

The Gross Annual Wager of the United States: 2002

Exhibit 1: Gross Gambling Revenues by Industry and Change From 2001

	2001 Gross Revenues (Consumer Spending)	2002 Gross Revenues (Consumer Spending)	Increase/(Decrease) in Gross Revenues (Consumer Spending)	
			Dollars	Percent
Pari-Mutuels				
Horse Totals	\$3,415.1	\$3,519.6	\$104.5	3.06%
Greyhound Total	\$434.8	\$430.3	-\$4.5	-1.03%
Jai Alai Total	\$40.6	\$36.9	-\$3.7	-9.01%
Total Pari-Mutuels	\$3,890.5	\$3,986.8	\$96.3	2.48%
Lotteries				
Video Lotteries	\$1,855.2	\$2,223.3	\$368.1	19.84%
Traditional Games	\$15,753.6	\$16,415.3	\$661.7	4.20%
Total Lotteries	\$17,608.8	\$18,638.6	\$1,029.8	5.85%
Casinos				
Nevada/NJ Slot Machines	\$9,340.0	\$9,535.0	\$195.0	2.09%
Nevada/NJ Table Games	\$4,223.9	\$4,096.6	-\$127.3	-3.01%
Deepwater Cruise Ships	\$287.2	\$294.4	\$7.2	2.50%
Cruises-to-nowhere	\$361.6	\$385.1	\$23.5	6.50%
Riverboats	\$9,962.5	\$10,437.9	\$475.4	4.77%
Other Land-Based Casinos	\$1,742.3	\$1,911.2	\$169.0	9.70%
Other Commercial Gambling	\$166.0	\$162.6	-\$3.4	-2.05%
Non-Casino Devices	\$1,227.3	\$1,320.9	\$93.6	7.62%
Total Casinos	\$27,310.8	\$28,143.7	\$833.0	3.05%
Legal Bookmaking				
Sports Books	\$118.1	\$110.4	-\$7.7	-6.52%
Horse Books	\$7.8	\$5.8	-\$2.0	-25.64%
Total Bookmaking	\$125.9	\$116.2	-\$9.7	-7.70%
Card Rooms	\$992.0	\$972.5	-\$19.5	-1.96%
Charitable Bingo	\$1,122.8	\$1,124.5	\$1.7	0.15%
Charitable Games	\$1,467.8	\$1,510.3	\$42.6	2.90%
Indian Reservations				
Class II	\$1,400.9	\$1,478.9	\$78.0	5.57%
Class III	\$11,334.5	\$12,718.4	\$1,383.9	12.21%
Total Indian Reservations	\$12,735.4	\$14,197.3	\$1,461.9	11.48%
Internet Gambling	\$3,004.5	\$4,007.0	\$1,002.5	33.37%
Grand Total	\$65,254.0	\$68,690.0	\$3,436.1	5.27%

Notes: Columns may not add to totals due to rounding.

Because Internet gambling is conducted globally, gross gambling revenue from Internet gambling is not included in the grand total.

Consumer spending on U.S. commercial gambling reached \$68.7 billion in 2002, a \$3.4 billion, 5.3% increase over 2001 and a milestone in more ways than one. Like 1984, a year made immortal by George Orwell, 2001 lives on in the title of Stanley Kubrick's 1968 *2001: A Space Odyssey*; it is hard to believe that both of these imagined futures now are past. Like Orwell, Kubrick got some details wrong but (like Orwell's) his themes still resonate. Neither author was in Harry Potter's business: creating comforting fantasies where evil is conveniently located somewhere outside ourselves. *1984* and *2001: A Space Odyssey* are sober reflections on human nature and the human capacity to make or mar the shape of things to come. In 1968 no one could have imagined that by 2002 consumers would be spending \$68 billion dollars on gambling. That's more than seven times the amount (\$9.3 billion in 2002) consumers spent on movie tickets. One wonders what Kubrick, were he still with us, would make of it.

What lawmakers make of it is becoming all too clear. States and their dependent municipalities are in the grip of the most serious fiscal crisis since the Great Depression. To many governments gambling looks like a way out. Despite the expansion of casino and Class III Indian gaming in the last decade the U.S. still contains substantial unsatisfied demand for blackjack tables and slot machines. This unsatisfied demand exerts continual pressure on governments to make more supply of these games available, in good economic times or bad. In bad economic times, so the Wall Street thesis went, government would yield to this pressure and authorize new casinos, or racinos, or lottery video poker machines. After all, the last recession produced the wave of riverboat legalizations of the early 1990s: surely history would repeat itself?

The bad economic times are here but it hasn't exactly worked out that way. To be sure, new casino bills popped up in legislatures all over the map but as of June '03 most are still bills, not laws. Many are dead. The anticipated wave of new casinos and racinos has not materialized.

What has materialized, in Illinois, is higher rates of gaming privilege tax for existing casino industries. Much higher rates: 70%, at the top of Illinois's new sliding scale, which is being imposed on capital invested under a sliding scale that stopped at 35%. Suddenly escalating rates of gaming privilege tax and/or nine-figure license fees are being incorporated into racino/casino bills across the country. More seriously for holders of equity in existing gaming industries or debt secured by existing gaming operations, tax increases are definitely on the table—even in Nevada and New Jersey, where \$36.5 billion has been invested in casino resorts against single-digit gaming privilege tax rates.

The Casino Sector

A lot is at stake here. Gaming is by far the largest sector of the U.S. gambling economy. Including Class III Indian gaming, casino table and machine games won \$40.8 billion in 2002, or 59% of all consumer spending on U.S. gambling in 2002. But gaming is no longer growing at double-digit rates. Consumer spending on non-Indian casino games grew just 3% in 2002—less than the 5.3% growth in consumer spending in gambling overall. Class III gaming was up by 12.2%, or \$1.4 billion, due mostly to continued expansion in California, with more machines and larger facilities elsewhere in the

Western States and Mohegan Sun's Project Sunburst also contributing to the double-digit gain in Indian gaming. Racinos and other non-casino machines powered most of the growth in the State-licensed casino sector. But the pattern is clear: absent new markets, the U.S. casino sector is maturing. Like the pari-mutuel and lottery industries before it, existing State-licensed casino markets are becoming fully supplied. The year-over-year double-digit growth that characterized these markets in their formative years is over. From here on out, absent new kinds of casino facilities that stimulate new (non-gaming) kinds of consumer spending in the manner of Steve's properties in Las Vegas State-licensed casino industries are going to exhibit the growth patterns characteristic of lotteries since the late 1980s: single-digit gains (or even losses in highly competed areas) year over year.

Nothing grows to the sky. The golden goose of casino gaming cannot lay infinite numbers of golden eggs. This fact of life is getting lost in the current legislative frenzy to raise rates of gaming privilege tax. Let us look at some of those golden eggs: the jobs and invested capital in the two oldest State-licensed casino industries, Nevada and New Jersey.

Exhibit 2: Gaming as Economic Policy: Nevada and New Jersey

	Number of Casinos	Number of Casinos Jobs	Invested Capital	Gambling Privilege Tax
Nevada	247	205,151	\$29,000,000,000	\$ 711,600,000
New Jersey	12	45,592	\$ 7,532,800,000	\$ 342,321,000

Source: New Jersey Casino Control Commission, Annual Report 2001

Nevada's 247 largest casino resorts directly employ 205,000 people and represent a capital investment of \$29 billion. New Jersey's 12 casinos employ nearly 46,000 people and represent a capital investment of \$7.5 billion.¹ The gaming privilege tax rates that yielded these substantial economic assets are low: 6.25% in Nevada,² 8% in New Jersey. These low tax rates produce substantial revenue. Gaming privilege tax collections in Nevada totaled \$711.6 million, or 20.5% of total tax collections for fiscal 2002.³ Atlantic City casinos paid \$342.3 million in gambling privilege taxes in 2002. But the fiscal policy of generating revenue for government was not the primary purpose for legalizing gaming in either State. The primary purpose was economic: in Nevada's

¹ William R. Eadington and Eugene Martin Christiansen, "The Future of the Casino Industry: Strategic Considerations in Light of Changing Competitive Conditions", paper presented at the 12th International Conference on Gambling, Vancouver, Canada; see also Christiansen, "Taxes and Regret", *Insight*, vol. 1, no. 3. <http://www.cca-i.com/>

² Local taxes and levies effectively raise Nevada's gaming privilege tax rate to about 7.5%. Atlantic City casinos pay an additional 1.25% to the CRDA, raising their effective rate of gaming privilege tax to 9.25%.

³ The figure for Nevada gaming taxes includes all taxes and levies pursuant to N.R.S. ch. 463 and is for the 2001-2002 fiscal year.

case to provide the State with an economic engine to replace its exhausted mining industry; in New Jersey's to create an economic re-development tool capable of revitalizing Atlantic City and provide jobs for a community with intractable, chronically high unemployment. Low rates of gaming privilege tax, i.e., putting economic policy goals ahead of fiscal policy goals, made it possible for gaming to accomplish these economic policy goals in both States.

The riverboat laws of the early 1990s represented a policy shift: a tilt towards asking gaming to serve fiscal policy needs at the expense of economic needs (jobs, capital investment). Riverboat laws tried to have it both ways—tax revenues *and* jobs—and they largely succeeded.

Exhibit 3: Gaming That Serves Both Fiscal and Economic Policy: Riverboats

	2002 Revenue (CY)	2002 Gambling Privilege Tax (CY)	*Number of Casino Jobs
Illinois	\$ 1,832,053,000	\$ 666,101,000	11,333
Indiana	\$ 2,061,644,122	\$ 544,708,188	15,710
Iowa	\$ 656,204,924	\$ 132,639,566	6,636
Louisiana	\$ 1,884,939,074	\$ 396,793,839	15,000
Mississippi	\$ 2,724,277,341	\$ 331,709,903	32,510
Missouri	\$ 1,278,775,225	\$ 357,604,205	11,213
Total	\$ 10,437,893,686	\$ 2,429,556,701	92,402

Source: Illinois Gaming Board, Indiana Gaming Commission, Iowa Racing & Gaming Commission, Louisiana Gaming Control Board, Mississippi Gaming Commission, Missouri Gaming Commission.

In 2002 riverboat casinos paid \$2.4 billion in gaming privilege tax and employed 92,000 people. The rates of gaming privilege tax these riverboats paid were considerably higher than the rates paid by Nevada and New Jersey casinos: effectively 23% for all six riverboat States. (See Exhibit 4.) There is considerable variation among the six riverboat States regarding tax rates: from a high (in 2002) of 36.4% in Illinois to a low of 12.2% in Mississippi. Mississippi's choice of a low tax rate wasn't accidental. Prior to riverboat gaming Mississippi had very high rates on unemployment: north of 20% in some counties, and all efforts to improve matters had failed. Mississippi elected a tax rate and a licensing policy designed to attract the maximum number of operators, the maximum amount of invested capital, and the maximum number of jobs. Its 12.2% tax rate and let-the-market-decide-the-number-of-operators licensing policy achieved these economic policy goals: Mississippi's 32,000 riverboat jobs far exceed those of any other riverboat State.

What this experience adds up to is that in setting rates of gaming privilege tax lawmakers are making a policy choice. They are choosing between government's fiscal needs, meaning tax receipts, and their community's economic needs, meaning jobs. They are

also choosing the kind of gaming business they are introducing into their State and communities.

Exhibit 4: United States Effective Gaming Tax Rates by State 2002

Casinos and Racinos	2002 Revenue (CY)	2002 Taxes	Effective Tax Rate
Delaware	\$ 565,909,900	\$ 198,068,465	35.00%
West Virginia	\$ 651,913,724	\$ 234,688,941	36.00%
New Mexico	\$ 141,437,220	\$ 35,359,305	25.00%
Louisiana (Delta Downs)	\$ 114,619,599	\$ 38,019,320	33.17%
Louisiana (other locations)	\$ 544,263,218	\$ 158,842,738	29.18%
Iowa	\$ 316,120,231	\$ 82,896,081	26.22%
Rhode Island	\$ 297,488,719	\$ 157,879,679	53.07%
Nevada	\$ 9,447,660,000	\$ 718,700,000	7.61%
New Jersey	\$ 4,381,406,737	\$ 405,280,123	9.25%
Colorado	\$ 719,701,404	\$ 98,201,819	13.64%
Deadwood, SD	\$ 66,277,382	\$ 5,102,081	7.70%
Michigan	\$ 1,125,143,500	\$ 249,106,771	22.14%
<i>(Sub total)</i>	\$ 18,117,362,634	\$ 2,238,012,886	12.35%
Riverboats			
Illinois	\$ 1,832,053,000	\$ 666,101,000	36.36%
Indiana	\$ 2,061,644,122	\$ 544,708,188	26.42%
Iowa	\$ 656,204,924	\$ 132,639,566	20.21%
Louisiana	\$ 1,884,939,074	\$ 396,793,839	21.05%
Mississippi	\$ 2,724,277,341	\$ 331,709,903	12.18%
Missouri	\$ 1,278,775,225	\$ 357,604,205	27.96%
<i>(Sub total)</i>	\$ 10,437,893,685	\$ 2,429,556,700	23%
Total	\$ 28,555,256,319	\$ 4,667,569,586	16%

Source: Christiansen Capital Advisors, LLC
