



October 2, 2009

The Honorable Jennifer Brunner
Ohio Secretary of State
180 E. Broad Street, 18th Floor
Columbus, OH 43215

Re: State Issue 3: Casino Ballot Initiative

Dear Secretary Brunner:

Pursuant to section 3519.04 of the Ohio Revised Code, your office requested the Office of Budget and Management and Department of Taxation to analyze the impact of the proposed constitutional amendment certified for the November 3, 2009 ballot as State Issue 3. State Issue 3 would amend the state constitution to expand gambling in Ohio at four locations. Under this proposal, the expansion would be limited to four predetermined locations in Cincinnati, Cleveland, Columbus, and Toledo.

In response to your request, the Office of Budget and Management and Department of Taxation have prepared a consolidated detailed revenue and expenditure analysis. The attached analysis includes our estimates as well as the methodology and assumptions used to develop the estimates.

As evidenced by the attached analysis, there are significant revenue and expenditure impacts as a result of this proposal. In summary:

Because of uncertainty over the proposed video lottery terminal (VLT) facilities at horse racing tracks, we have estimated the tax revenue under two scenarios: as if all seven VLT facilities were fully operational; and as if none of the VLT facilities is opened. We estimate that the tax on gross casino revenue that would be created by the constitutional amendment would generate about \$470 million in annual tax revenue once all four casinos and all seven VLT facilities are fully operational. Alternatively, we estimate that the tax would raise about \$643 million once all four casinos are fully operational without any VLT facilities opening. From the tax revenue, 90 percent is allocated to local governments and school districts and the other 10 percent is allocated to the state government for specified purposes.

As always, please feel free to contact us should you have any questions or concerns.

Sincerely,

J. Pari Sabety,
Director
Office of Budget and Management

Richard A. Levin,
Commissioner
Ohio Department of Taxation

Analysis of 2009 Ohio Casino Initiative

Summarized Fiscal Analysis and Overview of Casino Proposal

A proposed constitutional amendment scheduled to appear on the November, 2009 ballot would authorize the establishment of four full-service casinos at specific locations in the following cities: Cleveland, Cincinnati, Columbus, and Toledo. We assume all four will be built with minimal delay, although there is no specific requirement or date by which casinos must be built.

The ballot language establishes a tax rate of 33 percent on gross casino revenue (GCR), the income of casinos after paying out prizes but before payment of expenses.¹ (GCR is synonymous with both casino win and total adult gambling losses. The estimates in this analysis are based on average casino gambling losses per adult.)² Because of uncertainty over the proposed video lottery terminal (VLT) facilities at horse racing tracks, we have estimated the tax revenue under two scenarios: as if all seven VLT facilities were fully operational; and as if none of the VLT facilities is opened. There are other possible outcomes of the VLT debate, but the results from those outcomes should be somewhere between the two scenarios we have estimated.

We estimate that the tax on GCR would generate about \$470 million in annual tax revenue once all four casinos and all seven VLT facilities are fully operational. Alternatively, we estimate that the tax would raise about \$643 million once all four casinos are fully operational without any VLT facilities opening.³ From the tax revenue, 90 percent is allocated to local governments and school districts and the other 10 percent is allocated to the state government for specified purposes (detailed later in this section).

The proposed amendment also would require of the four casinos to each pay an up-front license fee of \$50 million, totaling \$200 million in potential fee revenue. The revenue from the fee is specifically designated to support regional job training programs in the state. There is no time frame in the amendment for the payment of the license fees. Payment dates would be set either through implementing legislation or by rule of the Ohio Casino Control Commission.

The proposed amendment would create an Ohio Casino Control Commission (CCC) to license and regulate casino gaming, operators, management companies, employees, and

¹ More specifically, the amendment defines “gross casino revenue” to mean “the total amount of money exchanged for the purchase of chips, tokens, tickets, electronic cards, or similar objects by casino patrons, less winnings paid to wagers.” Claims have been made that the tax would not apply to cash wagering. The assumption of this analysis is that implementing legislation would define the tax base in such a way that cash wagering, to the extent it occurs, would be subject to taxation and that no challenges to the implementing legislation would be successful. If this assumption is wrong, the estimates of tax yield would have to be adjusted downward.

² The average loss per adult used in our analysis represents the aggregate annual losses of gamblers divided by the entire over-21 population (consisting of gamblers and non-gamblers alike).

³ We assume that all four casinos are built with minimal delay and that there are no temporary structures in place prior to the opening of the permanent casinos. The reason we assume no temporary casinos is because of the language in Section (C)(5) that requires an “initial investment” of \$250 million per casino, which seems to preclude temporary structures because of the dollar level of initial investment required. We make no specific assumptions about when the casinos actually open.

vendors. Ongoing expenses for the commission are estimated at about \$14 million per year with additional start-up expenses estimated at nearly \$5 million. The CCC is to be funded by the allocation of three percent of the tax on GCR. There is no language in the proposed amendment stating how the commission's initial operating and start-up expenses would be funded, since the CCC would have to be operating before the casinos actually open. Presumably, the \$5 million in start-up costs would have to be absorbed by the state general revenue fund.

The proposed constitutional amendment would require each casino operator to invest at least \$250 million in development of casino facilities, totaling a minimum of \$1 billion in investment statewide. The amendment allows the four Ohio casinos to offer all slot machine and table games permitted as of January 1, 2009 in the neighboring states of Indiana, Michigan, Pennsylvania, and West Virginia. In addition, any future expansion of authorized slot machine and table gaming in any of the above four states would also automatically be permitted in the Ohio casinos. The hours of operation and number of slot machines would be determined by each casino operator; however, the number of slot machines at each facility could not exceed 5,000 machines.

The proposed amendment would require the state to levy a tax on casino operators at a rate of 33 percent of GCR. Just over one-half of the tax revenue would be allocated to all 88 counties based on population, although in counties whose largest city has a population greater than 80,000, 50 percent of that county's distribution of the GCR tax would go to that city. Another 34 percent of the tax revenue would go to public school districts based on student population. The full allocation of the tax on GCR would be as follows:

- 51% to county governments based on population. (In counties whose largest city has a population greater than 80,000, one-half of the county's distribution would go to that city;
- 34% to all public school districts based on student population, to support primary and secondary education;
- 5% of the tax on each casino would go to the host city of that casino;
- 3% to the Ohio State Racing Commission to help revitalize the horse racing industry in Ohio;
- 3% to fund the operations of the Ohio Casino Control Commission;
- 2% to a state fund to be used for the treatment of problem gambling and substance abuse, including related research; and
- 2% to a state fund to be used for training for law enforcement agencies.

TABLE ONE
Estimated Revenue Distribution of
Proposed 33 Percent Tax on Gross Casino Revenue
Showing annual yield once all facilities are fully operational (in millions)

| | Casino tax revenue, assuming no VLT facilities in operation | Casino tax revenue, assuming 7 VLT facilities in operation |
|--|--|---|
| Total Estimated Tax Revenue | \$643.4 | \$469.8 |
| <i>Distribution by type of recipient</i> | | |
| All Counties (51%)* | \$328.2 | \$239.6 |
| All School Districts (34%) | \$218.8 | \$159.7 |
| Host Cities (5%)** | \$32.2 | \$23.5 |
| Racing Commission (3%) | \$19.3 | \$14.1 |
| Casino Control Commission (3%) | \$19.3 | \$14.1 |
| Problem Gambling (2%) | \$12.9 | \$9.4 |
| Law Enforcement Training (2%) | \$12.9 | \$9.4 |

*Includes amounts to be subsequently distributed to the largest city within the county, if the city's population exceeds 80,000.

** The four host cities would split this amount, based on the GCR taxes paid by the casino in their city.

Analysis of Proposed Tax on Gross Casino Revenues

Nature and scope of the analysis

Section 3519.04 of the Ohio Revised Code requires the state tax commissioner to provide an estimate of the annual yield for any Ohio constitutional amendment that proposes to levy a tax. In accordance with this provision, the Department of Taxation has estimated the annual amount of GCR and the resulting tax revenue to be generated by the operation of the four casinos authorized in the amendment.

The statutory estimation requirement pertains only to any “proposed taxes” contained in the constitutional amendment; it does not mention existing tax or non-tax revenue sources that might be affected by the amendment. Therefore, the potential impact of the amendment on existing taxes and other revenue sources – such as the personal income tax, the sales and use tax, the lodging tax, the commercial activity tax, and the state lottery – is not addressed in this analysis.

This Revised Code section also requires the Office of Budget and Management to estimate any required state expenditures required by a constitutional amendment. OBM has estimated the necessary costs in operating the Casino Control Commission.

Summary of the gaming environment in Ohio and in adjacent states

For many years, several kinds of legalized gambling have been available within the state of Ohio. Pari-mutuel wagering, charitable gaming, and state-run lottery games are forms of legalized gaming currently existing in this state.⁴ In July 2009, the Ohio Lottery Commission began undertaking the implementation of new lottery games – those provided by video lottery terminals – at Ohio’s seven horse racing tracks. That implementation is currently on hold pending further direction from the courts. Because of current uncertainty of the pace at which the VLT facilities may be developed, or whether they are even developed at all, we are providing scenarios based on either full development or no development.

With the exception of Kentucky, states adjacent to Ohio currently offer an extensive menu of casino gaming options - both gaming devices (“slot machines”) and table games - at different types of venues. In West Virginia, racetracks offer VLTs and table games. Indiana is home to riverboat casinos, a land-based casino, and slot machines at several racetracks. Michigan has land-based casino operations. Pennsylvania has a land-based casino and it permits slot machines at various racetracks.⁵ Ohioans patronize these states’ gaming facilities, particularly those located near the Ohio border. For example, the Mountaineer and Wheeling Downs facilities in West Virginia and the three facilities located in southeastern Indiana attract the most customers from Ohio.

Each state with casino or casino-type gaming has established its own tax and regulatory structure. Table Two provides a means of comparing the relative taxes in other states and those proposed for Ohio.

⁴ Casino-type gaming has been permitted for charitable purposes.

⁵ The recent Pennsylvania budget agreement, if approved by the Legislature, would allow table games at the slot machine facilities.

TABLE TWO
Gaming tax revenues and tax rates for Ohio’s surrounding states

| | Revenue from tax on gross casino receipts or video lottery terminals (in millions of \$) | Tax rate levied on gross casino receipts (includes slot machines but excludes VLTs) | Tax rate levied on gross receipts of video lottery terminals |
|-------------------|--|---|--|
| Ohio (a) | \$470 to \$643 | 33% | (a) |
| Indiana (b) | 838 | 15% to 35% | n/a |
| Michigan (c) | 322 | 19% | n/a |
| Pennsylvania (d) | 767 | 55% | n/a |
| West Virginia (e) | 430 | n/a | 55.4% |

- (a) In addition to the casino amendment, VLTs located at Ohio’s 7 racetracks have been proposed. The racetrack and state lottery would equally share the gross revenues, resulting in a 50% tax rate. The \$470 million figure represents estimated casino tax revenues with the presence of VLTs at racetracks while the \$643 million figure assumes there are no VLTs. Potential revenue from VLT facilities is not included in the numbers in the first column.
- (b) Indiana gaming occurs at 10 riverboats, 1 land-based casino and 2 racetracks. Figures do not include a \$3 per patron admissions tax.
- (c) Michigan has 3 land-based casinos. For temporary facilities, the tax rate is 24%. Michigan also has a number of land-based Indian casinos, information on which is not included in Table Two.
- (d) Pennsylvania has slot machines at 6 racetracks and at 1 land-based casino. A proposed law change would allow table games at these facilities.
- (e) West Virginia has publicly-run video lottery terminals located at four racetracks with distributions made to operators. In addition, West Virginia allows table games at the four facilities subject to local referendum. Three of the four have actually implemented table games.

Source: “2009 AGA Survey of Casino Entertainment,” American Gaming Association.

A central premise of this revenue estimate is that a large share of gaming currently undertaken by Ohioans in other states would be “recaptured” into Ohio by the four proposed casinos.⁶ This is due to the distance-sensitive nature of casino gaming. Evidence from a wide variety of gaming studies indicates that – with exception of a premier gambling destination like Las Vegas or other types of travel in which gambling may be a tangential entertainment option – gamblers prefer to patronize the establishment closest to their residential location as long as it offers an acceptable environment and sufficient gaming choices. The average frequency of customer visits to a given facility is also associated with residential proximity to that gaming venue. Relative to most out-of-

⁶ The total amount of gaming activity “recaptured” by Ohio gaming facilities would be allocated among the four proposed casinos as well as, in the estimate assuming development of VLT facilities, among the seven VLT facilities at race tracks.

state gaming sites, the proximity of the proposed Ohio casinos to Ohio residents would allow those facilities to attract Ohio gamblers, and also result in many Ohioans making a larger number of visits to gaming facilities than they currently make to the more distant, out-of-state locations. As indicated above, the contemplated Ohio casinos would likely not attract a significant share of customers that reside outside of Ohio (with the exception of those Kentucky residents who would find the Cincinnati facility to be closer to them than the facilities in West Virginia and Indiana). The reason is two-fold: Ohio's relatively late entry into casino gaming makes it difficult to attract customers already being served by a facility that is more proximate to their residence; and there are no major cross-border metropolitan areas from which Ohio can draw a significant number of customers. In fact, there are several regions within Ohio whose residents would be expected to continue to patronize out-of-state facilities: residents of the eastern and southeastern counties of Ohio along or close to the Ohio River would likely continue to go to facilities in Pittsburgh, Washington, Pa., or West Virginia (primarily Mountaineer and Wheeling Downs); residents of far northeastern Ohio would probably still patronize the casino in Erie, PA; and some southwestern Ohio gamblers would continue to go to the Indiana casinos.

To reiterate, Ohio would not be expected to draw more than a modest share of non-Ohio customers and therefore would not be extensively competing with out-of-state facilities for customers from their own states. Ohio casinos would primarily depend on Ohio customers to patronize their establishments.

Assumptions

Listed below are major assumptions that underlie our analysis.

1. We assume that only adults over the age of 21 would be permitted to gamble at the proposed casinos.
2. Since there is a substantial minimum initial investment requirement, we assume there would be no temporary structures set-up prior to the permanent facilities. The estimate accordingly reflects operations at fully operational, permanent facilities.
3. Based on the practices of casinos in other states, it is assumed that the casinos would be open twenty-four hours a day, seven days a week.
4. The estimate is intended to reflect a year in which all four casinos and all seven VLT facilities (in the case where the VLTs are implemented) would be in full operation. We do not specify a particular year in this analysis.
5. Adult gambling losses from 2007 are used in this study, with no adjustments to reflect a gain or decline in gaming activity. Although we recognize there has been a decline in the total volume of wagering during the recession, we assume there will be somewhat of a recovery during the next several years thereby allowing us to use the 2007 figures as a reasonable approximation of the gaming levels for a year in which the casinos would be fully in effect.

Estimation Method

Overview of methodology

The estimation method for the proposed constitutional amendment is a gravity model. A review of recent literature and methodologies used in other states to determine the fiscal impacts of proposed casinos show this to be the currently recognized “state-of-the-art” approach for this type of analysis. This model structure, loosely based on Newton’s law of gravity, effectively reduces the pull of the casino the further away from that casino a person gets. In other words, the closer a person lives to a casino, the more likely that person will visit the casino - and visit it more often - than someone who lives further away.

Because of logistical constraints, we were not able to build an entirely new, “full-featured” gravity model. Instead, we draw on the methodological attributes and empirical findings of gravity models developed by others for similar types of analyses. Our methodology is consistent with the models employed by three organizations with notable experience in conducting gaming studies: Christiansen Capital Advisors, Cumming Associates, and Wichita State University. We primarily drew upon models they used for Kansas gaming markets.⁷

To develop the basic gravity model for our estimate, we needed to determine four particular elements. First, we had to determine how many adults live within certain distance or driving-time bands of the proposed casinos.⁸ Second, we accounted for how much competition for patrons there would be among the four casinos, the seven horse racing track facilities with video lottery terminals (where applicable), and the casinos in surrounding states that draw heavily from Ohio populations because of proximity to the state (primarily, the two racinos in western West Virginia, the three riverboat casinos in southeastern Indiana, and the three casinos in Detroit). Third, we estimated the average gambling loss per adult who lives within the first distance band from each casino.⁹ Finally, we determined the rate at which annual gambling loss per adult declines for populations further away from the casino.

Distribution of population according to casino proximity

The population within the various drive-time bands comes from two sources. Using Census data, the Office of Strategic Research of the Ohio Department of Development

⁷ See the bibliography at the end of this document for full references to studies we reviewed.

⁸ We opted to use drive time, rather than distance, for the various bands used in our model.

⁹ Although many individuals realize gambling winnings during the short-term (such as during a single casino visit), over time gamblers realize an aggregate loss from engaging in such activity, and the casinos realize a commensurate aggregate “win” (what our analysis refers to as “gross casino revenue”). Furthermore, even though we recognize that not all adults visit a casino during a year, the “average loss per adult” figures employed in our analysis are nonetheless averaged over the *entire* adult (over-21) population. Very simply stated, the average loss per adult used in our analysis represents the aggregate annual losses of gamblers divided by the entire over-21 population (consisting of gamblers and non-gamblers alike).

was able to determine how many adults lived within 30-minute and 60-minute drive times of each proposed Ohio casino and each Ohio horse racing track.

To further segment the under-30 minute population, we used popular Internet-based mapping and driving distance programs and determined the geographical areas which would be within 15 minutes of drive time of each of the various gaming facilities. To determine the population within each 15-minute segment, we used school district boundary maps available on the Public Utilities Commission of Ohio website. We superimposed our 15-minute segment boundaries on a map with the school district boundaries, and estimated the percentage of each school district within the 15-minute band around each facility. We then computed the number of state income tax return filers in each affected school district as a percentage of all state income tax returns filed across the state. By applying that percentage to the statewide over-21 population, we were able to estimate the over-21 population of each school district within the 15-minute limit. The separate amounts computed for each school district were summed to produce the under-15 minute population figures for each appropriate market (Cincinnati, Cleveland, Columbus and Toledo).¹⁰

Average adult loss according to casino proximity

To account for competition among the four casinos, the potential VLT facilities, and the out-of-state casinos, we rely on information from two of the studies we reviewed.¹¹ In these studies, the authors estimated the drop-off in loss per adult as one moved further away from proposed casinos in Kansas. We rely on their estimates for two proposed resort casinos, one in Wichita and one in Kansas City, Kansas. Wichita State University generated estimates for a resort casino in Wichita with no local market competition from any VLT facilities. Christiansen, on the other hand, produced estimates of resort casinos in both cities, with two alternative scenarios: one consisting of only the casino being present in the area; and another consisting of both the casino and slot machines at nearby racetracks. Based on geographical attributes, we assume casinos in Cleveland and Columbus would be similar to the proposed casino in Wichita when looking solely at proximity of competition from out-of-state casinos. We assume the casinos in Cincinnati and Toledo would face a competitive environment similar to the proposed casino in Kansas City.¹²

Once determining the population proximity bands, we need to determine the annual dollar loss per adult. Using a gravity model, the key is estimating the loss per adult in the closest band to each facility (which we are defining as being within 15 minutes drive time of the facility). The amount we are using for the average loss per adult living within 15 minutes of a casino is \$530 per year if there are no VLT facilities, and \$480 per year if there are the seven proposed VLT facilities. These numbers are drawn from our review of both the Christiansen and Wichita State University (WSU) studies. These studies measure the average annual loss per adult living within 10 miles of casinos in Wichita

¹⁰ To validate our methodology, we did a similar plot of 30-minute drive times around the Cincinnati facilities and compared the results with the data provided by the Department of Development. Our population estimates were found to be within five percent of the figure derived by Development.

¹¹ Christiansen (2006 Final Report) and Wichita State University.

¹² Cincinnati has the Indiana casinos; Toledo has the Detroit casinos; and Kansas City has the riverboat casinos in Western Missouri as competition.

and Kansas City (we assume that the 10-mile results are essentially equal to 15-minute drive-time results).

The final step in constructing the gravity model is determining the annual dollar loss for casino visitors who live beyond 15 minutes from the casinos. For this, we draw primarily on the Christiansen study.

Cleveland and Columbus: Average adult loss beyond 15 minutes

For the Cleveland and Columbus casinos, we assume the relationship between loss per adult and distance follows a pattern that is the same as the Christiansen study shows for Wichita for those adults living within 60 minutes of the casinos. We assume that 9 percent of total GCR will come from adults living more than 60 minutes from the casinos.

Cincinnati and Toledo: Average adult loss beyond 15 minutes

For Cincinnati and Toledo, we used a different method in estimating the loss in the 15-30 minute range than we do for the 30-60 minute and over 60-minute ranges. We chose this approach because the nature of the competition in Cincinnati and Toledo is notably different than that of Wichita. There is judged to be less competition in Wichita than expected for the Cincinnati and Toledo facilities. The results for the other Kansas market considered in our analysis – Kansas City – are also not considered directly applicable for Cincinnati and Toledo within the 15-30 minute band. In the 15-30 minute band, Cincinnati will have competition from Indiana casinos and Toledo will have competition from Detroit casinos, but the competition will not be as strong as the competition between Kansas City, Kansas and Kansas City, Missouri, which are closer in proximity. However, once we get beyond 30 minutes from the Cincinnati and Toledo casinos, the characteristics for competition are relatively similar to those of the Kansas City market.

For those adults living 15-30 minutes from the proposed casinos, we used the averages of the Wichita and Kansas City markets provided in the Christiansen study. In both of those markets, we took the percentage change in loss per adult from the closest distance band to the second closest distance band. We then averaged those two percentages to come up with our estimate of the percentage change in Cincinnati and Toledo from the under-15 minute band to the 15-30 minute band.

For the 30-60 minute band, we used the percentage change reported by Christiansen for the Kansas City analysis. For GCR from residents outside 60 minutes, we again looked at the competition expected in the Cincinnati and Toledo markets relative to the results reported in the Christiansen study for Kansas City. Because of the strong competition expected in those two Ohio markets outside of 60 minutes, we assume that just 4.5 percent of those markets' total GCR will come from persons located outside of 60 minutes from the facilities (one-half of the level assumed for the Cleveland and Columbus markets).

Capacity adjustment

One final adjustment is made for the Cleveland casino estimate when there is no competition from VLT facilities. In this case, the casino is considered "capacity-constrained," meaning the number of gambling devices is insufficient to meet the demand for that population base. If one looks at the yield per slot machine per day that the

gravity model implicitly assigns to the Cleveland casino under this scenario, it is obviously well above the industry standard and is probably not achievable because of space constraints (essentially, at peak times, lines are forming to wait for a machine). To account for this, we lower the implicit yield per machine by \$60 per day. This still leaves the yield per machine at the high end of the industry norm, a result supported by Cummings (2008), but reflects a lower than optimal overall GCR because of the capacity constraint. Such a capacity constraint does not exist at any of the other casinos under any scenario (including at the Cleveland casino with competition from VLT facilities).

Estimation Results

As discussed earlier in this document, two estimates have been prepared: one assuming that all four casinos and all seven VLT facilities are built and operating, and the other assuming all four casinos are built and operating, but with no VLT facilities. For both estimates, the numbers we have derived are for a full year in which all of the assumed facilities are operating. Each set of estimates derives GCR for all four casino locations and aggregates them to arrive at total GCR in the state.

As would be expected, total GCR for the casinos absent competition from the VLT facilities is higher than if all 11 gaming sites are developed. Because of the uncertainty surrounding the development of VLT facilities, the two estimates provided here should be viewed as the low and high extremes for potential revenue generated from the proposed constitutional amendment. There are potentially numerous other outcomes, assuming all four casinos are developed, that would cause revenue estimates for the tax on casino GCR to fall somewhere between the two estimates shown here.

Tables Three and Four present the derived GCR estimates under each scenario. The information in the tables reflects the various assumptions and methodological processes described above, including the capacity constraint adjustment for the Cleveland casino. Tables Three and Four show that total GCR with and without the presence of VLT facilities would be about \$1.42 billion or \$1.95 billion, respectively. Applying the 33 percent tax rate prescribed in the constitutional amendment, total annual tax revenues from the casinos once all are fully up and running are estimated to be \$470 million with competing VLT facilities or \$643 million with no competing VLT facilities.

TABLE THREE
Annual Gross Casino Revenue with VLT Facilities

| Market | Drive Time in Minutes | Adult Population | Estimated annual Spending per Adult | Annual Gross Casino Revenue |
|------------------|-----------------------|------------------|-------------------------------------|-----------------------------|
| Toledo | 0 - 15 | 209,776 | \$480 | \$100,692,524 |
| | 15 - 30 | 217,646 | \$212.50 | \$46,249,756 |
| | 30 - 60 | 807,249 | \$70 | \$56,507,438 |
| | Over 60 | -- | 4.5% of total | \$11,840,989 |
| Toledo Total | | | | \$215,290,706 |
| Cleveland | 0 - 15 | 249,651 | \$480 | \$119,832,561 |
| | 15 - 30 | 942,671 | \$250 | \$235,667,775 |
| | 30 - 60 | 938,777 | \$80 | \$75,102,129 |
| | Over 60 | -- | 9.0% of total | \$42,587,057 |
| Cleveland Total | | | | \$473,189,823 |
| Columbus | 0 - 15 | 466,827 | \$480 | \$224,077,161 |
| | 15 - 30 | 393,244 | \$250 | \$98,310,984 |
| | 30 - 60 | 493,358 | \$80 | \$39,468,638 |
| | Over 60 | | 9.0% of total | \$35,788,034 |
| Columbus Total | | | | \$397,644,817 |
| Cincinnati | 0 - 15 | 233,625 | \$480 | \$112,139,863 |
| | 15 - 30 | 742,479 | \$212.50 | \$157,776,806 |
| | 30 - 60 | 698,519 | \$70 | \$48,896,298 |
| | Over 60 | | 4.5% of total | \$18,555,252 |
| Cincinnati Total | | | | \$337,368,219 |
| Grand Total | | | | \$1,423,493,264 |

Note: These figures represent gross casino revenue, not tax revenue (the figures are prior to applying the prescribed 33 percent tax rate).

TABLE FOUR
Annual Gross Casino Revenue without VLT Facilities

| Market | Drive Time in Minutes | Adult Population | Estimated annual Spending per Adult | Annual Gross Casino Revenue |
|----------------------------|-----------------------|------------------|-------------------------------------|-----------------------------|
| Toledo | 0 - 15 | 209,776 | \$530 | \$111,181,328 |
| | 15 - 30 | 217,646 | \$315 | \$68,558,461 |
| | 30 - 60 | 807,249 | \$70 | \$56,507,438 |
| | Over 60 | -- | 4.5% of total | \$13,749,839 |
| Toledo Total | | | | \$249,997,066 |
| Cleveland | 0 - 15 | 249,651 | \$530 | \$132,315,120 |
| | 15 - 30 | 942,671 | \$430 | \$405,348,573 |
| | 30 - 60 | 938,777 | \$210 | \$197,143,090 |
| | Over 60 | -- | 9.0% of total | \$72,673,198 |
| Capacity Adjustment | | | | -\$109,500,000 |
| Cleveland Total | | | | \$697,979,981 |
| Columbus | 0 - 15 | 466,827 | \$530 | \$247,418,532 |
| | 15 - 30 | 393,244 | \$430 | \$169,094,892 |
| | 30 - 60 | 493,358 | \$210 | \$103,605,175 |
| | Over 60 | | 9.0% of total | \$51,440,301 |
| Columbus Total | | | | \$571,558,901 |
| Cincinnati | 0 - 15 | 233,625 | \$530 | \$123,821,099 |
| | 15 - 30 | 742,479 | \$315 | \$233,880,912 |
| | 30 - 60 | 698,519 | \$70 | \$48,896,298 |
| | Over 60 | | 4.5% of total | \$23,664,452 |
| Cincinnati Total | | | | \$430,262,761 |
| Grand Total | | | | \$1,949,798,708 |

Note: These figures represent gross casino revenue, not tax revenue (the figures are prior to applying the prescribed 33 percent tax rate).

Cost of Administering the New Casino Gross Receipts Tax

The Ohio Department of Taxation has estimated start-up costs for administering a new casino gross receipts tax at \$400,000. Ongoing operating costs thereafter are estimated at \$250,000 per year.

The start-up costs include \$250,000 for Information Technology (IT) services, hardware, and software; and \$150,000 for administrative costs including printing, postage and personnel services.

Ongoing operational costs include IT work of \$100,000 per year for system maintenance and upgrades, and administrative costs of \$150,000 per year, for personnel services and mailing expenses.

The proposed amendment has no provision for funding either the upfront or ongoing expenses of the Department of Taxation. Presumably, such funding shall be absorbed within the department's general revenue fund allocation.

Cost of New Ohio Casino Control Commission

As proposed by constitutional amendment, the Ohio Casino Control Commission would be established and would be responsible for licensing and regulating casino gaming, casino operators of the four facilities, and other elements related to casino gaming. The commission would consist of seven members to be appointed by the Governor, with the advice and consent of the Senate. The members shall all be Ohio residents, and shall include: (a) a member experienced in law enforcement and criminal investigation; (b) a member that is a certified public accountant experienced in accounting and auditing; (c) a member that is an attorney admitted to the practice of law in Ohio; (d) a member who is a resident of a county where one of the casino facilities is located. It is provided, however, that not more than four members appointed to the commission at any given time may be a member of the same political party, and no commission member may have any affiliation with an Ohio casino operator or facility.

The proposed constitutional amendment would require the General Assembly, within six months of the effective date of the amendment, to enact laws to carry out the purposes intended by the section and to facilitate the operation of casino gaming. To support the activities of the commission, the proposal provides three percent (3%) of the tax on GCR collected by the State to fund its operations.

Based upon a review of the organizational structures of casino regulatory agencies Indiana and Michigan,¹³ the duties specifically associated with casino licensing and ensuring fair gaming in Ohio would likely require a staff of 158 FTEs, with 35 FTEs for initial start-up. Most of the commission staff would consist of law enforcement personnel, compliance, and investigation staff located at the four casinos. The need would be 41 FTEs for enforcing criminal statutes (Enforcement Division), 41 FTEs for

¹³ Given that the proposed constitutional amendment did not contain specifics regarding the composition of the commission, this analysis uses ratios of employees per casino to project initial need based on an analysis of comparable states.

enforcing regulatory statutes (Compliance Division), and 21 FTEs for investigation financial/background issues with suppliers and casino employees.¹⁴

The remaining staff member estimates for the commission would provide the following:

- Retrospective auditing services (19 FTEs);
- Central administrative support (16 FTEs);
- Legal services, including rule drafting, litigation, and exclusion list (8 FTEs);
- Board Members and support (8 FTEs); and
- Gaming Lab Services (4 FTEs).

Based on the table of organization (shown at the end of this section), staffing costs estimates for the commission would be approximately \$2.3 million for the initial year and \$11.2 million for ongoing years (see Tables Six and Seven).

Main Assumptions for Commission Administration Structure estimates (Tables Six and Seven at the end of this section):

- The salary assumptions are taken from the State of Ohio Job Specifications, Classification Plan Booklet, and the Pay Range Booklet published by the Department of Administrative Services (DAS);
- The Executive Director, Deputy Director, and Commission Member positions assume highest salaries with the prospective pay grade to attract knowledge;
- Attorney positions pay rates are averaged across Attorney 1-6 pay grades published by DAS;
- Due to large expected volume of licensing needs a ratio of one Background/Financial investigator per 500 casino employees was used. Based on Michigan and Indiana employee totals the average total employee casino staff is approximately 2,100 staff members;
- Compliance/Enforcement totals assume an average of six officers per casino per eight hour working shift. This number is based on Indiana and Michigan compliance averages;
- Unless otherwise noted, the salary for a given position is the average wage across all steps at the classification's pay grade. For the number of FTEs in the sections, a supervisor to staff ratio of 1:7 was used where possible, in conjunction with per casino averages from Indiana and Michigan; and
- Initial start-up administrative structure is based on the Michigan Gaming Control Board initial reports and subsequent interview.

¹⁴ In addition to criminal background checks performed through the Attorney General's Bureau of Criminal Identification and Investigation (BCI&I), licensing employee responsibilities will include, but not be limited to, the following: maintaining the licensure database, issuing temporary licenses, reviewing results of BCI&I checks and comparing to excludable offenses, verifying personal information, verifying personal tax information, contact with other states regarding an applicant's status as an excluded individual and/or license suspensions, financial reviews of holdings, financial reviews of spousal holdings, and conducting corporate background checks.

Assumptions for the initial start-up costs (Table Eight at the end of this section) are based on the following:

- Training costs for regulatory staff are based on the costs of seminars held by the University of Nevada at Las Vegas International Gaming Institute. The assumption also includes four nights at the state rate of \$85 per night, as well as assuming maximum allowable food costs and flight costs;
- Training costs for peace officers are based upon 29 weeks at regular pay for attendance at the Ohio State Highway Patrol Academy;
- Equipment costs include allowances for a desk, chair, phone, computer, filing cabinets, and other miscellaneous office supplies for 68 individuals. It assumed that commission members would not have equipment needs, and for on-site personnel, only enough equipment would be available for a full shift (six FTEs); and
- Costs for criminal background checks conducted through the Attorney General’s Bureau of Criminal Identification and Investigation (BCI&I) were not included as these would be pass through costs.

In addition to start-up costs, ongoing operating costs are also presented in Table Eight. The costs are based upon the cost allocations of the State Medical Board of Ohio, the Ohio State Dental Board, the State of Ohio Board of Nursing, the Ohio State Board of Pharmacy, and the Ohio Ethics Commission. Specifically, the non-payroll operating costs, as a percent of total costs, were reviewed across all five agencies and averaged. In general, it was found that personnel costs represent approximately 80% of operating costs, with the remaining 20% divided as shown in Table Five.

| TABLE FIVE | |
|-----------------------------------|-------------|
| Operational Cost Breakdown | |
| Personal Services | 80% |
| Purchased Services | 9% |
| Supplies/Maintenance | 10% |
| Equipment | 1% |
| Total | 100% |

In total, annual operating costs would total \$4.8 million for the initial year and \$14.1 million annually for succeeding years.

Commission funding is from a portion of the state collection of casino gross casino revenue. Revenue from this tax will not be received until after construction of the casinos is completed and facilities are operating. Therefore, other sources of state funding must be used to cover the \$4.8 million start-up costs and possibly, other costs which may occur prior to the opening of the casinos.

Certain costs not associated with the CCC may also occur for which there are no defined funding mechanisms. These costs could include, but are not limited to, the expansion or installation of public infrastructure to support the proposed facilities, costs for environmental remediation, and roadway improvements necessary to provide reasonable access to those facilities.

Ohio Casino Control Commission Table of Organization

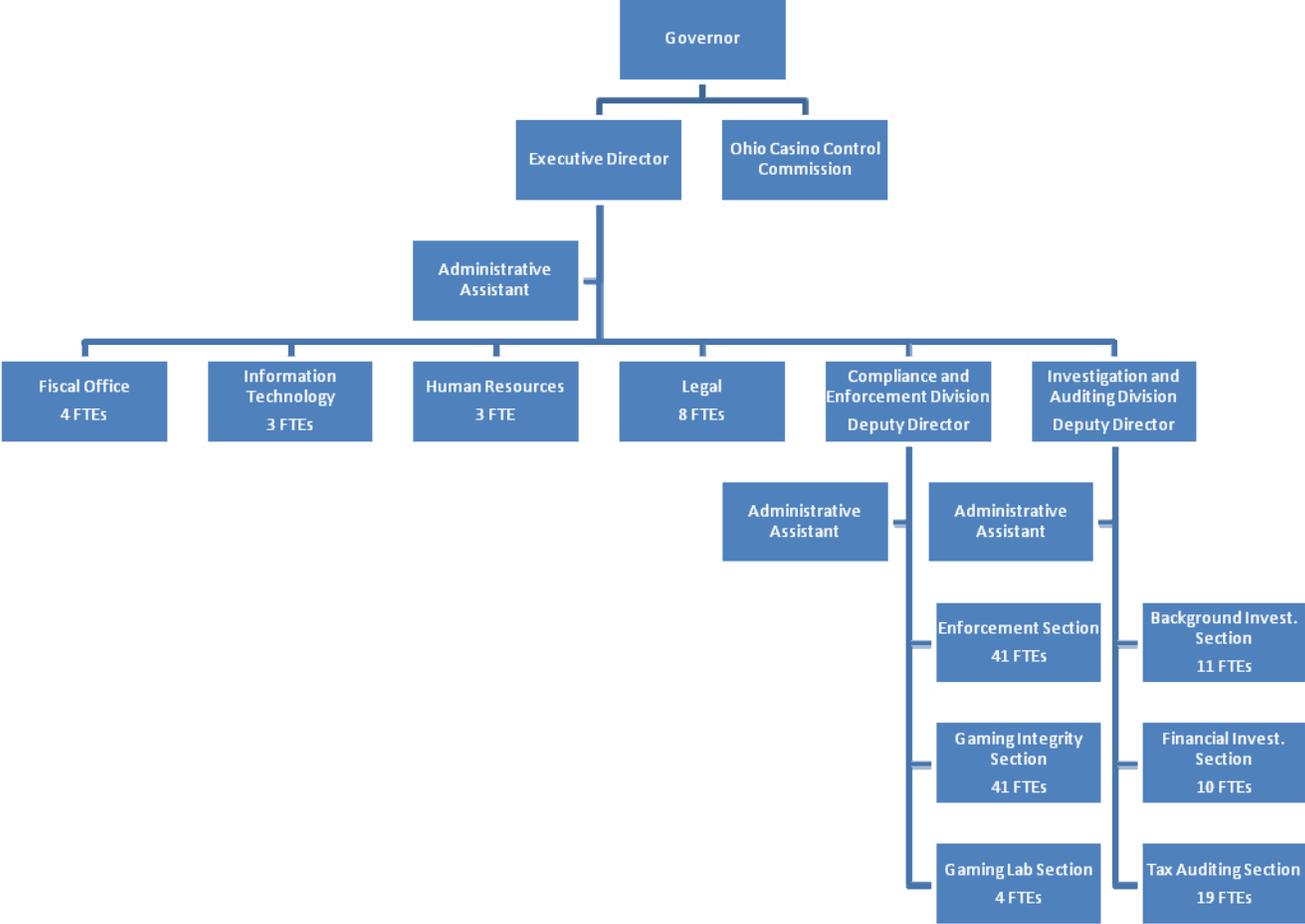


TABLE SIX

Based upon the above table of organization, displayed below are the commission staffing estimates for the start-up year *prior* to the opening of the four casinos.

| Title | Quantity | Hourly Pay Rate | Annual Salary | Annual Salary+Fringe | Total Annual Cost |
|----------------------------------|-----------------|------------------------|----------------------|-----------------------------|--------------------------|
| Executive Director 1 | 1 | \$59.06 | \$122,845 | \$159,698 | \$159,698 |
| Administrative Assistant 3 | 1 | \$27.23 | \$56,638 | \$73,630 | \$73,630 |
| Deputy Director 3 | 2 | \$45.31 | \$94,245 | \$122,518 | \$245,036 |
| Administrative Assistant 2 | 2 | \$21.41 | \$44,533 | \$57,893 | \$115,785 |
| Background Investigator | 2 | \$22.91 | \$47,650 | \$61,945 | \$123,890 |
| Financial Investigator | 2 | \$22.91 | \$47,650 | \$61,945 | \$123,890 |
| Auditor (Range) | 1 | \$21.51 | \$44,735 | \$58,156 | \$58,156 |
| Attorney (Range) | 4 | \$31.31 | \$65,133 | \$84,673 | \$338,693 |
| Attorney 6 (Chief Legal Counsel) | 1 | \$38.89 | \$80,891 | \$105,159 | \$105,159 |
| Fiscal Officer 4 | 1 | \$38.89 | \$80,891 | \$105,159 | \$105,159 |
| Information Technologist | 1 | \$26.48 | \$55,078 | \$71,602 | \$71,602 |
| Human Capital Management Analyst | 1 | \$26.76 | \$55,661 | \$72,359 | \$72,359 |
| Board/Commission Member 3 | 7 | \$49.50 | \$2,970 | \$3,861 | \$27,027 |
| Board/Commission Secretary 2 | 1 | \$36.32 | \$75,546 | \$98,209 | \$98,209 |
| Compliance Officer | 4 | \$26.48 | \$55,078 | \$71,602 | \$286,408 |
| Trooper | 4 | \$26.47 | \$55,058 | \$71,575 | \$296,092 |
| Total | 35 | | | \$1,279,983 | \$2,300,791 |

TABLE SEVEN

Based upon the above table of organization, displayed below are the commission staffing estimates once the four casinos have been opened.

| Title | Quantity | Hourly Pay Rate | Annual Salary | Annual Salary+Fringe | Total Annual Cost |
|--|-----------------|------------------------|----------------------|-----------------------------|--------------------------|
| Executive Director 1 | 1 | \$59.06 | \$122,845 | \$159,698 | \$159,698 |
| Administrative Assistant 3 | 1 | \$27.23 | \$56,638 | \$73,630 | \$73,630 |
| Deputy Director 3 | 2 | \$45.31 | \$94,245 | \$122,518 | \$245,036 |
| Administrative Assistant 2 | 2 | \$21.41 | \$44,533 | \$57,893 | \$115,785 |
| Background Investigator | 9 | \$22.91 | \$47,650 | \$61,945 | \$557,503 |
| Background Investigator Supervisor | 2 | \$27.23 | \$56,638 | \$73,630 | \$147,260 |
| Financial Investigation Supervisor 1 | 2 | \$27.23 | \$56,638 | \$73,630 | \$147,260 |
| Financial Investigator | 8 | \$22.91 | \$47,650 | \$61,945 | \$495,558 |
| Auditor Supervisor 1 | 3 | \$37.25 | \$77,480 | \$100,724 | \$302,172 |
| Auditor - range | 16 | \$21.51 | \$44,735 | \$58,156 | \$930,493 |
| Attorney (Range) | 7 | \$31.31 | \$65,133 | \$84,673 | \$592,712 |
| Attorney 6 (Chief Legal Counsel) | 1 | \$38.89 | \$80,891 | \$105,159 | \$105,159 |
| Fiscal Officer 4 | 1 | \$38.89 | \$80,891 | \$105,159 | \$105,159 |
| Fiscal Specialist 1 | 3 | \$22.91 | \$47,650 | \$61,945 | \$185,834 |
| IT Architect/Consultant 1 (CIO) | 1 | \$38.88 | \$80,870 | \$105,132 | \$105,132 |
| Information Technologist | 2 | \$26.48 | \$55,078 | \$71,602 | \$143,204 |
| Human Capital Management Administrator 2 | 1 | \$38.89 | \$80,891 | \$105,159 | \$105,159 |
| Human Capital Management Analyst | 2 | \$26.76 | \$55,661 | \$72,359 | \$144,718 |
| Board/Commission Member 3 | 7 | \$49.50 | \$2,970 | \$3,861 | \$27,027 |
| Board/Commission Secretary 2 | 1 | \$36.32 | \$75,546 | \$98,209 | \$98,209 |
| Engineer for Gaming Lab | 2 | \$33.02 | \$68,685 | \$89,290 | \$178,580 |
| Statistician for Gaming Lab | 1 | \$20.92 | \$43,520 | \$56,575 | \$56,575 |
| Gaming Lab Supervisor | 1 | \$33.02 | \$68,685 | \$89,290 | \$89,290 |
| Compliance Officer | 36 | \$26.48 | \$55,078 | \$71,602 | \$2,577,669 |
| Compliance Officer Supervisor | 5 | \$33.02 | \$68,685 | \$89,290 | \$446,450 |
| Trooper | 36 | \$26.47 | \$55,058 | \$71,575 | \$2,664,824 |
| Sergeant | 5 | \$28.61 | \$59,509 | \$77,361 | \$399,047 |
| Total | 158 | | | \$2,202,008 | \$11,199,143 |

TABLE EIGHT

In addition to staffing costs, the commission will encounter other operating costs. Expected additional costs are as follows:

| | Startup | Ongoing |
|---------------------------------|--------------------|---------------------|
| Personal Services | \$2,300,791 | \$11,199,143 |
| Purchased Services and Training | \$1,974,317 | \$1,401,660 |
| Training (Troopers) | \$1,708,697 | \$8,947 |
| Training (Regulatory Staff) | \$265,620 | \$132,810 |
| Supplies/Maintenance | \$312,599 | \$1,433,591 |
| Equipment | \$244,807 | \$112,547 |
| Total | \$4,832,514 | \$14,146,942 |

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