

**TAXPAYERS RESEARCH INSTITUTE OF MISSOURI (TRIM)
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**ECONOMIC EFFECTS OF PROPOSED TAX INCREASES AND
REMOVAL OF LOSS LIMITS ON THE MISSOURI GAMING INDUSTRY**

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Executive Summary

In their attempt to raise tax revenues and close budget gaps, Missouri policymakers are now considering a number of regulatory changes affecting casinos. Under consideration is an increase in the gaming tax rate to 22 percent and a doubling of the admission fee to \$4. Also under review is a proposal to remove the \$500 loss limits currently in place in Missouri. These changes would have significant effects both on the casinos and on the Missouri economy. Missouri policymakers should be careful to consider all possible effects of the proposed changes before proceeding with these plans.

The first objective of this study is to assess the current state of the industry and to explore the effects of new taxes and the removal of loss limits on Missouri based casinos. The second goal is to measure the economic impact of the casino industry in Missouri using the well-respected IMPLAN model from the University of Minnesota.

Current data shows that the Missouri casino industry is the state's seventh largest employer. Gaming tax revenues and admission fees now provide the state of Missouri nearly \$350 million and are the fifth largest source of tax revenue for the state. Using annual casino industry data audited by the Missouri Gaming Commission, it was determined that the current industry net income is just more than \$5 million. While seven of the eleven casinos are currently profitable, four are currently losing money for a combined loss of \$44 million. Net income is the bottom line number after all operating expenses including depreciation, interest and taxes have been subtracted.

Regarding the proposed changes and their effect on the casino industry, if loss limits were removed, industry net income is projected to be \$48.8 million and gaming tax revenues to the state would also increase by about \$50 million. Second, if the Governor's proposal of no loss limits and a 22 percent gaming tax rate and a \$4 admission fee were implemented, the industry net income would be a negative \$71 million. In fact, six of the eleven casinos in the state are unprofitable under this version of the model. While state gaming tax revenues would increase by \$164 million under this proposal, the casino industry would show record losses. These losses would lead to a stoppage in new construction spending and laying off of workers in the casino industry.

In 2002, the Missouri casino industry injected over \$1.2 billion in the state economy from gaming tax revenues, labor, goods and services and construction costs. After accounting for replacement spending, this means a net increase in economic activity of \$567 million. The cumulative net effect on Missouri output from this direct spending exceeds \$1.1 billion and is projected to create over 17,000 jobs statewide and an increase in labor income of \$680 million.

As computed with the IMPLAN model, the net impact of removing the loss limits on the Missouri economy is \$150 million. The governor's proposal is projected to yield a net increase in economic activity of \$196.5 million. This growth comes at a significant price to the casino industry. Finally, the social and economic costs of problem gambling are also given attention and consideration in part three of the study.

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Introduction

Missouri lawmakers are striving to find a combination of tax increases and spending cuts to close the projected budget deficit of \$1 billion for fiscal year 2003. Like other states, Missouri is turning to the casino industry as a possible source of added tax revenues. The casino industry has been a growing source of tax revenues since its inception in 1995.¹ The gaming tax rate in Missouri is currently set at 20 percent of adjusted gross revenues. The state receives 18 percent and local government receives two percent. In addition, the state currently receives a \$1 admission fee and local government gets the other \$1 admission fee.

In their attempt to raise tax revenues and close budget gaps, Missouri policymakers are now considering a number of regulatory changes affecting casinos. Under consideration is an increase in the gaming tax rate to 22 percent and a doubling of the admission fee to \$4. Also under review is a proposal to remove the \$500 loss limits currently in place in Missouri. These changes would have significant effects both on the casinos and on the Missouri economy. Missouri policymakers should be careful to consider all possible effects of the proposed changes before proceeding with these plans. The issues considered in this study are shown next.

Study Overview

This study is not meant to be an exhaustive computation and identification of all costs and benefits to the state of Missouri from the gaming industry. The first objective of this study is to assess the current state of the industry and to explore the effects of new taxes and the removal of loss limits on Missouri based casinos. As part of this process, the study will also explore the effects of Missouri casinos on employment, purchases of goods and services by vendors, tax collections, and contributions to local charities. These topics are generally referred to as the benefits created by gaming. The costs of gaming are discussed in part three. The second goal of this study is to assess the impact of the Missouri gaming industry on the state economy in terms of output, income and jobs.

This study represents the second such effort to discover what type of impact Missouri casinos have on the state economy. Leven and Phares (1998) performed an earlier study of Missouri, which concluded that the seven casinos generated more than \$500 million worth of new net spending in 1996. Moreover, they concluded that personal income grew by more than \$300 million, state and local government received \$167 million in new tax revenues and more than 12,000 jobs were added to the economy. Along with some favorable remarks, a 1998 Review of this study identified a number of issues that worked together to weaken the results (Goodman and Feser, 1998). We address these issues in part three of this study under the heading Other Considerations.

¹ For example, the individual income tax provided just under \$4 billion for FY 2001. The sales and use tax was \$1.7 billion. Gasoline and Vehicle taxes were \$986 million. Cigarette tax was \$804 million. Corporate income and franchise tax was just under \$300 million and Riverboat Gaming Tax and Admission fees were nearly \$300 million. Gaming tax revenues are projected to exceed \$350 million for FY 2003.

As noted above, this study has two main parts.² The first part begins with a presentation of the current financial state of the Missouri casino industry. A financial planning model is used in to project various scenarios whereby taxes are increased and/or loss limits are removed. The resulting effect on the Missouri casino industry is then determined. The second part of the study presents the economic impact of the casino industry in Missouri. Shown first is the economic effect of the current scenario for the Missouri economy. Also computed and shown in this section is the economic effect of the governor's proposal to remove loss limits and increase gaming taxes in the state.

The economic impact of the Missouri casino industry will be examined with the use of the well-respected IMPLAN model from the University of Minnesota. This model has been used in past studies of this nature for the gaming industry.

Issues to be Examined

The first set of issues relates to the Missouri casino industry and makes use of a financial planning model to analyze the data and interpret the results. The second set of issues centers on the impact of the Missouri casino industry on the state economy. These issues are examined with the use of the IMPLAN model. The issues covered in this study are shown below:

- How much money is being collected currently from Missouri casinos in the form of gaming tax revenues and admission fees?
- How many employment opportunities are available for Missouri workers as a result of the Missouri casino industry? To what extent do these workers live in Missouri versus outside the state? How does the Missouri casino industry rank in terms of employment compared to other industries in the state? Would the jobs available in the casino industry be otherwise available in other sectors of the Missouri economy?
- How much money is currently disbursed in Missouri to pay in-state vendors and service providers? After subtracting other expenses, how much money is available for Missouri casinos net income or bottom line. How many (if any) of the casinos are currently unprofitable? What is the current state of profitability for the Missouri casino industry?
- How much tax revenue is projected to accrue to the state as a result of the proposed tax increase and removal of loss limits (e.g. 2 percent gaming tax rate increase and additional \$2 admission fee). How will the proposed removal of loss limits and tax increase effect casinos in the state?

² Study Limitation: This study does not address the moral issues related to gaming, nor is it intended to provide a complete analysis of the costs, relative to the benefits, of legalized casino gaming in Missouri. This study focuses on the on the financial viability and economic effects of the Missouri gaming industry.

- What if certain casinos are already unprofitable? Might the proposed tax increase(s) make other casinos unprofitable? What would be the economic effect of closing certain casinos for the state?
- What are the projected financial effects of removing loss limits both for the casinos and for the state of Missouri?

The next set of issues center on the economic effect of the gaming industry on the state economy.

- What are the total current payments to Missouri State and local government in terms of taxes, fees and rents? How do these payments affect the Missouri economy? What is the total value added or output as a result of these activities? What are the effects on personal income and job opportunities?
- What are total expenditures by Missouri casinos for both labor and goods and in-state goods and services? How do these payments affect the Missouri economy? What is the total value added or output as a result of these activities? What is the resulting effect on personal income and job opportunities in the state?
- What are the current expenditures of in-state purchases of goods and services? How do the effect the Missouri economy? What is the total value added or output as a result of these activities? What is the resulting effect on personal income and job opportunities in the state?
- What is the current level of casino construction spending in Missouri? How do these payments affect the Missouri economy? What is the total value added or output as a result of these activities? What is the resulting effect on personal income and job opportunities in the state?
- How will the governor’s proposal impact the Missouri economy? Would the net impact of tax hikes and loss limit removal lead to an expansion or contraction of economic activity in the state?

Missouri Casinos

Currently, there are eleven gaming boats operating in Missouri. These casinos and their locations are as follows:

<u>Casino</u>	<u>Location</u>
Ameristar Casino	Kansas City
Ameristar Casino	St. Charles
Argosy Casino	Riverside

Casino Aztar	Caruthersville
Harrah's Casino	Maryland Heights
Harrah's Casino	North Kansas City
Isle of Capri Casino	Boonville
Isle of Capri Casino	Kansas City
Mark Twain Casino	La Grange
President Casino	St. Louis – Downtown
St. Jo Frontier	St. Joseph

Current Situation Gaming Taxes

The state of Missouri collects revenue from casinos in the form of admission fees and gaming taxes. Admission fees are collected at the rate of \$2 for every patron that takes a two-hour cruise. Accordingly, if a patron is on the boat for 5 hours, the casino will remit the amount of \$6 to the state of Missouri. In addition, the tax rate is 20 percent of total revenue from gaming. As presented in Table 1 below, total tax revenues from gaming have grown from \$87 million in fiscal year 95 to over \$364 million in 2003. The cumulative total for these taxes are greater than \$2.237 billion over this period.

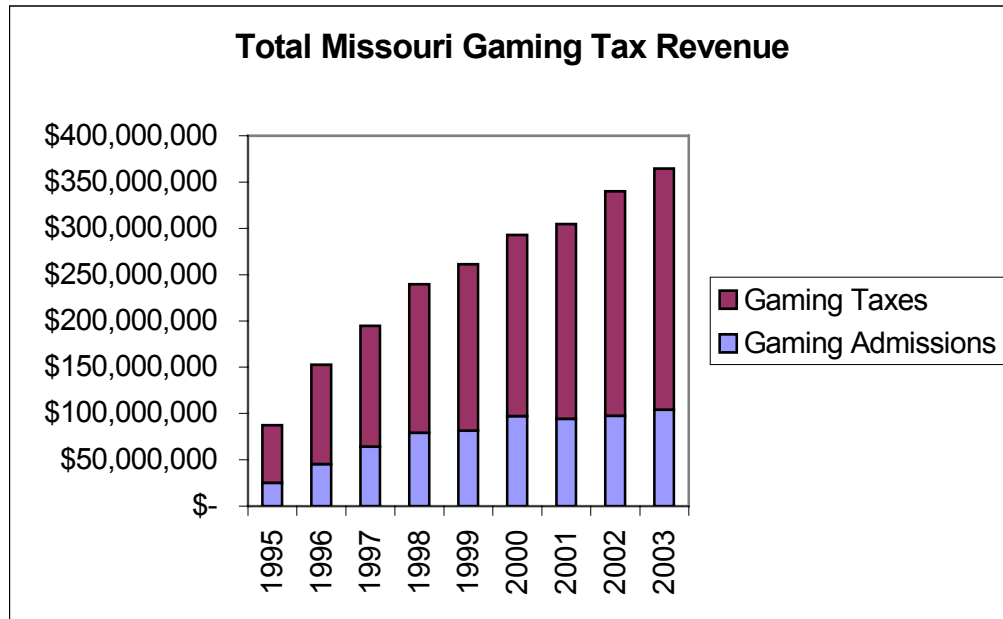
Table 1
Total Gaming Tax Revenue

Year	Admission Fees	Gaming Taxes	Total Gaming Tax Revenue
1995	25,275,034	62,068,244	87,343,278
1996	45,117,078	107,475,371	152,592,449
1997	64,271,384	130,366,962	194,638,346
1998	79,117,752	160,523,124	239,640,876
1999	81,576,858	179,617,660	261,194,518
2000	97,045,866	195,936,151	292,982,017
2001	94,171,700	210,419,897	304,591,597
2002	97,699,946	242,425,097	340,125,043
2003	104,067,508	260,382,916	364,450,424

2003 includes an estimate for the final six months

These revenues are split about 70/30 between revenue from gaming taxes and revenue from gaming admissions. The rate of growth is over 19 percent over this period as shown in Figure 1. This represents a strong source of revenue growth for the state of Missouri for the period, especially considering the stagnant growth in other forms of taxation in the state.

Figure 1



The estimate for 2003 is arrived at by taking the first six months of the fiscal year (ending December 31, 2002) and doubling it.

Purchases from Missouri Suppliers

In-state purchases of goods and services from Missouri suppliers amounted to \$151 million. The details of these purchases amount to \$51 million for such services as advertising, management and legal and accounting, \$45 million for purchases of food and beverages, \$17 million for repair, maintenance and supplies, \$15 million for leasing land and equipment, and \$14 million for utilities. Missouri casinos also spent \$2 million on security and surveillance, \$2 million on entertainment in the state, and \$5 million on enforcement.³

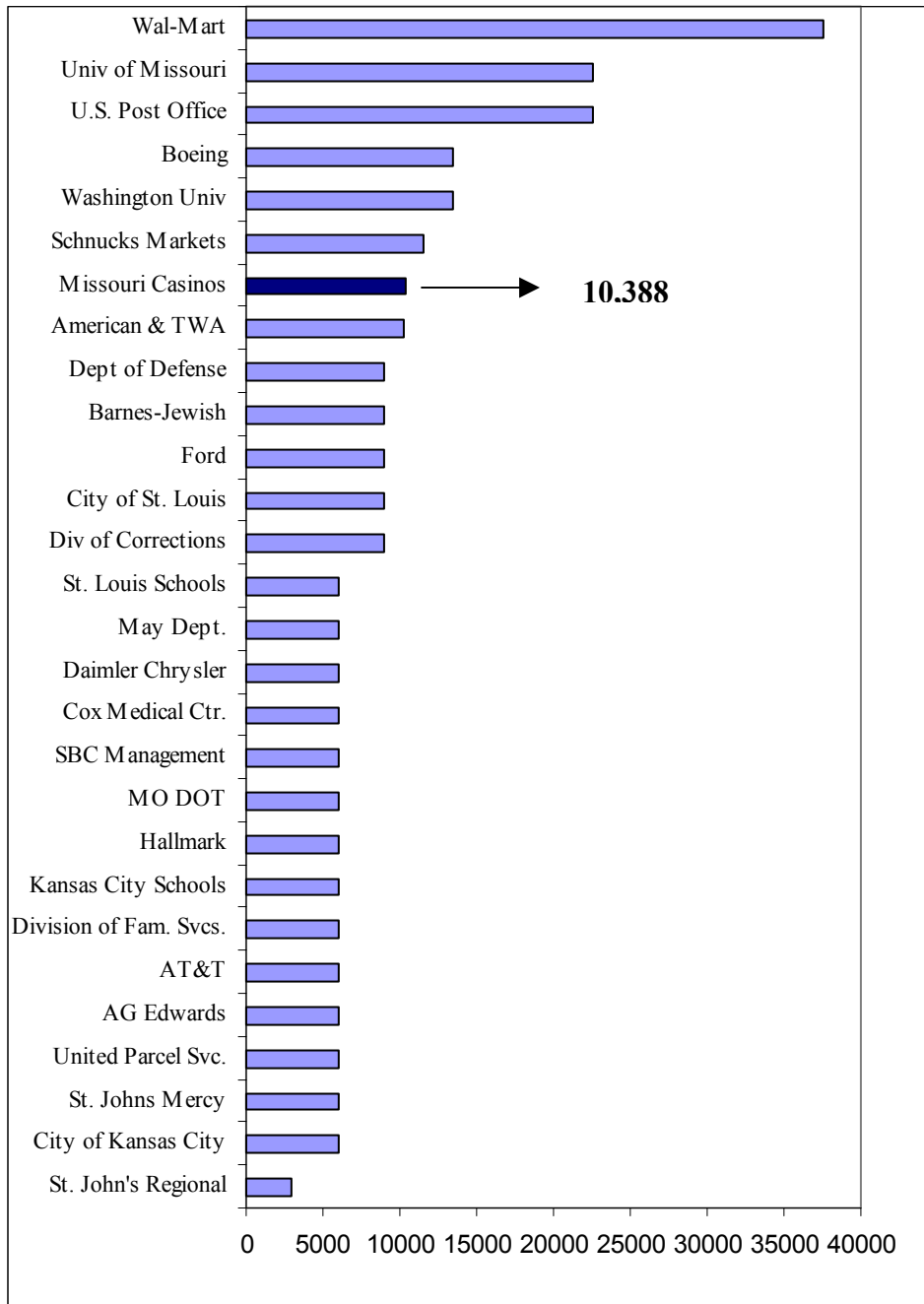
Employment by Missouri Casinos

As shown below, the casino industry is tied for sixth place in terms of Missouri employers. Over 10,000 people worked in Missouri casinos during 2002. This number includes both full and part-time employees. Over eighty-six percent or 8,980 of these workers live in Missouri. The remaining 1,410 individuals are employed in Missouri but live outside the state. It should be noted that out-of-state workers are also subject to the Missouri income tax. The total payroll⁴ for workers in Missouri casinos exceeded \$317 million. The Missouri portion of this amount is 82 percent or \$260 million.

³ The casino industry also pays for the costs of state highway patrolman to provide security and protection. The cost of these patrolmen is around \$5 million per year.

⁴ Payroll includes salaries, benefits and tips income.

Figure 2
Missouri's Top Employers



Financial Planning Model

The starting point of the financial planning model is casino revenue. Revenue figures are reported net of promotional allowances or any discounts that are returned to the customer. Next, state and local taxes and fees are subtracted. After this, labor, benefits and in-state goods and services are deducted. Finally, other expenses are taken away to arrive at net income. Net income (NI) is often referred to as the bottom line. Unless a business unit or

company has positive long run net income, it becomes a prime candidate for either a takeover or a closed operation.

The first scenario presented with the financial planning model shows the baseline or current state of affairs. Current conditions in the Missouri casino industry involve the current \$500 loss limits, a 20 percent gaming tax rate and a \$2 admission fee. The second scenario shows the results of the model with the removal of loss limits. The third scenario is based on the proposal of no loss limits, a 22 percent gaming tax rate and a \$4 admission fee.

Data for the Study

The study relies on data provided by Missouri casinos in the form of income statements, balance sheets and cash flow statements that are also supplied to and subject to audit by the Missouri Gaming Commission. The analysis is based on a survey data from casinos provided for the IMPLAN model. This survey is displayed in Appendix A. The IMPLAN model is used to calculate direct and indirect economic effects. The confidentiality of this data is protected and will be shown and discussed only in aggregate form.

The first item provided by the eleven Missouri casinos was revenue. Revenues are important, as a company's profit is simply the difference between its revenue and expenses. Revenues are often described as a company's topline (profits are often referred to as the bottom line). Total gaming revenues have been increasing in Missouri since their inception in 1995. As shown in Figure 3, Missouri gaming revenue reached over \$1.2 billion in FY 2002. This represents a 16 percent increase over FY 2001. The gain, as reported by the Missouri Gaming Commission, is due in part to the addition of two new casinos and \$60 million in new gaming revenue.

Figure 3

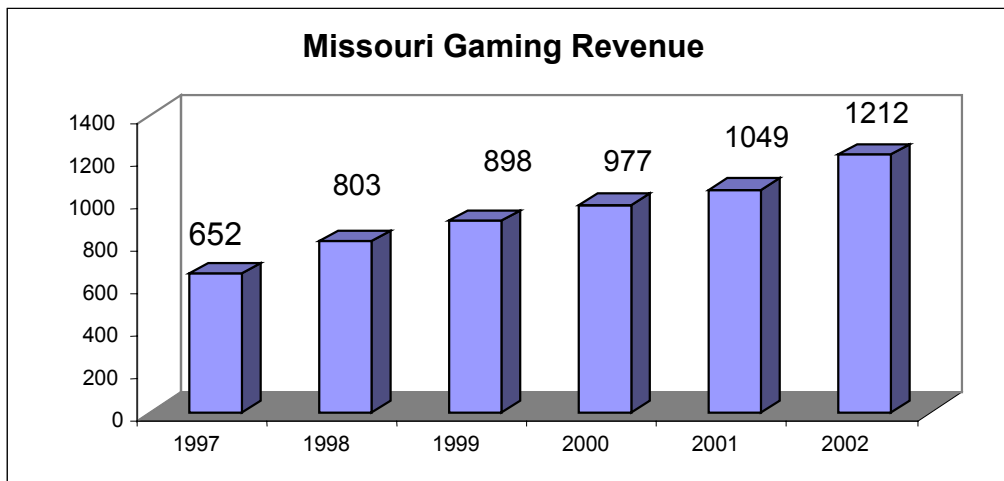


Chart is in \$ millions

Effect of Proposed Changes on the Casino Industry

A financial planning model is employed to determine the effects of the proposed tax increases and the removal of loss limits for Missouri based casinos. Shown first are the results of the model under the current scenario. This table assumes the current scenario of the \$500 loss limits, a 20 percent gaming tax and admission fees of \$2 per person.

Current Baseline Scenario

Total revenue reported is the sum of total gaming revenue plus other revenue less the promotional allowance. The expense categories are presented in a manner that reveals how much money is available for each stakeholder group. For example, taxes and fees are listed first as these funds are used to provide state government services. Second, labor and benefits are paid to workers who in turn pay income taxes to the state of Missouri. Third, in-state goods and services are purchased from vendors and suppliers in the state, who in turn provide jobs and important services in the state. Last, the other expense category includes such expenditures as interest, management fees, depreciation, and other taxes. In addition to these expenses, the casino industry also contributed \$2.4 million to local charities in the form of cash or in-kind contributions. The industry provided another \$1.2 million in the form of improvements to infrastructure. Last, another \$10,000 was donated to public program support for local communities.

Table 2
Baseline: \$500 Loss limits, 20 % gaming tax, \$2 admission fee

Total revenue	\$ 1,274,272	
State taxes and fees	\$ 263,975	20.7 %
Local taxes and fees	\$ 67,848	5.3 %
Labor and benefits	\$ 322,696	25.3 %
In-state goods and service	\$ 150,968	11.8 %
Other expenses	\$ 463,256	36.4 %
Net income	\$ 5,529	.5 %

Table in 000\$'s

The amount included in state taxes and fees includes 18 percent of the 20 percent gaming tax and \$1 of the \$2 admission fee. As indicated, the amount of net income currently remaining after all expenses are subtracted is slightly over \$5.5 million. It should also be noted that the industry net income masks the fact that there are different levels of profitability among casinos. For example, there are currently four casinos with a combined negative net income totaling over \$44 million.

Removal of the Loss Limits

The assumptions used to calculate the effect of the removal of the \$500 loss limits are taken from the February 25, 2003 Fiscal Note analysis by the Missouri Committee on Legislative Research and Oversight Division. According the Missouri Gaming Commission (GAM) the removal of the loss limit will increase gaming revenue and

customer visits to Missouri casinos. GAM believes that gaming revenue and customer visits will increase due to the following three factors:

1. Removing the loss limit will eliminate the need for boarding cards, which track the loss limit. GAM estimates that by eliminating the boarding card requirement, customer volume will increase by about 12%. Based on an average win per customer of \$60, gaming revenue will increase approximately \$172 million
2. Removing the loss limit will increase efficiency at the front gate, table games and slot machines. Currently, when a customer arrives at the casino, they must stop at ticketing to obtain a boarding card, which monitors the loss limit. In addition, each time a customer buys in at a table, play stops while the loss limit controls are initiated (swiping the card to check buy-in status). Likewise, at the slot machines play is often interrupted due to loss limit controls. All these factors combine to reduce gaming revenue and drive customers to other more convenient gaming markets. GAM estimates that by eliminating the inefficiencies caused by the loss limit controls, gaming revenue will increase by 2.8% or about \$35 million.
3. Finally, removing the loss limit will attract high-end customers to Missouri casinos. These are gamers who typically buy-in well above the \$500 level. Removing the loss limit would make Missouri a potential destination market for the out of town high-end customers. GAM estimates that an additional 339,000 high-end customers will visit Missouri casinos at an average win per customer of \$400, thus increasing gaming revenue by about \$136 million.

In summary, GAM initially believed that the removal of the \$500 loss limit would result in additional gaming taxes of approximately \$68,600,000 ((172 million + \$35 million + 136 million) x 20% tax rate) as well as an increase in admission fees of about \$13,812,000. The state's portion of these taxes is 90 percent or \$61.7 million (90 percent times \$68,600,000)

Estimates by Oversight Division

Oversight reviewed the effect of the repeal of loss limits on the state of Iowa and found that Iowa's win per patron increased by approximately \$7.50 when its loss limit was repealed. According to the Gaming Commission, the Adjusted Gross Receipts (AGR) per person, or win per patron in FY 2002 was \$53.71. Oversight then assumed that this proposal would increase the win per patron in Missouri to (\$61.21 (\$53.71 + 7.5)). Assuming a 5% increase in the number of admissions, Oversight estimated that state impact would be an increase in the gaming tax of \$42.8 million and an increase in admission fee revenue of \$2.4 million. The corresponding local increase is estimated to be an increase in gaming tax of \$4.7 million and an increase in the admissions fee revenue of \$2.4 million annually. The FY 2002 win per patron in Iowa was \$49.04 while in calendar 2001 in Illinois it was \$94.85. For fiscal note purposes, Oversight decided to range the potential fiscal impact of this proposal from Oversight's estimates to the Gaming Commission's estimates.

Chart 1
Projected Increase in Gaming Proceeds from Removal of Loss Limits

Gaming Proceeds for Education Fund	
Income – Gaming tax proceeds from repeal of \$500 loss limit	\$ 42.8 million to \$ 61.7 million
Gaming Commission Fund	
Income - Estimated net effect	\$ 2.4 million to \$ 6.9 million

For purposes of this TRIM analysis the midpoint in the range of governmental estimates is used as the approximation for increased revenues due to the removal of loss limits. Accordingly, a \$50 million increase in gaming taxes should be projected. Other assumptions used in the model are as follows:

Chart 2
Assumptions for Model: Removal of Loss Limits

Category	Rate of Growth %
Gross revenue	19
Net revenue	14
Admissions	5
Employment costs	9.5
Local goods and services	14
Other expenses	7

As it turns out, the financial planning model employed for this study produced results that are very close to the midpoint estimate of \$50 million. Using the assumptions listed above, state taxes are projected to grow to \$308,063,000⁵ (an increase of \$44,089,000) and local taxes would increase to \$74,672,000⁶ (an increase of \$6,825,000). Therefore, tax revenues for the state should grow by about \$50 million under this option of loss limit removal.

Table 3
Remove loss limits: 20 % gaming tax, \$2 admission fee

Total revenue	\$ 1,452,694	
State taxes and fees	\$ 308,063	21.2 %
Local taxes and fees	\$ 74,672	5.1 %
Labor and benefits	\$ 353,352	24.3 %
In-state goods and service	\$ 172,103	11.8 %
Other expenses	\$ 495,684	34.1 %
Net income	\$ 48,796	1.8 %

Table in 000\$'s

⁵ This number is computed as follows: Total gaming revenue of \$1,458,694 * .18 = \$262,565 plus revised industry admissions of 45,498 * \$1 admission fee = \$45,498.

⁶ The figure for local taxes and fees is computed as follows: Gaming tax revenue of .02 * \$1,458,692 or \$29,174 and the portion from the \$1 admission fee of \$45,498.

Under this scenario, the loss limits are removed and gaming revenue increases by just over \$178 million. This amount is less than the \$250 million projected in the fiscal note.⁷ Labor and benefits grew by the assumed 9.5 percent to \$353,352. In-state goods and services increased in the model by the assumed rate of 14 percent.

Other expenses improved in the model by 7 percent to \$495,684. Finally, the bottom line for the casino industry is projected to grow by \$43.26 million with the removal of loss limits. In other words, the state would receive about an extra \$50 million and the casino industry should get a bit more than \$43 million. Even with the removal of loss limits and the increased industry net income, there are still four casinos with negative net income.

Governor's Proposal

Governor Holden's original proposal includes the following provisions: increase in the gaming tax rate to 22 from 20 percent, an increase in the state's share of admission fee to \$3 from \$1 and a removal of the \$500 loss limits. Based on these assumptions, the financial planning model results are shown in Table 4.

Total revenue remains at \$1,452,670 based on the increase in gaming revenue due to the removal of loss limits. State taxes and fees increase to just over \$428 million.⁸ This projected level of state taxes and fees represents an increase of \$164.26 million over the current level of state gaming taxes. The new level of local taxes and fees is just over \$74.6 million⁹ and represents a modest increase of \$6.8 million over the current level.¹⁰

Labor and benefits stay put at \$353,352 as in Table 3 under removal of loss limits. In state goods and services also remain at \$172,103 in the model. So too with other expenses, they stay at \$495,683. Lastly, the projected industry net income under this state of affairs is a negative \$71.3 million. Moreover, six of the eleven casinos in the state are unprofitable under this version of the model.

This decline in industry net income represents an overall decline of just under \$77 million from the current industry net income of \$5.5 million. In other words, the big winner under this scenario is the state. The overall position of local governments remains largely unchanged and Missouri casinos are the big losers. This outcome should not be glossed over. The immediate impact of more than one-half of the casino industry losing money would be a stoppage of any further construction spending, and laying off of casino workers. Also, there are at least two casinos that would be put in jeopardy of insolvency.

⁷ The fiscal note projection reflects almost a 20 percent increase in gaming revenue due to the removal of the loss limits. Based on industry projections, the increase in revenue due to the removal of the loss limits is more likely to be near or less than 15 percent.

⁸ This number is computed as follows: new state gaming tax rate of 20 percent * \$1,458,694 (Gross gaming revenue) = \$291,739 plus new state admission fee of \$3 * 45,499 visitors (note that a visitor is counted for every two hour stay at the casino) = \$136,496.

⁹ Local taxes and fees are computed as follows: current \$1 admission fee * 45,499 visitors plus current local gaming tax rate * gross revenue of \$1,458,694 = \$29,174.

¹⁰ Since the entire proposed tax increase is earmarked for the state, the only increase in local tax revenues is a result of the increased activity from removal of loss limits.

Table 4
Governor's proposal: 22 % gaming tax, \$4 admission fee

Total revenue	\$ 1,452,670	
State taxes and fees	\$ 428,236	29.5 %
Local taxes and fees	\$ 74,672	5.1 %
Labor and benefits	\$ 353,352	24.3 %
In-state goods and service	\$ 172,103	11.8 %
Other expenses	\$ 495,684	34.1 %
Net income	\$ -71,377	- 4.8 %

Table in 000\$'s

Economic Impact of the Gaming Industry on the Missouri Economy

Summary of Current Results

The gaming industry has considerable impact on the Missouri economy. In 2002, the gaming industry paid \$404 millions to state and local governments in taxes and fees. The 20% gaming tax and \$2 per patron admission fee, by themselves, generated over \$330 million in revenue for the state and local home-dock communities. The gaming industry also paid \$258 million¹¹ in wages and benefits to the Missouri workers it employs. An additional \$150 million was spent to purchase goods and services from Missouri vendors. Along with these recurring expenditures, the industry continues to invest money to expand and improve gaming and related facilities. In 2002, the industry spent \$340 millions to construct and improve gaming facilities. These direct expenditures by the gaming industry in the state have *ripple or multiplier effects*.

The IMPLAN model, developed by the Minnesota Implan Group, was constructed to estimate the multiplier effects, the total economic effect, which is the sum of direct and ripple effects, of the gaming industry expenditures. Specifically, the model was used to estimate the total impact on state output, state labor income, and state employment from a) the \$404 million in taxes and fees the gaming industry pays to the state and local governments; b) the \$377 million paid to Missouri employees as well as for the purchases of other non-labor goods and services from Missouri vendors; c) and the \$340 million spent for construction expenditures on gaming result facilities.

The spending of out-of-state visitors is a net gain to the Missouri economy.¹² Whether the spending by Missourians has a net positive impact depends on several factors. At issue is where Missourians get the money that they spend at casinos. To the extent that this money comes from potential purchases (visits to gambling venues, travel) out of state or from their current savings, the spending is a net injection into the Missouri economy. To the extent that spending at casinos replaces spending elsewhere in the Missouri economy, then the spending in Missouri casinos does not have net economic impact. For example,

¹¹ The difference between the labor figure presented in Table 2 (\$322.7 million) and the \$258 million cited here is wages and benefits paid to workers who live outside of Missouri.

¹² The spending is a net gain to the Missouri economy to the extent these out-of-state visitors would not have come to Missouri to engage in other types of spending.

Missourians may be going to fewer movies or eating out less often, but using that money to go spend an evening at their local casino. If that is the case, then spending in casinos replace spending elsewhere dollar for dollar. Under such a scenario, increased economic activity at casinos simply replaces decreased economic activities elsewhere in the Missouri economy, and the net impact of the Gaming industry is zero. Therefore, to properly calibrate the economic impact of the Gaming industry, the effect of replacement spending by Missourians has to be netted out.

Spending net of promotional allowances were almost \$1.3 billion in 2002. The mix of out-of-state and in-state Missourians determined the proportion of this spending attributable to Missouri patrons of the gaming venues. Casino data revealed that Missourians spent about \$861 million while out of state visitors spent about \$412 million. It is estimated that of the \$861 millions that the Missouri patrons spent at the casinos, approximately \$554 (*please see Appendix A for details*) million would have been spent elsewhere in the Missouri economy had there been no casinos in the State of Missouri.

Using the IMPLAN model, it is estimated that the taxes and fees paid by casinos, along with casino expenditures on Missouri employees, for the purchase of goods and services in the state and expenditures for construction created \$2 billion in economic output, over \$1 billion in labor income, and almost 31,000 in new jobs. Replacement spending of \$554 million, on the other hand, reduced Missouri output by \$923 million, Missouri income by \$324 million, and Missouri employment by 13,866 jobs. Once adjustment is made for the economic impact of replacement spending, the total impact of the gaming industry remains a significant \$1.14 billion in new economic activity (output), \$681 million in additional labor income, and over 17,106 new jobs. The direct and total economic impact of the various expenditure categories described above along with the effect of replacement spending are shown in Table 5 below.

Table 5
Adjusted Net Economic Impact of Direct Spending by the Missouri Gaming Industry

	Gaming Taxes and Fees	Labor Expenses and Non-Labor Purchases	Construction Spending	Sub-Total	Replacement Spending	Total
Direct Spending	\$404,398	\$377,066	\$340,000	\$1,121,464	-\$553,929	\$567,535
Impact on Output	\$758,740	\$664,305	\$639,071	\$2,062,116	-\$923,117	\$1,138,999
Impact on Labor Income	\$508,583	\$266,331	\$230,337	\$1,005,251	-\$324,596	\$680,655
Impact on Employment	15,706	8849	6,417	30,972	-13,866.5	17,105

Table in 000\$'s

Economic Impact of Changes in Loss Limit, Tax Rates and Admission Fees

Remove Loss Limit Without Changing Tax Rate and Admission Fees

Chart 2 above delineates the assumptions made to derive the financial impact on Missouri casinos if changes in the current laws are made. If the loss limit is dropped and taxes remain at 20% while fees continue to stay at \$2 per visitor, the state and local governments will collect \$383 million in taxes and fees compared to the baseline of \$332 million (current law). Further, casino Missouri non-labor and labor purchases will increase to \$180 million and \$240 million compared to the baseline of \$158 million and \$219 million respectively. Since casinos under a no loss limit scenario enjoy positive net income, it is estimated that casinos will spend a planned \$60 million annually in construction and improvements to gaming related facilities.

If the casino loss limit is dropped, casino net revenues will increase \$1,453 million from \$1,274 million, an increase of \$177 million. Since Missourians account for 68% of all casino spending¹³, Missourians will spend a total of \$983 million in casinos. 64.4% of this spending displaces other spending in Missouri. Therefore, the total replacement spending would equal \$633 million, an increase of almost \$80 million. The multipliers used to construct the economic impact (output impact) reported in Table 5 are used to analyze the effect of the changes in state and local taxes and fees, non-labor and labor expenses, construction, and replacement spending outlined above. These effects are displayed in Table 6 below. Thus, the removal of loss limit will result in an

Table 6

Economic Impact of Removing Loss Limit, Tax Rate = 20%, Admission Fees = \$2

	Baseline	Without Loss limit	Change	Multiplier	Impact
Taxes and Fees	\$331,823	\$382,735	\$50,912	1.88	\$95,715
Non-Labor Purchases	\$158,000	\$180,120	\$22,120	1.85	\$40,922
Labor Purchases	\$219,066	\$239,877	\$20,811	1.68	\$34,963
Planned Construction	0	\$60,000	\$60,000	1.88	\$112,800
Replacement Spending	-\$553,929	-\$633,332	-\$79,403	1.67	-\$132,603
Net Impact					151,396

Table in 000\$'s

¹³If loss limits were removed in Missouri, there would be an increase in the number of out-of-state individuals who would be attracted to Missouri casinos. In addition, there would be a reduction in the number of individuals from Missouri who leave the state to avoid current loss limits. It is difficult to estimate exactly how the 68 percent figure would change under the new scenario. The Missouri Gaming Commission estimates that substantial numbers of gaming revenues are being lost currently to Illinois due to the existence of loss limits.

additional \$151 million in additional economic activity in the State of Missouri. It should be noted that this represents a significant increase in economic activity compared to the current baseline level.

Governor’s Proposal

The Governor’s proposal removes the loss limit but increases gaming taxes to 22% of revenue and admission fees to \$4 per visitor. Financial analysis above shows that net income of the casinos as a group falls from \$5.5 million to a net loss of over \$71 million. Further, more than half the casinos will have negative net income, with some of them having net losses much larger than the industry average of -4.8%. To ascertain the economic impact of the Governor’s proposal, two scenarios are constructed:

- a) Casinos, to cut costs, forego planned construction spending of \$60 million a year
- b) One casino closes or equivalently, reduces employment by 9%, and Missouri payroll spending by the same amount. The purchases made by casino employees would decline to \$199 million from the baseline of \$219 million.
- c) Loss of a casino will not affect industry revenue: other Missouri casinos absorb all new revenues created with the removal of loss limit.
- d) Additional revenue and admission fees will increase state and local revenue to almost \$503 million

Table 7

Economic Impact, Governor’s Proposal, 1 Casino Closing (or 9% employment loss)

	Baseline	With Absorption	Change	Multiplier	Impact
Taxes and Fees	\$331,823	\$502,908	\$171,085	1.88	\$321,640
Non-labor Purchases	\$158,000	\$180,120	\$22,120	1.85	\$40,922
Labor Purchases	\$219,066	\$199,150	-\$19,915	1.68	-\$33,457
Planned Construction	0		0	1.88	0
Replacement	-\$53,929	-\$633,332	-\$79,403	1.67	-\$132,603
Total Impact					\$196,501

Therefore, if other casinos are able to absorb all new visits to casinos and all new revenues generated from the removal of the loss limit, the net economic impact on the state would be an additional \$196 million. However, whether the casinos are able to absorb the new business could very well depend on where casino closings occur. If, for example, the casino closings occur in the Saint Louis or the Kansas City market, it would be reasonable to assume that other area casinos will substantially pick up the customers of the closed casino. But some of the Missouri casinos are located in the areas of the state

substantially distant from the Saint Louis or the Kansas City market. If one of these casinos close, it is quite possible that casino revenues will decline because casino patrons will either choose to spend their money in out-of-state facilities or choose to spend their money in activities other than gambling. If other casinos cannot absorb the business of closing casinos, the decline in casino admissions and gaming revenue will result in lower government revenues as well. The table below shows the economic impact of 1 or two casino closing due to the new tax proposals. The impacts are constructed using the following scenarios:

- Either one or two casinos close, and purchases made by casino employees decline \$219 million to \$199 million (1 casino closing) or \$179 million (2 casinos closing)
- Casino non-labor purchases decline from \$180 million to \$162 million (1 casino closing) or \$148 million (2 casinos closing)
- Casinos forego any planned construction activity.
- With the removal of loss limits casino revenues increase to \$1,307 millions (from \$1,274, 1 casino closing, without absorption) or decrease \$1,191 millions (from \$1,274, 2 casinos closing, without absorption).
- State and local revenues increase because of the higher tax rates and admission fees. Revenues increase to \$452 million (instead of \$503 million, 1 casino closing, no absorption) or to \$412 million (instead of \$503 million, 2 casinos closing, no absorption)

Table 8

Economic Impact of Governor’s Proposal Without Absorption: 1 or 2 Casinos Close

	Casinos Closing	Change	Impact	Casinos Closing	Change	Impact
	1			2		
Taxes and Fees	\$452,617	\$120,794	\$227,093	\$412,385	\$90,745	\$170,600
Non-labor	\$162,108	\$4,108	\$7,599	\$147,698	-\$10,301	-\$19,058
Labor	\$199,151	-\$19,915	-\$33,457	\$179,634	-\$39,431	-\$66,246
Construction	0		0	0	0	
Replacement	-\$570,353	-\$16,424	-\$27,838	-\$519,655	\$34,274	\$57,838
Net Impact			\$173,807			\$142,534

The net economic impact is still positive for the Missouri economy, though it comes at cost: lost employment in the casino industry. Overall, the changes in the tax laws have very modest economic impact on the state of Missouri, though the impact on the casino industry is quite significant. Though the economic impact of the overall economy is small, the impact on home dock localities could be quite significant. Casino taxes, fees, and lease revenue are a substantial percentage of revenues collected by some of the home

dock communities. Further, casino employment constitutes a significant part of local employment. Loss of employment and revenue could result in significant economic development challenges for the local communities that lose a casino.

Other Considerations and Conclusion

In assessing the economic impact of the gaming industry on the Missouri economy, the primary consideration is given to the directly observable spending by casinos in Missouri and by the patrons of those casinos. There are several items that deserve further consideration and assessment. Among them are the following:

- In assessing the economic effect of the gaming industry, the impact of taxes and fees paid by the casinos to state and local government has been included. But as casinos make purchases, casino employees make purchases, and casinos spend money on construction activities to generate ripple effects, additional state and local taxes are created. For example, gaming industry construction spending of \$340 million result in over \$5 million in state income taxes and over \$7 million in sales taxes. Including all other taxes, the total additional taxes are over \$19 million. These additional taxes, when spent by the state and local communities, create output, income, and employment. For example, the total economic impact of the \$19 million of additional taxes, when spent by state and local governments, would equal over \$32 million in additional output. Similar effect would result from the taxes created by casino non-labor purchases. These effects are in addition to the effects reported above. To the extent that these effects are not included, the economic impact of the gaming industry is under-reported.
- Out of state patrons of the gaming industry not only spend money at the casinos, but may also be spending considerable sums at other entertainment venues such as restaurants, clubs, and theaters, and also making purchases at local shops and other retail outlets. Further, some of the out-of-state patrons may be staying at non-casino hotels in the vicinity of the casinos. This money is spent in the state of Missouri, and they generate positive economic impact. To the extent that these expenditures are not included, the results reported above understate the economic impact of the gaming industry.
- The gaming industry in Missouri paid over \$100 millions in interest and debt service. Further, the industry had almost \$80 million in depreciation expenses. To the extent that interest and debt service payments are made to Missouri financial institutions and depreciation reserves are held in Missouri banks, these activities will have a positive impact on the Missouri economy.
- Critics of the gaming industry highlight the phenomenon of problem gaming and the economic cost of such gaming. These costs include the cost of treatment of problem gamers, enforcement; cost of crime associated with problem gaming as well as lost productivity of problem gamers. To the extent these costs are not included in the current study; the results reported above overstate the economic

impact of the gaming industry.¹⁴ According to the US Gambling Research Institute (1998) report, there seems to be a correlation between the increased availability of gambling opportunities and problem gambling behavior. In terms of quantifying the actual costs of problem gaming there is a divergence of opinion regarding the size of these costs. We accept the premise that problem gaming incurs actual costs to society. The users of the report may make adjustments to the final net economic effect in Missouri from the gaming industry to consider problem gaming costs.

- It should also be noted that the casino industry also accepts the premise that problem gambling behavior exists. In recognition of this problem, the Missouri Riverboat Gaming Association (MRGA) recently bolstered a new help line and added new programs to address these issues. MRGA now funds 1-888-BETSOFF, a statewide telephone crisis line and referral service for problem gambling. The telephone line provides immediate crisis response and referral to the statewide network of outpatient gambling clinics and certified compulsive gambling counselors. All casinos also provide employees with informational training on responsible gaming subjects. In addition, the Missouri Gaming Commission (MGC) administers a voluntary exclusion program for problem gamblers. The unique program, created in 1996, provides problem gamblers with a method to acknowledge that they have a gambling problem and take personal responsibility for it by agreeing to stop visiting riverboat casinos. The exclusion is for life. Research indicates that problem gambling is a lifetime condition and those who suffer from it are never “cured” but are constantly “recovering”. Casinos are then required to block all direct mailings and other promotional enticements to people in the program. Finally, if a problem gambler who has requested to be excluded chooses to violate his/her agreement and visit a Missouri casino, s/he is arrested for trespassing upon discovery.
- The state of Missouri also recognizes the existence of problem gaming and utilizes funds from 1 cent of the admission fee dedicated to alleviate the consequences of problem gaming. For example, funding for the compulsive

¹⁴See Grinols, E L, “Who loses when casinos win?” Illinois Business Review, Champaign; Spring 1996; Vol. 53, Issue. 1; pg. 7, 6 pgs. See also, Lynda de la Vina; and David Bernstein, “The Impact of Gambling on Personal Bankruptcy Rates,” Journal of Socio-Economics; Greenwich, 2002 where the authors failed to find evidence to support the hypothesis that the introduction of gambling increased bankruptcy rates. Conversely, See, Barron, John M., Michael E Staten and Stephanie M Wilshusen, “The Impact of Casino Gambling on Personal Bankruptcy Filing Rates,” Contemporary Economic Policy, Huntington Beach, Oct. 2002 where a link is shown between casino gambling and bankruptcies. See also; Gazel, Ricardo C., Dan S Rickman and William N Thompson, “Casino Gambling and Crime: A Panel Study of Wisconsin Counties,” Managerial and Decision Economics; Chichester; Jan-May 2001 where the authors found evidence to support an increase in the crime rate after the introduction of casinos. See McLaughlin, John, “Placing Their Bets,” Restaurant Business, New York, Nov. 20, 1993 where author shows local restaurants welcome casinos for business opportunities. See also, Boulard, Garry, “New Gulf Coast Casinos Transform Bayou Tourism,” Hotel and Motel Management, Deluth, Sep. 6, 1999 where positive effects of casinos are discussed for the hospitality industry. Finally, see Goodman and Feser (1998) for an estimate of actual costs of problem gaming.

gambling counseling program is derived from a portion of the admission fees paid by the riverboat casinos.

While the costs and benefits of these additional items have not been explicitly assessed in this study, it would not be too far off to suggest that the costs and benefits to some extent offset each other. Therefore, the conclusion is that, subject to the social costs of gaming discussed above, the Missouri gaming industry has a net positive impact on the Missouri economy: it helped produce \$1 billion in additional output in 2002, helped create 17,100 new jobs in the State of Missouri, and generated an additional \$680 million new income in the state. Changes in the tax laws and loss limit laws will have modest economic impact on the State of Missouri. However, these changes are likely to have very significant effect on the Casino industry itself, including the possible closure of 1 or 2 casinos. Further, casino closings could significantly retard economic development activities in local home dock communities, which rely on casinos as an important source for local employment and revenue.

APPENDIX A Replacement Spending

Spending net of promotional allowances were almost \$1.3 billion in 2002. The mix of out-of-state and in-state Missourians determined the proportion of this spending attributable to Missouri patrons of the gaming venues. Casino data revealed that Missourians spent about \$861 million while out of state visitors spent about \$412 million. It is estimated that of the \$861 millions that the Missouri patrons spent at the casinos, approximately \$553 million would have been spent elsewhere in the Missouri economy had there been no casinos in the State of Missouri.

Without an appropriate survey of Casino patrons and their spending habits, it is difficult to estimate how much of the \$861 million constitutes replacement spending. However, Leven and Phares estimated that in 1996 Missouri casino patrons would have spent about \$265 million, or 64.3%, of their casino spending of \$412, purchasing other good and services. A similar survey in Louisiana revealed that replacement spending by Louisiana patrons of Louisiana casinos was about 68%. Since these two estimates of replacement spending are quite similar, the 64.3% replacement spending was used to study the economic impact of replacement spending by Missourians. Therefore, it is estimated that of the \$861 millions that the Missouri patrons spent at the casinos, approximately \$554 million would have been spent elsewhere in the Missouri economy had there been no casinos in the State of Missouri.

The next question that arises what would have Missourians bought with the \$554m millions, had they not spent this money at the casinos. The Consumer Expenditure Survey of the BLS publishes data on household consumption patterns. It is assumed that consumers would have spent the \$554 million in the same proportion as in the expenditure survey, had they not spent the money gambling. In using the BLS expenditure data in a way that says that consumers would consume goods and services in the same proportion before and after changes in income, it is implicitly assumed that the income elasticity of various goods and services is equal to one. This assumption is likely to be true generally. Even if a few goods have income elasticities that are different from one, the redistribution into different spending within the categories below is unlikely to significantly affect the overall results presented in the economic impact of replacement spending.

Replacement Spending

Expenditure Category	(000's)
Food and Beverage	-\$85,561
Housing	-\$106,099
Utilities	-\$41,354
Household Operations/Supplies	-\$17,748
Home Furnishings	-\$24,408
Apparel	-\$27,000
Transportation	-\$120,297

Health Care	-\$34,596
Entertainment	-\$33,015
Reading/Education	-\$13,025
Personal Care	-\$7,952
Other Expenses	-\$42,874
Total	-\$553,929

table in 000\$'s

These expenditure leakages define the direct effect of replacement spending. As these leakages occur, they have multiplier effects. The multiplier effects, as before, are computed using the IMPLAN model. The table below summarizes the output, employment, and income effects of the spending leakages. Spending in casinos resulted in \$932 millions of reduced economic activity, and the loss of 13,866 jobs and over \$324 millions in labor income.

APPENDIX B
Request for Data from Missouri Gaming Venues for 2002

Please provide the requested revenue and expense data for the calendar year 2002.

To maintain consistency, please report all data, when available, according to classification below.

Any expense item not included in the classification below can be reported in the last section under "OTHER INFORMATION".

Please avoid double counting.

I. CURRENT REVENUES AND OPERATING EXPENSES

A. CURRENT REVENUE

GAMING REVENUE:

NON-GAMING REVENUE:

- Food and Beverage
- Retail Sales
- Parking
- Hotel
- Other (Please specify)

If available, indicate the \$ amount (or proportion of) revenue above generated from:

IN STATE (MISSOURI) VISITORS

GAMING

NON-GAMING REVENUE

OUT OF STATE VISITORS

GAMING

NON-GAMING REVENUE

B. CURRENT (OPERATING) EXPENSES

(Whenever possible please distinguish between expenses incurred in Missouri and expenses incurred due to out-of-state purchases).

Labor (Wages, benefits and other expenses – including tips)

Utilities

Services (Advertising, Management, Legal and Accounting)

Security and Surveillance

Food and Beverage purchases

Insurance

Enforcement

Maintenance and Repair Supplies

Entertainment

Leasing: land and equipment, etc.
Depreciation
Interest and other debt service expenses
Responsible gaming (aggregate sums of 1 cent admission fees, hotline, training and other expenses)

C. TAXES, FEES, LICENSE EXPENSES

Federal
Corporate Income
Payroll
License and fees
Other (specify)

State
Gaming tax
Admission fees
Corporate Income
Payroll
License and fees
Other (specify)

Local
Gaming tax
Admission fees
Corporate Income
Payroll
Property
Utility (Gross receipts)
License and fees
Other (specify)

II. GAMING VENUE CONTRIBUTIONS TO LOCAL COMMUNITY

Include both cash and cash value of in-kind contributions made by your venue to the local community

Cash or equivalent
Improvements and infrastructure
Public program support (e.g., police, fire, training, education, comm. dev., etc.)
Other (specify)

III. EMPLOYEES

Number of full and part-time employees (Distinguish between Missouri and out-of-state workers)

IV. ADMISSIONS

From Missouri

From outside Missouri

V. VISITORS

Number of Visitors-- in state, day trips gaming/non-gaming

Number of Visitors—out-of-state, day trips gaming/non-gaming

Number of Visitors-- in state, overnight, gaming/non-gaming

Number of Visitors—out-of-state, overnight, gaming/non-gaming

VI. OTHER INFORMATION

Construction costs:

Provide total expenses of project and the duration over which the costs will be incurred.

Planned construction activity can be included as long as dates are firmly specified.

Land acquisition

Site improvement

Structures (in state and other)

Gaming equipment and furniture (in state and other)

Number of Construction Employees.

To the extent possible, please provide demographic information about visitors to you venue (in-state/out of state), and amounts spent per visit.

Please provide any other information that you feel will be useful in this study.

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ADDENDUM (September 22, 2003)

The Economic Impact on the Missouri Economy and the Financial Impact on the Missouri Casino Industry From Two Recent Proposals

In this addendum, the economic impacts of two additional proposals are reported. The most recent proposal advanced by the Holden administration in Missouri combines removal of loss limit with an increase in the state taxes from 18% to 20%. A second version of this proposal joins the idea of removal of loss limits with an additional 2 percent tax rate on revenues in excess of \$30 million. This proposal is designed to alleviate the burden of the tax increase on smaller casinos with total revenue under \$30 million. As with the original report, the format of this addendum is first an analysis and presentation of the financial impact of additional taxes and/or removal of loss limits on the casino industry. The second section shows the economic impact of the two proposals on the state of Missouri.

Introduction

Under current law, there is a \$500 loss limit on casino betting. Moreover, casinos now pay a combined state and local tax of 20% (18% state, 2% local) of gross revenue. Further, there is a \$2 per patron admission fee, proceeds from which are shared equally between the state and the home dock locality. As shown in the text of the original report (Table 2, reproduced below), the Missouri casino industry received \$1.27 billion in net revenue for the year ended December 31, 2002. In addition, state and local governments collected over \$330 million in taxes and fees. The net income for Missouri casinos was \$5.5 million. This is a positive return of less than 1 percent. Significantly, under current conditions, 4 of the 11 casinos had negative net income. As discussed in the main text, the figures in Table 2 are the baseline figures used to compare the financial and economic impact of alternative proposals such as changes in loss limits, tax rates, and admission fees.

Table 2 (reproduced here)
Baseline: \$500 Loss limits, 20 % gaming tax, \$2 admission fee

Total revenue	\$ 1,274,272	
State taxes and fees	\$ 263,975	20.7 %
Local taxes and fees	\$ 67,848	5.3 %
Labor and benefits	\$ 322,696	25.3 %
In-state goods and service	\$ 150,968	11.8 %
Other expenses ¹⁵	\$ 463,256	36.4 %
Net income	\$ 5,529	.5 %

Table in 000\$'s

¹⁵ The other expense category includes such expenditures as interest, management fees, depreciation, and other taxes. For some casinos, the 5 percent management fee is paid to the parent company. Previous studies document the fact that these charges are assessed as arms length amounts. In other words, the casinos would have to pay this amount to an external firm for the same type of management services provided.

The financial impact of removing the loss limit without changing the tax rates and admission fees are also discussed in the original report. In modeling the financial impact of proposed changes, the following assumptions (Chart 2 of text, reproduced below) are made.

Chart 2 (reproduced here)
Assumptions for Model: Removal of Loss Limits

Category	Rate of Growth %
Gross revenue	19
Net revenue	14
Admissions	5
Employment costs	9.5
Local goods and services	14
Other expenses	7

Using the assumptions listed above, if loss limits are removed without changing tax rates or admission fees, state taxes and fees are projected to grow to \$308,063,000 (an increase of \$44,089,000) and local taxes and fees are projected to increase to \$74,672,000 (an increase of \$6,825,000). Accordingly, Missouri tax revenues are projected to grow by \$45 million under the option of loss limit removal (shown in Table 3 of text, and reproduced below). Moreover, local revenues would grow by nearly 7 million under these assumptions. In summary, total taxes would increase by about \$50 million under this option due to increased casino gross revenue. Moreover, casino net income is projected to increase to more than \$48 million. This represents a growth of about \$43 million, which happens to be close to the amount of projected growth in Missouri gaming tax revenues.

Table 3 (reproduced here)
Remove loss limits: 20 % gaming tax, \$2 admission fee (current rates)

Total revenue	\$ 1,452,000	
State taxes and fees	\$ 308,063	21.2 %
Local taxes and fees	\$ 74,672	5.1 %
Labor and benefits	\$ 353,352	24.3 %
In-state goods and service	\$ 172,103	11.8 %
Other expenses	\$ 495,684	34.1 %
Net income	\$ 48,795	3.4 %

Table in 000\$'s

Financial Impact of the Proposal to Remove Loss Limit and the Imposition of an Additional 2% Tax on Gross Casino Revenues

One of the main concerns of this addendum is to analyze the following changes to current law: a) removal of the \$500 loss limit, and b) the imposition of an additional 2% tax on all casino gross revenue. The proceeds from this additional 2% tax would accrue to Missouri state government. Under this proposal, the admission fees would remain at the current rate \$2 per patron. The assumptions outlined in Chart 2 above are also used here.

Table 4A (Addendum)

Removal of Loss Limits and Imposition of 20 Percent State Gaming Tax Rate

Total revenue	\$ 1,452,000	
State taxes and fees	\$ 337,237	23.2 %
Local taxes and fees	\$ 74,672	5.1 %
Labor and benefits	\$ 353,352	24.3 %
In-state goods and service	\$ 172,103	11.8 %
Other expenses	\$ 495,684	34.1 %
Net income	\$ 19,621	1.4 %

Table in 000\$'s

Compared to the baseline in Table 2, state and local tax and fee revenues increase to almost \$412 million under this proposal. This constitutes an additional \$80 million in revenues for state and local governments, with the state projected to receive the bulk (\$73 million) of the additional revenue. Casino net income also increases to nearly \$20 million (though four casinos still continue to lose money). This represents an increase of almost \$14.1 million over the \$5.5 million base line amount shown in Table 2.

In summary, this proposal results in additional tax revenues to the state of \$73 million, to local governments of \$7 million and additional profits to the casino industry of approximately \$14 million. The new levels of state and local taxes and casino net income are \$412 and \$20 million respectively.

Financial Impact of the Proposal to Remove Loss Limit and Imposition of an Additional 2% Tax on Gross Casino Revenues in Excess of \$30 million

The final part of this addendum outlines the combination of removal of loss limits with the imposition of an additional 2 percent gaming tax on casino revenues in excess of \$30 million. Thus, the first \$30 million of gross revenue would be subject to a total state and local tax rate of 20%, while revenues in excess of \$30 million would be subject to a total tax rate of 22%. This proposal is designed to alleviate the burden of the tax increase on smaller casinos with total revenue under \$30 million. The proceeds from the additional 2% tax would accrue to the state government. Under this proposal, the admission fees would also remain at the current rate \$2 per patron.

Table 4B (Addendum)

Removal of Loss Limits and 20 Percent Tax Rate on Revenue in Excess of \$30 million

Total revenue	\$ 1,452,000	
State taxes and fees	\$ 330,700	22.8 %
Local taxes and fees	\$ 74,672	5.1 %
Labor and benefits	\$ 353,352	24.3 %
In-state goods and service	\$ 172,103	11.8 %
Other expenses	\$ 495,684	34.1 %
Net income	\$ 26,159	1.8 %

Table in 000\$'s

As presented above in Table 4B, state and local tax and fee revenues increase by \$74 million from \$331 to almost \$405 million under this proposal. This constitutes an additional \$66.7 million in state revenue and \$7 million for local government.¹⁶ These results demonstrate a modest departure from the numbers displayed in Table 4A. The only real difference is a decrease in tax collections of \$6.5 million due to the tax being imposed on revenues in excess of \$30 million. Accordingly, casino net income also increases by \$6.5 million to over \$26 million (though four casinos still continue to lose money). This also represents an increase of over \$20 million compared to the \$5.5 million base line amount shown in Table 2.

In summary, this proposal results in additional tax revenues to the state of \$67 million, to local government of \$7 million and additional profits to the casino industry of approximately \$20 million. The new levels of state and local taxes and casino net income are \$405 and \$26 million respectively.

Net Additional Economic Impact of the Proposal to Remove Loss Limit and Impose an additional 2% State Tax on Revenues

In Table 6 of the text (reproduced below), the net additional impact of removing the loss limit without changing the tax rate was reported.

Table 6 (reproduced here)

Economic Impact of Removing Loss Limit, Tax Rate = 20%, Admission Fees = \$2

	Baseline	Without Loss limit	Change	Multiplier	Impact
Taxes and Fees	\$331,823	\$382,735	\$50,912	1.88	\$95,715
Non-Labor Purchases	\$158,000	\$180,120	\$22,120	1.85	\$40,922
Labor Purchases	\$219,066	\$239,877	\$20,811	1.68	\$34,963
Planned Construction	0	\$60,000	\$60,000	1.88	\$112,800
Replacement Spending	-\$553,929	-\$633,332	-\$79,403	1.67	-\$132,603
Net Impact					\$151,396

Table in 000\$'s

Table 4A above showed the net financial impact of removing the loss limit but imposing an additional 2% tax on casino gross revenue. With the additional tax, state and local taxes and fees paid by the casinos increase to \$412 million, an increase of \$80 million compared to payments made under current law. Further, it is projected that casinos will make non-labor purchases of \$180 million from vendors in the State of Missouri. Missouri employees of casinos are projected to spend another \$239 million in the state. Since casino net income increases with the removal of the loss limit, we continue to assume that casinos will spend \$60 million on construction. As all of this money is spent, the spending will have multiplier effect. However, with the removal of loss limit, Missourians will spend more of their disposable income in casinos, reducing their in state spending on other goods and services by an additional \$79 million. The net additional

¹⁶ Compared to the current baseline figures shown in Table 2.

economic effect of removing the loss limit and imposing an additional 2% tax is shown in Table 6A below.

Table 6A
 Economic Impact of Removing Loss Limit, State Tax Rate = 20%,
 Local Tax Rate = 2%, Admission Fees = \$2

	Baseline	Without Loss limit	Change	Multiplier	Impact
Taxes and Fees	\$331,823	\$411,909	\$80,086	1.88	\$150,562
Non-Labor Purchases	\$158,000	\$180,120	\$22,120	1.85	\$40,922
Labor Purchases	\$219,066	\$239,877	\$20,811	1.68	\$34,963
Planned Construction	0	\$60,000	\$60,000	1.88	\$112,800
Replacement Spending	-\$553,929	-\$633,332	-\$79,403	1.67	-\$132,603
Net Impact					\$206,644

Table in 000\$'s

Compared to the current economic impact of Missouri casinos (baseline), the removal of loss limit and imposing an additional 2% tax on gross revenues increases the net impact on the state by an additional \$200 million. Compared to the scenario where only the loss limit is removed (Table 6 above), the additional 2% tax creates a net additional positive impact for the state (Compared to Table 6, Table 6A shows the increase in additional net impact to be about \$55 million.). This positive impact occurs because money that would likely flow out of state in casino profits instead remains in state in the form of higher tax revenue.

**Net Additional Economic Impact of the Proposal to Remove Loss Limit and
 Impose an additional 2% State Tax on Revenues Exceeding \$30 million**

The economic impact of the alternative proposal, remove loss limit and impose an additional 2% tax on gross revenue exceeding \$30 million, is reported in Table 7A below. As shown in Table 4B above, removal of the loss limit increases casino visits, enhances casino revenue, and also increases casino payroll and casino purchases of goods and services in the State of Missouri. Change in casino visits and revenue generates additional tax revenue and fees for the state and home dock localities. The additional 2% tax on gross revenues exceeding \$30 million also shifts revenues from the casinos to the state government. State and local governments use the additional revenue to support public education and make other non-education purchases in the state. This additional in-state spending by the state explains the higher net impact of \$194 million (compared to the baseline) and net additional impact of \$43 million reported in Table 6 above.

Table 7A (Addendum)

Economic Impact of Removing Loss Limit, Tax Rate = 20%, Admission Fees = \$2

	Baseline	Without Loss limit	Change	Multiplier	Impact
		Additional 2% Tax on Revenues Exceeding \$30 million			
Taxes and Fees	\$331,823	\$405,372	\$73,549	1.88	\$138,272
Non-Labor Purchases	\$158,000	\$180,120	\$22,120	1.85	\$40,922
Labor Purchases	\$219,066	\$239,877	\$20,811	1.68	\$34,963
Planned Construction	0	\$60,000	\$60,000	1.88	\$112,800
Replacement Spending	-\$553,929	-\$633,332	-\$79,403	1.67	-\$132,603
Net Impact					\$194,354

Table in 000\$'s

In both scenarios discussed above, it is assumed that the removal of the loss limit will result in casinos spending \$60 million in construction to improve casino related infrastructure. However, compared to the scenario where loss limit is removed without additional taxes, the imposition of the additional 2% tax results in lower casino net income. If casinos, as a result, reduce their planned construction expenditures, then the net economic impact would be lower. For example, if casinos cut planned expenditures by half to \$30 million, then the net economic impact on the state will be reduced by almost \$56 million.

Summary

The purpose of this addendum is to analyze two additional proposals regarding casino taxation in Missouri. The first proposal combines a two percent increase in the gaming tax rate with the removal of loss limits. The second proposal is very similar except for a provision whereby the additional 2 percent tax is not imposed on casino revenues below \$30 million. This provision is designed to alleviate the tax burden on smaller casinos.

In discussing the finances of the casino industry, it is helpful to note that the current level of net income is \$5.5 million. As reported in the original report, the removal of loss limits would increase casino industry net income by about \$44 million. Similarly, the economic impact for the state was calculated to be \$151 million. The first proposal combines a 2 percent tax increase with removal of loss limits. Under this scenario, industry net income would be just over \$19 million and the economic impact on the state would increase to over \$206 million. The final proposal combines removal of loss limits with the 2 percent tax increase on casino revenue over \$30 million. Casino industry net income would grow to just over \$26 million in this case. Likewise, the economic impact for the state would be \$195 million.