

**A REVIEW OF SOME OF THE KEY ISSUES FOR
GOVERNMENTS CONSIDERING THE
INTRODUCTION OF OPEN/URBAN/MONOPOLY
CASINOS**

by

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TABLE OF CONTENTS

	Page No.
ABSTRACT	
ABSTRACT.....	7
SECTION 1 -- INTRODUCTION	
1.0 INTRODUCTION.....	9
1.1 HISTORY OF CASINOS.....	10
1.2 GOVERNMENTS AND CASINOS.....	13
1.3 GAMBLING AND ITS ROLE IN THE ECONOMY.....	14
1.4 SCOPE OF STUDY.....	15
Table 1.1 Key Statistics of Proposed Casinos.....	19
Table 1.2 Estimate of Cost of Problem Gamblers.....	19
SECTION 2 -- CASINO MODELS	
2.0 INTRODUCTION.....	20
2.1 CASINO STYLES.....	20
2.2 CASINO TYPES.....	22
2.3 CASINO LEGISLATIVE MODELS.....	23
2.4 CATEGORIZATION OF CASINOS.....	24
2.5 APPLICATIONS.....	25
2.5.1 United States.....	25
2.5.2 Europe.....	28
2.5.3 United Kingdom.....	29
2.5.4 Asia/Pacific.....	29
2.5.5 Australia.....	30
2.6 RECENT DEVELOPMENTS IN URBAN CASINOS.....	31

TABLE OF CONTENTS

Page
No.

2.7 CONCLUSION.....	33
TABLES	
Table 2.1 Casino Categories.....	24
Table 2.2 Major U.S. Urban Casinos.....	34
Table 2.3 Major U.S. Riverboat Casinos.....	34
Table 2.4 States with Indian Reservation Casinos.....	35
Table 2.5 Major European Casinos.....	35
Table 2.6 Major United Kingdom Casinos.....	36
Table 2.7 Major Asian/Pacific Casinos.....	36
Table 2.8 Australian Casinos.....	37

SECTION 3 -- LEGISLATIVE CONTROLS

3.0 INTRODUCTION.....	38
3.1 LEGISLATION AND CONTROLS.....	39
3.2 HISTORY AND MODELS OF LEGISLATION.....	40
3.2.1 United States.....	40
3.2.2 Australia.....	41
3.3 OWNER ENTITIES.....	42
3.3.1 Probity Checks On Casino License Bidders.....	43
3.3.2 Controls Placed On Changes To Ownership.....	43
3.4 LICENSEE ENTITIES.....	46
3.5 MONOPOLY/EXCLUSIVITY STATUS.....	49
3.6 MIX OF GAMING OPERATIONS.....	51
3.7 FOREIGN OWNERSHIP.....	53
3.8 DEVELOPMENTS ASSOCIATED WITH A CASINO.....	54
3.9 TEMPORARY CASINOS.....	56
3.10 CONCLUSION.....	58
TABLES	
Table 3.1 The 10 Largest Share holders of Jupiters Limited.....	59
Table 3.2 Permitted Games.....	59

TABLE OF CONTENTS

Page
No.

SECTION 4 -- TAXATION

4.0 INTRODUCTION.....	60
4.1 TAXATION ALTERNATIVES.....	61
4.2 OTHER TAXES AND LEVIES.....	63
4.3 CONCLUSION.....	65
TABLES	
Table 4.1 Taxation & Fees.....	66

SECTION 5 -- PREDICTION OF VISITATION TO AN OPEN/URBAN/MONOPOLY CASINO

5.0 INTRODUCTION.....	68
5.1 EXAMPLES OF MARKET SIZE ANALYSIS.....	69
5.1.1 The Sydney Market Size Analysis.....	70
5.1.2 The New Orleans Market Size Analysis.....	71
5.1.3 Chicago Market Size Analysis.....	72
5.2 COMPARISON OF VISITORS ESTIMATES FOR PROPOSED CASINOS.....	74
5.3 CONCLUSION.....	75
TABLES	
Table 5.1 Visitation & Composition.....	77
Table 5.2 Local & Day Tripper Population of Sydney.....	77
Table 5.3 Visitors to Sydney.....	77
Table 5.4 Sydney Visitation Projections.....	78
Table 5.5 Capture Rate for a Typical Las Vegas Casino (100,000 sq. ft.).....	78
Table 5.6 Capture Rate for New Orleans Casino.....	79
Table 5.7 Percentage of Estimated Casino Visitor Days.....	79
Table 5.8 Summary of Visitation for the Proposed Sydney Casino.....	80
Table 5.9 Summary of Visitation for the Proposed New Orleans Casino.....	80
Table 5.10 Summary of Visitation for the Proposed Chicago Casino.....	81

TABLE OF CONTENTS

Page
No.

SECTION 6 -- REVENUE PROJECTIONS FOR AN URBAN CASINO

6.0 INTRODUCTION.....	82
6.1 ESTIMATES BASED ON "WIN" PER VISITOR.....	83
6.2 ESTIMATES BASED ON "WIN" PER SQUARE FOOT.....	84
6.3 ESTIMATES BASED ON "WIN" PER TABLE AND MACHINE.....	85
6.4 ESTIMATES BASED ON THE APPLICATION OF TAX RATES FROM OTHER JURISDICTIONS.....	86
6.5 THE GOVERNMENT AND DEVELOPER REVENUE EQUATIONS.....	87
6.6 CONCLUSION.....	88
TABLES	
Table 6.1 Casino Win Per Visitor.....	90
Table 6.2 Casino Win Per Square Foot.....	90
Table 6.3 Estimates of Govt. Revenue from a Casino based on Other State Tax Rates.....	91
Table 6.4 Comparison of "Win" per Table and Machine.....	91
Table 6.5 Jupiters Casino Proforma.....	92
Table 6.6 Burswood Casino Proforma.....	92
Table 6.7 New Orleans and Winnipeg Casinos Proforma.....	93

SECTION 7 -- CONCLUSION

7.0 INTRODUCTION.....	94
7.1 COMPONENT OF GROSS REVENUE EQUATIONS.....	95
7.2 THE GOVERNMENT REVENUE EQUATIONS.....	96
7.3 THE DEVELOPER REVENUE EQUATIONS.....	97
7.4 CONCLUSION.....	98

TABLE OF CONTENTS

**Page
No.**

GLOSSARY OF TERMS

GLOSSARY OF TERMS..... 101

BIBLIOGRAPHY

LITERATURE, REPORTS, JOURNALS AND MAGAZINES..... 104
AUDIO CASSETTES..... 106
INTERVIEWS..... 106

**A REVIEW OF SOME OF THE KEY ISSUES FOR
GOVERNMENTS CONSIDERING THE INTRODUCTION
OF OPEN/URBAN/MONOPOLY CASINOS**

by

ALLAN JOHN KERR

Submitted to the Department of Architecture on June 24, 1993 in partial fulfillment of the requirements for the Degree of Master of Science in Real Estate Development

ABSTRACT

In an effort to increase revenue many governments around the world are considering the introduction of legal casinos. The model of casino that appears to be gaining prominence is the Open/Urban/Monopoly casino -- one that is open to the public, often located in the downtown area of a city, and with a monopoly operating license for a defined area and time period.

The primary goal of governments in establishing a casino is to derive revenue for the government. However, decisions made concerning the introduction and operation of casinos cannot be separated from the political agenda. They must be structured to be politically and socially acceptable, as well as economically viable.

Casinos of this model are a relatively new phenomenon, particularly in the United States where the first is planned for New Orleans. Governments considering the possibility of establishing these casinos are faced with very limited historical data or reference points upon which they can assess the value and potential of a casino to the government and society.

This thesis defines the most predominant casino types and secondly, analyses several casino proposals in order to identify the critical factors to be considered by governmental agencies evaluating this form of public/private development. The factors addressed are: 1) The legislative controls that a government can impose to ensure legitimacy and political acceptability; 2) Taxation methods and levels available to governments; 3) Expected revenues to governments from an Open Urban/Monopoly casino.

The predicting of visitation and casino revenues is considered of significant importance as a Monopoly casino provides the government with a one-shot opportunity to maximize their long term revenue from the casino.

Several methods currently used to estimate visitation and revenue were reviewed. Each of these methods rely on the experiences of casinos from other regions, and make only minimal attempts to adjust for regional, demographic and product differences.

The diversity that exists between regions -- in terms of population, visitation, per capita earnings, propensity to gamble, and competing opportunities for disposable income -- appear too great to allow direct incorporation of the data from the source region to the region being studied.

The future of casinos, particularly the Open/Urban/Monopoly model, will be shaped by competition from other casinos and gambling types. As this model is relatively new, with limited historical precedence, both developers and government should take a fresh approach to understanding the opportunities and potential of its application. Casinos, like other service industries, should utilize techniques such as modern polling methods and statistical analysis to enhance their understanding of factors such as the propensity to gamble and the amount that will be gambled. These studies may not only improve the accuracy of predictions of casino revenue, they may also allow the product to be tailored to the demand, rather than mimicked from existing casinos.

Thesis Supervisor: Thomas A. Steele
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SECTION 1 – INTRODUCTION

1.0 INTRODUCTION

Casinos are gradually gaining community and government acceptance as a recreation and entertainment activity as well as a source of government revenue. Many National, State, Regional, and City governments around the world are seeking to establish government sanctioned legalized casinos as a means of increasing revenue to government. The most common form of casino being chosen appears to be the model which operates on an exclusive or monopoly license. The location chosen for these casinos is often in an urban or downtown area. This model of casino is relatively common in a number of countries including Belgium, Holland, Germany, Australia and, the most famous casino, Monte Carlo in Monaco. In the United States a number of State and City governments are either in the process of establishing this model of casino, or evaluating the potential of introducing Urban/Monopoly casinos.

For many governments the concept of locating a land-based casino within a major metropolitan city is a new one. Traditionally in the United States casinos have been opened on Riverboats and in small cities such as Las Vegas, Reno and Atlantic City with the intent of luring tourists from the more heavily populated areas. The recent phenomenon of the introduction of Indian Reservation casinos in North America has heightened the interest of governments in the revenue potential of casinos. Governments in both the United States and Canada have initiated legislation and procedural steps for the establishment of Open/Urban/Monopoly casinos.

These initiatives by government provide a unique and expanding opportunity for property developers. The most common approach taken by governments to establish these new casinos are by partnership with private enterprise. The government provides the legislative framework for the casino and the enforcement of the monopoly status in return for substantial tax revenue. The developer provides the management, design, finance construction and operation of the casino, and hopefully receives a return on his investment from the revenue generated by the casino and associated developments.

This thesis primarily focuses on the planning, revenue and control issues faced by governments considering the introduction of Open/Urban/Monopoly casinos, and reviews the alternative methods of dealing with these issues in three large casino proposals. The three proposed casinos reviewed in this thesis are those planned for New Orleans, Sydney and Chicago.* Reference will also be made to existing models of this type of casino in Australia, as well as proposed new applications of the models in Greece and Canada. Table 1.1** contains the key statistics of the proposed New Orleans, Sydney and Chicago Casinos.

1.1 HISTORY OF CASINOS

The word "casino" is derived from the Italian word "casa" meaning a house, with the addition of the diminutive "ino." Basically, it was a small house usually found in a garden situated away from the main premises, to which people of the house could retreat for the purposes of diversion and amusement. Activities that could be associated with the casino

* **Note:** As of June 1993 the proposed Chicago casino has failed to gain the approval of the Illinois State Legislature.

** N.B. All tables will be found at the end of the referenced section.

took the form of music, conversation, and the playing of recreational table games which included cards or dice, upon which a wager or stake was often involved.

Over time casinos have evolved into a number of different forms ranging from the grandiose "American" style to the restrictive, discreet European casino.

In many respects, casinos operate like any other business that has a product to sell. What makes a casino unique is that the principal stock of trade is cash and that dozens of transactions may take place before a single sale is complete. Many people mistakenly refer to a casino's take at the end of the night as its turnover. However, this term does not correctly apply to the casino operation. A customer may enter a casino with \$500 in his pocket; two hours later he may have only \$300; after three hours he may have \$600. The final determinative figure or sale is when the player leaves the casino with either more or less than the \$500 they had initially.

"The United States is in what has been referred to as the 'third wave' of legalized gaming, in that this is the third time that gaming, in one form or another, is available virtually everywhere in America. The first wave of gaming began in the colonial era and lasted through the Civil War. The second wave began after the Civil War and lasted through the early twentieth century when most forms of gaming throughout the United States were banned. The third wave began in 1963 with the passage of legislation legalizing a lottery in New Hampshire."¹

Casinos are truly an international phenomenon with government sanctioned establishments operating in:

¹ Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992

- Europe United Kingdom, the Isle of Man, France, Germany, Austria, Switzerland, Italy, Yugoslavia, Portugal, Belgium, Holland, Greece, Romania, Bulgaria, Czechoslovakia, Malta, Monaco, and Sweden
- North America United States and Canada
- Caribbean Bahamas, Puerto Rico, Curaco, Martinique, Guadeloupe
- South America Panama and Dominican Republic, Argentina, Paraguay, Ecuador, Uruguay, and Chile
- Africa Egypt, Morocco, Zambia, Swaziland, Sierra Leone, Tunisia, Ghana, South Africa and Lesotho
- Asia Lebanon, Iraq, Jordan, Macao, South Korea, Malaysia, and The Philippines
- Australasia Australia and New Zealand
- Pacific Tinian Island, Vanuatu and New Caledonia

"Among the vast array of leisure activities, gambling is unique in that it is the one source of entertainment with direct money-making potential. In the past, suspect sponsors lent the industry's image a dubious cast. Over the past dozen years, however, the gaming industry has steadily gained credibility. In the United States lotteries were illegal in every state only thirty years ago, but by 1992, thirty-five states had sponsored them."²

² Gelbtuch. Howard C. The Casino Industry The Appraisal Journal, April 1991

1.2 GOVERNMENTS AND CASINOS

In establishing legislation and procedures for the introduction of legalized government sanctioned casinos, governments are seeking to satisfy one or more of the following goals:

- Increasing government income by the imposition of politically acceptable, discriminatory forms of taxation.
- Rejuvenating ailing communities and economies.
- Generating new jobs.
- Increasing tourism revenue from adjoining regions and countries, and stemming the flow of local cash to other areas which offer legalized gaming.
- Providing an impetus to regional development.
- Creating an opportunity to have desired community infrastructure projects paid for and completed by developers of gaming establishments by way of exactions.
- Providing a mechanism to select legitimate casino operators and remove illegal gaming establishments.

"Through various forms of legalized government-sanctioned gaming, government may develop a relationship with selected individuals and organizations in our free enterprise system wherein government may encourage private industry to conduct gaming activities which generate revenues from a broad sector of the population, thus providing government with a unique, politically acceptable opportunity to impose a discriminatory form of taxation upon the gaming activities and thus tax a sector of the population which is delighted to be subjected to this fundraising effort.³"

³ Hemmeter, Christopher B. History and Future The Hemmeter Organization

1.3 GAMBLING AND ITS ROLE IN THE ECONOMY

Government revenue from gaming plays an increasingly significant role as a source of income. In the United States in 1990 total legal gambling revenue exceeded \$25.7 billion. Of the total revenue, lotteries and casinos contributed the dominant share: lotteries 40% and casinos 33%. The total casino "win" for 1990 was \$8.468 billion -- an increase of \$905 million or 12% over 1989 casino win.⁴

In the U.S. the casino industry has rarely had a down year. Low-growth years occurred only in such recessionary periods as 1973-1974, 1979-1980, and 1981-1982. Casino gaming generally moves directionally with the economy as measured by real gross national product (GNP). Average annual growth rates for casino revenue from 1975 to 1980, 1980 to 1985 and 1985 to 1991, were 21.6 percent, 12 percent and 7.9 percent respectively.⁵

Australia's most populous State, New South Wales does not have a State income tax or, at this stage, legalized casinos. It does, however, have slot machine gambling in licensed clubs, and gambling taxes have contributed \$840,216 or 10.1% of total state government revenue.⁶

⁴ *Source:* Deloitte & Touche, Economic And Other Impacts Of A Proposed Gaming, Entertainment And Hotel Facility, Prepared For The City Of Chicago Gaming Commission, Chicago, May 19, 1992. page 59

⁵ Gelbtuch, Howard C. The Casino Industry The Appraisal Journal, April 1991

⁶ Street The Hon Sir L, Inquiry Into The Establishment And Operation Of Legal Casinos In New South Wales-Report, Nov. 1991,

1.4 SCOPE OF STUDY

There are several reasons to expect the industry will continue to enjoy success:

- The ability to generate high cash flow per square foot of building area;
- Regulatory entry barriers that limit new competition;
- A growing public acceptance of gambling.

The assumption of this report is that the growth in casino gambling around the world will continue, and that the model of casino that will gain prominence will be the Open/Urban/Monopoly casino, developed in a partnership between government and private enterprise. This model is being used for the proposed new casinos in the U.S., Canada, Greece, New Zealand and Australia. This type of casino is open to the public, located within an existing urban community, and has monopoly or exclusivity status sanctioned by government legislation. They are developed, owned and operated by private enterprise within strict limits established by government legislation. This model of casino is the analytical focus of this thesis.

As the Open/Urban/Monopoly casino is a relatively new phenomenon around the world, Governments considering the introduction of this type of casino have only limited legislative models to review in order to formulate appropriate legislation for their jurisdiction. Similarly, historical data upon which governments can predict the performance of proposed casinos is limited, and often from areas having differing demographic and cultural characteristics.

The key issues that a government should evaluate in their decision making process can be broken into two broad groups: A) those dealing with revenue and control issues; and B) the social issues surrounding gambling.

A) Revenue and Control Issues

The importance of these issues is that they directly influence the revenue to government and the credibility and legitimacy of the casino. A Monopoly status casino has the advantage of affording the government high levels of control. However, as Monopoly status is generally applied for long periods of time, i.e., greater than 10 years, governments run the risk of locking themselves into a decision based on information which may prove to be incorrect in the future. Should the initial decisions result in a casino that is inappropriately sized for the market, the government may not maximize the revenue potential from the casino. Hence, the importance placed in this thesis on the accuracy of predictions of visitation and casino revenue.

- The legislative alternatives and their consequences. What legislative models exist and what are their advantages and disadvantages?
- Controls that governments can impose. What mechanisms of control are available to the government, and what are their implications?
- Casino taxation, methods and amounts. What are the methods of levying taxes on a casino and what are appropriate taxation levels?
- Visitation expectation and size determination of urban casinos. How many visitors can be expected to gamble at a casino, and how big should a casino be?
- Revenue projections for an urban casino. Given visitation projections, how can a government predict casino revenue and revenue to the government?

B) Social Issues

An equally important group of concerns to governments evaluating the introduction of a casino are the social issues of gambling problems and crime. Sociologists have done a considerable amount of research on these issues and believe that there are direct links between casinos, problem gamblers and crime.

Surveys of pathological gamblers in society by Volberg reveal that States can expect an increase in the number of problem gamblers as casinos proliferate. States with only limited gambling have a lower incidence of problem gamblers than those with casino gambling. For example, studies indicate that in Iowa, which had no casino gambling at the time of the study, the level of pathological and problem gambling is approximately 1.75% of the population, whereas in California, with its proximity to Nevada, the percentage is 4.1%, and in New Jersey the percentage is 4.2%.⁷

Politzer⁸ has made estimates of the cost of problem and pathological gambling (Refer Table 1.2). The terms used by Politzer are generally self explanatory with the exception of: "abused cost" which he defines as the moneys spent on gambling that otherwise would have been spent for other essential purposes and "bottomed out" pathological gambler which he defines as those who are in the most advanced and devastating stage of their addiction. He predicts the annual cost per pathological gambler to be \$52,000 and the cost per "bottomed out" pathological gambler to be \$86,123.

⁷ Volberg, R. 1992 Estimating the Prevalence of Pathological Gambling in the United States, Page 5

⁸ Politzer, R., Morrow, J., Leavey, S. 1981 Report on the Societal Cost of Pathological Gambling and the Cost-Benefit/Effectiveness of Treatment Presented at the Fifth National Conference on Gambling and Risk Taking.

Clearly there are costs to government and the community associated with these issues. From the government's point of view, the social issues can dramatically influence their political credibility, as well as potential revenue and expenditure.

A major impetus to the current growth in casinos has been the change in the public's acceptance of gambling as a recreational activity. Possibly the greatest threat to the growth and survival of the casino industry comes from the way in which these social issues are addressed. The casino industry and its effects on the community are highly controversial topics.

This thesis primarily focuses on the first group of issues (revenue and control), faced by governments considering the introduction of casinos. The impact of the sociological issues surrounding gambling will be left to others to analyze.

TABLE 1.1	KEY STATISTICS OF PROPOSED CASINOS		
City	New Orleans	Sydney	Chicago
Number of Casinos	1	1	4
Gaming Floor Area	180,000 sq. ft.	113,000 sq. ft.	500,000 sq. ft.
Number of Tables	370	200	675
Number of Slots	7207	1500	13,500
Significant Associated Developments		600 room Hotel	Major Entertainment Complex, & Four Hotels
Estimated Development Cost	\$467,000,000	NA	\$2,000,000,000

Sources: Grand Palais Submission to the City of New Orleans September 1992

New South Wales Casino Control Authority Report On The Location, Size And Style Of The New South Wales Casino January 1993

Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992

TABLE 1.2	ESTIMATE OF COST OF PROBLEM GAMBLERS	
	Cost per average pathological gambler/year	Cost per average "bottomed out" pathological gambler/year
Lost production	\$23,000.00	\$27,000.00
Crime cost		\$4,123.00
Incarceration cost		\$21,000.00
Abused dollars	\$29,000.00	\$34,000.00
Total	\$52,000.00	\$86,123.00

Source: Politzer, R., Morrow, J., Leavey, S. 1981 Report on the Societal Cost of Pathological Gambling and the Cost-Benefit/Effectiveness of Treatment Presented at the Fifth National Conference on Gambling and Risk Taking.

SECTION 2 -- THE CASINO MODELS

2.0 INTRODUCTION

With the proliferation of casinos in different formats occurring around the world, there is no universally accepted classification to describe casinos. Traditionally casinos were referred to as either "American style," which usually comprise large public casinos with a variety of accompanying uses, or "European style," which are usually smaller, private casinos.

These descriptions are thought to be inadequate to describe the current array of casino types. The following is an attempt to remedy the matter of casino classification by the establishment of a three category description.

2.1 CASINO STYLES

The modern-day casinos can be defined on the basis of the limits imposed on the rights of the individual to enter the casino and gamble. There are two styles: Restricted and Open.

- **Restricted Style Casinos:**

A restricted casino is one which limits the entry of members of society to the casino. These restrictions may be on the basis of members only, tourists only, or those who have registered their intent to gamble within a proscribed time period.

This type has tended to evolve based on the philosophy that casino gambling is a pursuit of a small section of society, and that gambling should be tolerated -- but not encouraged or stimulated.

There are various examples of the application of these restrictions. The Monte Carlo casino focuses on tourism or visitor traffic, and the local residents are prohibited from gambling in the casino. The casinos of London require gamblers to give 48 hours formal notice of intent to gamble before being allowed to gamble.

- **Open Style Casinos:**

An open style casino is one which is open to the public, with the only restriction being government established minimum age limits. The casinos of the United States and Australia are examples of this style.

They are usually large, attractive, opulent, public, admission-free casinos, and can be attached to a large multi-purpose entertainment/accommodation/convention complex.

Open casinos may offer features such as restaurants, 24-hour snack bars, liquor, cabarets, floor shows, shops, swimming pools, squash, tennis, and golf. These facilities are integrated into the gambling complex and are designed to serve casino patrons, whether they desire to gamble or simply relax.

2.2 CASINO TYPES

The second classification of casinos is by type. Changes in legislation have resulted in five distinctly different types of casinos. These are:

- **Urban Casinos:**

Casinos that are located within an urban or downtown region. The existing Las Vegas, Atlantic City, Australian, and most European casinos are examples of this casino type.

- **The Indian Reservation Casinos:**

Casinos that result from the Separate Nation Status of the native North American Indians. These casinos are located on designated Indian Reservations.

- **The River Boat Casinos:**

River Boat casinos are special status casinos limited to specific waterways. They may be either permanently moored to the riverside, as in Mississippi State, or excursion boats that take the casino gambler away from the dock for a specified time.

- **The Cruise Ship Casinos:**

These casinos are operated on Cruise Ships traveling the high seas outside territorial waters, and therefore not subject to the regulations of a government entity.

- **Resort:**

Casinos that form part of a destination resort development and rely primarily on the customers of the resort for their casino patronage.

2.3 CASINO LEGISLATIVE MODELS

The level of control by government legislation allows the further definition of casinos into two models, ranging from the most restrictive to the least. The most restrictive is the limited or monopoly operating license casino such as operates in Australia and most countries in Europe. The least restrictive is one which offers unlimited gambling such as exists in Las Vegas and Atlantic City in the U.S. The characteristics of these casinos that differentiate them include:

- **The Monopoly Operating License:**

A monopoly operating license casino is a casino that is either government owned and operated, or is a partnership between government and private enterprise. A key characteristic of this model is often an exclusivity of operating rights within a defined geographic area for a specified period of time. This exclusivity is generally for a period from 10 - 20 years.

- **Unlimited Gambling:**

This type of casino occurs where a region is specially designated for gambling, such as Nevada and Atlantic City, with no government established limit on the number of casinos.

"In those regions, if a potential casino owner can qualify for a license, the license will be granted. The licensing requirements might be stiff, but there is no limit to the number of casinos permitted.⁹

⁹ Ryan, Timothy P. Conner, Patricia J. Speyrer Janet F. The impact of Casino Gambling in New Orleans University of New Orleans May 1990 page 2

2.4 CATEGORIZATION OF CASINOS

Throughout this report the above definitions will be used to describe casinos. For brevity's sake a three category series of abbreviations has been established to reflect the above classifications of casinos.

TABLE 2.1		CASINO CATEGORIES	
Casino Style	Casino Type	Legislative Model	
O Open Style	UR Urban	M Monopoly	
R Restrictive	IR Indian Reservation	UL Unlimited	
	RB River Boat		
	CR Cruise Ship		
	RES Resort		

The application of these categories throughout this report will be in the form Casino Style/Casino Type/Legislative Model. Using these categories allows the simplification of the description of casinos. For example:

The Mirage Casino, Las Vegas is defined as **O/UR/UL**, Open/Urban/Unlimited

Monte Carlo Casino, Monaco is defined as **R/UR/M**, Restrictive/Urban/Monopoly

La Cabana, Aruba is defined as **O/RES/UL**, Open/Resort/Unlimited

Jupiters, Australia is defined as **O/UR/M**, Open/Urban/Monopoly

Grand Casino, Gulfport, Mississippi is defined as **O/RB/UL**, Open/River Boat/Unlimited

Foxwoods Casino, Connecticut is defined as **O/IR/M**, Open/Indian Reservation/Monopoly

2.5 APPLICATIONS

2.5.1 United States

Gambling in the United States has a long history dating back to the gold rush era of the mid 1800s. In mining towns gambling was the principal form of recreation for male members of the community.

"The United States has supplied the potent image of casinos as iniquitous establishments run by organized crime. This image is not universally sustained by today's reality. Nevada and New Jersey pioneered large scale legalized casino gambling, but recently, some other States have permitted casinos, notably on riverboats and on Indian reservations. Casinos in the United States vary in size, with the most familiar being the large scale casino complex with large numbers of slot machines and table games. These are high turnover, high profit operations. Credit betting is permitted; inducements to gamble such as free drinks at tables are provided."¹⁰

Three primary categories of casinos currently operate in the United States: The Open/Urban/Unlimited casino, typified by the Nevada experience; the Open/River Boat/Unlimited casino, as seen on the Mississippi and Missouri Rivers; and the Open/Indian Reservation/Monopoly casinos, as have occurred in 16 States, the largest examples of which occur in Minnesota, Wisconsin and Connecticut.

While the focus of this study is the Open/Urban/Monopoly casino, the other U.S. casino models, in particular the Indian Reservation and the River Boat casino, cannot be ignored.

¹⁰ Street The Hon Sir L, Inquiry Into The Establishment And Operation Of Legal Casinos In New South Wales-Report, Nov. 1991, Page 36

A major impetus to the introduction of casinos has been government's recognition that these two models of casinos may draw local revenue away from their jurisdiction without the benefit of taxation revenue. Indian Reservation and River Boat casinos also provide a threat to the exclusivity status of the open Urban/Urban/Monopoly casino, as their proximity to the casino is often beyond the control of the government.

While these two models provide both an impetus to casino development, and a threat to monopoly status, governments in the United States have not yet come to grips with this problem. Competition between casinos is likely to be a major component of the future of the casino industry in the U.S.

Following are examples of models currently in operation in the United States:

- **Open/Urban/Unlimited Casinos (O/UR/UL)**

To date Urban casinos in the United States are located in Nevada and New Jersey. The casinos in these jurisdictions represent the largest existing casinos in the world, with up to 120,000 square foot gaming floors and 2910 slot machines to 167 tables. However, a recent development has been the introduction of seventy-two small Open/Urban/Unlimited casinos in Colorado. The largest of these having 581 slot machines and 17 tables, with the average of these casinos having only 200 slot machines and 6 tables.¹¹

Nevada remains the undisputed capital of Unlimited casino gaming in the United States. The dollar value for turnover through slot machines for fiscal year 1992 was \$69,984 billion, with total turnover from tables for the same period being \$12,311

¹¹ Source: Mikelberg F., Colorado Casino Fact Sheet. *International Gaming & Wagering Business* Vol. 14, No. 11 November 15, 1992 Page 27

billion.¹² In response to the competition from the newer forms of Casino gambling in other States, the major Las Vegas casinos are "upping the ante" by developing a new form of casino -- the "Disney type" theme park casino. This new model of casino will be aimed at attracting the family to the area. In 1993 and early 1994 three mega-resorts will open on the Las Vegas strip. Table 2.2 at the end of this section is a summary indicating some key statistics for major Urban casinos.

- **Open/River Boat/Unlimited Casinos (O/RB/UL)**

A relatively recent phenomenon in the United States is the resurgence of River Boat casinos. The application of Riverboat casinos is in two kinds, the dockside Riverboat casino and the excursion Riverboat casino. The advantage of a Riverboat casino is that it can be relocated to adjust to market demands. The newer, larger models of the dockside Riverboat casinos, such as the Grand Casino at Gulfport, Mississippi, are designed to be more like land-based casinos, and provide direct competition to the Open/Urban/Monopoly casinos.

Table 2.3 at the end of this section sets out some of the key characteristics of the major Riverboat casinos and their current locations

¹² Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992, Page 59

- **Open/Indian Reservation/Monopoly Casinos (O/IR/M)**

The Indian Gaming Regulatory Act of 1988 provides the framework by which Indian gaming is conducted and the Indians and general public are protected. The president of the National Indian Gaming Association, Charles Keeche predicts,

"Within a few years nearly every Indian reservation in the United States (there are more than 300 in the continental U.S. and 200 in Alaska) will operate some gaming facility"¹³

Table 2.4 at the end of this section lists the States which have Indian Reservation casinos.

2.5.2 Europe

The most common form of the traditional casino is found in Europe. It is the Restricted/Urban/Monopoly casino. More recent trends have been towards Open/Urban/Monopoly casinos such as the casinos proposed for Greece, Denmark and Holland. Table 2.5 at the end of this section contains key statistics of some of the major European casinos. The European Economic Community has established a committee to review and formulate overall policy for casinos in the E.E.C.

¹³ Conner, M. Indian gaming: Prosperity, controversy. *International Gaming & Wagering Business* Vol. 14, No. 3 March, Page 9

2.5.3 United Kingdom

The United Kingdom provides examples of the Restricted/Urban casino. Membership of clubs is a strict requirement of admission to the casino. These casinos have only a very limited number of slot machines compared to the number of gaming tables. They tend to reflect the older conservative image of casinos as a gentlemen's recreation. Table 2.6 at the end of this section lists the key characteristics of United Kingdom casinos.

2.5.4 Asia/Pacific

Even though Asian populations are generally thought of as high risk gamblers, there is only a small number of existing casinos in that region. A major factor thought to have limited the number is the influence of the Asian Muslim populations, with their religious aversion to gambling. The majority of Asian casinos are Open/Urban/Monopoly casinos. The Malaysian Highland casinos are exceptions in that they are Open/Resort/Monopoly casinos. Table 2.7 at the end of this section lists the key characteristics of the larger Asian/Pacific casinos.

Even with the resistance to casinos existing within many Asian societies, it seems likely that this will ultimately be overcome by the lure of government revenue. In 1992 The Peoples Republic of China introduced their first government controlled lotteries. In the U.S., Canada and Australia this has been a prelude to casino gambling.

2.5.5. Australia

Australia has probably had the longest history of the application of the Open/Urban/Monopoly casino, with its oldest casino having passed its twentieth anniversary of operation.

Australian casino owner/operators are selected and regulated by the State or Territory government. There is no Federal government involvement in the selection process. City and Local governments play only minor roles in the selection and development process.

The government awards an exclusive operating license to the chosen casino developer for up to 20 years for the area within which the casino operates.

The government and the owner/operator become partners in a sense. The government receives income through license fees of up to \$400,000 and taxation on gross gaming revenue or "win tax" ranging from 8% to 20%. (The lower level taxation of 8% is applied to small isolated casinos such as Alice Springs and Darwin. The major Urban casinos are taxed at rates of 20%. The new casino proposed for Melbourne will have a License fee of \$600,000 and 30% tax rate.)

The Australian casinos are generally considered to be both financially successful and socially acceptable. This is reflected by the fact that many of the large Australian Institutional Investors hold significant share holdings and often Board of Director positions on these casinos.

"The industry is recognized as being exceptionally clean and is well-regarded by the stock market. There has never been a criminal case brought against any casino management. Additionally, the National Crime Authority, the peak law

enforcement body, recently has released a comprehensive report on money laundering and found 'casinos were not being used for laundering money in Australia.'"¹⁴

Table 2.8 at the end of this section lists the key characteristics of the Australian casinos.

2.6 RECENT DEVELOPMENTS IN URBAN CASINOS

In the late eighties and early nineties there was a major shift in the attitudes of governments worldwide towards the legalization of casinos, with governments enacting or extending legislation to allow the introduction of casinos.

- **New Zealand:** The government of New Zealand has recently approved one casino each for the cities of Auckland and Christchurch. Both are defined as Open/Urban/Monopoly, **O/UR/M**.
- **Australia:** In Australia new casinos are planned for the cities of Canberra, Sydney, Melbourne, Brisbane, and Cairns. A further casino is planned for Christmas Island, located approximately 500 miles from the Indonesian capital of Jakarta. These new casinos will bring the total number of casinos in Australia to fourteen. All these casinos, with the exception of Christmas Island, fall under the category Open/Urban/Monopoly casino, **O/UR/M**. Christmas Island is categorized as Open/Resort/Monopoly, **O/RES/M**.

¹⁴ Beagle, J 1993 "Casinos play monopoly" *International Gaming & Wagering Business* Vol. 14, No. 3 March 15. Page 15

- **Canada:** Many of the provinces of Canada have commenced the process of establishing casinos. Manitoba has one government owned and operated casino in Winnipeg. Ontario has issued a Request For Proposals for their first casino, to be located in Windsor. Other provinces, such as Nova Scotia and Quebec, are at an earlier stage of planning for casinos. It appears that the most likely form of casino to be adopted by the Canadian provinces will be the model used for Windsor, which is an Open/Urban/Monopoly casino, **O/UR/M**.
- **Greece:** In April 1993 the Government of Greece issued a Request For Proposals for eight casinos, to be located in major urban areas and on islands in the Aegean Sea. These new casinos will be either Open/Urban/Monopoly casinos, **O/UR/M**, or Open/Resort/Monopoly casinos, **O/RES/M**.
- **The United States:** While the expansion of Nevada casinos continues, and States such as Colorado introduce unlimited casino licenses, the most significant departure from the traditional American model is the casino proposed for New Orleans. This casino will be the first Open/Urban/Monopoly casino, **O/UR/M** in the United States.
- **Denmark:** The Government of Denmark is considering the introduction of a major casino within an existing Copenhagen hotel. This casino will be an Open/Urban/Monopoly casino, **O/UR/M**.
- **Burma:** While only in the initial phases, the Government of Burma is proposing that a casino be located on the border between Burma and Thailand. This casino is planned to be the impetus for the development of a new tourist resort area.
- **Sweden:** While still in its early phases, the government of Sweden is considering allowing one international casino in a large Stockholm hotel.

2.7 CONCLUSION

The only apparent barrier to the expansion of casino gambling appears to be the issue of political acceptability. The success or failure of the large-scale downtown Open/Urban/Monopoly casinos proposed for New Orleans and Sydney is likely to be the predictor of the future application of this model of casino. With the potential of casinos to generate large amounts of government revenue, there seems to be adequate reasons to believe that many governments around the world will at least consider and appraise the value of casinos, and that casinos are likely to proliferate in many societies.

Government's goals in the introduction of casinos are the maximization of revenue and the maintenance of legitimacy of the casino. The decision making process of governments must address legislation and controls, as well as the taxation and revenue issues.

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
Excalibur (Las Vegas)	131	3024	23.0	107,000
Circus Circus (Las Vegas)	119	2578	21.6	108,500
Caesar's Palace (Las Vegas)	144	2050	14.2	118,000
The Mirage (Las Vegas)	154	2275	14.8	60,500
Harrah's (Atlantic City)	127	1782	14.0	61,500
Tropworld (Atlantic City)	147	2297	15.6	91,000
Trump Taj Mahal (Atlantic City)	167	2910	17.6	120,000

Source: International Casino Guide, 3rd Edition, 1992

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
President (Davenport, Iowa)	38	699	18.39	27,000
Casino Belle (Dubuque, Iowa)	34	810	23.8	20,000
Diamond Lady (Berrendorf, Iowa)	13	250	19.2	10,000
Emerald Lady (Fort Madison, Iowa)	13	250	19.2	10,000
Empress (Joliet, Illinois)	46	607	13.2	19,000
Isle of Capri (Biloxi, Mississippi)	60	1200	20.0	35,000
Casino Magic (Bay St. Louis, Mississippi)	62	1123	18.1	41,000

Source: International Gaming & Wagering Business Vol. 14, No. 11 November 15 1992

TABLE 2.4 STATES WITH INDIAN RESERVATION CASINOS

State	No. of Casinos	State	No. of Casinos
Arizona	3	Montana	1
California	6	Nebraska	1
Colorado	2	Nevada	1
Connecticut	1	North Dakota	4
Iowa	2	Oklahoma	1
Louisiana	2	South Dakota	5
Minnesota	11	Washington	2
Mississippi	1	Wisconsin	10

Source: International Gaming & Wagering Business Vol. 14, No. 3 March 15 1993

Table 2.5 MAJOR EUROPEAN CASINOS

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
Casino Palm Beach (France)	18	150	8.3	54,000
Casino de Deauville (France)	18	225	12.5	43,000
Royal Club Evain (France)	30	200	6.7	15,000
Baden Baden (Germany)	33	100	3.0	N/A
Spielbank Hohensyburg (Germany)	25	159	6.4	N/A
Casino Copenhagen (Denmark)	21	140	6.7	24,000
Casino de Monte Carlo (Monaco)	31	267	8.6	N/A
Casino de la Vallee (Italy)	84	450	5.4	32,000

Source: International Casino Guide, 3rd Edition, 1992

Table 2.6 MAJOR UNITED KINGDOM CASINOS

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
Victoria Casino (London)	28	2	0.1	15,000
Ritz Club (London)	12	0	0	N/A
Maxims Casino Club (London)	12	2	0.2	5,000
Gloucester Sporting Club (London)	11	2	0.2	6,000

Source: International Casino Guide, 3rd Edition, 1992

Table 2.7 MAJOR ASIAN/PACIFIC CASINOS

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
Genting Highlands Resort & Casino (Malaysia)	N/A	300	N/A	N/A
Palms Casino (Vanuatu)	N/A	N/A	N/A	N/A
Casino Filipino Bacolod (The Philippines)	46	192	4.17	22,000
Casino Filipino Pavilion (The Philippines)	120	326	2.72	80,000
The Hotel Lisboa (Macau)	N/A	N/A	N/A	N/A

Source: International Casino Guide, 3rd Edition, 1992

Table 2.8**AUSTRALIAN CASINOS**

Casino	Number of Tables	Number of Slot Machines	Ratio of Machines to Tables	Gaming Area sq. ft.
Adelaide (Adelaide, SA)	93	750	8.1	48,500
Jupiters (Gold Coast, Qld.)	112	998	8.9	65,500
Breakwater (Townsville, Qld)	34	182	5.4	17,250
Burswood (Perth, WA)	115	1128	9.8	66,500
Wrest Point (Hobart, Tas)	40	272	9.7	33,500
Launceston (Launceston, Tas)	25	188	7.2	18,000
Diamond Beach (Darwin, NT)	35	386	11.0	11,000
Lasseter's (Alice Springs, NT)	21	196	9.3	13,000

Source: Australian Casino Regulatory Organizations

SECTION 3 -- CASINO LEGISLATIVE & GOVERNMENT CONTROLS

3.0 INTRODUCTION

The establishment of casinos requires government consent, and is usually the subject of some form of Government legislation. The level of Government influence and control may simply be in the form of legislation providing for the legalization of casino gambling, or it may be in the form of complete control, with the development and operation of the casino being in the sole hands of the Government. The degree and extent of any casino legislation will be dependent upon the reasons or philosophy behind the Government's approval.

The first formal procedural step in the establishment of casinos is the enactment of enabling legislation by the relevant legislative body. Such legislation must be framed so as to achieve the goals of the government and the society.

The primary goals of governments in the establishment of casinos are:

- To ensure government revenue
- To keep criminal elements out of the casino operation
- To protect the general public

Even with the lure of increased revenue to a government from casinos, no government is likely to be willing to risk its own political survival by introducing socially unacceptable

legislation. The stigma of "mob involvement" and crime associated with casinos is a major concern that governments must address in the formulation of casino legislation.

Existing models of legislative controls contain a vast array and diversity of control mechanisms. This chapter reviews a number of the controls that a government can apply to the licensing of casinos. The legislative controls reviewed are those that have direct influence on the legitimacy and political acceptability of a casino, as well as those which will maximize the revenue potential to the government from a casino.

3.1 LEGISLATION AND CONTROLS

Generally, the legislation and controls can be broken into two groups, those that affect the revenue, legitimacy and credibility of a casino, and those which have more general administrative functions. The following are controls which affect the government's revenue from a casino, and the public's perception of the casino's legitimacy and credibility:

- Licensee Entity.
- Monopoly/Exclusivity Status.
- Owner Entity Controls.
- Foreign Ownership.
- Controls on Non-Casino Operations.
- Level of Government Supervision.
- Taxation and Fees.
- Mix and Type of Games.

These controls are the focus of this chapter.

The second group of controls are not reviewed in this thesis as they are considered to be administrative, rather than revenue controls. They include controls on matters such as architecture and design, auditing and accounting, casino internal management, security, and operational restrictions.

3.2 HISTORY AND MODELS OF LEGISLATION

The historical development of casino legislation around the world, and the degree to which governments control their casinos, varies from jurisdiction to jurisdiction. These variances are often a function of the culture of the society in which they are enacted.

3.2.1 The United States

In the United States the development of gambling legislation originated in Nevada with the discovery of gold in California.

In 1861 betting became a misdemeanor, and running a gambling operation, a felony. In that decade other legislation first decreased the penalties for illegal gambling and then legalized various gambling activities through a license system.

In 1931 the Nevada legislature passed a "wide open gambling Bill" legalizing all forms of casino gambling. However, the grandiose Las Vegas casinos did not occur for at least another 10 years.

New State Legislature in 1945 required applicants to obtain licenses from the State Tax Commission, as well as from the county boards. The law also imposed a State tax of 1 per cent of gross casino earnings. This law was further amended in 1947 and 1949 to extend the Tax Commission's enforcement authority, and to increase the tax rate to 2 per cent.

The Gaming Control Board was created in 1955 to act as the enforcement and investigative writ of the Tax Commission. The five-man Nevada Gaming Commission was created two years later and was given strengthened investigative and regulatory powers, all designed to ensure the "criminal elements, mobs or syndicates have neither interest in nor control of existing businesses". The State Gaming Control Board then became the Commission's audit, investigative and enforcement arm.

The New Jersey Legislative Assembly passed the Casino Control Bill, based upon the Nevada Control System, in June 1977. The first full license was issued for an Atlantic City casino in February 1979.¹⁵

3.2.2 Australia

The Australian society has shown a tolerance for gambling since the establishment of the first penal colonies the late 1800s. The first legal Australian casino was brought about by legislation of the State of Tasmania in 1968 and was modelled on the legislation of Nevada and Atlantic City. The legislation provided for one casino in the state capital, Hobart. The result of the legislation was the construction of a hotel/casino complex with an 8,000 square foot gaming area and a 300 room hotel including cabaret and recreation facilities.¹⁶

This casino was the model for the development of casinos in other States. Each State government reviewed the successes and failures of the Hobart casino and legislation, and developed their own models. The second wave of casinos occurred in the early eighties, with casinos opening in Perth, Adelaide, Gold Coast, and Townsville.

¹⁵ *Source:* House Of Assembly, Select Committee On The Casino Bill, 1982, Report, South Australia, August 12, 1982.

¹⁶ *Source:* House Of Assembly, Select Committee On The Casino Bill, 1982, Report, South Australia, August 12, 1982.

By the beginning of 1993 all States and territories have enacted legislation to allow casino gambling.

3.3 OWNER ENTITIES

The various legislative models for Open/Urban/Monopoly casinos around the world make provision for control of the owner entity of the casino. The major concern of governments is that ownership is a primary mechanism of control. Controls of ownership are not limited to the casino developers and/or operators but often include the manufacturers, suppliers or distributors of gaming equipment. Governments seek to control and influence the makeup of the casino owner entity to ensure that management, decision making, and procedures are in the hands of legitimate business persons. The ultimate form of this control is applied in Winnipeg, Manitoba, and in some States in Germany, where the only owner entity is the government itself.

Where a government chooses to rely on private enterprise to develop, own and operate the casino, varying degrees of control can be applied to the owner entity of a casino. Initially, governments can influence ownership of the casino during the casino bid phase by undertaking probity checks on applicants, and rejecting those with histories deemed unsuitable by the government. Secondly, the government can place controls on the characteristics of the owner entity, and the way in which changes of ownership can occur.

3.3.1 Probity Checks on Casino License Bidders

This phase involves the investigation of the background of the bidding organization and the key personnel of the bidding entity. The extent and nature of these probity checks in

the various Requests for Proposals are, it appears, purposely vague. Governments reserve their right to reject any bidder without specifying the reason, and provide no recourse for the rejected bidder to appeal the decision.

3.3.2 Controls Placed on Characteristics of, and Changes to Ownership

The costs of establishing and operating an Open/Urban/Monopoly casino are considerable: New Orleans \$457,000,000; Brisbane Aud \$367,000,000. It is generally accepted by governments that, due to the size of investment, the ownership of the casino license will be in some form of a corporate entity composed of either public or private share holders. Of concern to governments is the fact that under existing company laws the control of corporate entities can change over time with the transfer of shares holdings.

The controls applied to the long term ownership of corporate casino license holders by government range from the general descriptions of the government's powers in this matter, as in the government of Greece's Request for Proposals and Draft Greek Gaming Law:

"Neither ownership in the Licensee, nor control of the Licensee shall be transferred or assigned without the prior written consent of the Commission.

The Commission may, at its discretion, issue a new license to any new proposed shareholder",¹⁷

to more detailed specifications of ownership, as seen in the Queensland casino legislation.

As a means of maintaining government influence over the ownership of a casino license the State Parliament of Queensland, Australia has enacted, as part of their Casino Control legislation, provisions which differentiate the types of share holders of a corporate entity

¹⁷ Hellenic Republic Ministry of Finance Greek casino Development Project Request For Proposals for the Development of Casino operations in Greece. April 1993 section 3.2.3

that can own a casino license. The act provides for "founders" or "restricted" share holder and "ordinary" or "unrestricted" share holders.

"Founders have quite significant roles and responsibilities under the Queensland Casino Control legislation. The meaning of *Founder* as defined herein is a person (natural or otherwise) who is a party to the Foundation Agreement which identifies the relationships, authorities and responsibilities of the parties to the consortium formed to promote the development of the hotel-casino complex. The principal purpose of having two classes of shares (whether they be named *Founder, A* or *Restricted*) is to provide a higher level of stability and responsibility in the holding of Founder shares."¹⁸

The restrictions placed on founders are:

- Issue at least 40% of the shares to Founders, such shares shall be restricted shares and each Founder shall not reduce its holding of restricted shares without the prior approval of the Governor-in-Council.
- Ensure that no Founder holds less than one sixth of the total number of restricted shares on issue at any time.
- Ensure that no Founder holds more than one third of the total number of restricted shares on issue at any time.
- Ensure that the remaining shares on issue at any time (i.e., a maximum of 60% of the total number of shares) shall be unrestricted shares.
- Provide that there shall be 8 Directors, 6 of whom shall be appointed by the Founders in proportion to their restricted share holdings and 2 of whom shall be appointed by **all** shareholders.
- Refrain from transferring any shares of the Founders without the approval of the Governor in Council.

¹⁸ Queensland Treasury Brief to applicants for the Cairns Casino Project January 1992 page 12

- In respect of the unrestricted shares, ensure that the total number of such shares to which any person shall be entitled, other than a Founder, shall not exceed 5% of the total number of shares on issue at any time, without the approval of the Minister.
- Ensure that the total number of shares to which a "foreign" person or persons (defined in the Outline Formal Agreement) shall be entitled, shall not exceed 40% of the total number of shares on issue at any time.¹⁹

These provisions ensure that the company controlling the decision making process of the casino operation is acceptable to the government and cannot change without the approval of the government. The result of the application of these provisions has been that the ownership of casino firms in Queensland is seen as legitimate and controlled. This legitimacy has resulted in firms such as pension funds and insurance companies taking major and often founder share holdings in Casino companies. The 10 largest share holders in Jupiters Limited, the license holder for the Jupiters Gold Coast Casino, as reported in the 1992 annual report were as shown in Table 3.1 at the end of this section.

The goal of maintenance of government control and legitimacy of a casino over the long term is likely to be enhanced by the application of procedures similar to those found in the Queensland "Founder" shareholder example as the procedures established lend confidence to investors. The participation in the ownership and management of casinos by Institutional Investors, as evidenced in Queensland, in and of itself ensures the long term legitimacy of the casino.

In the U.S., institutional investors to date have not been attracted to casino developments. The Connecticut, Foxwoods Indian Reservation casino developers unsuccessfully

¹⁹ Queensland Treasury Brief to applicants for the Cairns Casino Project January 1992

approached twenty-three U.S. banks for financial support, and ultimately sourced funds from Malaysian investors.²⁰

The implementation of the "Founder shareholder" type controls has proved to be of value to governments in Australia; there is no reason to believe that its application in other countries will not be as successful. The formal legitimization of the owner entity of casinos by this type of control may change the attitude of U.S. institutional investors to casino investment.

3.4 LICENSEE ENTITY

The decision of who in the ownership, management and operation chain holds the license, will influence the extent and degree at which government can exercise its powers to maintain the legitimacy of the casino and control the entry of undesirable elements into the ownership, management and operation of the casino. Licenses issued to casinos can be revoked if the legitimacy and operation of the casino fail to meet the standards set by government.

²⁰ Brown G, Leonard S, BMT -- World Gaming Congress And Expo -- 9/92, 341F-50, Financing: How To Get It.

Currently three alternate models exist for the holder of the casino license of an Open/Urban Monopoly casino:

- The Canadian Model.

"The Crown Corporation will own the right to carry out all of the businesses in the Casino Complex. The successful Proponent will operate all such businesses and, with respect to the gaming business, will act as the agent of the Crown Corporation.

The successful Proponent will enter into an operating agreement with the Crown Corporation. It is the Ministry's expectation that such agreement will be for a term of 7 to 10 years with such renewal rights as may be agreed to by the parties."²¹

- The Australian Model. Provides for the owner entity of the Hotel Casino complex to be the Casino License holder. The government does not require that the hotel-casino operator be a "founder".

"Although there may be value in the hotel-casino operator being in the Founder group, it is recognized that this principle is one for the Founders to propose and rationalize at Board level. However, it would appear to be essential that a competent casino operator be part of the Applicant consortium.

The casino operator does not have to be the same company as the hotel operator.

The critical issue to the Government is that responsibility for provision of

²¹ Ministry of Consumer and Commercial Relations, Province of Ontario Request for Proposals Windsor Casino Complex April 19 1993

impeccable casino operations together with first class international standard tourist accommodation clearly rests with the licensee of the facility. Prima facie, the most effective means of achieving this would be for the casino and hotel to be run by the one operator."²²

- The Louisiana Model. Provides for only the casino operator to be licensed. The owner of the casino complex is not considered by or limited by the State Casino Legislation. While the casino operator is directly responsible for the day-to-day control of the casino, the owner of the complex has the power to influence aspects of the casino's legitimacy.

The two private enterprise casino licensing models provide significantly different levels of control over the operation and control of the casino. The Louisiana legislation recognizes the casino operators as the significant body over which it chooses to exercise control, whereas the Queensland legislation looks primarily to the casino-hotel owner as the entity which should be controlled.

²² Queensland Treasury Brief to applicants for the Cairns Casino Project January 1992 page 15

3.5 MONOPOLY/EXCLUSIVITY STATUS

In choosing to introduce an open/urban/monopoly casino, a government is making a commitment for a significant period of time -- usually greater than 10 years. Monopoly status provides advantages to both the government and the developer/operator of the casino, but limits the flexibility of both parties to adapt the casino to market changes throughout the period of the exclusivity. The "one shot" chance of getting the casino "right" associated with a monopoly casino emphasizes the importance of the government's decisions.

Examples of Monopoly conditions are:

- Athens, Greece -- 15 years for a radius of 20 kilometers
- Rhodes, Greece -- 10 years for the Island of Rhodes
- Cairns, Australia -- 10 years for a radius of 120 kilometers

The extent to which a casino can be described as a "true monopoly" licensed casino is often difficult to define. The Australian casinos can be said to have "true monopoly" status, resulting from the geographic isolation of the country and the vast distances between its major cities. Similarly, the isolation of the Islands of Greece provide significant value to a Monopoly status casino. In the United States a Monopoly is somewhat harder to enforce, with the nearness of other States and the threat of Indian Reservation casinos. The Louisiana State legislation for the proposed New Orleans casino infers Monopoly status, yet the government plans to introduce River Boat casinos on the Mississippi in New Orleans. Direct competition to New Orleans already exists from the River Boat casinos of Mississippi State. The Ontario government's proposed casino for Windsor relies on its proximity to the population of nearby Detroit. The value of a Monopoly casino in this location is questionable, as the government of Ontario has no

control over the actions of the State of Michigan, who may themselves at some point choose to introduce a casino to stem the flow of revenue from their State to Canada.

While there are only limited examples of the Monopoly casino, indications are that the government, casino developers and operators place higher values on Monopoly status casinos. Government taxation levels on Monopoly casinos are generally around 20% of Win tax, whereas Unlimited casinos have tax levels of 6% to 10%. The level of taxation is discussed in more detail in Section 4 of this thesis.

The perceived value of a Monopoly casino license to governments is enunciated in "The Louisiana Economic Development and Gaming Corporation Law"²³ which states that the most effective method of achieving desired public policy and objectives is to provide for the operation of a single official land-based gaming establishment by a non-government entity. The government believes that the State can derive a higher tax revenue from one casino than they can derive by levying tax upon the proceeds from the operation of a number of casinos.

The true value of a Monopoly casino license has not been evidenced in the information researched for this thesis, and there is much debate in the casino industry over the optimum level of taxation for a Monopoly casino. A number of prominent casino operators declined to participate in the bid for the proposed New Orleans, citing that the specified tax level of 18.5% was unworkable. Perhaps the real value of a Monopoly license would be best determined by allowing the competing casino bidders to make their own proposed tax level as part of their bid. This procedure is being considered by the government of New South Wales for the proposed Sydney casino.

²³ State of Louisiana The Louisiana Economic Development and gaming Corporation Law. 1992

3.6 MIX OF GAMING OPERATIONS

The achievement of the government's goals in providing for a casino can be influenced by the choice and mix of games allowed in the casino. The dilemma faced by governments is the balancing of their three goals: maximizing revenue, maintenance of the legitimacy of the casino, and protection of the public. All gambling types are not equal in terms of revenue generation. Slot machines produce the highest return per square foot, yet in some societies a high ratio of slots to tables is seen as less socially acceptable. Revenue and the protection of the public can also be influenced by the rules of each of the games. In some jurisdictions governments specify the type of games played in the casino and their rules, as well as the ratio of gaming tables to slot machines. Profitability of games is discussed further in section 6 of this report. Examples of government imposed controls on games are:

- Greece: The government of Greece places limits on the games that are permitted in the casino (refer Table 3.2 at the end of this section).
- Queensland, Australia: The legislation for the proposed Cairns casino limits the ratio of tables to machines to 1:12, with the maximum number being 40 tables and 480 machines. The rules of the games allowed are specified by separate legislation (Rules of Casino Games 1985, notified pursuant to Section 63 of the Casino Control Act of Parliament 1982). The games allowed are shown in Table 3.2 at the end of this section. The operation and types of machine gambling are controlled by separate legislation the (Gaming Machine Act of Parliament 1991).
- New South Wales, Australia: In determining the size and nature of the proposed casino for Sydney, the Casino Control Authority has placed strict limits on the ratio

and number of tables and slot machines. The casino will be limited to 200 tables and 1500 machines. The Authority at this stage has not limited the type of games allowed in the casino.

"In a cosmopolitan city like Sydney, with its range of ethnic groups and tourists, the Authority would expect the casino to offer a very wide range of games and gaming machines"²⁴

The limit placed on the number of slots in the Sydney casino, a ratio of 1:7.5, results from the fact that the State of New South Wales already permits slot machine gambling in licensed clubs throughout Sydney and the State. The government and the Authority have established this relative ratio of tables to slots as a means of protecting the existing licensed club's slot machine income.

The legislation for the proposed casinos for New Orleans and Windsor, Ontario allows the casino developer to propose the game type and mix of gaming operation. The final approval of the type of gaming will be the subject of negotiation between the government and the developer.

The research undertaken for this thesis revealed no clear guidelines nor optimum ratio of slots to tables. Similarly, there was no evidence of the effect of restrictions on game mix and rules on either casino revenue or public acceptance of the casino. The greatest influences on decisions regarding these issues will be the perceived level of social acceptance, the desired nature and style of the casino, and will ultimately be a political judgment.

²⁴ New South Wales Casino Control Authority Report On The Location, Size And Style Of The New South Wales Casino January 1993, Page 35

3.7 FOREIGN OWNERSHIP

Governments seeking to control the ownership and operation of casinos often place limits on the percentage foreign ownership of the owner entity. These are seen as an extension of the controls on owner entities discussed earlier in this section. The controls may be established through the country's general foreign investment restraints or through specific casino legislation. Examples of these are:

Queensland: Australia: maximum 40% foreign ownership.

Spain: only 25% of the capital of a casino operation can be foreign owned.

Portugal: only 10% of ownership may be foreign.

Holland: only the State may operate casinos

Poland: only Polish nationals may operate casinos.

While many countries do not formally limit foreign ownership, the application of the laws frequently results in a "nationals" only market:

United Kingdom: All license holders are British

Greece: All license holders of existing casinos are Greek.

Italy: All license holders are Italian.

Germany: The non-government casinos all have German license holders.

The choice of level of control of Foreign Ownership will largely be a function of the protectionist policies of the government.

3.8 DEVELOPMENTS ASSOCIATED WITH A CASINO

Apart from the casino itself and its "back of the house" facilities, other functions can be developed to enhance the revenue and respectability of a casino development. These may include:

- large international hotel or a combination of hotels
- serviced apartment/townhouse style accommodation
- convention/conference facilities
- major cultural, recreational or entertainment facilities including major sporting venues
- theater restaurant/international showroom
- ballroom
- disco/nightclub
- various types and styles of food and beverage facilities
- assorted specialty retail shops
- recreation or sports facilities such as golf courses
- theme park type family entertainment, i.e., the new generation of Las Vegas casinos
- boating facilities where applicable
- car parking
- ancillary functions

The introduction of casinos is seen as both an impetus for other businesses, as well as a threat. The highly charged political nature of the decision to introduce a casino brings with it opposition from the existing local businesses who may find themselves in competition with some of the non-casino services. The government's decision concerning the types of associated developments must consider not only, the political ramifications, but also the potential threat to revenue currently received from these existing businesses. Examples of the restraints placed on associated business in a casino complex are:

- The provincial government of Ontario has included in their Request For Proposals for a casino at Windsor, a requirement that the development contain a 300 room hotel, an entertainment facility, three restaurants, lounges and/or bars, and a gift shop. However they place strict limits on these facilities. Only one gift shop is allowed and the hotel may not open for business until existing hotel capacity in the central business district of Windsor, approximately 1200 rooms, approaches market norms, i.e., a 75% occupancy rate.²⁵
- The City of New Orleans has considered, at least to some degree, the impact of the casino on existing businesses. New Orleans already has a strong culinary/restaurant business, particularly in the French Quarter, as well as an abundance of existing hotel rooms. The city officials have chosen to protect these existing facilities by prohibiting competing facilities within the casino complex.²⁶

Of the studies reviewed, in particular those for New Orleans, Chicago and Sydney, only limited analysis was made of the positive and negative impacts on surrounding businesses. Each of the studies focused on the derived benefits from the casino tax revenue.

The intent of the introduction of casinos to Atlantic City was to rejuvenate an ailing tourism industry. History indicates that this rejuvenation had only minimal impacts on surrounding properties and businesses. It is not apparent that this would be the effect with the establishment of a casino in a true downtown location, such as those proposed for New Orleans, Chicago and Sydney, which cities have thriving and diverse economies.

²⁵ Ontario Ministry Of Consumer And Commercial Relations, Request For Proposals, Windsor Casino Complex, Windsor, April 19, 1993.

²⁶ Interview Timothy P. Ryan, Ph.D., Director, Division of Business and Economic Research, University of New Orleans, May 18, 1993

The established Australian casinos cannot be said to be direct equivalents to those proposed for New Orleans, Chicago or Sydney. The Jupiters casino, on Queensland's Gold Coast, a predominantly tourist area, is located near to, but outside the main business area. Similarly, the Burswood casino in Perth is located within a park land area adjacent to, but isolated from the central business district.

Governments must consider the impact of the casino on their existing sources of tax revenue and the potential to either harm or enhance those revenues. There is a strong possibility, though not yet evidenced by historical example, that increased visitation to the area may enhance existing businesses, and that the value of certain properties located near the casino will increase.

On the other hand, direct competition by the casino itself with existing businesses might erode the government's existing revenues.

As part of the approval process, governments should require analysis of the potential for either enhancing or harming the existing businesses, and their tax revenue from these businesses. The control of the size and type of non-casino developments within the casino complex provides the mechanism with which a government can control the impacts on existing businesses and property values.

3.9 TEMPORARY CASINOS

An option available to governments providing for the development of an Open/Urban/Monopoly casino is to allow a temporary casino in an existing premises to open and operate prior to the completion of the development of the final casino complex. In terms of revenue to the government the allowing of a temporary casino has both short

term and medium term advantages. The temporary casino allows the earliest possible revenue flow to the government. In the medium term it allows the reputation of the casino to be established, which should ensure higher levels of acceptance and visitation once the final casino complex opens.

There are administrative advantages as well. The operation of a temporary casino allows both the government and the developer/operator to establish their procedures and train their staff. This preparation period should enhance the credibility and ultimate success of the permanent casino.

The disadvantage of a temporary casino may be that the developer/operator may seek to derive revenue from the temporary casino in an attempt to minimize his debt on the permanent casino by delaying the completion and opening of the permanent casino complex.

Of the current run of proposed casinos for Australia, Greece, New Orleans and Windsor, Ontario all governments have opted to allow temporary casinos.

Clearly, governments that allow temporary casinos prior to the opening of a permanent casino value the advantages higher than the disadvantages. Should a government be concerned that the developer/operator may delay completion of the project, the agreements between the developer/operator and the government could contain either limited temporary casino license periods, or penalties for late completion of the permanent casino.

3.10 CONCLUSION

In formulating casino legislation and controls a government must address a number of issues that will have direct influence on the potential revenue to the government from a casino. The basis on which these decisions are made has only minimal historical precedence as there is only a small number of existing Open/Urban/Monopoly casinos. These casinos are located in regions of diverse characteristics and economies, making direct comparisons difficult

There appears to be no "standard" approach to the establishment of casino legislation and controls. Until such time that the number of operating Open/Urban/Monopoly casinos and the amount of historical data has increased, governments will have to rely on a "best guess" approach to decision making.

TABLE 3.1**THE 10 LARGEST SHAREHOLDERS OF
JUPITERS LIMITED**

	No. of Shares	% of Shares
Commonwealth Funds Management Limited	35,536,176	18.5
Conrad International Investment Corporation and Conrad International Hotel Corporation	23,572,516	12.3
Daikyo Incorporated	19,572,516	12.2
Queensland Investment Corporation	15,485,281	8.0
National Nominees Limited	6,014,946	3.1
Pendal Nominees Pty Limited	5,504,800	2.9
Permanent Trustee Company	3,302,336	1.7
MLC Life Limited	2,812,931	1.5
ANZ Nominees Limited	1,996,460	1.0
Bank of New South Wales	1,437,347	.07
Total Issued Shares	125,894,421	100.0

Source; Jupiters Limited 1992 Annual Report

TABLE 3.2**PERMITTED GAMES**

Greece	Blackjack, Roulette (French and American), Baccarat/Punto-Banco, Craps, Chemin de Fer, Card Games, Slot Machines (Reel and Video)
Queensland, Australia	Blackjack, Sic-bo, Baccarat, Craps, Roulette, Wheel of Fortune, Two Up*, Mini Dice, Mini Baccarat, Keno, and Machine (Reel and Video)

* Two Up is a "peculiarly Australian" gambling game.

Source: Hellenic Republic Ministry Of Finance, Greek Casino Development Project, Request For Proposals ("The Request") For The Development Of Casino Operations In Greece, Athens, 1993. and Queensland Government, Rules Of Games, Brisbane, November 19, 1985.

SECTION 4 -- TAXATION

4.0 INTRODUCTION

All legal casinos are subjected to taxation. The extent of the taxation depends on the category of casino and the revenue raising taxation method adopted by government.

In terms of revenue to government, there are a number of variable that will influence the total amount and fee/tax structure. These include:

- The size, type and siting of the casino.
- Ability to cater to local populations.
- Attraction of local population to the casino.
- Ability to attract tourists and export dollars.
- The degree of control and the cost of that control to government.
- The effect of other casinos.

4.1 TAXATION ALTERNATIVES

There are a number of alternate methods that a government can use to derive revenue from the operation of a casino. These include:

- **License Fee**

The license fee is a charge for the license or concession to operate a casino. It can be a substantial non-recurring fixed charge, or an annual or periodic fee.

- **Tax on Gaming Tables**

The table tax is a fee charged on the basis of the number of gaming tables and gaming machines. This is usually a fixed fee paid periodically or annually, and can be substantial. It has the advantage that it is related to the business turned over by the casino in that presumably, as more business is generated, correspondingly, more tables are required. A disadvantage is that the operator may prefer to overload his existing tables, paying little regard to the comfort and convenience of the patrons rather than increase his tax by introducing more tables. It is a tax that is easy to evaluate and simple to administer. It does however, in its nature, lead to less strict supervision and may well encourage abuses.

- **Tax on Premises**

The tax based upon the ratable value of the premises in which the gaming is conducted is simple to evaluate and administer. It is not costly and presents little or no opportunity for evasion. It is a tax which assumes that the casino gaming wagers, as such, cannot be the subject of taxation for practical reasons. This tax pays no regard to the turnover, profitability or volume of gambling, and is not favored by operators.

- **Tax on Gross Winnings or Win Tax**

The tax on casino revenue or winnings is based on the gross figure collected in gambling winnings to the casino, with no deduction for operating and/or any other expenses. It has nothing to do with net profit or income.

This tax has the advantage of flexibility, as the percentage levied, if kept constant, will rise or fall with the final result achieved. Its great disadvantage is the extreme difficulty and high cost of administration and government supervision.

- **Tax on Total Drop**

The drop is the total amount of cash exchanged for chips issued. The drop is a difficult figure to independently check or audit. It requires the use of additional staff to ensure that cashiers record all cash exchanges. There is also the concern that the figures will be inaccurate due to inflation caused by players returning to the tables after cashing in their chips.

Tax on drop figures is not considered by either operators or governments as a sufficiently equitable system for taxation.

- **Tax on Net Profit**

This has the advantage of apparent simplicity and is similar to Federal Tax. It may be based upon the auditor's certificate and income tax returns.

The problem with this tax is that it is similar to income tax and is likely to incur the problems of assessing "real" income. Issues such as capital fund allowances, depreciation, and the fixing of proportions for overhead expenses and other charges complicate this task.

Of the above taxation alternatives, the two that are most favored by governments are the license fee and the tax on gross turnover or "win". These two taxation methods are often used in conjunction with each other. In choosing the gross turnover taxation method governments recognize that the high costs of supervision and administration are offset by the benefit they derive from their participation in the supervision process. This tax has the advantage of giving the state, through the supervision process, the necessary details of the size of the casino operation, and its availability as a potential source of further income.

The tax on gross turnover also provides the ultimate defense against the entry of criminal influence into the control of the casino. The very extensive nature of the revenue controls makes it difficult and dangerous for criminal operators to get access to the casino's cash.

4.2 OTHER TAXES AND LEVIES

In addition to taxation on turnover, many governments seek additional revenue via the imposition of application fees, levies and exactions. Following are examples of other taxes and levies imposed on Open/Urban/Monopoly casinos.

Greece

In addition to a 20% tax on gross turnover, the government of Greece in their request for proposals requires:

- Reimbursement of all government costs associated with investigation of applicants.
- An application fee of Dr 2,000,000 (approx. U.S. \$9,000)
- A municipal levy of 2% of gross turnover or "win"
- An annual license fee paid in quarterly installments

Queensland, Australia

In addition to gross turnover tax the requirements of the Queensland State government for the new casinos for Cairns and Brisbane include:

- A quarterly fee of Aud \$100,000 (approx. U.S. \$75,000)
- A 1% community benefit levy on "Win" to be paid into a trust or foundation
- An exaction payment by way of the construction of a convention center, to be paid for by the casino developer and given to the government.

New Orleans

The developers of the New Orleans casino have proposed a number of extra payments in addition to the State "Win" tax of 18.5%. These include:

- A \$5,000,000 annual payment for a period of 30 years to the New Orleans Tourism Marketing Corporation, to be used in a cooperative program with the Grand Palais Casino and Development for the mutual benefit of the City and the Development.
- An annual payment of \$2,000,000 for a period of 30 years to civic and cultural organizations located in the City of New Orleans or Orleans Parish.
- A sliding scale lease payment to the City of New Orleans for the city owned site, with a base of \$12,500,000 per year.

4.3 CONCLUSION

There is no set formula for the calculation of taxation levels for the various casino types. The casino operators' and developers' preference would no doubt be the lowest percentage possible, whereas the governments are seeking the highest revenue possible. Table 4.1 sets out a number of examples of existing and proposed casino tax levels.

It can be seen from the above comparison that there are some obvious differences between the taxation levels of Open/Unlimited casinos when compared with Open/Monopoly casinos and Restricted/Monopoly casinos. Open/Unlimited casinos have taxation levels between 6% and 10%, where Open/Monopoly casinos have taxation levels generally around the 20% level. Restricted/Monopoly casinos are taxed at the highest level -- up to 95% in some German casinos.

These variances reflect both the attitude of government and the value placed on the monopoly status of the casino. Monopoly casinos' expenditures on advertising and promotion is far less than that spent by the Unlimited casinos, who must compete for their customers with other Unlimited casinos. The high level of taxation imposed on the Restrictive/Monopoly casino reflects the government's attitude that they are a necessary evil; and that gambling should be catered for, but not fostered.

TABLE 4.1		TAXATION & FEES		
CASINO & CATEGORY	Win Tax	Annual Fees	Other Fees	
United States:				
Grand Palais (New Orleans) O/UR/M	18.5%	NA	NA	
Chicago**(Illinois) O/UR/M	10%	NA	NA	
Las Vegas (Nevada) O/UR/UL	6%		NA	
Atlantic City (New Jersey) O/UR/UL	8%		NA	
Canada:				
Windsor,* Ontario O/UR/M	20%	NA	NA	
Winnipeg, Manitoba O/UR/M	63% Government Owned and Operated			
European Economic Community:				
Belgium R/UR/M	30%-40%			
Denmark R/UR/M	65%			
France R/UR/M	45%			
Germany R/UR/M	80%-95%			
Italy R/UR/M	60%			
Netherlands R/UR/M	33.3%			
United Kingdom R/UR/M	18%			
Greece:				
Greater Attica Area*, Thessalonica* & Crete* O/UR/M	20%	Not decided	2% local	
Athens* O/UR/M	20%	Not decided	2% local	
Corfu*, Rhodes* & Mykonos* O/RES/M	20%	Not decided	2% local	
Porto Carras* in Halkidiki O/RES/M	20%	Not decided	2% local	

Table continued on next page.....

Source: Various

NA Not Applicable

* Proposed Casino

** Proposed but defeated in the State Legislature

TABLE 4.1		TAXATION & FEES		
Continued				
CASINO & CATEGORY	Win Tax	Annual Fees	Other Fees	
Australia:			\$AUD	
Adelaide Casino (Adelaide SA) O/UR/M	20%	NA	NA	
Brisbane Casino* (Qld) O/UR/M	20%	\$400,000	1%**	
Burswood Casino (Perth WA) O/UR/M	15%	\$400,000	NA	
Cairns Casino* (Qld) O/UR/M	10%	\$400,000	1%**	
Diamond Beach (Darwin, NT) O/UR/M	20%	\$30,000	NA	
Jupiter's Casino (Gold Coast Qld) O/UR/M	20%	\$400,000	1%**	
Melbourne Casino* (Victoria) O/UR/M	30%	\$600,000		
Sydney Casino* (Sydney NSW) O/UR/M	20%	Not decided	NA	
Wrest Point (Hobart, Tas) O/UR/M	15%	\$60,000	NA	

Source: Various

NA *Not Applicable*

* *Proposed Casino*

** *Community Levy collected by the state government and paid into a Trust or Foundation for the purposes of providing community benefits not related to the casino operation*

SECTION 5 -- PREDICTION OF VISITATION TO AN OPEN/URBAN/MONOPOLY CASINO

5.0 INTRODUCTION

The major factor that influences the success of a casino, both from the government and the developers point of view, is the number of expected visitors to the casino.

The importance to the government of the estimation of visitation to a casino is that these estimates will effect the determination of the size of the proposed facility. Should the estimates fall short of the ultimate visitation potential, the resultant casino may be too small, and the government may not maximize their revenue.

Visitor numbers are a function of the demographics of the area, and the size of the market. Visitors are generally categorized into groups such as, locals, day trippers, domestic tourists, and international tourists.

Research revealed few studies on these matters. The relative newness of the Open/Urban/Monopoly casino, particularly in the United States, results in projections being more guess work than detailed analysis. The Australian history with this model is somewhat longer, with the oldest of this example having operated for twenty years. Comparisons between the experiences of vastly different markets, such as Australia and the United States, are considered by analysts in both countries to be of only marginal relevance.

"Australia is, however, quite different in some fundamental ways. Australia has a very small population -- only 16.3 million people which is smaller than the State of Texas and less than 60 percent of the California population. Australia is in the middle of an ocean, miles away from the large affluent population centers of the world. Thus casino gambling in Australia is mostly designed to serve the resident populations of the area with casinos (source Beagle, 1988 McMillen, 1988)"²⁷

5.1 EXAMPLES OF MARKET SIZE ANALYSIS

Three studies did attempt to determine the expected number of visitors to the proposed casinos in Sydney,²⁸ New Orleans²⁹ and Chicago.³⁰ These studies take somewhat similar approaches to the methodology of market size determination, yet derive significantly different results.

The Sydney study derives its projections by extrapolating historical visitation numbers from existing Australian Open/Urban/Monopoly casinos and applying these numbers to projected population and visitor numbers to Sydney.

The New Orleans study relies principally on capture methodology and reference to historical information from the experience of Las Vegas. It applies the Las Vegas capture rates to projections of population and visitation to New Orleans.

²⁷ Ryan, T. ;Conner, P.& Speyer, J. The Impact of Casino Gambling in New Orleans May 1990

²⁸ New South Wales Casino Control Authority Report On The Location, Size And Style Of The New South Wales Casino January 1993

²⁹ Ryan, T. ;Conner, P.& Speyer, J. The Impact of Casino Gambling in New Orleans May 1990

³⁰ Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992

The Chicago study, after detailed analysis of both Nevada and New Jersey casinos, chose to use Atlantic City's performance to predict the visitation numbers for the proposed Chicago mega-casino complex.

5.1.1 The Sydney Market Size Analysis

The base data used in the Sydney analysis were historical visitation composition from three operating Australian casinos,³¹ and population and visitor growth projections.³²

Historical visitation composition showed a high percentage of local and day tripper visitation, ranging between 85% and 92%. The 1995 projected population for Sydney is 4,990,000. Visitor projections for Sydney for the year 1995 are 4,700,000 domestic visitors and 2,210,000 international visitors.

The NSW Casino Control Authority, based on the above information, predicted in their report that 1995 casino visitation would total 7,200,000 to 10,200,000. The resultant capture rates were local and day trippers - 78%, domestic visitors - 14%, and international visitors - 8%.³³

³¹ *refer:* Table 5.1, Visitation and Composition

³² *refer:* Table 5.2, Local & Day Tripper Population of Sydney; and Table 5.3, Visitors to Sydney

³³ *refer:* Table 5.4, Sydney Visitation Projections

5.1.2 The New Orleans Market Size Analysis

Ryan et al.³⁴ chose to apply capture percentages based on the experience of a typical 100,000 sq. ft. Las Vegas casino. The figures used are shown in Table 5.5.

The New Orleans study made allowances for the expectation that the casino itself would create an additional growth in visitors to New Orleans. The study derived projections for these new visitor numbers to be between 612,000 and 1,221,000 (refer Table 5.6).

To achieve projected casino visitation the study combined the new visitors attracted by the casino with a percentage capture of both existing local and visitor numbers to New Orleans. The capture rates applied for locals was an average of one casino visit per year per capita. Of existing visitors, they predicted that 50% would visit the casino. The total projected casino visitation was between 4,270,000 and 4,882,533.

The proposed developers of the New Orleans casino, Hemmeter Woodmont, in their submission to the City of New Orleans dated September 1992, forecast approximately 9,145,000 Gambler Visits per year. The method applied was similar to that used by Ryan et. al., with visitor composition remaining around 30% locals and day trippers, and 70% domestic and international visitors. The major difference in the two studies was the expectation of existing visitor's utilization of the casino. Hemmeter Woodmont used an annual figure for adult overnight existing visitors to New Orleans of 8,193,732. To this figure was applied a propensity to gamble percentage of 40% and 60% this was then multiplied by a number of gambling opportunities factor of 1.7 to derive estimates of existing visitor draw-gambler days of between 5,571,738 and 8,357,606.

³⁴ Ryan, T. ;Conner, P.,& Speyer, J. The Impact of Casino Gambling in New Orleans May 1990

5.1.3 Chicago Market Size Analysis

The Deloitte & Touche study took a three step approach to the estimation of visitation to the proposed Chicago casino complex.

Firstly they undertook a demographic comparison of both population and median income between Las Vegas, Atlantic City, and Chicago. The comparison was made on the basis of four concentric rings: 0-35 miles; 35-75 miles; 75-150 miles; and 150-300 miles. The report concluded that:

"From the demographic comparisons, it is apparent that Chicago is best compared to Atlantic City for the first three rings, given the more similar adult population and income characteristics (Las Vegas is surrounded by sparsely populated desert areas). Chicago has the largest adult population and income density within 35 miles, indicating the strong potential local market for the proposed facility. Atlantic City's demographics are stronger than those for Chicago in the next two rings, while in the fourth ring (150-300 miles), all three cities have similar characteristics."³⁵

The second phase of the study was a comparison of growth patterns in three common key characteristics in Chicago, Las Vegas and Atlantic City. The aim was to predict the future growth in visitor populations. The characteristics studied were: Air Transport and Accessibility, Convention Facilities and Attendance, and Tourist Attractions and Demand. The study's conclusions of this phase were:

³⁵ Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992, page 140

"Both Chicago and Las Vegas offer convenient access by air, while Atlantic City is not easily accessible given its airport size and distance from any other major airport (Philadelphia is 60 miles away). Chicago, being centrally located within the country and having a higher base of traffic and service to more cities, is clearly more accessible than Las Vegas, with the ability to attract people from throughout the country as well as internationally. In summary, Chicago attracted 2.4 million convention and trade show delegates in 1991, compared to 1.8 million for Las Vegas and 0.4 million for Atlantic City. Chicago is clearly the leader of the three cities in the convention market, and is more comparable to Las Vegas in this respect due to Atlantic City's limited ability to attract national conventions and trade shows. Chicago's visitors presently consist of a much larger proportion of business travelers and convention, trade show, and corporate meeting attendees. While clearly not attracting the same number of tourists as Las Vegas or Atlantic City, Chicago does attract a substantial number due to its size, cultural appeal, shopping, sports and entertainment attractions."³⁶

The third phase of the study reviewed Las Vegas and Atlantic City visitation, and visitor days, by radial rings, in order to achieve estimates for the proposed Chicago casino. (Refer Table 5.7). The results of this extrapolation estimated 11,808,400 visitors per year for 1997. The percentage of casino visitors expected to come from the four rings is: 0-35 miles, 71.96%; 35-75 miles, 8.00%; 75-150 miles, 7.25%; and 150-300 miles, 12.79%.

³⁶ Deloitte & Touche Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility Prepared for The City of Chicago Gaming Commission, May 19 1992, page 144

5.2 COMPARISON OF VISITOR ESTIMATES FOR NEW ORLEANS, SYDNEY AND CHICAGO.

Table 5.8, 5.9 and 5.10 are summaries of the casino visitation projections for Sydney, New Orleans and Chicago. These are not direct comparisons between equivalent data. However, they do indicate marked differences between both the percentage visitation rates and the percentage capture rates for each of these cities. The respective capture rates for tourist visitors for Sydney, New Orleans and Chicago are 23%, 50% and 21%. The local & day tripper composition percentages also differ significantly: Sydney - 78%, New Orleans - 30% and Chicago - 70%. These differences become more apparent when they are compared with the projected casino sizes for these cities. The Sydney casino is planned to have a gaming floor of 113,000 square feet for an anticipated total annual casino visitation of 7,200,000. Ryan et al's³⁷ study was based on a 100,000 square foot gaming area casino, and estimates total annual visitation to the New Orleans casino of 4,270,227. The developer of the New Orleans casino plans to have a gaming floor area of 180,180 square feet, and has based his casino patronage on 9,145,000 gambler visits for the year 1995. The proponents of the Chicago casino planned a gaming floor of 500,000 square feet for an expected casino visitation of 11,808,000.

³⁷ Ryan, T. ;Conner, P. & Speyer, J. The Impact of Casino Gambling in New Orleans May 1990

5.3 CONCLUSION

Many factors could be suggested to explain these major variances between the estimates of annual visitation for the three casinos, including cross cultural differences between Australia and the United States, and economic diversity between Chicago and New Orleans.

There appears to be a reasonable correlation between the percentage of estimated casino visitation for Sydney and Chicago. The studies for these cities recognize a strong reliance on the local population and day trippers

Clearly, the amount of detailed statistical data on this matter is poor, and the potential visitor projections made above are of questionable reliability. The experience from the Australian Open/Urban/Monopoly casinos is that local patronage tends to be higher than expected. During the initial phases of a casino development much emphasis is placed by casino proponents on the number of non-locals the casino will attract, and the amount of export dollars these patrons will bring to the region. In Australia the highest percentage of non-local visitors to a casino is achieved by the Jupiters Casino on the Gold Coast, Queensland. Yet even at this location, Australia's premier tourist resort, the locals make up 75% of the total casino patronage, with a further 10% being drawn from day trippers.

The absence of experience with Open/Urban/Monopoly casinos in the United States limits the confidence level that can be placed on estimates of visitation to proposed casinos. This level of confidence is further complicated by the question of how real the monopoly status of casinos is. Illinois already allows River Boat Casinos, Louisiana has commenced the processes to allow River Boat casinos in New Orleans, and River Boat casinos already exist in nearby Mississippi, at Biloxi and Gulfport.

Governments should be cautious when presented with these types of estimates as there appears to be no clearly defined methodology for the estimation of casino visitation. It seems likely, from the Australian experience, that the percentage visitation by locals will be higher rather than lower.

TABLE 5.1		VISITATION 1991		
Casino	Jupiters	Burswood	Adelaide	
Visitation/Year	5,800,000	2,500,000	2,400,000	
VISITOR COMPOSITION 1992				
Locals	75%	90%	65%	
Day Trippers	10%	2%	9%	
Domestic Visitors	10%	2%	21%	
International Visitors	5%	6%	5%	

Source: NSW Tourism Commission

TABLE 5.2		LOCAL & DAY TRIPPER POPULATION OF SYDNEY		
	1991	1995 Projected	2000 Projected	
Population within a 2 hour drive	4,450,000	4,990,000	5,090,000	

Source: NSW Department of Planning's Population Projections for New South Wales 1986-2000 (Revised 1992)

TABLE 5.3		VISITORS TO SYDNEY		
	1991	1995 Projected	2000 Projected	
Domestic Visitors	4,400,000	4,700,000	5,100,000	
International Visitors	1,600,000	2,210,000	3,220,000	
Total	6,000,000	6,910,000	8,320,000	

Source: NSW Bureau of Tourism Research

TABLE 5.4**SYDNEY VISITATION PROJECTIONS**

	1995 Projection		2000 Projection	
	Low	High	Low	High
Local and Day Trippers Population	4,990,000		5,090,000	
Potential Local & Day Tripper Casino Visitors per Year	5,600,000 (78%)	7,200,000 (70%)	6,000,000 (75%)	7,500,000 (68%)
Projected Domestic Tourism	4,700,000		5,100,000	
Potential Domestic Casino Visitors per Year	1,000,000 (14%)	2,000,000 (20%)	1,100,000 (14%)	2,200,000 (20%)
Projected International Tourism	2,210,000		3,220,000	
Potential International Visitors	600,000 (8%)	1,000,000 (10%)	900,000 (11%)	1,400,000 (12%)
Potential Total Visitors	7,200,000	10,200,000	8,000,000	11,100,000

Note: Percentages shown in brackets are the share of total visitation

Source: New South Wales Casino Control Authority, Report On The Location, Size And Style Of The New South Wales Casino, Sydney, January 1993.

TABLE 5.5**CAPTURE RATE FOR A TYPICAL LAS VEGAS CASINO
(100,000 SQ. FT.)**

Distance	Total Population	Visitors	Capture Rate
Less than 325 Miles	26,838,000	269,691	1.00516%
Between 325 & 700	16,136,000	104,656	0.64851%
Greater than 700	202,022,000	442,941	0.21917%

Source: The Impact of Casino Gambling in New Orleans May 1990

TABLE 5.6		CAPTURE RATE FOR NEW ORLEANS CASINO (100,000 Sq. Ft.)			
New Visitors	Total Population	Moderate Projection	Capture		
			%	High Projection	%
Less than 325 Miles	11,546,000	116,000	1.0	232,000	2.0
Between 325 & 700	48,412,000	314,000	.65	628,000	1.3
Greater than 700	83,155,000	182,000	.22	364,000	.44
Total New Visitors	143,113,000	612,000		1,221,000	
Existing Population & Visitor Projections					
Current Visitors/Year	5,000,000		2,500,000		50
Locals	1,157,921		1,157,921		100
Total Projected Visitors		4,270,227		4,882,533	

Source: *The Impact of Casino Gambling in New Orleans* May 1990

TABLE 5.7	PERCENTAGE OF ESTIMATED CASINO VISITOR DAYS		
Distance from Casino	Las Vegas 1991 (estimate)	Atlantic City 1991 (estimate)	Chicago 1997 (estimate)
0-35 miles	2.43%	3.38%	33.31%
35-75 miles	0.01%	19.98%	8.72%
75-150 miles	0.31%	41.28%	4.72%
150-300 miles	40.98%	17.11%	14.27%
Greater than 300 miles	56.26%	18.35%	43.83%

Source: *Deloitte & Touche Chicago Casino Study*

TABLE 5.8 **SUMMARY OF VISITATION PROJECTIONS
FOR THE PROPOSED SYDNEY CASINO**

	Number	Visitation composition %
Local & day tripper population	4,990,000	
Projected local & day tripper casino visitations per year	5,600,000	78%
Capture %	114%	
Domestic & international visitors	6,900,000	
Projected domestic & international casino visitors per year	1,600,000	22%
Capture %	23%	
Total Projected casino visitors per year	7,200,000	100%

Source: New South Wales Casino control Authority

TABLE 5.9 **SUMMARY OF VISITATION PROJECTIONS
FOR THE PROPOSED NEW ORLEANS CASINO**

	Number	Visitation composition %
Population less than 350 miles radius	11,546,000	
Projected casino visitations drawn from less than 300 miles per year	1,273,921	30%
Capture %	11%	
Population greater than 350 miles radius	131,567,000	
Projected casino visitation drawn from greater 350 miles per year	2,996,000	70%
Capture %	2%	
Total projected casino visitors per year	4,270,227	100%

Source: Impact of Casino Gambling in New Orleans

TABLE 5.10**SUMMARY OF VISITATION PROJECTIONS
FOR THE PROPOSED CHICAGO CASINO**

	Number	Visitation composition %
Local & day tripper population (0-150 miles)	16,847,943	
Projected local & day tripper casino visitations per year (0-150 miles)	8,238,100	70%
Capture %	48.9%	
Domestic & international visitors	16,800,000	
Projected domestic & international casino visitors per year	3,596,900	30%
Capture %	21%	
Total Projected casino visitors per year	11,808,400	100%

Source: Deloitte & Touche Chicago Casino Study

SECTION 6 -- REVENUE PREDICTIONS FOR AN URBAN CASINO

6.0 INTRODUCTION

The prime goal of a government providing for the introduction of casinos is to derive revenue for the government. In appraising a casino the government must make some estimate of the potential revenue that they can derive from a casino. The most usual form of taxation is tax on "win", which is the gross casino revenue before deductions for operating costs and other expenses. Therefore, the calculation of tax revenue ignores the operating and overhead expenses of the casino. However, the long term revenue to the government will be affected by the success or failure of the owner and/or operator. Governments, as partners with private enterprise, must make allowances for the financial viability of the business in their determination of taxation levels and revenue.

To date there are no set formulas for estimating "win or gross casino revenue. This part of the thesis reviews four methods applied to this problem. The four methods are:

- Estimates based on "Win" per visitor
- Estimates based on "Win" per square foot of gaming floor
- Estimates based on the application of tax rates from other jurisdictions with established casinos.
- Estimates based on "win" per table and machine.

As with other aspects of the Open/Urban/Monopoly casino, there is only minimal historical data on which to base these estimates. Where such historical information does exist, it is often from regions that are not directly comparable to the region being studied.

6.1 ESTIMATES BASED ON "WIN" PER VISITOR

This method of estimating casino revenue reviews the experience of other casinos and derives a value for the "Win" per customer. This "Win" per customer is applied to the projected casino visitation numbers to achieve an estimated total casino win. Table 6.1 indicates Win per customer for a number of major casinos. The table indicates a vast range of Win per visitor; from U.S. \$22.50 to \$97.00. The most likely factors contributing to these differences are the spending characteristics of the visitors and their propensity to gamble. Other factors could be the mix of gambling available and the location of the casino. The higher Win/Visitor for Burswood could be attributed to the fact that Perth, and in particular Burswood, acts as a rest and recreation area for workers from the mining regions in north western Australia, who have high disposable income. The difference between Las Vegas and Atlantic City is probably a reflection of the higher per capita earnings in the regions surrounding Atlantic City.

Hemmeter Woodmont, the proposers of the Grand Palais Casino for New Orleans, have derived their estimates for total casino Win by applying a segmental analysis for their market. They applied Win per Gambler Day for three categories of casino visitors: locals, existing visitors, and new visitors attracted by the casino. The respective Win per visitors were: locals - \$44.00, existing visitors - \$80.00, and new visitors - \$97.00. The weighted average Win per visitor derived by this method was \$71.00. These values were applied to the projected visitation to achieve a total amount of overall casino revenue for New

Orleans. The estimate of the proposed casino share of this total revenue was 73.6% with a resultant projected casino Win of \$680,375,000.

6.2 ESTIMATES BASED ON "WIN" PER SQUARE FOOT

The most common method of estimating casino revenue is to apply the same casino "win" rates per square foot as those from existing casinos. Examples of these rates are shown in table 6.2. These rates show similar diversity and range to those of the "win" per visitor comparisons above, and are probably the result of regional factors and variances in casino type.

The "win" rate per square foot for the two major U.S. gambling centers show significant differences: Las Vegas -- \$1,259 and Atlantic City -- \$3,873. Research for this thesis found limited analysis of these variances. They are most likely the result of differing demographic and income characteristics in the catchment areas. A further explanation may be a higher utilization of Atlantic City casinos per square foot, as well as differences in payout percentages on slot machines.

The variance between these two gambling centers highlights the difficulty of applying the the casino experiences of one region to another without making adjustments for the diversity that may exist between them.

6.3 ESTIMATES BASED ON "WIN" PER TABLE AND MACHINE.

The fourth method of estimating casino revenue is to apply historical revenue figures for tables and machines from other casinos to the number of tables and slots in the proposed casino.

Not all gambling types produce the same level of income to the casino for each dollar invested by the gambler. The cost to operate, supervise and maintain, and the revenue per square foot, varies between the gaming types. Slot machines provide to the casino the lowest cost and highest return per square foot.

"Casinos eventually win 15% to 20% of the capital gamblers invest through purchase of chips for table gambling.....It has been estimated that slot players ultimately incur a 40% net loss of their capital invested.³⁸"

The daily "win" per table for Las Vegas, and Atlantic City in 1991 were \$2,660.00 and \$2,315.00 respectively. The daily slot machine "win" for Las Vegas, and Atlantic City in 1991 were \$93.00 and \$237.00 respectively.³⁹

In addition to making estimates of casino revenue by the "win" per visitor method for the proposed New Orleans casino, Hemmeter Woodmont have applied "win" per table and slot figures, derived from Atlantic City casinos, refer table 6.4. Lower figures were used by Hemmeter Woodmont to compensate for the larger scale of the Grand Palais casino and possible lower initial utilization. This calculation projected gross revenue of

³⁸ Gelbtuch, Howard C. The Casino Industry The Appraisal Journal, April 1991

³⁹ Grand Palais Submission to the City of New Orleans September 1992, Page IV-6

\$675,786,550 per annum,⁴⁰ compared with projected gross revenue by the "win" per visitor method of \$680,000,000 per annum.⁴¹

6.4 ESTIMATES BASED ON THE APPLICATION OF TAX RATES FROM OTHER JURISDICTIONS

This approach is the least reliable approximation of government revenue from a casino and is rarely used. It was initially considered, but ultimately rejected, by "The Street Inquiry into the establishment and operation of legal casinos in New South Wales."⁴² The method attempts to "scale" up or down revenue results from regions with casinos in order to achieve a gauge of the possible revenue to the region being studied. Table 6.3 from the Street report illustrates how this scaling is applied. The table indicates a revenue to government of between \$70,000,000 and \$100,000,000. The report considered this information as useful in establishing benchmark data, but noted that it ignored a number of region specific factors.

⁴⁰ Grand Palais Submission to the City of New Orleans September 1992, Page IV-6

⁴¹ Grand Palais Submission to the City of New Orleans September 1992, Page IV-5

⁴² Street The Hon Sir L, Inquiry Into The Establishment And Operation Of Legal Casinos In New South Wales-Report, Nov. 1991

6.5 THE GOVERNMENT AND DEVELOPER REVENUE EQUATIONS

Casinos in general have a reputation that they are a "license to print money." The partnership between the private enterprise developer/owner and the government requires that each partner understand the financial viability of the other partner.

Tables 6.5, 6.6 and 6.7 (Casino Proforma) indicate the approximate percentage of "win" available to the partners for casino tax, debt servicing, depreciation, income tax and profit. These percentages are: Jupiters -- 39% and 42%; Burswood -- 37% and 39%; Winnipeg -- 69%; and New Orleans -- 56%. The information contained in these tables is not a direct comparison of casinos, as the calculations include income and expenses from other sources such as hotels, car parking, restaurants, etc. However, they do indicate an order of magnitude of the percentage available for the government and developer to share. The figures for the Australian casinos are somewhat lower than those experienced in Winnipeg and estimated for New Orleans. This difference is largely attributed to the Australian prohibition placed on tipping of casino gaming floor staff, which results in significantly higher wage expenses. If adjustments were made to the Australian proformas for the North American salaries and tipping practices, the percentage of "win" available for casino tax, debt servicing, depreciation, income tax and profit would fall in the range of 50% to 65%. The share that governments take of this percentage by way of "win" tax must consider not only revenue to the government, but must also allow for the financial viability of the developer/operator.

6.6 CONCLUSION

The confidence level that can be expected from the above methods of estimating casino revenue is considered low. None of the methods make adequate allowances for the diversity that occurs between regions and countries.

The revenue source for a casino is the gambler. Gambling is a discretionary activity, i.e., a gambler, with the exception of the compulsive gambler, makes a conscious decision to gamble. Research for this thesis found no evidence of studies which focused on the gamblers themselves. Over the recent few decades in the United States casino gambling has been limited to a quasi-monopoly niche market in Nevada and Atlantic City. The size of the U.S. market, compared to the capacity of these two gambling venues, resulted in casino developers and governments of Nevada and Atlantic City having an attitude of "build it and they will come." The emergence of new casinos on Indian Reservations, and Riverboats, and the potential for Open/Urban/Monopoly casinos, makes the issue of competition for gamblers a new challenge.

Factors that will influence the revenue to a casino include:

- The size and population of the catchment for the casino.
- Per capita earnings and disposable income of the catchment population.
- The propensity to gamble of the catchment population.
- The alternative recreations -- gambling or others -- that are available to the population.
- The desirability of the forms of gaming available to the catchment population.

With the New Orleans and Sydney casinos, the final appraisal of the estimates can only be made after the casinos are operating and the actual figures are known.

As with the estimations of visitors to a casino, the existing methods of estimating casino revenues are more an art form than scientific analysis. Governments evaluating these estimates should do so with caution.

An alternative method may be to study the demands and capacity of the market, through analysis of both gamblers and non gamblers in the community. Casinos are not dissimilar to other service industries and they should use all the sources of information available to them. Modern polling methods are capable of making reasonably accurate predictions of consumer preferences to enhance the understanding of propensity to gamble and the amount that will be gambled. Such a study should improve the accuracy of predictions of casino revenue.

TABLE 6.1**CASINO WIN PER VISITOR**

Casino	Casino Type	Total Win	Annual Visitors	Win per Visitor
Jupiters Casino, Australia	O/UR/M	166,800,000	5,800,000	\$29.00
Burswood Resort Casino, Australia	O/UR/M	200,600,000	2,500,000	\$80.00
Adelaide Casino, Australia	O/UR/M	89,600,000	2,400,000	\$37.00
Alton Belle, Illinois	O/RB/M	48,400,000	832,000	\$58.00
Par-A-Dice, Illinois	O/RB/M	47,400,000	952,000	\$50.00
President, Iowa	O/RB/UL	52,400,000	1,691,000	\$31.00
Casino Belle, Iowa	O/RB/UL	29,000,000	922,000	\$31.00
Atlantic City (average)	O/UR/UL			\$97.00*
Las Vegas (average)	O/UR/UL			\$57.00**

Source: Various

* Derivation of win Win/Gambler/Day assumes all 30.8 million visitors to Atlantic City gamble once

** Derivation of Win/Gambler/Day assumes that the 21.3 million visitors to Las Vegas gamble three times during their visit

TABLE 6.2**CASINO WIN PER SQUARE FOOT**

Casino	Casino Type	Total Win	Gaming Floor Area	Win per Sq. Ft.
Jupiters Casino, Australia	O/UR/M	\$166,800,000	65,500	\$2,546.00
Burswood Resort Casino, Australia	O/UR/M	200,600,000	66,500	\$3,016.00
Adelaide Casino, Australia	O/UR/M	89,600,000	48,500	\$1847.00
Alton Belle, Illinois	O/RB/M	48,400,000	6,200	\$7,806.00
Par-A-Dice, Illinois	O/RB/M	47,400,000	12,500	\$3792.00
President, Iowa	O/RB/UL	52,400,000	27,000	\$1,940.00
Casino Belle, Iowa	O/RB/UL	29,000,000	20,000	\$1450.00
Atlantic City (average)	O/UR/UL			\$1,259.00
Las Vegas (average)	O/UR/UL			\$3,873.00

Source: Various

TABLE 6.3

**ESTIMATES OF GOVERNMENT REVENUE
FROM CASINOS BY COMPARISON WITH OTHER
STATE TAX RATES**

State	Gross household income \$ million	Population	Per Capita Household Income	Actual Tax Raised From Casinos	NSW Revenue Yield using other States' Tax Rate*
NSW	\$96,008	5,740,000	\$16,726		
VIC	\$71,983	4,290,000	\$16,779		
QLD	\$39,350	2,790,000	\$14,104	\$30,200,000	\$73,700,000
WA	\$23,423	1,570,000	\$14,919	\$22,200,000	\$90,900,000
SA	\$20,761	1,420,000	\$14,620	\$15,200,000	\$70,400,000
TAS	\$6,225	450,000	\$13,833	\$6,200,000	\$94,900,000
NT	\$2,426	160,000	\$15,163	\$2,700,000	\$105,000,000

Source: Street Inquiry into the establishment and operation of legal casinos in New South Wales page 90

* Adjusted for differences in population and per capita gross household income.

NSW	New South Wales	SA	South Australia
VIC	Victoria	TAS	Tasmania
QLD	Queensland	NT	Northern Territory
WA	Western Australia		

TABLE 6.4

COMPARISON OF "WIN" PER TABLE AND MACHINE

Casino	Caesar's	Harrah's	Showboat	Trump Plaza	Grand Palais
Total Tables	98	126	93	112	370
Total Slot Devices	1771	1814	1802	1658	7000
"Win"/Table/Day	\$3,898	\$1,826	\$2,228	\$2,420	\$1,731
"Win"/Device/Day	\$262	\$309	\$249	\$224	\$173

Source: Grand Palais Submission to the City of New Orleans September 1992,

TABLE 6.5**JUPITERS CASINO PROFORMA**

	1991		1992	
	\$	%	\$	%
Gross Casino Win	182,617,000	71.5	200,154,000	72.8
Gross Other Revenues	72,878,000	28.5	74,885,000	27.2
Combined Gross Revenue	255,495,000	100	275,039,000	100
Expenses (Salaries, wages and supplies)	155,336,000	60.8	159,282,000	57.9
Net Income before Casino Tax, Debt Servicing, Depreciation, Income Tax and Profit	100,159,000	39.2	115,757,000	42.1
Casino Tax Paid	30,436,000		33,359,000	

Source: Jupiters Limited, *1992 Annual Report, Broadbeach, Queensland, June 30, 1992.*

Note: Tipping is not a common practice in Australia, and is banned in casinos.

Accordingly wages and salary expenses are higher than would be expected in the U.S. or Canada

TABLE 6.6**BURSWOOD CASINO PROFORMA**

	1991		1992	
	\$	%	\$	%
Gross Casino Win	225,855,000	89.4	240,739,000	88.7
Gross Other Revenues	26,872,000	10.6	30,678,000	11.3
Combined Gross Revenue	252,727,000	100	271,417,000	100
Expenses (Salaries, wages and supplies)	158,278,000	62.6	165,273,000	60.9
Net Income before Casino Tax, Debt Servicing, Depreciation, Income Tax and Profit	94,449,000	37.4	106,144,000	39.1
Casino Tax Paid	30,017,000		30,017,000	

Source: Burswood Property Trust, *Annual Report, 1992, Perth, June 30, 1992*

TABLE 6.7**NEW ORLEANS AND WINNIPEG CASINO****PROFORMA**

	Crystal Casino Winnipeg Canada		Grand Palais New Orleans (estimate)	
	1992		1995	
	\$	%	\$	%
Gross Casino Win	21,845,000		680,373,000	95.5
Gross Other Revenues	nil		31,820,000	4.5
Combined Gross Revenue	21,845,000	100	712,194,000	100
Expenses (Salaries, wages and supplies)	6,707,000	30.7	311,476,000	43.7
Net Income before Casino Tax, Debt Servicing, Depreciation, Income Tax and Profit	15,138,000	69.3	400,718,000	56.3

Source: Manitoba Lotteries Foundation, Annual Report 1991 - 1992 & Grand Palais Submission to the City of New Orleans September 1992

Note Crystal Casino is government owned and operated and therefore operators profits are not included in expenses.

SECTION 7 -- CONCLUSION

7.0 INTRODUCTION

This thesis has examined some of the revenue issues upon which a government must decide when considering the introduction of an Open/Urban/Monopoly casino.

The prime reason a government would consider allowing casino gambling within its jurisdiction is the potential of revenue to the government. Where governments choose to allow Monopoly casinos, the government becomes, to a large extent, a partner with the casino developer/operator. As a partner, the government's returns from their participation in this type of casino are both revenue and political credibility. These returns will be directly affected by the decisions that a government makes when initiating legislation and controls for a new Monopoly casino, as they will remain in place for the period of the monopoly status. Hence, the importance of governments' understanding the factors and implications of their decisions, as these decisions will have ongoing ramifications.

The Open/Urban/Monopoly casino is a relatively new phenomenon and there is only very limited historical data upon which predictions for new ones can be made. In the matter of controls and legislation Governments can learn from the experience of other jurisdictions.

However, the use of the experience of others to predict future visitation and revenue performance of Open/Urban/Monopoly casinos is less applicable. Where historical data does exist, it is difficult to establish correlation between the regional source of this data and another region considering the application of this data. The diversity that exists

between regions -- in terms of population, visitation, per capita earnings, propensity to gamble, and competing opportunities for disposable income -- appears too great to allow direct transposition of data.

7.1 COMPONENTS OF GROSS REVENUE EQUATIONS

The variables influencing casino revenue include:

- "visitors" is the number of casino visitors per year. This can be expressed as a function of the size of population within the total casino catchment, multiplied by a capture rate.
- "win/visitor" is a function of per capita earning and disposable income of the population, the desirability of the type of gambling provided, and the percentage win for the types of games.
- "tax rate" is the percentage of "win tax" applied to the casino's gross revenue.
- "capture rate" is a function of the propensity to gamble, accessibility and distance of travel to the casino, and must include allowances for the effect of competing opportunities to gamble.
- "propensity to gamble" is a function of many social factors, as well as disposable income, accessibility to the casino, and the perception of the casino business and operation.
- "perception of the casino business and operation" is a function of how the community views the operation and credibility of the casino. This view can be influenced by the controls, restrictions and level of supervision imposed by government.

Of the above factors, the following -- casino visitor numbers, capture rate, win per casino visitor, propensity to gamble, per capita income, disposable income, competition to the casino, perception of the casino, and market desirability of the casino -- are determined by the characteristics of the gamblers themselves.

7.2 THE GOVERNMENT REVENUE EQUATIONS

The government revenue equations for income from a casino comprise many factors. In their simplest forms they could be expressed as:

Gross Casino Revenues to Government:

$$(\text{visitors} \times \text{win/visitor} \times \text{tax rate}) + (\text{other fees} + \text{levies}) = \text{Gross Casino Revenue Paid to Government}$$

Net Casino Contribution to Government:

$$\begin{aligned} &+ \text{gross casino revenue} \\ &- \text{casino supervision \& administration expenses} \\ &\pm \text{effect on existing sales \& other taxes} \\ &\pm \text{effect on property Taxes (direct and indirect)} \\ \hline &= \text{Net Government Revenue Contribution from Casino} \end{aligned}$$

The net government revenue contribution from a casino needs to be further adjusted for the costs of the social consequences that result from the introduction of casinos, such as crime and problem gamblers.

7.3 THE DEVELOPER REVENUE EQUATIONS

The developer revenue equations have many of the components of the government equations and can be expressed as:

Gross Casino Revenue:

$$\text{visitors} \times \text{win/visitor} = \text{Gross Casino Revenue}$$

Net Developer Profit:

- + gross casino revenue
- casino "win" tax
- other fees and levies
- + revenue for associated businesses
- operating costs (salaries, supplies, advertising, replacements, etc.)
- debt servicing cost
- leasing cost (land, equipment, etc.)
- State and Federal corporate taxation

= **Net Developer's Profit**

7.4 CONCLUSION

With the potential of casinos to generate large amounts of government revenue, there seems to be adequate reasons to believe that many governments around the world will at least consider and appraise the value of casinos, and that casinos are likely to proliferate in many societies.

The model of casino that appears to be gaining prominence is the Open/Urban/Monopoly casino -- one that is open to the public, often located in the downtown area of a city, and with a monopoly operating license for a defined area and time period.

Open/Urban/Monopoly casinos are a partnership between governments and private enterprise. They offer to both parties great opportunities for revenue. The greatest challenge facing governments and the operator developers is ensuring that they maximize the revenue potential of these developments.

The Monopoly nature of this model has both advantages and disadvantages. Generally, taxation levels for Monopoly casinos are higher than those for Unlimited casinos, and offer government a high level of control over the operation and legitimacy of the casino. However, as Monopoly status is generally applied for long periods of time, i.e., greater than 10 years, governments run the risk of finding themselves in a position where revenues are not maximised, if the information on which their decisions were proves to be incorrect in the future. Hence, the importance placed in this thesis on the accuracy of predictions of visitation and casino revenue.

The decision making process of governments must address legislation and controls, as well as the taxation and revenue issues. There appears to be no "standard" approach to the establishment of casino legislation and controls. The newer casino legislations are derived from the Nevada gaming controls and each have been progressively adapted and developed from the experiences of other casinos. The Nevada legislation is the basis of all casino control models. Examples from other jurisdictions can provide some guidelines but each needs to be tailored to the specifics of the society.

Existing methods of forecasting revenues produce questionable results due to their reliance on historical data that has only limited correlation to the newer models and locations of casinos.

The casino industry to date has not had to place a great deal of emphasis on understanding the characteristics of the gamblers. The small number of casinos relative to population has allowed the industry to have a "build it and they will come" attitude.

If the number of casino gambling opportunities continues to increase, as expected in the United States, the industry will shift from its position of under supplying the market, to one which requires competition for gamblers.

The potential of the casino gambling markets of the world has not been fully measured. It is recommended that if governments and the casino industry are to truly understand their industry and maximize their opportunities, they must first understand the gamblers themselves. Casinos, like other service industries, should utilize techniques such as modern polling methods and statistical analysis to enhance their understanding of factors such as the propensity to gamble and the amount that will be gambled. These studies may

not only improve the accuracy of predictions of casino revenue, they may also allow the product to be tailored to the demand, rather than mimicked from existing casinos.

GLOSSARY OF TERMS

The casino industry, with its colorful nature and history, has developed its own jargon. Following is a glossary of terms commonly used within the industry, and also used throughout this report.

Cage: The area of the casino used for cashier and accounting functions.

Capture Rate: The percentage of local residents and visitors to a region who will visit a casino for the purpose of gambling.

Chips: Tokens specially made and issued by the casino, with which casino patrons wager bets.

Count: The tally of coins and notes received by the casino in exchange for chips and deposited in gaming machines.

Drop or Handle or Gross Turnover: The amount of money received by a casino in exchange for chips. It represents the amount of money casino patrons are willing to wager against the casino. The term is derived from the common practice of dropping money into drop boxes located at gaming tables or inside gaming machines.

Exclusivity: An agreement in which the government warrants that no other casino facility will be permitted within a designated area until the end of a prescribed exclusivity period.

Expenditure: The amount of money lost by a gambler or, conversely, the gross profit of the particular industry

Founder: A term specific to the Queensland Casino Control Legislation. Is a person (natural or otherwise) who is a party to the Foundation Agreement which identifies the relationships, authorities and responsibilities of the parties to the consortium formed to promote the development of the casino.

Gaming Machines or Slot Machines: All types of gaming machines found in casinos such as Poker Machines, Keno Machines, etc.

Gaming: All forms of gambling activity by means or an event other than those relating to racing; it includes lotteries, lotto, keno, poker machines, casino gaming, football pools and minor gaming (raffles, bingo, etc.)

Junket: Marketing programs whereby a casino provides complimentary services to groups of customers in return for a commitment to gamble to a minimum predetermined level. These services may include travel, accommodation, food, beverages and entertainment.

Money Laundering: The conversion or transfer of property for the purpose of concealing or disguising its illicit origin.

Monopoly License: A casino license that has exclusivity of operation rights for a specific geographic region and for a specified period of time, (usually 10 to 20 years).

Open License: A casino license that is open to all customers over specified age limits.

Hold %: Is the gross profit or "win" expressed as a percentage of turnover or "handle"

Problem Gambler: A person who gambles in an uncontrolled and disruptive manner. Such a person is also variously described as a pathological, compulsive, or excessive gambler.

Restricted License: A casino license that places limits on visitation rights to the casino. These restrictions may be on the basis of members only or as occurs in some European casinos no locals allowed.

Skimming: The practice of misappropriating money at some point in the casino cash flow process.

Turnover: The amount of money actually wagered by gamblers.

Unlimited License: A casino license that is within a region or state that allows unlimited numbers of casinos

Win or Gross Profit: The total turnover "handle" less pay out to casino gamblers before deductions for operating costs. "Win" is the term for the casino win not the winnings of gamblers

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