style gaming, six have no limit on the number of gaming licenses they will issue.

Due to state budget shortfalls, many other states are considering or have considered adding or expanding gaming to raise tax revenues. Arizona, Kentucky, Indiana, Maryland, Minnesota, Missouri, Ohio, Kansas, Florida, Pennsylvania, Rhode Island, Massachusetts, Nebraska and Maine are all considering expanded gaming. All of these jurisdictions have the potential impact of attracting investment dollars away from the Iowa operations.

Another issue for Iowa's casino operators is that they compete within their own corporations for investment dollars. As four of the casino operators have operations in other states, they may chose to invest in a casino in a state that affords them a better return on investment than an Iowa casino.

### **Effect on Iowa's Casinos**

If the tax rate were increased from 20% to 25%, this increase would amount to a 25% increase in the rate. Assuming a 25% gaming tax increase, no changes in revenue, only inflationary increases in expenses and replacement of current property and equipment, the average casino in competitive marketplaces is projected to see significant decreases in net income, equity and cash flow.

Based on 2001 historical information, the increase would have decreased the net income of the casinos by greater than 50%. Sustained reduction in net profits will have a long-term negative effect for the gaming industry in Iowa and ultimately the State of Iowa.

### **The Effect on the State of Iowa**

Iowa casinos, faced with a declining return on investment, may decide to downscale their operations in the State of Iowa and focus on development in other states. If casinos downscale their operations in the State, this will have both direct and secondary effects on the Iowa economy. Over time, this reduction in investment and marketing dollars will inevitably cause Iowa's casinos to become less competitive with casinos in other states and other forms of entertainment. This will cause gaming revenues to stagnate or decline. It is also possible that at least one casino, depending on the size of a gaming tax increase, could find operations unprofitable and close. If one to three casinos close in Iowa, the tax decrease could range from \$10.4 million to \$58.6 million (net of the gaming tax increase on the other casinos).

Similar effects will be felt in salaries and wages, employment and purchases from Iowa suppliers. The decrease in salaries and wages could range from \$22.2 million to \$66.6 million. The losses in jobs could range from 900 to 2,700. Purchases from Iowa casinos could also see reductions ranging from \$13.3 million to \$50.0 million.

Finally, contributions to the non-profit license holders and other payments to the local communities will also see a decrease. Losing one to three casinos could decrease these payments anywhere from \$3.6 million to \$10.8 million.

In addition to the direct effects of losing casinos, the secondary effects will also ripple throughout the Iowa economy. On average, the total secondary effect of losing a casino would be 1,374 additional jobs, \$28.6 million in salaries and wages, \$67.8 million in value added, and \$112.2 million of sales in the Iowa economy. If up to three casinos were closed, this would equate to 4,123 jobs, \$86.0 million in salaries and wages, \$203.3 million in value added, and \$336.5 million in sales in the Iowa economy.

### **Conclusion**

The casino industry has become an important component of the Iowa economy. It provides approximately 10,000 jobs, pays approximately \$180 million in salaries and wages, and contributes approximately \$200 million in gaming taxes to the State. It also provides many secondary benefits to the rest of the Iowa economy.

Assuming no other changes to their operations, a 25% gaming tax increase would have significant negative impacts on the casinos. At a 25% gaming tax increase, the casinos' projected average cash flow will be negative. Equity levels and median return on beginning invested capital will deteriorate and average projected earnings will decrease.

Because of these decreases, the casino operators will likely reduce the scope of their investments or potentially be forced to close some of their locations. This would have a significant detrimental effect on many different groups including the State of Iowa, the local counties and cities where the casinos are located, the non-profit gaming license holders, and the casino operators. It would also have significant effects on employment levels in the communities where gaming occurs, other vendors in the State and on economic development in the State.

# The History of Gaming in the State of Iowa

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In May of 1983, the Iowa Legislature passed the Pari-Mutuel Wagering Act allowing qualified sponsoring organizations to apply for a license to conduct pari-mutuel wagering on horse and dog racing. Governor Terry Branstad signed the bill and subsequently appointed the first Racing Commission on July 1, 1983.

Dubuque Greyhound Park was opened in June 1985, followed by Bluffs Run in February 1986, Waterloo Greyhound Park in October 1986 and Prairie Meadows in March 1989. Waterloo Greyhound Park later ceased operations.

On July 1, 1989, legislation was enacted allowing the Commission to license qualified sponsoring organizations to conduct gaming on excursion gaming boats in a county where the electorate approves a proposition by referendum. The legislation required that only 30% of the vessel be used for gaming, limited customer losses to \$200/day and \$5/hand wager and required a minimum number of excursions, as well as other limitations and restrictions.

Excursion boat gaming referendums were held in the fall of 1989 and were passed in Dubuque, Lee, Des Moines, Scott, Muscatine, Clinton, Jackson and Woodbury Counties. The only county in which the referendum failed was Clayton County. Clayton County later passed a referendum, along with Pottawattamie, Clark and Polk Counties.

On March 8, 1990, the Commission granted excursion boat gaming licenses to four entities that began riverboat gaming in Iowa in the spring of 1991.

Due to competitive pressures from other states, and the restrictions placed on Iowa riverboat casinos, legislation was enacted in March of 1994 to put the Iowa casinos on a level playing field with casinos from neighboring states. These changes were as follows:

- Removing the \$200/cruise loss limit and the maximum \$5/hand wager.
- Requiring an additional local referendum in counties already authorized for excursion boat gaming to allow for unlimited wagers and removal of the loss limits.
- Raising the age restriction for wagering from 18 to 21 (persons 18 and older may be employed in a gaming area).
- Allowing for certain gaming at racetrack enclosures existing on January 1, 1994, subject to a local referendum.
- Changing the minimum passenger capacity of an excursion gaming boat from 500 to 250 persons.
- Eliminating the requirement that no more than 30% of the square footage of the vessel be used for gaming.
- Requiring that if a proposition to operate gaming on an excursion gaming boat or at a racetrack enclosure is approved by a majority of the county electorate voting on the proposition, the board of supervisors shall submit the same proposition at the general election held in 2002 and, unless the operation of gaming is not terminated earlier, at the general election held at each subsequent eight-year interval.
- Allowing for the use of nickels and quarters for wagering.
- Eliminating the prohibition against gaming while dockside.
- Changing the wagering tax to fund the Gambler's Treatment Program from three percent to three-tenths of one percent of the adjusted gross revenue.
- Removing boarding restrictions and allowed the Commission to set the minimum number of excursions and excursion times.
- Allowing licensees to conduct gaming on a 24 hour a day basis.

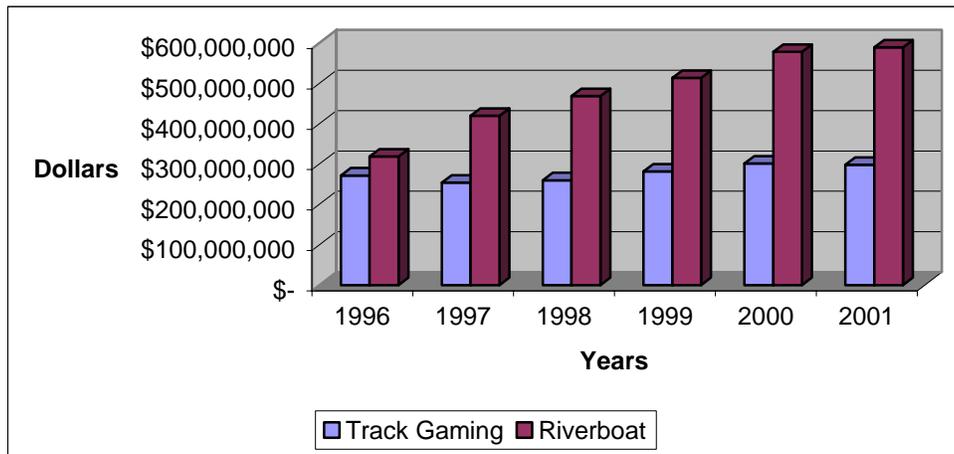
Excursion gaming boat licensees began unlimited gaming in June of 1994.

Currently, there are ten excursion gaming boats and three racetrack enclosures operating in Iowa. These casinos and their locations are as follows:

<u>Casino</u>	<u>Location</u>
Ameristar Casino Hotel	Council Bluffs
Argosy's Belle of Sioux City	Sioux City
Bluffs Run Casino & Greyhound Park	Council Bluffs
Catfish Bend Casino	Burlington and Fort Madison
Diamond Jo Casino	Dubuque
Dubuque Greyhound Park & Casino	Dubuque
Harrah's Council Bluffs Casino & Hotel	Council Bluffs
Isle of Capri Casino – Bettendorf	Bettendorf
Isle of Capri Casino – Marquette	Marquette
Lakeside Casino Resort	Osceola
Mississippi Belle II	Clinton
Prairie Meadows Racetrack & Casino	Altoona
Rhythm City Casino	Davenport

Gaming in Iowa has grown to a \$900 million dollar industry.<sup>1</sup> The increase in adjusted gross revenue generated from the 13 casinos from fiscal years (July 1 through June 30) 1996 through 2001 can be seen in Chart 2.1.

**Chart 2.1 Adjusted Gross Revenue**



Source: Iowa Racing and Gaming Commission

<sup>1</sup> Iowa Racing and Gaming Commission.

## Current Situation

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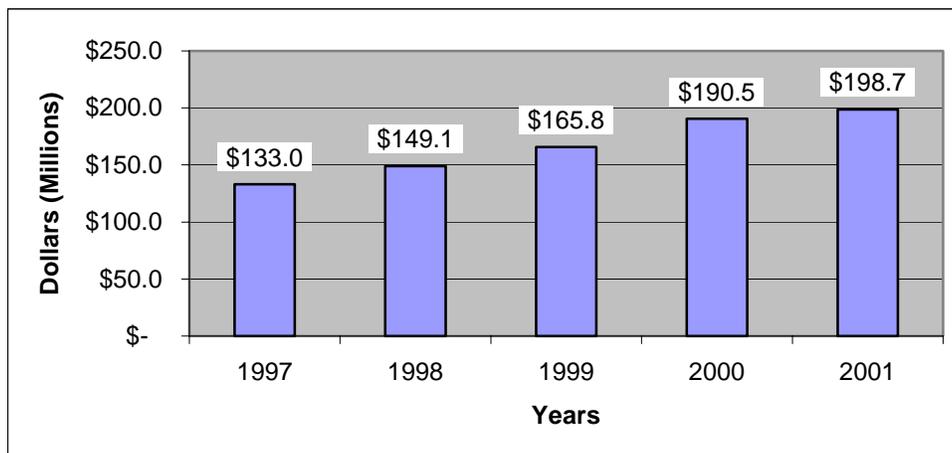
The Iowa-based casinos provide many direct and secondary benefits to the State of Iowa and the local communities where they are located. The direct benefits include the payment of gaming taxes and property taxes, and the collection of sales and use and lodging taxes. They also employ over 10,000 individuals, purchase over \$240 million of products and services from other Iowa companies and contribute millions of dollars to Iowa non-profit organizations.<sup>2</sup> A summary of the current impact the casinos have on the State of Iowa and their local communities follows:

### Taxes

#### Gaming Taxes

Since 1997, Iowa casinos have paid almost \$840 million to the State of Iowa and the local communities where they are located.<sup>3</sup> The increase in these taxes can be seen in Chart 3.1 (years are for the State of Iowa fiscal year which runs from July 1 to June 30):

Chart 3.1 Gaming Tax Revenues



Source: Iowa Racing and Gaming Commission

Iowa casinos paid almost \$200 million to the State of Iowa for the fiscal year ended June 30, 2001.<sup>4</sup> These taxes were used in many different ways. The cities and counties where the gaming takes place each receive 0.5% of the adjusted gross receipts. This amounted to \$9.2 million in 2001.<sup>5</sup> For 2001, the next \$60 million was deposited in Iowa's General Fund.<sup>6</sup> After the deposit in the General Fund, \$15 million was transferred to the

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<sup>2</sup> Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

<sup>3</sup> Iowa Racing and Gaming Commission.

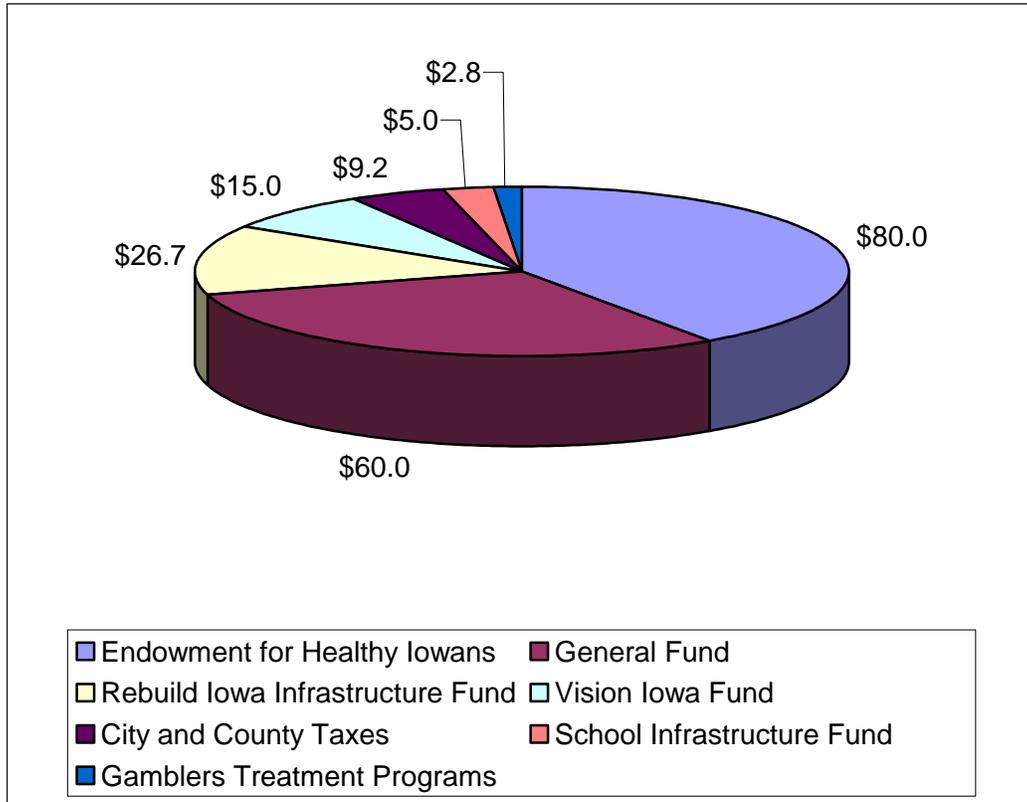
<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

<sup>6</sup> Legislative Fiscal Bureau.

Vision Iowa Fund and \$5 million was transferred to the School Infrastructure Fund.<sup>7</sup> The next \$80 million in funds were transferred to the Endowment for Healthy Iowans.<sup>8</sup> The remaining \$26.7 million was transferred to the Rebuild Iowa Infrastructure Fund.<sup>9</sup> In addition, the casinos also paid almost \$2.8 million in 2001 to the Gamblers Assistance Fund.<sup>10</sup> Chart 3.2 shows the allocation of the 2001 tax dollars.

Chart 3.2 Allocation of 2001 Gaming Taxes



Source: Legislative Fiscal Bureau

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*

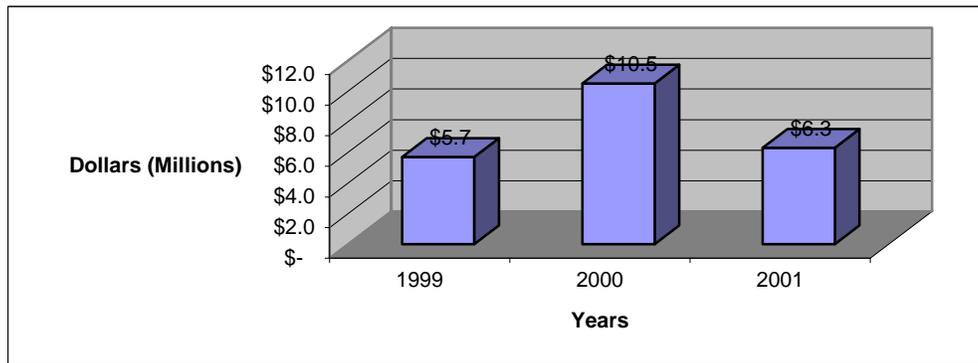
<sup>9</sup> *Ibid.*

<sup>10</sup> Iowa Racing and Gaming Commission.

### Sales and Use Taxes

All goods purchased from Iowa casinos generate a 5% sales tax paid to the State of Iowa.<sup>11</sup> Many of the communities where the casinos are located also have 1% local option sales taxes and 1% local option sales taxes for schools that benefit the local community.<sup>12</sup> The casinos are also required to pay a 5% use tax on goods or services purchased tax-free by them and subsequently used in Iowa.<sup>13</sup> The casinos generated \$5.7 million, \$10.5 million and \$6.3 million in annual sales and use taxes over the past three calendar years, respectively.<sup>14</sup> (Note the large increase in 2000 was mainly due to a large expansion at one of the locations.) The sales and use tax dollars generated can be seen in Chart 3.3.

Chart 3.3 Sales Taxes Generated



*Source: Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.*

### Property Taxes

Iowa's casinos also pay property taxes to support the local communities where they are located. Iowa's casinos pay property taxes on their land-based facilities, hotels and other amenities. Annual property taxes paid by Iowa casinos exceed \$7 million in 2001.<sup>15</sup> The property taxes paid by Iowa's casinos over the past three calendar years can be seen in Chart 3.4.

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<sup>11</sup> Iowa Department of Revenue and Finance.

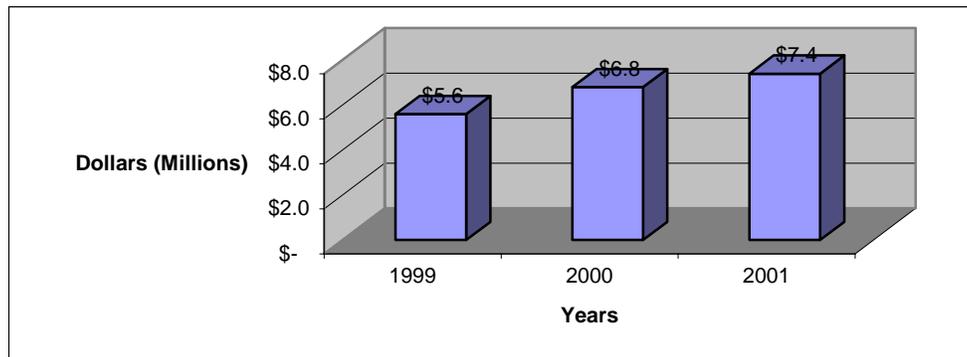
<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

<sup>15</sup> *Ibid.*

**Chart 3.4 Property Taxes Generated**



*Source: Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.*

These amounts do not include the property taxes paid by lessors who rent property to the casinos under gross operating leases.

### **Lodging Taxes**

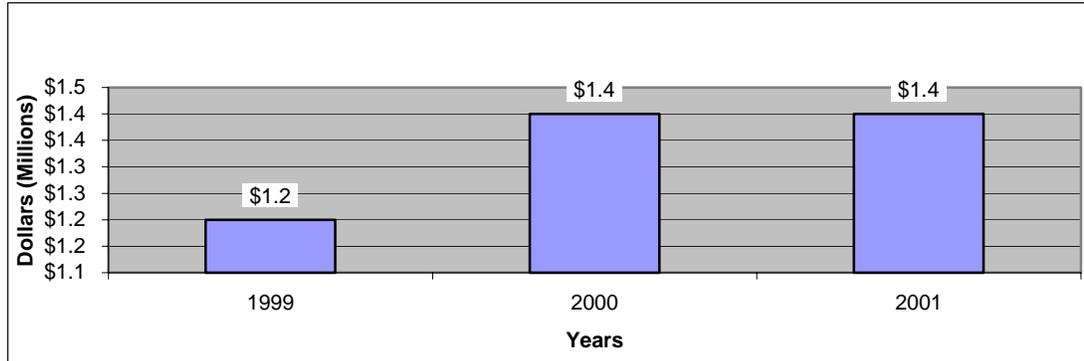
Six of the thirteen Iowa casinos also have a hotel as a part of their operations. These hotels generate room and lodging taxes that are paid to their local communities. Lodging taxes in Iowa may not exceed 7%.<sup>16</sup> The lodging taxes generated by the casino-owned hotels are approximately \$1.4 million annually.<sup>17</sup> The taxes generated over the past three years can be seen in Chart 3.5.

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<sup>16</sup> Iowa Department of Revenue and Finance

<sup>17</sup> Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

Chart 3.5 Lodging Taxes Generated by Casino-Owned Hotels



Source: Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

In addition to the above, total lodging tax dollars generated by the communities with gaming were \$16.1 million in 1995 and were \$24.4 million in 2001.<sup>18</sup> This shows an increase of 51% over that time.

## Employment

### Salaries and Wages and Employee Benefits

The major impact the Iowa casinos have in their local communities is the number of individuals they employ, and the wages and benefits they pay. In 2001, Iowa casinos employed approximately 9,600 individuals.<sup>19</sup> These employees were paid over \$180 million in wages, and received \$37 million in benefits.<sup>20</sup> Over 6,700 of these individuals are citizens of the State of Iowa.<sup>21</sup> Assuming the Iowa citizens earned 70% of the \$180 million in wages, this means the Iowa casinos paid \$126 million in salaries and wages to Iowa citizens. On average, wages of this magnitude would generate roughly \$5.5 million in Iowa state income taxes.

Viewed as one employer, the Iowa casino industry would be one of the largest employers in the State of Iowa. Its 9,600 employees rank it as the fourth largest employer in the State. As can be seen in Chart 3.6, only Hy-Vee, Rockwell Collins and Principal Financial Group employ more Iowans.

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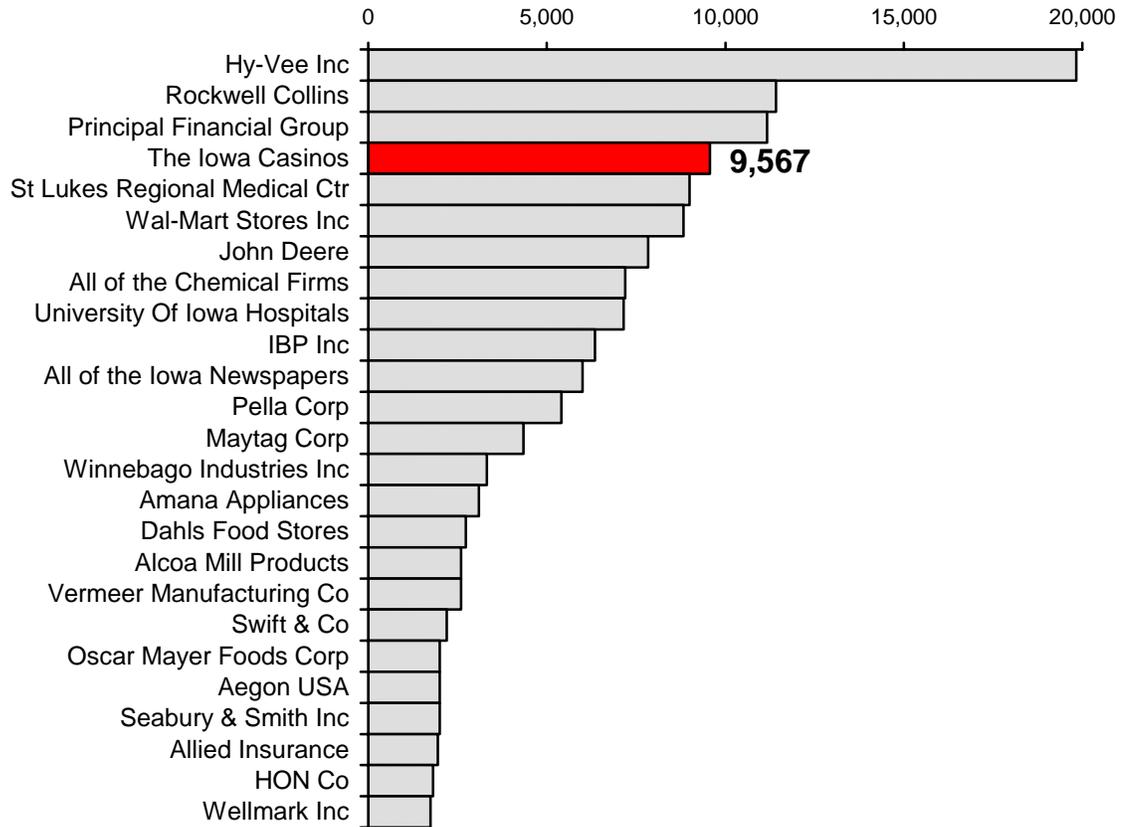
<sup>18</sup> Iowa Department of Revenue and Finance.

<sup>19</sup> Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

<sup>20</sup> *Ibid.*

<sup>21</sup> *Ibid.*

Chart 3.6 Iowa's Largest Employers



Source: Harris Publishing Co., *Info Source 2002 Employment*.

The wages paid by the Iowa casinos also exceed the average wages paid to employees in the leisure and recreation industry (NAICS Code 71 and 72) in the counties where they are located. The average wages paid to Iowa casinos workers in 2001 was \$19,107.<sup>22</sup> The average wages paid to the employees in the leisure and recreation industry in the counties where casinos are located is \$12,792.<sup>23</sup>

<sup>22</sup> *Ibid.*

<sup>23</sup> Iowa Workforce Development, unpublished data.

## **Purchases from Iowa Suppliers**

In addition to employing almost 10,000 individuals, the Iowa casinos also support other businesses and industries within the State. This support includes the purchase of food, beverages, and other operating and general and administrative goods and services. The Iowa casinos are required to track their purchases from Iowa suppliers, as defined by the Iowa Racing and Gaming Commission. These purchases exceeded \$426 million over the three-year period ending in 2001.

## **Other**

### **Contributions to Non-Profit Organizations**

The gaming industry in Iowa is unique in that the holder of each gaming license must be a non-profit organization. In most cases, these non-profit organizations then contract with a gaming company to operate the casino. These contracts require the gaming company to contribute an amount usually tied to admissions, adjusted gross receipts or cash flow to the non-profit organization. The non-profit then makes grants to worthy organizations within their community and surrounding communities. These contributions have exceeded over \$40 million dollars annually over the past three years.

### **Payments to Cities**

Some of the Iowa casinos have agreements with the cities where they are located to pay them a fee to offset expenses or as a revenue source for the cities. These fees are usually based on cash flows generated or admissions. These payments amounted to \$9.5 million, \$10.7 million and \$11.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.<sup>24</sup>

Many of the casinos also have leases with the cities where they are located for riverfront access or rent on the facilities they use. These leases have amounted to \$16.8 million, \$16.2 million, and \$15.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.<sup>25</sup>

## **Economic Contribution**

### **Economic Effects**

The 9,567 individuals employed by the Iowa casinos, the approximately \$240 million in larger purchases from Iowa suppliers and the approximately \$40 million in annual contributions to non-profit organizations also have a secondary effect on the Iowa economy. The income earned by the casino workers is spent on consumer goods and services and the purchases from Iowa businesses and suppliers stimulate other sectors of the State's economy.

To identify and estimate these multiplier effects, an Input-Output (I-O) model was configured for the State of Iowa and applied to identify the economic effects. An I-O model is basically a general accounting system that details the transactions taking place among industries, businesses and consumers in an economy. These purchases and sales are adjusted for in state and out-of-state sources and then summed to arrive at estimates of total effects arising from the direct effects of a policy scenario or an economic event or activity. Once the model is constructed, it will simulate how the current economy responds to or otherwise demonstrates dependence on the sector being studied.

The basic scenario in this analysis looks at the overall importance and annual contribution of the casino industry to the Iowa economy based on the estimated levels of expenditures and property and equipment investments. This approach is similar to asking what would be the economic impact of removing the casino industry from the State.

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<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

The resulting analysis incorporates the full set of linkages of the casino industry ranging from input purchases to multiplier effects associated with consumer-related purchases by persons employed in the casino industry.

The results of the I-O analysis are presented in Table 3.1. The direct effects used in the model are the \$915.9 million of adjusted gross receipts (industry output) and the 9,567 workers employed at the 13 Iowa casinos.<sup>26</sup> Based on linkages and economic relationships contained in the I-O model, 16,517 jobs and \$349.9 million of total income in the Iowa economy are directly and indirectly linked to the state's casino gaming industry. This \$915.9 million of adjusted gross receipts is linked to \$433.4 million of additional spending in the rest of the Iowa economy. Overall, an estimated \$1.35 billion of gross sales or output and \$787.6 million of value added in the economy is directly or indirectly related to the Iowa casino industry.

**Table 3.1 The Economic Effect of the Casino Industry in Iowa, 2001**

Sectors	Total Sales	Labor Income	Value Added	Jobs
Casino Industry	\$915,875,602	\$182,802,018	\$526,333,216	9,567
Agriculture	\$7,214,121	\$2,557,020	\$3,530,041	140
Mining	140,399	39,129	93,817	1
Construction	18,992,124	10,707,349	11,288,224	319
Manufacturing	55,505,776	12,924,670	18,476,734	386
Tran.Utilities	52,502,284	12,797,484	32,253,156	320
Trade	65,659,396	27,612,284	46,019,100	1,590
Fin.Ins.R.Estate	72,679,032	13,304,209	52,536,552	546
Services	1,063,731,712	264,065,168	616,625,984	13,047
Government	12,465,641	5,410,289	6,379,438	118
Households	434,793	434,793	434,793	51
<b>Total</b>	<b>\$1,349,325,278</b>	<b>\$349,852,394</b>	<b>\$787,637,839</b>	<b>16,517</b>

Source: IMPLAN Model for Iowa

### Tourism Effects

The casino industry is a major tourism attraction in Iowa because it draws substantial numbers of visitors from the surrounding regions, as well as being a major entertainment activity for the State. In addition to the on-site employment and economic activity generated by the gaming industry, the casinos also support complementary businesses. In addition to being part of the local entertainment and recreation mix, the casinos also act as tourism attractions. As a result, many of the visitors to the Iowa casinos purchase other goods and services from Iowa businesses, creating an additional economic effect. The hotel and restaurant businesses are expected to be the

<sup>26</sup> Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

major beneficiaries of this complementary growth. However, these businesses sales are not captured by the I-O model since they are not direct inputs to casinos.

To estimate the effect of the casino industry on the lodging and restaurant industries, the change in employment for these industries was analyzed. The changes in employment in the lodging and restaurant industry from 1995 to 2002 can be seen in Table 3.2.

**Table 3.2 Changes in Employment in the Lodging and Restaurant Industry in Iowa, 1995-2002**

Sectors	State of Iowa			
	1995	2002	Change	% Chg
Food services & drinking places	85,936	90,237	4,301	5%
Hotels and other lodging places	12,411	15,581	3,170	26%
Total	98,347	105,818	7,471	8%

	Casino Counties			
	1995	2002	Change	% Chg
Food services & drinking places	34,141	36,215	2,074	6%
Hotels and other lodging places	5,894	8,049	2,155	37%
Total	40,035	44,264	4,229	11%

Source: Iowa Workforce Development, unpublished data

Examining the rate of growth in hotel and restaurant employment in the 13 counties between 1995 and 2002 indicates an 11 percent growth in employment in these hospitality sectors compared to an 8 percent growth statewide. Of the 7,471 jobs created since 1995, 56% (4,229/7,471) were created in the counties with casinos. The presence of the casinos appears to be a major factor in this higher growth. Using this 3 percent differential above the State average implies that an additional 1,024 hospitality sector jobs and another 270 secondary jobs are the result of the presence of the casinos. Including these jobs with the direct casino effects provides a more comprehensive estimate of the overall economic effects of the casino industry to the state's economy. These results are presented in Table 3.3.

**Table 3.3 The Economic Effect of the Casino Industry in Iowa, Including the Effect of the Hospitality Sector, 2001**

	Total Sales	Labor Income	Value Added	Jobs
Casino Industry	\$ 946,291,238	\$ 199,956,064	\$ 542,455,300	10,591
Agriculture	\$ 7,868,081	\$ 2,763,017	\$ 3,799,837	146
Mining	146,613	40,860	97,998	1
Construction	19,583,572	11,035,824	11,634,227	328
Manufacturing	59,633,916	13,647,631	19,570,342	407
Tran.Utilities	54,525,192	13,319,716	33,480,224	334
Trade	94,158,072	37,707,504	60,924,012	2,519
Fin.Ins.R.Estate	75,865,080	13,953,127	54,866,856	571
Services	1,074,893,696	269,095,968	623,610,368	13,330
Government	12,921,896	5,581,516	6,596,397	122
Households	456,852	456,852	456,852	54
Total	\$ 1,400,052,970	\$ 367,602,015	\$ 815,037,113	17,811

Source: IMPLAN Model for Iowa

With the addition of the hospitality sector, the total employment effect of the gaming industry in the Iowa economy is now estimated at 17,811 jobs along with \$367.6 million of payroll. The total output is estimated at \$1.4 billion, and value added is estimated at \$815 million.

Another perspective on the effects of the gaming industry is in the level of retail sales supported. On a statewide basis, total retail sales in Iowa of \$27.6 billion represents about 53.7 percent of total wage and salary earnings.<sup>27</sup> Applying this percentage to the \$367.6 million of earnings related to the Iowa gaming industry implies that \$197.4 of retail sales, or 624 businesses (based on current state averages) are supported by the Iowa gaming industry.<sup>28</sup>

### Vision Iowa

The Vision Iowa Program provides financial incentives to communities for the construction of recreational, cultural, educational or entertainment facilities that enhance the quality of life in Iowa.

The Iowa State Legislature has appropriated \$300 million to the program (\$15 million annually for twenty years).<sup>29</sup> Beginning July 1, 2001, and for each fiscal year thereafter, \$15 million of gaming tax revenues are to be deposited into the Vision Iowa Fund.<sup>30</sup> The legislation that created the Vision Iowa Fund also authorizes the State Treasurer to issue bonds to provide financing for the proposed projects. On September 17, 2001, the Vision Iowa Board approved the issuance of bonds in the amount of \$215 million to be used for future projects.<sup>31</sup>

The Vision Iowa Board has already approved funding for numerous projects. A sample of the larger projects can be seen in Table 3.4.

**Table 3.4 Approved Vision Iowa Projects**

Project	Vision Iowa Funding	Total Project	Other Private/Public Funding
McGregor/Marquette Area Legacy Project, Clayton County	\$ 5,000,000	\$ 25,000,000	\$ 20,000,000
Mid-America Recreation & Convention Complex, Council Bluffs	31,000,000	114,000,000	83,000,000
River Renaissance on the Mississippi, Davenport	20,000,000	113,000,000	93,000,000
America's River at the Port of Dubuque, Dubuque	40,000,000	188,000,000	148,000,000
Bridge View Center, Ottumwa	7,500,000	20,500,000	13,000,000
Capital City Vision Project, Polk County	70,000,000	70,000,000	*
River's Edge, Sioux City	21,000,000	72,700,000	51,700,000
	<b>\$ 194,500,000</b>	<b>\$ 603,200,000</b>	<b>\$ 408,700,000</b>

\* The funding is a \$55 million grant and a \$15 million forgivable loan. While this will fund the entire project, it is contingent upon the completion of a new downtown Des Moines Public Library, the development of the John Pappajohn Learning Center, and the rehabilitation and development of space to house the World Food Prize Center.

Source: [www.visioniowa.org](http://www.visioniowa.org)

<sup>27</sup> Iowa Department of Revenue and Finance.

<sup>28</sup> IMPLAN Model for Iowa and U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>29</sup> [www.visioniowa.org](http://www.visioniowa.org).

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*

As Table 3.4 shows, the Vision Iowa funding of \$195 million on these projects will generate an additional \$409 million of economic development in these communities.

In addition, these projects will also have secondary effects on their communities. As an example, the \$113 million River Renaissance on the Mississippi project in Davenport is estimated to add 543 new jobs that will pay \$17.3 million in salaries and wages.<sup>32</sup> These salaries and wages are estimated to generate \$1.4 million in state income taxes.<sup>33</sup> In addition, the project is estimated to generate \$390,000 to \$400,000 in annual sales taxes, and \$190,000 in annual property taxes.<sup>34</sup>

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<sup>32</sup> Riverboat Development Authority.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

# Gaming Taxes in Iowa and Other States

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In determining the effect of a gaming tax increase on the State of Iowa, it is necessary to understand the entire gaming market, and the level of gaming taxes in each individual state. The gaming taxes in each state vary greatly. Nevada is on the low end of the scale with graduated rates ranging from 3.0% to 6.25% of gross gaming revenues.<sup>35</sup> Illinois is on the high end of the scale with graduated rates ranging from 15% to 50% of gross gaming revenues.<sup>36</sup> Many states also charge, or allow local communities to charge, an admissions tax on the number of customers entering the casino.

## Current Tax Structure

The gaming taxes paid by the Iowa casinos fall somewhere in the middle of this range. The rate structure for the Iowa casinos is as follows:

<u>Gross Gaming Revenue</u>	<u>Rate<sup>37</sup></u>
First Million	5%
\$1 million to \$3 million	10%
Over \$3 million	20%

Until 2002, the tax on gross gaming revenues in excess of \$3 million paid by the pari-mutuels was on a graduated scale. The rate originated at 22% in 1997, and increased by 2% each year through 2001, when it topped out at 30%. By statute, the rate was to increase by 2% until 2004, when it would then be capped at 36%. However, the Iowa Supreme Court ruled it was unconstitutional to tax the pari-mutuel slot machines at a higher rate than the riverboat slot machines. Therefore, in 2002, the rate on the pari-mutuels was also capped at 20% for gross gaming revenues over \$3 million.

The Iowa casinos also have agreements with their non-profit license holders and their local counties/cities for the payment of fees or rent related to attendance, adjusted gross revenue or cash flow.

## Effective "Tax" Rate for Iowa's Casinos

In calculating the effective tax rate paid by Iowa's casinos, "tax" was defined as federal and state income taxes and any mandatory payments that would not be required of a non-casino Iowa corporation. This would include mandatory contributions to non-profit organizations, mandatory payments to the local county/city, gaming taxes paid to the State of Iowa and the local city and county and admission taxes paid to the State of Iowa and the local city and county. Subjective lease payments paid to the local city or county were also included. The reason these expenses are included is they are generally based on admissions, cash flow or adjusted gross receipts, and are in excess of a fair market value lease. Also, the federal and state income taxes were calculated as though all of the Iowa casinos are tax-paying entities. In fact, many are partnerships, limited liability companies, or S-Corporations that pass their income through to their partners, members or shareholders. These partners, members and shareholders are then taxed personally on their pro-rata share of the Company's earnings.

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<sup>35</sup> Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition.

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*

By adding these gaming taxes, non-profit contributions and payments of fees and rent to federal and state corporate taxes, the effective tax rate paid by Iowa's casinos was 94.75% for 2001. If a non-casino corporation doing business in Iowa had income before taxes similar to that of the Iowa casinos as a whole, they would only have an effective tax rate of 40.70%, an approximate 43% decrease over that paid by the Iowa for-profit casinos. The biggest reason for this is that gaming taxes paid by Iowa's casinos are based on revenues. The tax rate on revenues (gaming taxes divided by gross gaming revenue) for the Iowa casinos is 23.7% alone. These calculations can be seen in Table 4.1.

**Table 4.1 Calculation of Effective Tax Rates for 2001**

	All Casinos	Non-Casino Iowa Corporations	Effect of 25% Increase in the Gaming Tax (For Illustration Purposes)
Income before income tax	\$ 27,813,022	\$ 41,919,153	\$ 14,054,681
Plus:			
Gaming taxes	218,725,114	-	232,483,455
Admission payments	9,541,083	-	9,541,083
Not-for-profit contributions	41,463,679	-	41,463,679
Statutory rental payments	16,779,482	-	16,779,482
<b>Adjusted income before tax</b>	<b>\$ 314,322,380</b>	<b>\$ 41,919,153</b>	<b>\$ 314,322,380</b>
<b>"Taxes" Paid:</b>			
Gaming taxes	\$ 218,725,114	\$ -	\$ 232,483,455
Admission payments	9,541,083	-	9,541,083
Not-for-profit contributions	41,463,679	-	41,463,679
Statutory rental payments	16,779,482	-	16,779,482
State income tax	2,820,209	4,254,438	1,421,342
Federal income tax	8,497,556	12,806,003	4,295,335
<b>Total "taxes" paid</b>	<b>\$ 297,827,123</b>	<b>\$ 17,060,441</b>	<b>\$ 305,984,376</b>
<b>Effective "Tax" Rate</b>	<b>94.75%</b>	<b>40.70%</b>	<b>98.23%</b>

**Effect of Increase in Gaming Tax on Net Income**

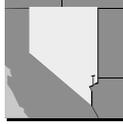
Net Income After Taxes	\$ 16,495,257	\$ 8,338,004
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A 25% increase in the gaming tax rate, would have had the effect of decreasing the net income by more than 50% for 2001.

## Gaming Tax Structure in Other States

A summary of the gaming tax structure for each state with casino style gaming follows:

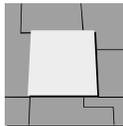
Nevada:<sup>38</sup>



<u>Gross Revenues</u>	<u>Rate</u>
First \$50,000	3.00%
Next \$84,000	4.00%
Over \$134,000	6.25%

Nevada has no admission fees, but does charge various excise taxes on slot machines, and has quarterly and annual fees based on the number of table games.

Colorado:<sup>39</sup>



<u>Gross Gaming Revenues</u>	<u>Rate</u>
First \$2 million	0.25%
\$2 million - \$4 million	2.00%
\$4 million - \$5 million	4.00%
\$5 million - \$10 million	11.00%
Over \$10 million	16.00%
Over \$15 million	20.00%

Colorado has no admission fees.

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<sup>38</sup> Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition

<sup>39</sup> *Ibid.*

New Jersey:<sup>40</sup>



8% tax on gross revenues, plus a 1.25% tax paid quarterly to the Casino Reinvestment and Development Authority. There are no admission fees.

Illinois:<sup>41</sup>



<u>Gross Gaming Revenues</u>	<u>Rate</u>
First \$25 million	15.0%
\$26 million - \$50 million	22.5%
\$51 million - \$75 million	27.5%
\$76 million – \$100 million	32.5%
\$101 million - \$150 million	37.5%
\$151 million – \$200 million	45.0%
Over \$200 million	50.0%

The State of Illinois also charges a \$3 per passenger boarding fee on all riverboat customers.

Indiana:<sup>42</sup>



<u>Gross Gaming Revenues</u>	<u>Rate</u>
First \$25 million	15.0%
\$26 million - \$50 million	20.0%
\$51 million - \$75 million	25.0%
\$76 million – \$150 million	30.0%
Over \$150 million	35.0%

The State of Indiana also charges a \$3 admission tax per patron, not per cruise.

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<sup>40</sup> Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition.

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

Missouri:<sup>43</sup>



The Missouri Gaming Commission charges a 20% tax on monthly adjusted gross revenues (18% goes to the State and 2% goes to the home dock city). Riverboats also pay a \$2 admission tax for each patron on each cruise. In addition, the casinos pay for all the enforcement costs.

Michigan:<sup>44</sup>



The Detroit area casinos pay an 18% tax on gross revenues. Boarding fees are charged to cover the costs of operating the Michigan Gaming Control Board and to reimburse the City of Detroit for services provided to the casinos.

Louisiana:<sup>45</sup>



The gaming taxes for Louisiana casinos vary by location, and in some instances, by casino operator. These differences are as follows:

**Shreveport Licensees**

<b><u>Adjusted Gross Receipts (AGR)</u></b>	<b><u>Rate</u></b>
Between April 1, 2001 and March 31, 2002	19.5%
Between April 1, 2002 and March 31, 2003	20.5%
After March 31, 2003	21.5%

**Bally's**

<b><u>Adjusted Gross Receipts (AGR)</u></b>	<b><u>Rate</u></b>
Months where AGR is below \$6 million	18.5%
Months with AGR between \$6-\$8 million	20.5%
Months with AGR greater than \$8 million	21.5%

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<sup>43</sup> *Ibid.*

<sup>44</sup> Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition

<sup>45</sup> *Ibid.*

### Harrah's New Orleans

Harrah's New Orleans pays \$50 million for the first fiscal year (April 1, 2001 through March 31, 2002), and then \$60 million per year after that.

### Racetracks with Slots

Racetracks with slots pay 18.5% of adjusted gross receipts.

### All Others

All other casinos in the state pay 21.5% of adjusted gross receipts.

The state does not currently assess an admissions tax on the riverboats, but each individual city where the casinos are located may assess an admissions tax based on headcount. There is no admissions tax for land-based casinos.



Mississippi:<sup>46</sup>

Gaming taxes in the State of Mississippi are paid to the state, the host counties and cities on a graduated scale. These rates are as follows:

#### State Taxes

<u>Monthly Gross Gaming Revenues</u>	<u>Rate</u>
First \$50,000	4.0%
Next \$84,000	6.0%
Over \$134,000	8.0%

#### Local Taxes

<u>Monthly Gross Gaming Revenues</u>	<u>Rate</u>
First \$50,000	0.4%
Next \$84,000	0.6%
Over \$134,000	0.8%

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<sup>46</sup> Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition.

The following host cities and counties also assess a 3.2% tax on monthly gross gaming revenues:

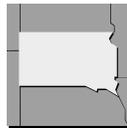
**County**

- Coahoma
- Harrison
- Tunica
- Washington
- Warren

**City**

- Biloxi
- Gulfport
- Greenville
- Natchez
- Vicksburg
- D'Iberville

South Dakota:<sup>47</sup>



South Dakota has 40 operating casinos all located in Deadwood. They are all land-based, limited stakes casinos, and they pay an 8% gaming tax based on gross gaming revenue. They also pay an annual per device fee for \$2,000.

**Barriers to Entry in Other States**

Many of the states that currently offer gaming have restrictions on the number of gaming licenses they will issue. They also have strict renewal requirements. Conversely, a few states offer unlimited gaming licenses. The difference is that states with unlimited gaming tend to have saturated markets and intense competition for customers, while those with limited gaming have limited competition. Table 4.2 lists the number of licenses available in each state, the number issued and any other restrictions or limitations.

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<sup>47</sup> [www.americangaming.org](http://www.americangaming.org).

**Table 4.2 Available Licenses in Each State**

State	Available Licenses	Licenses Issued	Comments
Nevada	Yes	2,664	
Colorado	Yes	43	Land-based limited to Black Hawk, Central City and Cripple Creek.
New Jersey	Yes	12	
Illinois	10	10	One license is inactive, and two were denied renewal in 2001.
Indiana	11	10	One license is slated for the Lake Patoka area, but issues exist and it has not been issued.
Iowa	13	13	
Missouri	Yes	14	One pending south of St. Louis.
Michigan	Yes	3	Land-based limited to Detroit and Native American casinos.
Louisiana	15	15	
Mississippi	Yes	31	Unlimited state gaming, but counties must approve.
South Dakota	Yes	40	Land-based and limited stakes, limited to the City of Deadwood.

Source: Bear, Sterns & Company, Inc. *North American Gaming Almanac: 2002-03 Edition*

As Table 4.2 shows, there are opportunities for casino operators to invest in different states. While little opportunity exists for operators to invest in states with limited gaming, there are states with unlimited gaming that would be attractive locations. Missouri has 14 active casinos, but eight of those are located in the metro markets of St. Louis and Kansas City. Colorado and South Dakota have an unlimited number of licenses available, but land-based gaming is limited to four areas, and there are restrictions on betting limits.

Nevada, New Jersey and Mississippi all issue unlimited gaming licenses, but the number of casino operations in those states makes them less likely to attract an Iowa casino operator.

#### **Other States Considering Gaming Legislation**

In addition to the eleven states that currently have casino-style gaming, there are numerous other states that have Native American gaming establishments, pari-mutuel facilities and racinos (combination casino and racetrack). As can be seen in Table 4.4, 43 states plus Canada have a horse or dog track, a commercial casino or a Native American casino. The most popular are commercial casinos with 381 establishments. This is followed by Native American casinos with 235 establishments, horse tracks with 158 facilities and dog tracks with 46 facilities. This does not include the two states that have Jai-Alai Frontons, the five states that allow cardrooms, the 36 cruise ships that allow gaming and the 40 states that have a lottery.<sup>48</sup>

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<sup>48</sup> Bear, Sterns & Company, Inc. *North American Gaming Almanac: 2002-03 Edition*.

Table 4.4 States with Gaming

State	Commercial Casinos	Native American	Horse Racetracks	Dog Racetracks	Total
Alabama	-	-	-	3	3
Arizona	-	20	3	3	26
Arkansas	-	-	1	1	2
California	-	44	15	-	59
Colorado	41	2	1	3	47
Connecticut	-	2	-	2	4
Delaware	-	-	3	-	3
Florida	-	6	5	16	27
Idaho	-	5	1	-	6
Illinois	9	-	8	-	17
Indiana	10	-	2	-	12
Iowa	10	3	1	2	16
Kansas	-	4	2	2	8
Kentucky	-	-	7	-	7
Louisiana	13	3	4	-	20
Maine	-	-	2	-	2
Maryland	-	-	5	-	5
Massachusetts	-	-	3	2	5
Michigan	3	16	7	-	26
Minnesota	-	17	1	-	18
Mississippi	31	-	-	-	31
Missouri	11	-	-	-	11
Montana	-	4	-	-	4
Nebraska	-	-	3	-	3
Nevada	193	-	-	-	193
New Hampshire	-	-	1	3	4
New Jersey	12	-	3	-	15
New Mexico	-	11	4	-	15
New York	-	2	11	-	13
North Carolina	-	1	-	-	1
North Dakota	-	5	-	-	5
Ohio	-	-	8	-	8
Oklahoma	-	31	4	-	35
Oregon	-	8	2	1	11
Pennsylvania	-	-	4	-	4
Rhode Island	-	-	-	1	1
South Dakota	37	9	-	-	46
Texas	-	2	4	3	9
Virginia	-	-	1	-	1
Washington	-	23	1	-	24
West Virginia	-	-	2	2	4
Wisconsin	-	17	-	2	19
Wyoming	-	-	1	-	1
Canada	8	-	38	-	46
<b>Totals</b>	<b>378</b>	<b>235</b>	<b>158</b>	<b>46</b>	<b>817</b>

Source: Bear, Sterns & Company, Inc. North American Gaming Almanac: 2002-03 Edition.

One threat to casino operators is the popularity of racinos. Racinos are pari-mutuel operations (horse and dog tracks) with slot machine and/or video gaming. States with a significant number of racinos are Delaware, Rhode Island and West Virginia. Iowa and Louisiana also have a small number of racino facilities.

New York legalized the use of video lottery machines at selected racetracks, but similar legislation was defeated in Arizona, Florida, Indiana, Kansas, Kentucky, Minnesota and New Hampshire. Maryland and Pennsylvania have considered legislation in the past, but due to gubernatorial opposition, a bill has never reached their statehouses. However, due to continued state budget shortfalls, these bills may soon appear or re-appear in the near future.

The State of Nebraska is also studying the addition of casinos in their state. The largest threat to Iowa's casinos would be a casino in Omaha that would compete directly with the three Council Bluffs' casinos.

It is difficult to predict which states will add casino style gaming within their borders. In their North American Gaming Almanac: 2002-03 Edition, Bear Sterns & Company, Inc. predicts, "Given the current state of the economy, which is tenuous at best, we believe several states will propose (gaming) bills in 2003. Within five years, we expect to see additional forms of gaming in several more states."

With the current recession, and the inability of state governments to reduce their budgets in response to lower income taxes, it appears gaming and gaming taxes may be the answer for many state legislatures.

### Iowa Casino Operators in Other States

While it is possible for a casino to leave the State due to gaming tax increases, the largest threat to Iowa's casinos is a reduction in the scope of their operations. If gaming tax increases make it difficult for Iowa's casino operators to earn a reasonable return on their investment, they may choose to downsize their Iowa operations and focus their investment dollars on casinos in other states. Iowa's casinos already face competition for investment dollars from out-of-state casinos within their own corporation.

The downsizing of Iowa casinos may take many different forms. Currently only six of the thirteen Iowa casinos have their own hotel. Lower rates on return will make it more difficult for the seven other casinos to consider a hotel or the addition of other amenities.

A downsized operation will also have fewer funds to invest in maintenance and upkeep of its facilities. This will have a large impact on casinos located on the borders of Iowa, who face stiff competition from casinos from other states.

Finally, these casinos will reduce staff, marketing dollars and overall spending. All areas that are supported by Iowa employees and Iowa-based suppliers.

The Iowa casino operators with locations in other states can be seen in Table 4.3.

**Table 4.3 Iowa Casino Operators with Operations in Other States**

<b>Company</b>	<b>States</b>
Ameristar Casinos, Inc.	Nevada, Missouri and Mississippi
Argosy Gaming Company	Missouri, Louisiana, Illinois, and Indiana
Harrah's	Arizona, Kansas, California, North Carolina, Nevada, Missouri, Mississippi, Illinois, Louisiana, Colorado, New Jersey and Indiana
Isle of Capri	Nevada, Missouri, Mississippi, Colorado and Louisiana.

## The Effect of Raising the Gaming Tax on Iowa Casinos

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To determine the effect of a gaming tax increase on Iowa's casinos, a financial model was developed to project each casino's earnings and cash flow through 2006. The following guidelines were used to prepare this analysis:

- The casinos' adjusted gross gaming receipts and other revenues from their most recent audits (fiscal or calendar 2001) were kept consistent throughout the projection period. The reason for this is the casinos will not have the ability to raise revenues to cover any gaming tax increases. While they will have the ability to increase their "win" percentage, this could also have an offsetting effect on gross gaming receipts.
- The projections were run using a 25% tax rate for gross gaming revenue in excess of \$3 million. This rate is a 25% increase over the current rate structure.
- State admission fees were kept consistent with the 2001 audit.
- Expenses for operating the casino, food and beverage, marketing and general and administration were increased by 2% annually for inflation. The base expense level used was taken from the 2001 fiscal or calendar audit.
- Expenses for management fees, admission payments to counties and/or cities and lease payments were calculated using the terms contained in the current contracts.
- Interest expense and debt payments were calculated using the current amortization and rates on current long-term debt.
- Income taxes were assumed to be 40% for all entities, including the entities that are pass-through for income tax purposes.
- Distributions to shareholders/members/partners were estimated using historical levels or percentages.
- Property and equipment additions were assumed to equal depreciation, and it was assumed these additions would not be financed from debt, but from cash generated from operations.
- Working capital was assumed to change consistent with revenue and expense levels.
- All other long-term assets and liabilities were assumed to be static throughout the projection period.

As can be seen in the following pages, the effect of a 25% gaming tax increase would be substantial to the casinos.

The following information has been segmented into two distinct segments: riverboats and racinos. This has been done because of the unique operating differences between the two segments.

In determining the effect of the gaming tax increase on the casinos and racinos, five main areas were studied: cash balances, equity levels, net income (loss), total gaming taxes and return on investment. The effect on all five areas is analyzed below.

### Cash

The average cash balance for the casinos was \$5.7 million in 2001.<sup>49</sup> **The average cash balance for these casinos is projected to decrease to a negative (\$2.1) million in 2006.** Based on projected activity, a 25% gaming tax increase would not allow some casinos to maintain positive cash flow.

The average cash balance of the three racinos was \$15.2 million in 2001.<sup>50</sup> It is projected the average cash balance will only decrease to \$14.6 million by 2006.

### Equity

The average equity balance for the casinos was \$18 million in 2001.<sup>51</sup> This average balance is projected to decrease to \$14.7 million by 2006. **Even though the average equity is \$14.7 million in 2006, almost half of the casinos show a negative equity balance in 2006.**

The average equity for racinos was \$17.1 million in 2001, and is projected to fall to only \$15.1 million in 2006.<sup>52</sup>

### Net Income (Loss)

The effect on net income (loss) is also substantial. The average net income for the casino was \$4.40 million in 2001.<sup>53</sup> This is projected to decrease to an average net income of \$.3 million in 2006. **Based on the increased taxes, approximately 50% of the casinos will have a projected net loss in 2006.** In addition, as can be seen in Table 4.1, the net income of the casinos for 2001 would have decreased by 50% if the tax rate had been increased by 25%.

As the racinos distribute almost 100% of their cash flow, their net income (loss) is roughly break-even in 2001.<sup>54</sup> It remains at this level throughout the remainder of the projection period, but impacts the amount of distributions made to the non-profit organizations.

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<sup>49</sup>Ameristar Casino Hotel, Argosy's Belle of Sioux City, Bluffs Run Casino & Greyhound Park, Catfish Bend Casino, Diamond Jo Casino, Dubuque Greyhound Park & Casino, Harrah's Council Bluffs Casino & Hotel, Isle of Capri Casino – Bettendorf, Isle of Capri Casino – Marquette, Mississippi Belle II, Prairie Meadows Racetrack & Casino, Rhythm City Casino, and Lakeside Casino Resort.

<sup>50</sup> *Ibid.*

<sup>51</sup> *Ibid.*

<sup>52</sup> *Ibid.*

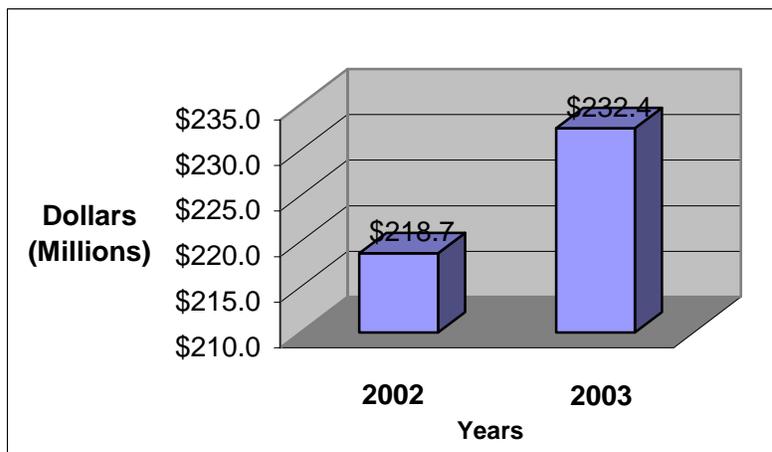
<sup>53</sup> *Ibid.*

<sup>54</sup> *Ibid.*

## Gaming Taxes

Conversely, gaming tax revenues to the State of Iowa and the local cities and counties will increase substantially over the projection period. The increases for the casinos can be seen in Chart 5.4.

Chart 5.4 Gaming Taxes



A one-year increase is provided, as any increase after that would require an increase in adjusted gross receipts. As can be seen above, gaming taxes would increase from \$218.7 million to \$232.4 million for the casinos. Since the Iowa Supreme Court ruled the gaming tax rate paid by the land-based casinos could not exceed the rate paid by the riverboat casinos, the 30% rate paid by the racinos in fiscal year 2002 will actually be reduced to 25% in fiscal year 2003 (assuming a 5% increase over the current 20% rate).

## Rate of Return

Finally, it is important to understand what effect a gaming tax increase would have on the rate of return being earned by the Iowa casino operators. If a gaming tax increase would reduce their return below a certain level, they may choose to move their operations to another state, or reduce the size and scope of their investment in the State of Iowa.

To analyze the return being earned by the Iowa casino operators, 15 publicly traded gaming companies were selected, and their median return on beginning invested capital for the past five years was calculated. Invested capital is defined as the sum of equity plus long-term debt. As long-term debt is included in the denominator of the calculation, the earnings stream used in the calculation is earnings before interest expense. The fifteen companies selected are as follows:

<u>Company</u>	<u>Ticker</u>
MGM Mirage	MGG
Harrah's Entertainment	HET
Park Place Entertainment	PPE
Mandalay Resort Group	MBG
Ameristar	ASCA
Penn National Gaming	PENN
Boyd Gaming Corporation	BYD
Argosy Gaming	AGY
Station Casinos	STN
Aztar Corporation	AZR
Isle of Capri Casinos	ISLE
Pinnacle Entertainment	PNK
Monarch Casino & Resort	MCRI
Sands Regent	SNDS
Lakes Entertainment Inc.	LACO

When determining the median rate of return, the years when a company had a net loss were excluded. While this artificially increases the median, it also provides a better understanding of rates of return expected by shareholders in this industry. The return on beginning invested capital for the years ended December 31, 1997 through December 31, 2001 for the fifteen companies identified above can be seen in Table 5.1.

Table 5.1: Return on Beginning Invested Capital by Guideline Companies for 1997 through 2001

Company	2001	2000	1999	1998	1997	Median
Aztar Corp.	9.2%	8.4%	4.0%	4.8%	4.3%	4.8%
Harrah's Entertainment	12.7%	0.9%	7.5%	6.1%	9.1%	7.5%
Park Place Entertainment	N/A	2.3%	2.2%	3.4%	0.0%	2.3%
Penn National Gaming	13.2%	15.5%	9.1%	9.3%	6.7%	9.3%
Argosy Gaming	28.0%	15.1%	8.7%	8.5%	6.3%	8.7%
Boyd Gaming Corp.	5.2%	8.8%	8.0%	7.0%	N/A	7.5%
Isle of Capri Casinos Inc.	4.4%	7.6%	11.3%	0.9%	8.4%	7.6%
MGM Mirage	4.5%	13.6%	8.0%	7.2%	10.4%	8.0%
Monarch Casino & Resort Inc.	8.3%	5.1%	2.8%	9.0%	9.3%	8.3%
Sands Regent	1.8%	4.6%	5.4%	N/A	0.4%	3.2%
Station Casinos Inc.	6.1%	12.9%	0.7%	4.0%	N/A	5.0%
Pinnacle Entertainment Inc.	0.1%	12.0%	10.8%	7.5%	2.7%	7.5%
Ameristar Casinos Inc.	8.9%	N/A	19.1%	0.3%	N/A	8.9%
Mandalay Resort Group	5.0%	6.5%	4.1%	4.9%	5.2%	5.0%
Lakes Entertainment, Inc.	N/A	9.8%	21.8%	51.5%	N/A	21.8%
Median	6.1%	8.6%	8.0%	6.6%	6.3%	7.5%
Mean	9.0%	9.5%	11.2%	10.4%	7.0%	7.7%

N/A = Loss year for the company

Source: [www.edgar-online.com](http://www.edgar-online.com)

The return on beginning invested capital for Dubuque Greyhound Park, Prairie Meadows and Bluffs Run have not been included for this analysis because they are considered racinos and not comparative to the above information.

The median return on beginning invested capital for all of Iowa's for-profit casinos was 12.3% for 2001.<sup>55</sup> This rate exceeds the rate of return earned by the fifteen public guideline companies. The reason for this is the State of Iowa has limited the number of gaming licenses it will issue to 13. This restriction has limited the number of casino operators entering the State, and the amount of competition the current operators face. Limiting the number of licenses has allowed the current operators to earn higher returns and has given the State of Iowa the ability to charge operators higher gaming taxes.

However, a gaming tax increase of 25% is projected to have a substantial impact on the return on beginning invested capital of the Iowa casinos.

The median return on investment for the casinos is projected to decrease 37.4% from 12.3% in 2001 to 7.7% by 2006.

Based on the above information, a 25% gaming tax increase would reduce the return on beginning invested capital to a level below that earned by some of the fifteen public guideline companies.

#### **Effect of a 10% Increase (an increase from 20% to 22%)**

A similar analysis was also run for all ten of the Iowa riverboat casinos using a 10% gaming tax increase to 22%. As anticipated, the effects on cash, equity and net income (loss) were improved over the 25% analysis.

For the casinos, their cash balances were still projected to decrease, but only one casino had a negative cash balance by 2006, and the average cash balance in 2006 was positive. It was a negative \$2.1 million under the 25% tax increase scenario.

Average equity for the casinos also saw some positive results compared to the 25% increase analysis. However, a 10% increase in the tax rate still has an overall negative impact on the average equity.

Average net income (loss) is still projected to be in a loss position by 2006 for some of the riverboat casinos, but the average loss is only projected to be \$0.9 million compared to \$2.5 million under the 25% rate increase scenario. **However, even with only a 10% gaming tax increase, only six riverboat casinos are projected to have positive earnings by 2006.**

Under the 10% gaming tax increase, the median return for the casinos is projected to decrease from 11.4% in 2001 to 8.9% in 2006.

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<sup>55</sup> *Ibid.*

# The Effect of a Gaming Tax Increase on the State of Iowa

As noted in the previous section, a 25% gaming tax increase is projected to have a significant effect on certain Iowa casinos. The casinos that are projected to be affected the most are those operations in competitive marketplaces with other Iowa casinos or casinos from neighboring states. On average, these casinos are projected to see negative cash flow, reduced earnings and rates of return that are below industry norms. Casino operators faced with this dilemma may reduce their scope of investments or may eventually cease to operate. The effects of this scenario will be analyzed below.

## Potential Decrease in Adjusted Gross Receipts (AGR) or Loss of Casinos

A gaming tax increase will decrease the amount of money that is available for investment and marketing. Over time, this reduction in investment and marketing dollars will inevitably cause Iowa's casinos to become less competitive with casinos in other states and other forms of entertainment. This will cause gaming revenues to stagnate or decline, which will reduce the amount of gaming taxes paid to the State of Iowa. Because of the reduction in available cash, the casinos have the potential for a decrease in the adjusted gross receipts and ultimately the possibility of ceasing operations. The following information evaluates the effect of either an adjusted gross receipts reduction of approximately 10%, 20% and 30% and/or the equivalent loss of one, two or three casinos. The effect of the above will be analyzed for taxes, employment, purchases, contributions to non-profit organizations and other payments to counties/cities.

### Taxes

In analyzing the effect on taxes of a reduction in adjusted gross receipts or the loss of one, two or three casinos, the averages from the casinos in competitive marketplaces were used. The effect on gaming taxes, property taxes, sales taxes and lodging taxes can be seen in Table 6.1.

**Table 6.1 Effect of a Reduction in Adjusted Gross Receipts or Loss of a Casino**

	Current	25% Gaming Tax Increase	10% Reduction and/or Loss of One	20% Reduction and/or Loss of Two	30% Reduction and/or Loss of Three
Gaming Taxes	\$ 218,725,114	\$ 232,483,455	\$ 210,600,841	\$ 188,718,228	\$ 166,835,614
Property Taxes	7,360,330	7,360,330	6,302,952	5,245,574	4,188,195
Sales and Use Taxes	6,315,077	6,315,077	5,362,890	4,410,702	3,458,515
Lodging Taxes	1,356,063	1,356,063	1,084,850	813,638	542,425
<b>Subtotal</b>	<b>233,756,584</b>	<b>\$ 247,514,925</b>	<b>\$ 223,351,533</b>	<b>\$ 199,188,141</b>	<b>\$ 175,024,749</b>

As Table 6.1 shows, a 25% gaming tax increase would generate \$13.7 million in new tax dollars in 2002. As mentioned earlier, the reason this is not larger is that the racetrack casinos will actually see a 5 point tax rate decrease when their rate goes from the 30% rate paid in 2001 to the 25% rate used in this analysis.

Table 6.1 also shows that each casino will pay approximately \$24.1 million in gaming taxes, property taxes, sales taxes and lodging taxes if a 25% gaming tax increase is enacted. Therefore, the effect of a reduction in adjusted gross receipts or losing casinos due to a gaming tax increase could range from \$10.4 million to \$58.6 million.

## Employment

In looking at the effect on employment, the averages of employees and total salaries, wages and benefits at the casinos were also used. The effect of a reduction in adjusted gross receipts and/or a loss of casinos on employment and salaries and wages can be seen in Table 6.2.

**Table 6.2 Effect of a Reduction in Adjusted Gross Receipts or Loss of Casinos on Employment and Salaries, Wages and Benefits**

	Current	10% Reduction and/or Loss of One	20% Reduction and/or Loss of Two	30% Reduction and/or Loss of Three
Salaries and wages	\$ 219,914,525	\$ 197,739,848	\$ 175,565,171	\$ 153,390,495
Employment	9,567	8,647	7,728	6,808

As Table 6.2 shows, a casino pays approximately \$22.2 million in salaries, wages and benefits. Therefore, the effect of a reduction in adjusted gross receipts or losing casinos could range from \$22.2 million to \$66.6 million.

The effect on employment is almost as dramatic. In the case of a casino that employs over 900 individuals, the potential loss of jobs could range from 900 to 2,700 in total. This will also have an indirect effect on unemployment requests and requests for assistance from Iowa's social service agencies.

## Purchases from Iowa Suppliers

To estimate the total purchases from Iowa suppliers, the IMPLAN model was used. Using historical data, the model estimates the level of purchases a casino would normally make based on its adjusted gross receipts and its employment levels. It then estimates the percentage of in-state and out-of-state purchases. The level of in-state purchases is currently estimated at \$240.4 million for the Iowa casinos as a whole.<sup>56</sup> This means on average, each casino purchases \$19.4 million of goods and services annually from Iowa suppliers. The effect of a reduction and/or loss of casinos on purchases from Iowa suppliers can be seen in Table 6.3.

**Table 6.3 Effect of a Reduction in Adjusted Gross Receipts or Loss of Casinos on Purchases from Iowa Suppliers**

Current	\$ 240,410,242
10% Reduction and/or Loss of One	\$ 220,967,483
20% Reduction and/or Loss of Two	\$ 201,524,721
30% Reduction and/or Loss of Three	\$ 182,081,960

Therefore, purchases from Iowa suppliers could decrease from \$240.4 million to \$182.1 million if there is a reduction in adjusted gross receipts or loss of three casino operators in the State of Iowa.

<sup>56</sup> IMPLAN Model for Iowa.

**Other**

Other areas that would be affected by a reduction in adjusted gross receipts or a casino closing in the State of Iowa would be contributions to non-profit organizations, rents paid to counties/cities and admission and other fees paid to counties/cities. The effect of this can be seen in Table 6.4.

**Table 6.4 Other Effects of a Reduction in Adjusted Gross Receipts or Loss of a Casino**

	Current	10% Reduction and/or Loss of One	20% Reduction and/or Loss of Two	30% Reduction and/or Loss of Three
Contributions to Non-Profits	\$ 41,463,709	\$ 38,490,596	\$ 35,517,483	\$ 32,544,370
Admission and Other Fees Paid to Counties/Cities	26,320,565	25,731,615	25,142,666	24,553,716
	<u>\$ 67,784,274</u>	<u>\$ 64,222,211</u>	<u>\$ 60,660,149</u>	<u>\$ 57,098,086</u>

Based on the above, it would appear the effect of a reduction in adjusted gross receipts or losing casinos could range from \$3.6 million to \$10.8 million.

**Economic Contribution**

The reduction in adjusted gross receipts or the loss of one, two or three casinos will also have secondary effects on the Iowa economy as well. Using the I-O model discussed previously, the reduction in adjusted gross receipts or loss of one, two or three casinos was input into the model to estimate the effect this would have on the Iowa economy. The impact can be seen in Table 6.5.

**Table 6.5 The Secondary Effect of the Reduction in Adjusted Gross Receipts or the Loss of Casinos**

Closing of One Casino:	Labor			
	Total Sales	Income	Value Added	Jobs
Agriculture	\$364,517	\$132,649	\$199,288	10
Mining	96	35	62	0
Construction	1,925,966	995,775	1,040,257	26
Manufacturing	2,805,464	821,397	1,129,536	20
Tran.Utilities	3,629,627	940,176	1,770,012	25
Trade	5,076,594	2,226,738	3,686,547	116
Fin.Ins.R.Estate	6,833,480	1,091,215	4,778,091	46
Services	90,690,856	22,092,930	54,727,356	1,120
Government	832,323	359,374	410,669	10
Households	19,397	19,397	19,397	2
Total	<u>\$112,178,319</u>	<u>\$28,679,686</u>	<u>\$67,761,215</u>	<u>1,374</u>

<b>Closing of Two Casinos:</b>	<b>Total Sales</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>Jobs</b>
Agriculture	\$729,034	\$265,298	\$398,576	21
Mining	192	70	124	0
Construction	3,851,932	1,991,550	2,080,514	53
Manufacturing	5,610,928	1,642,794	2,259,072	39
Tran.Utilities	7,259,254	1,880,352	3,540,024	49
Trade	10,153,188	4,453,476	7,373,094	231
Fin.Ins.R.Estate	13,666,960	2,182,430	9,556,182	91
Services	181,381,712	44,185,860	109,454,712	2,241
Government	1,664,646	718,748	821,338	20
Households	38,794	38,794	38,794	4
<b>Total</b>	<b>\$224,356,638</b>	<b>\$57,359,372</b>	<b>\$135,522,430</b>	<b>2,749</b>

<b>Closing of Three Casinos:</b>	<b>Total Sales</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>Jobs</b>
Agriculture	\$1,093,551	\$397,947	\$597,864	31
Mining	288	105	186	0
Construction	5,777,898	2,987,325	3,120,771	79
Manufacturing	8,416,392	2,464,191	3,388,608	59
Tran.Utilities	10,888,881	2,820,528	5,310,036	74
Trade	15,229,782	6,680,214	11,059,641	347
Fin.Ins.R.Estate	20,500,440	3,273,645	14,334,273	137
Services	272,072,568	66,278,790	164,182,068	3,361
Government	2,496,969	1,078,122	1,232,007	29
Households	58,191	58,191	58,191	6
<b>Total</b>	<b>\$336,534,957</b>	<b>\$86,039,058</b>	<b>\$203,283,645</b>	<b>4,123</b>

Source: IMPLAN Model for Iowa

On average, the total direct and secondary economic effects of a reduction or the loss of a casino includes the loss of 1,374 jobs, \$28.7 million of wage and salary income, \$67.7 million of value added and \$112.18 million of sales in the Iowa economy. If there were a 28% reduction in adjusted gross receipts or up to three casinos were closed, the losses would be an estimated 4,123 jobs, \$86.0 million of wage and salary income, \$203.3 million of value added and \$336.5 million of total sales.

## Conclusion

The casino industry has become an important component of the Iowa economy. It provides approximately 10,000 jobs, pays approximately \$180 million in salaries and wages, and contributes approximately \$200 million in gaming taxes to the State. It also provides many secondary benefits to the rest of the Iowa economy.

Assuming no other changes to their operations, a 25% gaming tax increase would have significant negative impacts on the casinos. Their average cash flow is projected to be negative, they are projected to see deterioration in equity levels and their average earnings are projected to decrease. Most importantly, their median return on beginning invested capital is projected to decrease to 7.7% in the next five years. This may force the casino operators evaluate their investment.

The effect of a 25% tax increase also has a drastic impact on the net income of the casinos. Based on 2001 historical information, the increase would have decreased the net income of the casinos by greater than 50%. This has the potential of a long-term negative impact due to reduced profits.

The estimated effect of a reduction in adjusted gross receipts or the loss of casinos leaving Iowa can be seen in Table 7.1.

**Table 7.1 Effect of Reduction in Adjusted Gross Receipts or Loss of Casinos in Iowa**

	Current	Tax Increase	10% Reduction and/or Loss of One	20% Reduction and/or Loss of Two	30% Reduction and/or Loss of Three
<b>Direct effects:</b>					
Adjusted gross revenue	\$ 946,291,238		\$ 868,233,030	\$ 790,174,822	\$ 712,116,614
Gaming taxes	\$ 218,725,114	\$ 232,483,455	\$ 210,600,841	\$ 188,718,228	\$ 166,835,614
Property taxes	\$ 7,360,330	\$ 7,360,330	\$ 6,302,952	\$ 5,245,574	\$ 4,188,195
Sales and use taxes	\$ 6,315,077	\$ 6,315,077	\$ 5,362,890	\$ 4,410,702	\$ 3,458,515
Lodging taxes	\$ 1,356,063	\$ 1,356,063	\$ 1,084,850	\$ 813,638	\$ 542,425
Salaries, wages and benefits	\$ 219,914,525	\$ 219,914,525	\$ 197,739,848	\$ 175,565,171	\$ 153,390,495
Employment	9,567	9,567	8,647	7,728	6,808
Purchases from Iowa suppliers	\$ 240,410,242	\$ 240,410,242	\$ 220,967,481	\$ 201,524,720	\$ 182,081,959
Contributions to non-profits	\$ 41,463,709	\$ 41,463,709	\$ 38,490,596	\$ 35,517,483	\$ 32,544,370
Admission and other fees	\$ 26,320,565	\$ 26,320,565	\$ 25,731,615	\$ 25,142,666	\$ 24,553,716
<b>Indirect effects:</b>					
Total sales	\$ 453,761,732	--	\$ 419,641,621	\$ 385,521,510	\$ 351,401,399
Labor income	\$ 167,645,951	--	\$ 155,039,100	\$ 142,432,249	\$ 129,825,398
Value added	\$ 272,581,813	--	\$ 252,303,874	\$ 232,025,935	\$ 211,747,996
Employment	8,244	--	7,790	7,334	6,880
<b>Total effects:</b>					
Total sales + adjusted gross revenue	\$ 1,400,052,970		\$ 1,287,874,651	\$ 1,175,696,332	\$ 1,063,518,013
Labor income + salary, wages & benefits	\$ 350,560,476		\$ 321,880,790	\$ 293,201,104	\$ 264,521,418
Value added	\$ 815,037,113		\$ 747,275,898	\$ 679,514,683	\$ 611,753,468
Employment	17,811		16,437	15,062	13,688