



REPORT OF
THE
STATE AUDITOR

LIMITED GAMING

PERFORMANCE AUDIT

January 2000

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This report contains the results of a performance audit of limited gaming in Colorado. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. This report presents our findings, conclusions, and recommendations, and responses of the Division of Gaming, the Limited Gaming Control Commission, the Colorado Department of Local Affairs, and the Colorado Historical Society.

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**STATE OF COLORADO
OFFICE OF STATE AUDITOR**

REPORT SUMMARY

**J. DAVID BARBA, C.P.A.
State Auditor**

**Limited Gaming
Performance Audit
January 2000**

This performance audit of limited gaming was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to perform audits of all departments, institutions, and agencies of state government. The audit was conducted according to generally accepted auditing standards. The audit work, which included gathering information through interviews, reviewing documents, and analyzing data, was performed between April and December 1999.

This report contains findings and recommendations relating to limited gaming in Colorado, and addresses functions carried out by the Division of Gaming, the Limited Gaming Control Commission, the Department of Local Affairs, and the Colorado Historical Society. We acknowledge the efforts and assistance extended by staff of all these agencies. The following summary provides highlights of the comments, recommendations, and responses contained in the report.

Overview

In 1990 Colorado voters approved a constitutional amendment authorizing limited stakes gaming in the mountain towns of Central City, Black Hawk, and Cripple Creek. Limited stakes gaming restricts players to a maximum single bet of \$5 on slot machines, live blackjack, and poker games. Several different agencies carry out gaming-related functions. The Division of Gaming, within the Department of Revenue, licenses, regulates, and supervises the conduct of limited gaming in the State; the Limited Gaming Control Commission promulgates regulations for gaming, establishes the gaming tax rate, and approves all gaming licenses; the Department of Local Affairs administers the Local Government Limited Gaming Impact Fund, which provides monies to designated local government agencies to offset their gaming-related costs; and the Colorado Historical Society administers the State Historical Fund, which receives a portion of gaming revenues to be used for historic preservation purposes.

In Fiscal Year 1999 the State collected over \$78 million in gaming-related revenues, which were deposited into the Limited Gaming Fund. Gaming revenues consist primarily of receipts from the gaming tax paid by casinos. The Limited Gaming Fund is distributed according to the Constitution and statutes with 50 percent going to the State General Fund, 28 percent to the State Historical Fund, 12 percent to the gaming counties, and 10 percent to the gaming cities. Of the General Fund portion, 11 percent is then distributed to the Local Government Limited Gaming Impact Fund.

For more information on this report, contact the Office of the State Auditor at (303) 866-2051.

Requests for Gaming Impact Funds Exceed Grants

By statute, the Local Government Limited Gaming Impact Fund receives a minimum of 11 percent of the General Fund share of the Limited Gaming Fund each year. The Impact Fund is administered by the Department of Local Affairs with assistance from the Local Government Limited Gaming Impact Advisory Committee. Local governments request grants from the Fund through the Department of Local Affairs. Statutes indicate that the Impact Fund should pay for all impacts not covered by other gaming revenue sources. However, there are two reasons to believe this may not be occurring. First, the Department of Local Affairs does not require grant applicants to provide information on impacts that have been addressed by other gaming revenue sources, so it is difficult to determine if all gaming impacts are being paid for. Second, in the two years since the inception of the Impact Fund, the dollar amount of grant requests has exceeded funds awarded by an average of 45 percent. We estimate the cumulative, unduplicated amount of unfunded grant requests is about \$4.7 million. Although the statutes state that the Impact Advisory Committee shall request additional funding if needed to cover all the impacts of gaming, no additional funding has been requested. **We recommend the Department of Local Affairs ensure compliance with the statutory requirement to fund all gaming impacts by requesting additional funding as appropriate to meet unfunded needs.**

Information on the Statewide Impacts of Gaming Has Not Been Compiled

Since gaming began, the State General Fund has received over \$137 million from gaming taxes and fees, and the gaming cities and counties have received over \$80 million. In addition, costs associated with limited gaming have been incurred in a wide variety of areas, including local government infrastructure, law enforcement and emergency services, and transportation. The statutes indicate that gaming revenues should pay for the impacts of gaming. However, information on the statewide impacts of gaming has not been compiled, making it difficult to determine if all impacts are being paid for out of gaming revenues. Local governments and state agencies can report the impacts of gaming on their operations to the Gaming Commission, and local governments report impacts to the Department of Local Affairs to request Impact Fund grants. However, at this time, no single report or data source has comprehensive impact information which might clarify overall gaming effects. We believe there is a risk that the overall impacts are not fully understood because the information is fragmented. Without comprehensive information, it is difficult for the Gaming Commission and the Department of Local Affairs to assess the full spectrum of gaming impacts and make informed taxing and funding decisions. To ensure the Commission and the Department have all the information that is relevant to taxing and funding decisions, **we recommend the Limited Gaming Control Commission and the Department of Local Affairs work together to compile information on gaming effects into a comprehensive impact report and consider the need for a study to collect data on other impacts.**

Taxes Set by the Gaming Commission Can Affect State General Fund Levels

According to the State Constitution and statutes, the Gaming Commission is responsible for setting the gaming tax rate within the limitation that “up to a maximum of 40 percent of the adjusted gross proceeds of limited gaming shall be paid by each licensee.” Statutes specify factors the Commission should consider in setting the tax rate, including the need to provide monies to the gaming cities for historic restoration and preservation, the impact of gaming on the communities and any state agency, the profitability of the other forms of gambling, and the intent of the Limited Gaming Act in encouraging growth and investment in the gaming industry. The result of the Commission’s tax-setting effort is a graduated tax schedule with rates of 0.25 percent on the first \$2 million of adjusted gross proceeds, 2 percent on the next \$2 million, 4 percent on the next \$1 million, 11 percent on the next \$5 million, 16 percent on the next \$5 million, and 20 percent on proceeds over \$15 million.

Because a portion of the Limited Gaming Fund is deposited into the State’s General Fund, the Gaming Commission is in a unique position of influencing the amount of monies available for appropriation by the General Assembly. The Limited Gaming Act does not require the Gaming Commission to consider the impact on the General Fund or the amount of surplus revenues generated as defined by TABOR when setting the gaming tax rate. However, in setting the tax rates for Fiscal Year 2000, the Commission did consider the effect of the gaming tax revenues on the General Fund and on surplus revenues, and reduced the tax rates, in part to reduce the surplus.

The Gaming Commission Should Consider Alternative Tax Policies

Gaming Commission policies on taxes indicate that the focus has been on providing a favorable environment for viability of the gaming industry and to be fair in dealing with different types and sizes of casinos. However, we found the tax policies do not always promote equity among casinos and do not maximize revenues collected by the State that are used, in part, to pay for gaming impacts. For example, the gaming tax is assessed on each individual casino’s adjusted gross proceeds. This policy favors multiple-casino owners by reducing the amount of taxes they pay. We estimate that five casinos with multiple ownership situations paid about \$3.1 million less in gaming taxes in Fiscal Year 1999 because of this policy. In addition, taxes are sometimes assessed at the lowest rate when there is a change of business entity along with a change in owners for a casino during the year. This policy benefits the casino owners but has reduced the taxes collected by an estimated \$750,000 over the past five years. **We recommend the Gaming Commission consider alternative approaches to its gaming tax structure and policies to help ensure equity among different-size casinos and consistency in the application of policies.**

Some New Casinos Do Not Meet Constitutional Requirements

The constitutional amendment that legalized gaming in Colorado intended to promote the economic viability of the gaming cities while preserving their historic characteristics. In fact, the amendment requires that limited gaming only occur in structures which conform, as determined by the municipal governing bodies, to the architectural styles and designs common to the areas prior to World War I. Although the cities have benefitted economically from limited gaming, the preservation of their historic characteristics has sometimes suffered and some recently built casinos do not fit the constitutional criteria. According to information from the Colorado Historical Society, the largest buildings in any of the gaming cities prior to World War I had gross floor areas of 40,000 square feet. Of the six casinos currently operating in entirely newly constructed buildings, four exceed this maximum, ranging in size from 49,000 to 286,000 square feet. These larger, non-historic casinos threaten the cities' historic designations; in 1997 the National Park Service placed all three Colorado gaming cities on the list of the most at-risk National Historic Landmarks in the country.

We recommend the Gaming Commission and the Colorado Historical Society work with the General Assembly to develop legislation to include state participation in the construction of new casinos in the gaming towns. This could include having the Colorado Historical Society review plans and specifications for new casino buildings, and/or remodeled historical casino buildings, and make recommendations to the Gaming Commission for licensing of casino owners. Another option is to have the Historical Society approve such plans and specifications.

State Involvement in Decisions About the Use of Funds for Preservation of the Gaming Cities Would Be Beneficial

A portion of the Limited Gaming Fund is deposited in the State Historical Fund and then distributed to the three gaming towns for use at their discretion for "preservation and restoration of the cities." All three towns originally established programs to grant these funds in accordance with the United States Secretary of the Interior's guidelines for preservation and restoration of historic buildings. However, in 1998 Black Hawk rewrote its grant program guidelines, stating the program's purpose was "to distribute the benefits from gaming revenues to local residents and property owners" with no specific mention of historic preservation. Furthermore, a 1999 investigation by the Colorado Bureau of Investigation found that some residential grants made by Black Hawk were not being appropriately used for historic preservation. This investigation indicates that some state-level participation in the cities' grant processes, which has been absent, may be beneficial. To help ensure that the portion of the State Historical Fund distributed to the gaming cities is appropriately used for historic preservation, **we recommend the Colorado Historical Society work with the General**

Assembly to develop legislation to include state participation in the use of State Historical Fund dollars by the gaming cities.

The Gaming Division Has Not Reached Its Revenue Audit Goal

The Division of Gaming, which is responsible for regulating and licensing the gaming industry in Colorado, has a Fiscal Year 2000 budget of about \$8.6 million and 73.5 FTE. Among other activities, the Division's audit section, which has 14 audit staff, conducts revenue audits on a three-year cycle to ensure that reported adjusted gross proceeds are accurate. To date, the Division has audited about 67 percent of annual adjusted gross proceeds of the 49 casinos for any year since the inception of gaming. The Division's goal is to audit 80 percent of adjusted gross proceeds over a three-year cycle. In Fiscal Year 1999 the audit section completed about half its planned audits. We believe one reason all scheduled audits are not completed is that the audit section does not devote sufficient staff resources to revenue audits. According to staff plans for Fiscal Year 2000, only about one-third of audit staff time is scheduled for revenue audits, while about 40 to 50 percent of audit staff time is assigned to conducting compliance reviews. In addition, in some cases separate revenue and compliance audits are done on the same casino in the same year. Audits serve as an important tool to promote accurate reporting of gaming proceeds. Failure to audit a significant portion of revenues or number of casinos may diminish the regulatory effect of audit oversight. **We recommend the Division examine the allocation of audit resources and improve its revenue audit coverage by changing its approach to eliminate or reduce separate compliance reviews and revenue audits on the same casino in a 12-month period, contracting out some audits, and moving toward a shorter audit cycle.**

Delays in the Division's Automated Licensing System Were Costly

In January 1996 the Division began working with the Department of Revenue's Information Technology (IT) Division to develop a computerized licensing system. The system was intended to be completed by the summer of 1997. However, the project was not completed as of August 1998, and the Division subsequently hired a private firm to install an automated licensing system along with imaging and administrative tracking systems. The estimated cost of the IT Division's efforts was about \$500,000 and the cost of the system installed by the private firm is nearly \$870,000.

There was little evidence that a system requirements document had been developed or discussed by the Division or IT for the original project effort, making it difficult to determine the specific problems that arose. However, it is clear that no written agreements on the deadlines or outcomes of the project were developed, and there was no formal methodology within the IT Division for developing client/server applications. To prevent future programming projects from becoming over budget and past due, **we recommend the Division of Gaming ensure that all programming projects include performance agreements that document the requirements, scope, and costs of the projects.**

A summary of responses to the audit recommendations contained in the report can be found in the Recommendation Locator.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	21	Ensure all gaming impacts are funded by requesting more comprehensive information on impacts and funds used to address the impacts, and by requesting additional funding as needed to meet all needs.	Department of Local Affairs	Partially Agree	August 2000
2	24	Improve operation of the Local Government Limited Gaming Impact Fund by maintaining documentation of the process and using purchase orders instead of contracts for grants under \$25,000.	Department of Local Affairs	Agree	August 2000
3	28	Compile information on gaming effects and impacts into a comprehensive report to be used for taxation and grant funding decisions. Determine if an additional study of gaming impacts is needed.	Department of Local Affairs	Partially Agree	May 2000
			Limited Gaming Control Commission	Disagree	-
4	36	Consider alternative approaches to the gaming tax structure such as changing the taxed entity to the owner; discontinuing the informal policy of changing tax rates with changes of business entity and owners; applying graduated taxes on a monthly basis; or establishing a flat tax rate.	Limited Gaming Control Commission	Disagree	-
5	38	Formalize in rules the policy on applying tax rates when a change of business entity along with a change in owners occurs during the year.	Limited Gaming Control Commission	Partially Agree	December 1999

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
6	42	Work with the General Assembly to develop legislation to determine the most efficient manner of including state participation in ensuring new casinos meet the constitutional requirement of historic style and architecture.	Colorado Historical Society Limited Gaming Control Commission	Partially Agree Disagree	– –
7	49	Work with the General Assembly to determine the most efficient manner to ensure State Historical Funds are used for historic preservation and restoration activities.	Colorado Historical Society	Partially Agree	–
8	55	Increase revenue audit coverage.	Division of Gaming	Disagree	–
9	60	Ensure all computer programming projects include formally documented agreements with scope requirements and costs.	Division of Gaming	Implemented	–
10	63	Streamline the license renewal process by extending the term of a photo identification badge to four years, and issue renewal stickers for valid licenses every two years.	Division of Gaming	Disagree	–

Description of Limited Gaming in Colorado

The Colorado Constitution

In 1990 Colorado voters approved a constitutional amendment (Article XVIII, Section 9) authorizing limited stakes gaming in the mountain towns of Central City, Black Hawk, and Cripple Creek. Limited stakes gaming restricts players to a maximum single bet of \$5 on slot machines, live blackjack, and poker games. The amendment also:

- Requires the creation of a Limited Gaming Control Commission.
- Authorizes the assessment of gaming taxes and fees.
- Specifies the distribution of gaming revenues.
- Confines gaming to buildings that conform to pre-World War I architectural styles.
- Restricts the amount of floor space a casino can devote to gaming.
- Limits gaming activities to the hours of 8:00 a.m. to 2:00 a.m.

Regulation and Administration of Limited Gaming

The Constitution states that the “administration and regulation of...Section 9 [of Article XVIII of the Constitution] shall be under an appointed Limited Gaming Control Commission.” Specific functions related to gaming were designated through the enactment of the Limited Gaming Act in 1991. The Act (Section 12-47.1-101, C.R.S., et seq.) assigns responsibilities for limited gaming-related functions as follows:

The Division of Gaming, within the Department of Revenue, is responsible for licensing, regulating, and supervising the conduct of limited gaming in the State. The Division maintains offices in Central City and Cripple Creek, as well as in Lakewood, to carry out its oversight and enforcement functions. The Division is described in greater detail in Chapter 4.

The Limited Gaming Control Commission, whose membership is specified in the statutes, is mandated by the Constitution to promulgate rules and regulations for gaming, establish the gaming tax rate, and approve all gaming licenses issued in

Colorado. The Commission is composed of five members appointed by the Governor who meet at least monthly to carry out their duties. Chapters 1 and 2 contain information about the Commission's functions.

The Department of Local Affairs administers the Local Government Limited Gaming Impact Fund with the assistance of the Local Government Limited Gaming Impact Advisory Committee. The Impact Fund provides monies to governmental agencies in the 13 counties that are in proximity to gaming localities, including those in the southwest corner of the State near tribal gaming establishments. The monies are intended to offset the costs these agencies incur due to the impact of gaming. The agencies eligible for monies from this fund must apply for grants. Chapter 1 discusses the Local Government Limited Gaming Impact Fund grant process in greater detail.

The Colorado Historical Society administers the State Historical Fund, which receives 28 percent of the gaming revenues left over after the Division and Commission expenses have been paid. Of this amount, 20 percent is distributed to the three gaming cities for historic preservation and 80 percent is used by the Historical Society to make grants for the following historic preservation purposes:

- Identification, documentation, and designation of historic buildings and sites.
- Acquisition, excavation, and restoration of historically designated buildings and sites.
- Education and training for public entities and private citizens in planning for and addressing preservation needs.
- Preparation, distribution, and presentation of educational and information aids on historic preservation practices and planning.

Chapter 3 discusses issues relating to the Historical Fund.

Gaming Revenues and Expenditures

In Fiscal Year 1999 the State collected over \$78 million in gaming-related revenues, which were deposited into the Limited Gaming Fund. Gaming revenues consist of receipts from the following sources:

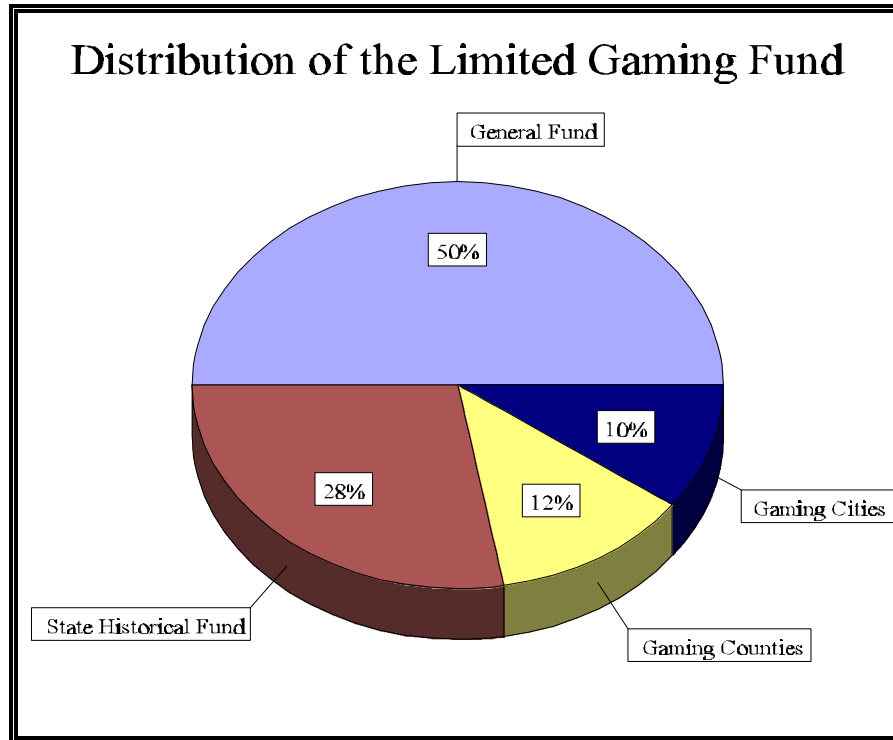
- The gaming tax paid by casinos on their adjusted gross proceeds, which are defined as the total amount of all wagers made by players minus all payments to players.

- License, application, and background investigation fees paid by license applicants. A chart of fees is included in Appendix A.
- Gaming device fees that were collected annually by the Division until June 30, 1999. At that time, the fee, which had been \$75 per gaming device, was eliminated.
- Other sources, including fines and earnings on revenues collected.

The following chart shows gaming revenue received for Fiscal Year 1999:

Gaming Revenues Fiscal Year 1999		
Revenue Source	Amount	Percent of Total
Gaming Taxes	\$74,217,106	94.5%
License, Application, and Background Investigation Fees	\$1,194,645	1.5%
Gaming Device Fees	\$1,290,975	1.6%
Fines	\$337,854	0.5%
Interest, Investments, & Other	\$1,508,170	1.9%
Total	\$78,548,750	100%
Source: Office of the State Auditor analysis of Division of Gaming annual reports and budget documents.		

Gaming revenues are not collected solely to offset the expenses of the Division and the Commission. After the Division and Commission expenses have been paid, the remaining gaming revenues are distributed according to constitutional directives as shown in the following chart.



Source: Colorado Constitution.

The statutes contain further provisions for distributing the funds allocated to the State General Fund. First, the statutes provide the Colorado Tourism Promotion Fund with 0.2 percent of the Limited Gaming Fund, reducing the remaining General Fund portion to 49.8 percent. This is distributed in the following manner:

Distribution of the General Fund Share of the Limited Gaming Fund	
Recipient	Amount
Municipal Impact Fund	2.0 percent
Local Government Limited Gaming Impact Fund	Minimum of 11 percent
Colorado Department of Transportation	Amount Determined by the General Assembly
At the Discretion of the General Assembly	Remainder
Source: Section 12-47.1-701, C.R.S.	

Specific distributions from the Limited Gaming Fund are shown in Appendix B.

Audit Scope

This audit examined various limited gaming-related activities carried out by a number of state agencies. The audit focused primarily on the functions and duties of the Limited Gaming Control Commission and the Division of Gaming. However, the administration of gaming funds through the Local Government Limited Gaming Impact Fund and the State Historical Fund was also reviewed. In addition, the audit determined the status of prior recommendations to the Gaming Division and Commission, the Department of Local Affairs and the Local Government Limited Gaming Impact Advisory Committee, and the Colorado Historical Society.

Gaming Impacts

Chapter 1

Gaming Affects Government Services at Various Levels

The establishment of limited gaming in Colorado was anticipated to have impacts on the cities and counties where gaming is authorized, as well as on state government agencies. One outcome of limited gaming has been increased revenues to the State and to cities and counties where gaming occurs. For example, since gaming began, the State General Fund has received over \$137 million from gaming taxes and fees, and the gaming cities and counties have received an additional \$80 million, or an average of about \$10 million per year. Furthermore, increases in costs have been incurred in a wide variety of areas since gaming began, including, but not limited to, local government infrastructure, law enforcement and emergency services, and transportation. Impacts have been reported by agencies ranging in size and scope from individual not-for-profit social services agencies to the Colorado Department of Transportation and include the following:

Transportation and Traffic. Gaming has caused significant increases in traffic on the roads in the gaming cities and on highways in the vicinity of the cities. Between 1991 and 1998:

- Average daily traffic increased 370 percent at the junction of State Highway 119 and U.S. Highway 6 near Black Hawk and Central City.
- Average daily traffic increased about 120 percent on State Highways 67 and 24, both near Cripple Creek.
- Average daily traffic increased 38 percent on State Highway 160 near the Indian gaming localities in southwestern Colorado.

Due to the traffic increases, costs for road improvements, paving, widening, and maintenance have risen. Black Hawk is spending more than \$10 million over several years for reconstruction of city streets, and more than \$9 million in gaming funds has been requested for Fiscal Year 2001 for reconstruction work on state and U.S. highways near the gaming communities.

Law Enforcement. Black Hawk, Central City, and Cripple Creek have seen dramatic increases in arrests since the beginning of limited gaming in 1991. While the number of reported arrests statewide increased an average of about 3 percent annually between 1991 and 1998, sheriffs in the gaming cities and counties reported the following:

- The number of arrests in Black Hawk, Central City, and Cripple Creek increased from a combined total of about 250 in 1991 to over 1,100 in 1998, an average increase of 42 percent per year.
- The number of arrests in Gilpin County (which includes Black Hawk and Central City) increased from 79 to 163 between 1991 and 1998, an average of 13 percent per year. The number of arrests in Teller County (which includes Cripple Creek) rose from about 320 in 1991 to almost 1,200 in 1998, an annual average of about 33 percent over the period.

The city of Cripple Creek alone has increased its law enforcement budget by over \$1.2 million since gaming began, an increase of over 1,300 percent, and Gilpin County reports its costs for judicial and public safety functions have tripled since gaming began, to \$1.8 million in 1998. In addition, the Colorado State Patrol has requested funds specifically for traffic enforcement activities in and around the gaming cities and counties, receiving an average of \$1,042,000 per year since Fiscal Year 1997 for uniformed troopers, administrative support, and operational expenses.

Emergency Services. The gaming counties have handled substantial increases in the demand for emergency services. Teller County reports that it has experienced an increase in the number of emergency service calls of over 200 percent since 1991. In addition, Gilpin County's annual costs for ambulance service have increased almost eightfold since gaming began, from just over \$10,000 in 1991 to almost \$90,000 in 1998.

Judicial Administration. Gilpin and Teller counties have experienced increases in their court caseloads that exceed increases across the rest of the State. Between Fiscal Year 1991 and 1998 the average annual increase in the number of district court filings in Gilpin and Teller counties was about 12.5 percent compared with 3.2 percent for the State as a whole. Increases were especially evident in the first several years of gaming, as follows:

- In Gilpin County, the county court caseload increased 458 percent, and district court filings increased 128 percent between Fiscal Year 1991 and Fiscal Year 1993.

- In Teller County, the county court caseload increased 99 percent, and district court filings increased 63 percent between Fiscal Year 1991 and Fiscal Year 1993.

As a result of the growth in caseload, about seven new staff have been added in the two counties since 1991, and the Judicial Department has received an average of about \$204,000 per year to cover the increased costs related to gaming.

Public Health. The number of food service inspections has increased in Gilpin and Teller counties since gaming began. In 1991 an average of 54 and 42 inspections were done in Gilpin and Teller Counties, respectively. The projected Fiscal Year 2000 figures are 117 inspections in Gilpin County and 271 in Teller County. These numbers represent an increase of almost 120 percent in Gilpin County and 545 percent in Teller. The Department of Public Health and Environment has received about \$45,000 per year to offset the costs of additional inspections due to gaming.

Fire Safety. The Division of Fire Safety in Limited Gaming Establishments was created within the Department of Public Safety in 1991 to establish minimum standards for fire and life safety in limited gaming establishments, to inspect establishments, and to provide technical assistance to local building and fire officials in Central City, Black Hawk, and Cripple Creek. Operating costs for the Division are estimated at \$141,000 for Fiscal Year 2000. In addition, Cripple Creek has increased its budget for fire protection over 900 percent since 1990.

A more complete listing of gaming impacts, as reported by state and local government agencies, is included in Appendix C.

Statutes Recognize the Need for Gaming Revenues to Pay for Gaming Impacts

The Limited Gaming Act of 1991 contains provisions that acknowledge the need to provide funding to pay for the impacts of limited gaming on affected cities, counties, and the State. Specifically, the Act:

- Stipulates that one of the factors the Gaming Commission is to consider each year in setting the tax rate is the impact of gaming on the affected communities and the State.
- Creates a Local Government Limited Gaming Impact Fund administered by the Department of Local Affairs and the Local Government Limited Gaming Impact Advisory Committee to provide financial assistance to designated local

governments for documented gaming impacts. This fund receives 11 percent of the General Fund share of the Limited Gaming Fund.

- Creates a Municipal Limited Gaming Impact Fund to compensate the municipalities of Woodland Park and Victor for expenses incurred in response to limited gaming. This fund receives 2 percent of the General Fund share of the Limited Gaming Fund.

Despite these statutory provisions, there is a lack of comprehensive information to determine if all impacts are being paid for out of gaming revenues. Although the Gaming Commission receives information from various sources in making its tax rate and other policy decisions, it does not have complete data assembled in a way that provides an overall picture of gaming's positive and negative impacts.

This information would be useful not only to the Gaming Commission for identifying the overall gaming-related revenue needs of state and local government agencies but also to the Department of Local Affairs for granting impact funds. To date, the Department of Local Affairs has granted monies from the Local Government Limited Gaming Impact Fund to cover only about half of the grant requests received in the last two years. Statutes provide a minimum level of funding for the Impact Fund (11 percent of the General Fund share of the Limited Gaming Fund) and authorize the Local Government Limited Gaming Impact Advisory Committee to request monies to cover all documented gaming impacts. However, no additional funds have been requested to meet gaming impact needs.

Each of these issues is discussed in greater detail below.

The Local Government Impact Fund Provides Grants for Gaming Impacts

The Department of Local Affairs administers the Local Government Limited Gaming Impact Fund (Impact Fund) in accordance with criteria and recommendations of the Local Government Limited Gaming Impact Advisory Committee. The Impact Fund was established in 1997 to provide financial assistance to designated local governments for documented gaming impacts, including those related to Indian gaming. The funds may be used to finance planning, construction, and maintenance of public facilities and to provide public services related to gaming impacts. The designated local governments are:

- The counties of Boulder, Clear Creek, Grand, Jefferson, El Paso, Fremont, Park, Douglas, Gilpin, Teller, La Plata, Montezuma, and Archuleta.

- The municipalities within these counties, except for Black Hawk, Central City, Cripple Creek, Victor, and Woodland Park. (Victor and Woodland Park receive funds from the Municipal Impact Fund through Fiscal Year 2002. Beginning July 1, 2002, these two cities will be eligible to request funds from the Local Government Limited Gaming Impact Fund.)
- Any special district providing emergency services within these counties.

By statute, the Local Government Limited Gaming Impact Fund receives a minimum of 11 percent of the General Fund share of the Limited Gaming Fund each year. Furthermore, the statutes state that the Local Government Limited Gaming Impact Advisory Committee “shall request funding for all documented gaming impacts” on the eligible cities and counties if the minimum amount of the Impact Fund, along with other gaming revenue sources (such as the constitutional and statutory distributions to the gaming cities), is not sufficient to address all those impacts.

Applications for Impact Fund Monies Exceed Grants

In the two years since the inception of the Local Government Limited Gaming Impact Fund, the dollar amount of grant requests has exceeded funds awarded by an average of 45 percent. In 1998, grant applications requesting just over \$6 million were received by the Department of Local Affairs. At that time, the Impact Fund had about \$3.3 million available and the Department awarded grants totaling \$3.28 million to applicants. In 1999 about \$6.5 million in grants was requested. The Department awarded \$3.78 million to applicants from the \$3.8 million that was transferred to the Impact Fund that year. To date, the Department has received 115 applications and has awarded full funding to 46 applicants, partial funding to 42 applicants, and no funding to 27 applicants.

We estimate the cumulative amount of unfunded grant requests is about \$4.7 million. This amount may not be covered by other gaming revenue sources. For example, in 1999 Montezuma County applied for \$416,900 from the Impact Fund and was awarded \$250,000. Unlike Gilpin and Teller counties, Montezuma does not directly receive any gaming funds, and according to analysis by Department of Local Affairs staff, the County does not receive increased tax revenues associated with gaming. In this case it appears that the \$166,900 in gaming impact costs not funded through the Impact Fund will not be covered by gaming revenues. The Advisory Committee has not requested any additional funds for these types of grant applications. According to Department of Local Affairs staff, each year the Advisory Committee and the staff

have considered the need for additional funds and have decided no request is necessary.

Discussions with Department staff, comments made at the Advisory Committee award meeting, and Department documents indicate that denials of Local Government Limited Gaming Impact Fund grant requests are made primarily to avoid exceeding the 11 percent amount that is automatically deposited to the Impact Fund. For example, according to the letters sent to grant applicants, 40 percent of those who did not receive funding in 1999 were denied because of a lack of available funds. Specifically, letters stated that grants could not be made for funding of requests ranging from \$80,000 to \$1.1 million because of:

- The “limited grant resources available.”
- The “substantial amount of the grant request relative to the dollars available.”
- The “significant competition for the limited funds available.”

Overall, more than 60 percent of the funds denied were explained as being due to limited resources.

The Department of Local Affairs Lacks Data to Determine if There Are Unmet Needs

In addition to reviewing grant applications and working with applicants to clarify funding needs, Department of Local Affairs staff analyze other information relating to gaming impacts for the Advisory Committee. Specifically, they try to isolate increases in sales taxes due to gaming by comparing each applicant’s sales tax base and collections with statewide averages and with another county or municipality with similar population attributes. The staff also determine the amount of property tax that may be associated with gaming properties in the localities. For example, the Department estimated that Gilpin County will collect about \$1.38 million in property taxes in Calendar Year 2000 and noted that 50 percent of the assessed valuation of property in the county is from gaming properties. This information is useful in comparing impacts identified by applicants with estimated revenue benefits they may have received from gaming. However, we noted the following issues with the clarity and extensiveness of the information used in making funding decisions:

- The estimates of tax increases do not always indicate whether the taxes are entirely attributable to gaming. For example, in the case of Gilpin county, described above, it is not clear if 50 percent of the property taxes should be considered gaming revenue or whether the properties existed and were taxed before gaming.

- The calculations do not provide any information on whether all the additional revenues have been used to pay for gaming impacts or whether other impacts, not addressed by specific grant requests, exist.
- The Department of Local Affairs does not require applicants to provide specific information on impacts that have been addressed by other gaming revenue sources. Department of Local Affairs officials stated that they assume all the impacts for which grant requests are made are in excess of other funding sources; otherwise, the applicants would have no need to apply for the grant funds.

We recognize that all the funds requested through the Impact Fund grant process may not represent genuine gaming impact needs and that the Department has a responsibility to award grants only for requests it concludes are legitimate. However, due to the amount of the requests for Impact Fund grants, the denial of grants based on perceived funding limitations, and the lack of more comprehensive information to assess the total extent of impacts, it is difficult for the Department to conclude that all gaming impacts are being addressed or to identify a specific amount of additional funds that may be needed to manage the impacts. In addition, there is no information on the aggregate impact of gaming throughout the State.

Recommendation No. 1:

The Department of Local Affairs should ensure compliance with the statutory requirement to fund all gaming impacts by:

- a. Requesting applicants to provide more comprehensive information on their total impacts and the extent to which other sources of gaming funds address those impacts.
- b. Identifying specific amounts of unfunded gaming impacts from the requests submitted by applicants.
- c. Requesting additional funding as appropriate to meet unfunded needs.

Department of Local Affairs Response:

Partially agree. The application form for financial assistance requires applicants to identify gaming revenue benefits and to assess gaming impact costs measured through the standardized methodology adopted by the Advisory Committee. The assessment identifies important, unmet funding

needs in specific service areas. It is not intended to be a comprehensive report of all gaming impacts affecting the local government. The Department does not dictate to local governments that all gaming impacts within its jurisdiction should be documented, but rather allows for voluntary reporting. The unfunded costs that are not reimbursable through traditional local revenue generation methods or other sources (e.g. the direct distribution of limited gaming fund proceeds to Teller and Gilpin Counties per the state constitution) are identified and used as justification for projects submitted for grant funding. The Advisory Committee bases its funding recommendation on the review and analysis of this information. After all projects have been reviewed, the Advisory Committee, at its discretion, determines if additional funds should be requested from the General Assembly and the Limited Gaming Control Commission to meet all funding needs identified in the application review process pursuant to C.R.S., 12-47.1-1601. In the two years of program operation, the Committee has determined that the level of documented need has not exceeded the amount of funding allocated. The Committee concluded in both years that: (1) the quality of some projects and their relationship to gaming impact were not sufficient to justify full or partial state funding and, (2) the amount of moneys in the fund should not be supplemented to address these marginal projects with limited relationships to gaming impact.

Following the funding decisions by the executive director of the Department, the advisory committee will be notified of those projects which are only partially funded or denied funding. A poll of committee members will then be taken to determine if additional funds should be requested by the General Assembly and the Limited Gaming Control Commission to support unfunded needs. This will be implemented in August of each year.

The Department of Local Affairs' Impact Fund Grant Process Could Be Improved

Grants from the Local Government Limited Gaming Impact Fund are requested through annual applications submitted to the Department of Local Affairs. Department field representatives review the applications and work directly with the applicants to develop summaries of the requests for use by the Local Government Limited Gaming Impact Advisory Committee in making funding recommendations. Final funding determinations are made by the executive director of the Department of Local Affairs. Once a grant has been awarded, a contract between the Department of Local Affairs and the grantee is written and the recipient receives 12 percent of the grant award. Additional funds are disbursed when grantees provide evidence of expenditures on their grant projects.

We noted two general areas in which the grant process could be improved, as described below.

Documentation of the application and award process. One concern is with the documentation of the grant award decisions. We found little written evidence of the reasons for awarding full, partial, or no funding of grants. In part, this is due to the fact that, unlike other meetings of the Advisory Committee, no minutes are taken and recorded of the committee hearing where awards are voted on. Department of Local Affairs staff prepare compilations of the votes, but there is no formal record of either the votes or the comments made at the award meeting. Thorough and accurate documentation of the grant process is important to help ensure that the criteria for grant awards are consistently applied in making funding decisions. Furthermore, there is no documentation that the Department and the Advisory Committee are fulfilling their mission of addressing all gaming impacts. Finally, the open meetings law requires that minutes be taken and recorded of any public meeting.

Use of formal contracts for all grants. According to Department staff, monitoring the grant contracts is one of the most time-consuming aspects of administering the Impact Fund. In particular, managing the disbursement of funds and the receipt of expenditure documents from grant recipients requires a significant amount of staff time. An alternative to preparing a contract for each grant is to use purchase orders for small award amounts; purchase orders may be used for amounts up to \$25,000. In 1998 and 1999 more than one-quarter (23 of 86) of the awards granted were for less than \$25,000, so the use of purchase orders for these grants would save staff time and simplify the disbursement of funds.

The use of contracts for grant awards serves to document the intended use of the funds and bind the parties to preestablished expectations. Additionally, with a purchase order, grantees are obligated to use monies in accordance with the statutory intent of the Fund and the Department can require the submission of documentation of expenditures as a condition of the grant. Since about two-thirds of those awarded grants in 1999 also received grants in 1998, it appears most applicants would be motivated to comply with documentation requirements so they could be granted funds in the future.

We believe the Department of Local Affairs could streamline and improve its grant process for the Local Government Limited Gaming Impact Fund by establishing procedures to ensure the decision-making process is documented and by using purchase orders in place of formal contracts for small grants.

Recommendation No. 2:

The Department of Local Affairs should improve its process for managing grants from the Local Government Limited Gaming Impact Fund by:

- a. Maintaining documentation of the grant process and the reasons for grant award decisions. In particular, the Department should keep minutes of the Advisory Committee meetings where grants are discussed.
- b. Using purchase orders instead of contracts for Local Government Limited Gaming Impact Fund grants under \$25,000.

Department of Local Affairs Response:

Agree. The Department does maintain formal meeting minutes for Advisory Committee meetings associated with policy discussions and decisions. For the grant review hearings (which include presentations by applicants), a record of the individual committee vote is kept for each project. The Department will expand this record of proceedings to not only include the vote result, but also committee member comments if offered. This will be implemented for the next committee grant review hearing in August.

The Department will explore the recommendation of utilizing purchase orders for selected small projects (under \$25,000). These select projects would likely be one-time purchases for items such as emergency medical equipment or communications equipment as opposed to construction type projects. If approved by the State Controller's Office, this could be done on a one-year trial basis to determine feasibility. Funding awards made in August may provide the first opportunity to implement this recommendation.

Information on the Statewide Impacts of Gaming Has Not Been Compiled

The Department of Local Affairs provides the Gaming Commission with information on grants requested and awarded from the Local Government Limited Gaming Impact Fund. In addition, local governments and state agencies can report the impacts of gaming on their operations to the Limited Gaming Control Commission for consideration in setting taxes and for endorsement of budget requests related to gaming impacts. A listing of impacts we reviewed that were reported to the Gaming Commission and the Department of Local Affairs is included in Appendix C. This listing shows that impacts occur in a widespread area and relate to many different types of services and situations. We prepared this list from individual documents provided to the Gaming Commission and Department of Local Affairs. These impacts had not previously been compiled or organized into a comprehensive report, nor had they been analyzed to identify an overall picture of the effect legalized gaming has had on Colorado. A single report or data source with comprehensive information could clarify overall gaming effects and help the Gaming Commission and the Department of Local Affairs fulfill their statutory responsibilities.

In our review of information provided to the Gaming Commission on gaming impacts, we did not identify any significant omissions of impact reporting. However, we did find some comparative information that was not reported to the Commission, such as the number of arrests and the number of district court filings in the gaming cities compared with the rest of the State. Furthermore, there is no uniformity in the data reported to the Commission. For example, some government agencies report both historical and current data on their operating costs attributable to gaming, while others focus only on their current gaming-related needs.

We believe there is a risk that the overall impacts of gaming are not fully understood because the information reported is fragmented. The Gaming Commission and the Department of Local Affairs have not compiled the data reported by state and local entities or sought to collect and assemble additional information to get a broader view of impacts, although the following statutes refer to the need for and importance of identifying gaming effects:

- Section 12-47.1-302(1)(d), C.R.S., gives the Gaming Commission the power and duty to conduct a continuous study and investigation of limited gaming throughout the State to ascertain defects in or violations of the statutes, rules, and regulations.

- Section 12-47.1-1602(3), C.R.S., requires the Local Government Limited Gaming Impact Advisory Committee to establish a method to document, measure, assess, and report the documented gaming impacts on eligible local government entities and to review the impact on a continuing basis.

Recent Taxing Decisions Reduce the Funds Available for Impacts

The Gaming Commission reduced the gaming tax rates and eliminated the gaming device fee for Fiscal Year 2000. These changes were based on the Commission's consideration of a variety of information, including:

- Testimony and financial analyses indicating that tax relief for small casinos was needed to maintain their viability.
- Reports of the costs of gaming impacts on state and local governments.
- Testimony by the gaming counties that they were receiving sufficient funds for gaming impacts. According to the Commission minutes, one county specifically indicated that a tax reduction was acceptable as long as it did not result in a reduction in the gaming revenues collected.
- The Colorado Legislative Council's "Economic and Revenue Forecasts for 1999-2004," which include projections of the State's TABOR surplus.

The reduction in tax rates and elimination of the device fee were intended to be "revenue neutral" because the Commission expects, based on anticipated growth in the gaming industry, that about \$77 million in gaming tax revenue will be collected in Fiscal Year 2000, which slightly exceeds the \$75.5 million generated from the taxes and fees in Fiscal Year 1999. However, if the tax rates had not been lowered, the State would expect to collect an estimated \$92 million in taxes and device fees in Fiscal Year 2000. Therefore, the decision to reduce the tax rates and eliminate the device fee benefits the casinos by increasing the proportion of revenues they retain, but reduces the revenues the State and local governments would otherwise have expected to receive to pay for impacts, preservation, and other operations. For example:

- The General Fund will receive about \$7 million less in Fiscal Year 2000 than would be expected under the previous tax rates.

- The State Historical Fund will receive an estimated \$4.2 million less than it is projected to have received with no tax rate reduction.
- The Local Government Limited Gaming Impact Fund will receive about \$840,000 less to grant to eligible cities and counties than if the tax rates had not changed.
- The cities of Woodland Park and Victor will receive an estimated \$150,000 less (through the Municipal Impact Fund) than they would have expected to receive with no tax rate reduction.
- The gaming cities and counties will receive about \$3.3 million less than would have been expected with the prior tax rates.

The decision also sends the message that no additional funds are needed to cover any of the costs of gaming impacts. However, without a comprehensive analysis of information, it is difficult for the Gaming Commission to assess the full spectrum of gaming impacts and make informed taxing and funding decisions. This is particularly important because the Commission makes decisions that affect not just the Gaming Division, but a multitude of other organizations including other state agencies, local governments, and the casinos. In setting the tax rates, the Commission must carefully weigh all the possible outcomes of its decisions. Thus, the more data the Commission has access to in an organized format, the better able it will be to weigh the options and make informed decisions.

A Comprehensive Impact Report Could Serve Several Purposes

There are several reasons we believe it would be useful for the Gaming Commission and the Department of Local Affairs to compile gaming impact data into a comprehensive report on a periodic basis. Specifically, such a report would:

- Serve as a framework and history of gaming impacts to help the Commission ensure that it has all the information that is relevant in establishing gaming rules and regulations, such as those related to taxing and funding decisions.
- Provide a vehicle for communicating with the General Assembly about gaming impacts for use in considering gaming-related legislation.

- Assist new Gaming Commission members to gain an understanding of the industry and its effects. Gaming Commissioners are appointed for terms of four years, and may serve two terms.
- Highlight any areas where impact information has not been collected.

Therefore, we believe the Gaming Commission and the Department of Local Affairs should periodically work together to compile the information reported to them into a complete report. On the basis of that effort, the need for additional information could be identified and pursued. This suggestion is consistent with the results of a national gaming study released in June 1999 which recommends that states conduct impact studies, particularly before expanding or implementing gaming. The rationale for this recommendation was that states have not thoroughly evaluated whether gaming achieves intended goals, allows for negative impacts to be sufficiently remedied, and is consistent with the overall good of the citizens.

Recommendation No. 3:

The Limited Gaming Control Commission and the Department of Local Affairs should periodically work together to compile information on gaming effects into a comprehensive impact report. On the basis of this effort, they should consider the need to commission a study to collect data on other impacts they believe are important to gain a comprehensive understanding of how gaming has affected the State. The results of this effort should be used by the Gaming Commission to make decisions regarding taxation and funding and by the Department to make decisions regarding approval of grants.

Department of Local Affairs Response:

Partially Agree. The Department will assist in the development of an annual comprehensive gaming impact report in cooperation with the Division of Gaming. Gaming impacts documented by affected local governments within the 13 county program eligibility area that are transmitted to the Department will be included in the report. Based upon the established reporting requirements for local government participants in the program, the Department's component of the report can be completed in May of each year.

Gaming impact information is derived from the local governments that participate in the program. They record impacts in accordance with the methodology approved by the Local Government Limited Gaming Impact Advisory Committee. This information provides the Committee with timely

impact data for jurisdictions that are financially affected by gaming. It is already used by the Committee and the Department to make grant funding decisions.

There have been numerous studies conducted on the effects of casino-type gaming from national, state, regional and local perspectives. It is the Department's opinion that further study will not produce a more reliable method to measure impacts on local governments such as traffic increases on specific county roads, emergency response needs to address higher auto accident rates or law enforcement demands linked to an increased number of DUI cases. The existing methodology employed by this program provides a simple, cost-effective mechanism for local governments to annually account for gaming impact costs in a number of public service areas.

It is probable that some of the eligible local governments with a limited amount of impact decide not to participate in the program. These local governments have determined that they possess the capacity to absorb costs locally without seeking state assistance. The recommended study may be able to more broadly identify gaming impacts and related needs in those entities which currently do not participate in the program and provide an enhanced understanding of how gaming has affected the State in a comprehensive manner; however, it is doubtful that the results would add value to the grant review process or would significantly alter grant funding decisions. In addition, studies generally do not identify the appropriate funding sources to pay for the mitigation of impacts. The Department does not agree that further studies are of sufficient value to be warranted.

Limited Gaming Control Commission Response:

Disagree. The Commission receives comprehensive testimony during its three months of annual tax hearings. We receive all testimony and information mandated by the Constitution and statutes. We are not aware of, and the SAO has not been able to identify, any impacts not addressed. Because of our diverse backgrounds and areas of expertise, we are able to comprehensively analyze the information as presented.

Auditor's Addendum

Recommendation No. 3 addresses the need for assembling and analyzing comprehensive information on gaming impacts throughout the State. We agree with the Commission's statement in its response that it receives testimony and information mandated by the Constitution and statutes. In fact, we took information reported to the Commission and compiled it into a table in Appendix C. It was necessary for us to organize this data because no such effort had been undertaken by the Commission or Division. Our discussion and recommendation focuses on the usefulness, to the Commission and others, of compiling the information received into a comprehensive impact report, evaluating the data in a comprehensive manner and considering the need for additional study in any areas. Because of the importance of gaming impacts on the State, we believe the Commission should take a more proactive leadership role in identifying impacts to ensure that all are being addressed.

Gaming Taxes

Chapter 2

Statutes Set Parameters for Gaming Tax Setting

According to the State Constitution and statutes, the Limited Gaming Control Commission is responsible for setting the gaming tax rate within the limitation that “up to a maximum of 40 percent of the adjusted gross proceeds of limited gaming shall be paid by each licensee ... for the privilege of conducting limited gaming.” In accordance with the Constitution, the General Assembly enacted legislation specifying factors the Gaming Commission should consider in setting the tax rate. These factors generally fall into one of two categories: gaming impacts and gaming profitability. Specifically, statutes list the following criteria for the Commission’s consideration in setting the tax rate:

- The need to provide moneys to Central City, Black Hawk, and Cripple Creek for historic restoration and preservation.
- The impact on the communities and any state agency due to limited gaming, including the unreimbursed local financial burdens associated with limited gaming-related operations.
- The profitability of the other “for profit” forms of gambling in Colorado and of similar forms of gambling in other states.
- The expenses of the Commission and the Division for their administration and operation.
- The intent of the Limited Gaming Act in encouraging growth and investment in the gaming industry and the impact of the tax rates on licensees and the profitability of their operations after expenses.
- The capital costs required to comply with local, state, or federal requirements, financial reserves required by the Commission, and investments necessitated by regulatory requirements of the Commission.

The result of the Commission's tax-setting effort is a graduated tax schedule that increases the percentage paid as adjusted gross proceeds increase throughout the gaming year. The following table shows that, since 1992, the gaming tax rates have never approached the maximum 40 percent range cited in the Constitution; they have remained at close to 20 percent for the larger casinos while varying between 0.25 and 20 percent for the smaller casinos.

Colorado Gaming Tax Rate Changes						
Annual Adjusted Gross Proceeds	Effective Date of Tax Rate					# Casinos by Tax Bracket²
	10/1/92	10/1/93	10/1/94	10/1/96	7/1/99¹	
\$0 - \$1 million	2%	2%	2%	2%	0.25%	6
\$1 - \$2 million	20%	8%	2%	2%	0.25%	8
\$2 - \$3 million	20%	15%	8%	4%	2%	4
\$3 - \$4 million	20%	18%	8%	4%	2%	6
\$4 - \$5 million	20%	18%	15%	14%	4%	6
\$5 - \$10 million	20%	18%	18%	18%	11%	6
\$10 - \$15 million	20%	18%	18%	20%	16%	3
\$15 - \$20 million	20%	18%	18%	20%	20%	3
\$20 million +	20%	18%	18%	20%	20%	7

Source: Division of Gaming.
¹The gaming year was changed from a September 30 year-end to a June 30 year-end, coinciding with the state fiscal year, beginning July 1, 1997.
²Estimated based on adjusted gross proceeds of casinos in Fiscal Year 1999.

Colorado's Gaming Tax Approach

Colorado's approach to gaming taxation is characterized by the following elements:

- The gaming tax rate is evaluated annually and set by an appointed commission rather than being established in statute.

- The Gaming Commission has established and maintained a graduated tax rate that requires those casinos that generate higher levels of adjusted gross proceeds to carry a greater proportion of the tax burden than those that generate less. In Fiscal Year 2000 the ten casinos with adjusted gross proceeds exceeding \$15 million each are expected to contribute 90 percent of the tax revenues generated from gaming.
- Taxes are assessed on the adjusted gross proceeds of each individual casino or retail licensee, regardless of ownership or location. The adjusted gross proceeds for multiple casinos owned by the same individual or company are not combined for tax purposes.
- When a change of business entity occurs during the tax year (such as changing from a partnership to a corporate structure) and is accompanied by a change in owners, the adjusted gross proceeds of the casino are taxed for the new entity beginning again in the lowest bracket, even if the proceeds of that casino had previously reached a higher bracket during the year.

This combination of characteristics reflects the constitutional and statutory directives of promoting gaming industry growth, generating revenues to pay for impacts, and funding preservation efforts in the gaming cities.

Gaming Commission Policies Can Affect State General Fund Levels

Because a portion of the Limited Gaming Fund is deposited into the State's General Fund, the Gaming Commission is in a position of influencing the amount of monies available for appropriation by the General Assembly. No other board or commission in the State has this type of impact on the General Fund. As a consequence, when the Commission establishes its fee rates and tax structure, it affects:

- The casinos that pay the gaming tax.
- The individuals and companies that pay application and licensing fees.
- The Gaming Division and other state agencies whose operations are funded, in some part, by gaming revenues.
- The local governments that receive funds for gaming-related expenses.
- State and local agencies that administer or use funds for historic preservation.
- General Fund monies available for a variety of state uses.
- The existence and amount of surplus revenues that are refunded to Colorado taxpayers under TABOR.

In 1993 the Supreme Court, in response to interrogatories from the General Assembly, stated:

... the Limited Gaming Amendment prohibits the General Assembly from enacting limitations on revenues collected by the Commission in order to comply with [TABOR]... In our view, the Limited Gaming Amendment clearly states that ... the [Gaming] Commission establishes the percentage [of adjusted gross proceeds to be collected as a gaming tax] and the General Assembly does not. The power of the General Assembly ... cannot reasonably be construed to include the power to ... establish annually the percentage of adjusted gross revenues to be collected from limited gaming licensees. Lacking the power to establish such percentages, the General Assembly also lacks the power to limit the revenues collected by the Commission.

Thus, the only restrictions placed on the Gaming Commission with respect to setting the fee and tax rates are the constitutional requirements that 1) the gaming tax rate not exceed 40 percent of gaming adjusted gross proceeds, and 2) rates be set according to criteria established by the General Assembly. These criteria are listed on page 31 and do not include the impact of the tax rates on the amount of monies in the General Fund or the amount of surplus revenues generated as defined by TABOR.

In its tax evaluation process in 1999, the Commission did take into consideration the effect of the gaming tax revenues on the General Fund and on surplus revenues. The Commission reviewed the Colorado Legislative Council's Economic and Revenue Forecasts for 1999-2004 and decided to reduce the tax rates, in part to avoid contributing to the State's surplus revenues. Such considerations were clearly not contemplated by the General Assembly when it established the criteria in the statutes.

The Gaming Commission Should Consider Alternative Tax Policies

Gaming Commission policies on taxes indicate that one focus has been on providing a favorable environment to promote viability of the gaming industry. In addition, Division staff told us that some policies have been established to be fair and equitable in dealing with different types and sizes of casinos. However, we found the tax policies do not always promote equity among casinos and do not maximize revenues collected by the State that are used, in part, to pay for gaming impacts. These issues are described below.

Assessing the gaming tax on each individual casino's adjusted gross proceeds. The Constitution and statutes use a number of terms to refer to the entity responsible

for paying the gaming tax. The Constitution states that the tax shall be paid by “each licensee”; the statutes make reference to the tax being collected from the “licensed retailer” and “licensed operators,” and require each “gaming licensee” to make a return and remittance of gaming taxes each month. The Gaming Commission and Division have interpreted these references to mean that the gaming tax should be assessed on the adjusted gross proceeds of each individual licensed retailer or casino. However, some companies or individuals own more than one casino within a gaming city and are able to realize a tax break by being taxed individually for each casino or location rather than on the aggregate adjusted gross proceeds of all the casinos owned. This favors multiple-casino owners and reduces the amount of tax revenues that are generated compared with assessing the tax on the combined adjusted gross proceeds of the casinos. There are at least five ownership situations in Colorado in which the same company or individual owns multiple casinos in the same gaming city that are taxed as separate businesses. These casino owners incur expenses for the individual locations, but are also able to share some costs, such as administrative expenses, among their casinos. We estimated the taxes that would have been paid in Fiscal Year 1999 by these five casino owners if taxes were based on the combined adjusted gross proceeds of their casinos and compared it with the actual tax revenues collected. We found the casinos paid about \$3.1 million less in gaming taxes because of this tax approach.

Assessing taxes at the lowest rate when a change in business entity along with a change in owners of a casino occurs during the tax year. Whenever a change in business entity occurs (such as sole proprietor to partnership), a new retail license must be obtained by the entity. If a change in the owners of the entity also occurs, the new retail licensee is typically taxed beginning at the lowest tax bracket. This practice treats the casino as if it had just opened, even if there is no interruption in business. According to Division staff, this informal policy was established to avoid penalizing new owners in such a situation by charging a higher rate than if the casino were newly opened. However, it favors those who purchase or buy into an existing operation rather than starting a new one. We estimate casinos that changed entities and had new owners paid about \$750,000 less in tax revenues between October 1994 and June 1999 from this practice.

This issue, as well as the recent reduction in tax rates, is affected by the annual graduated tax structure. For example, one of the main purposes of the tax reduction was to provide some tax relief to small casinos. This intent has been realized, with casinos with annual adjusted gross proceeds below \$5 million benefitting from the largest reductions of between 50 and 87.5 percent in their Fiscal Year 2000 tax rates over those applied in Fiscal Year 1999. However, the reduction has other effects as well:

- Casinos that generate up to \$10 million annually also receive substantial tax breaks as their proceeds increase. For example, adjusted gross proceeds between \$5 million and \$10 million are taxed at a rate that is almost 40 percent lower than in 1999.
- All casinos, including the largest, benefit from significantly reduced tax rates on their first \$5 million.
- The State will collect about \$15 million less in tax revenues than it would have if the rates had not been lowered.

With a flat rate, or a rate that is graduated on a monthly basis (i.e., within the month), changes in business entity situations have a reduced effect on the amount of taxes collected.

We believe the Gaming Commission should consider some alternative tax policies to address the issues raised above. One alternative would be to apply the gaming tax to the casino owners rather than to the individual establishments. This may require a statutory change to clarify the language regarding the entity responsible for the gaming tax. Another option is to continue the tax assessment at the rate already in effect when a change of business entity and owners occurs during the year. Other approaches the Gaming Commission could take, which would eliminate the need for these specific alternatives, include applying a graduated tax rate on a monthly rather than yearly basis and establishing a flat tax rate.

According to minutes from Commission meetings over the past several years, the Commission has considered a wide variety of policies and approaches to taxation to establish a system that addresses a variety of interests and concerns. We encourage the Commission to continue this effort and, in conjunction with Recommendation No. 1, to consider alternatives to its taxation policies to help ensure equity, consistency, and sufficiency of its taxes.

Recommendation No. 4:

The Limited Gaming Control Commission should consider alternative approaches to its gaming tax structure and other tax policies. Options to consider should include:

- a. Changing the taxed entity from the individual casino or retail licensee to the owner of the casino in cases where one company or individual owns multiple casinos within one gaming city, to improve equity. This may require working with the General Assembly to make changes to clarify the statutory language.

- b. Discontinuing the informal policy of assessing taxes beginning at the lowest rate when a change of business entity with a change of owners occurs during the tax year, to improve consistent treatment of casinos.
- c. Applying graduated tax rates on a monthly basis rather than an annual one.
- d. Establishing a flat tax rate.

Limited Gaming Control Commission Response:

Disagree. The Commission regularly looks at various options to the current tax rates and structure and will continue to do so. Statutory, as well as practical, considerations are taken into account when evaluating any option. While the Commission has evaluated some of the options recommended by the SAO in the past, none of the options listed are deemed to be viable.

Auditor's Addendum

In the discussion for recommendation 4, we note that the Gaming Commission is in a unique position of being able to affect State General Fund revenues through its gaming tax rates. In addition, we discuss several issues with some of the gaming tax policies, such as the assessment of the tax on each individual casino or retail licensee, which benefits owners of multiple casinos, and assessing taxes at the lowest rate when there is a change of business entity and owners during the tax year. We suggest that the Commission consider some alternatives to the current tax structure. Ongoing consideration of different approaches, even those that might not have been viable in the past, is reasonable as the gaming industry changes.

Rules Should Address All Tax Rate Policies

The Commission's current practice of assessing taxes beginning at the lowest rate when there is a change of business entity coupled with a change in owners during the tax year is not formalized in rules or regulations. Furthermore, there is no written policy directive for Division staff to follow in applying the tax policy. Without a

formal rule, licensees may be treated differently in the same circumstances. For example, we found one situation where a change of business entity occurred and a new owner obtained 35 percent ownership of a casino during the year. The Division began assessing taxes at the lowest rate at the time of the change and the casino saved about \$92,000 in taxes. In another case where a 35 percent change of ownership occurred at the same time as a change in entity, the licensees agreed to continue the taxes at the rate already in place. As a result, the casino paid about \$82,000 more in taxes than if the rate had been applied beginning at the lowest bracket.

Because of the importance of clear regulations in the taxing arena, we believe the Gaming Commission should promulgate rules regarding how the tax rates are applied when the business entity and ownership of a casino changes during the year.

Recommendation No. 5:

The Limited Gaming Control Commission should formalize in rules its policy on how tax rates are applied when a change of business entity combined with a change in owners occurs during the tax year.

Limited Gaming Control Commission Response:

Partially agree. We agree that the informal policy that was in place should be formalized, and took such action on December 16, 1999 by adopting Commission Policy 99-1. We, however, disagree that this policy should be promulgated as a rule.

The Constitutional Intent of Limited Gaming

Chapter 3

The Constitution and Statutes Contain Requirements for Historic Preservation

The constitutional amendment that legalized gaming in Colorado was intended to promote the economic viability of the gaming cities while preserving their historic characteristics through efforts at both the state and local levels. The Legislative Council's report on arguments for limited gaming for the 1990 general election ballot stated that "the proposal is an effort to enhance the historic qualities of the communities ... [and] boost the economies of the areas." The amendment itself states that:

- Limited gaming shall be confined to the commercial districts of the cities as the districts were respectively defined in the city ordinances adopted by: Central City on October 7, 1981; the City of Black Hawk on May 4, 1978; and the City of Cripple Creek on December 3, 1973.
- Limited gaming shall only be conducted in structures which conform, as determined by the respective municipal governing bodies, to the architectural styles and designs that were common to the areas prior to World War I.
- No more than 35 percent of the square footage of any building and no more than 50 percent of any one floor may be used for limited gaming.
- Moneys in the State Historical Fund shall be distributed to the governing bodies of the respective cities for preservation and restoration of the cities.

In 1999 Senate Bill 99-232 was passed prohibiting the gaming cities from awarding any funds from their residential grant programs unless they have established guidelines consistent with statutory requirements. The legislative declaration for the bill states that it was "intended to assure that expenditures from the Fund ... by the cities of Central, Black Hawk, and Cripple Creek are used for historic restoration and preservation."

Although the cities have benefitted economically from limited gaming, the preservation of their historic resources and characteristics has sometimes suffered. In particular, we have noted two areas of concern. First, contrary to constitutional provisions, the cities allow gaming to be conducted in buildings that may not conform to the architectural style and size of buildings that were common to the area before World War I. Second, the cities have, in some instances, allowed State Historical Fund monies to be used for projects and purposes that do not appear to be historic preservation.

Some New Casinos Do Not Meet the Pre-World War I Structural Requirements

Despite the specific constitutional requirement that “limited gaming...only be conducted in structures that conform...to the architectural styles and designs that were common to the areas prior to World War I,” some recently built and planned casinos do not have the appearance of buildings fitting this criterion. In particular, several of them greatly exceed the size of any building existing in any of the cities in 1915, and some do not appear to be consistent in design with other buildings in the area. According to information provided by the Colorado Historical Society, the largest buildings in any of the gaming cities prior to World War I had gross floor areas of 40,000 square feet. Of the six casinos currently operating in entirely newly constructed buildings, four exceed the size and scale of any structure that was present in the area prior to World War I, ranging in size from 49,000 to 286,000 square feet. In addition, some casinos licensed in recent years are housed in tropical-theme hotels and Roman-theme structures, neither of which styles appears consistent with designs common to the gaming cities prior to World War I. Thus, all three towns have approved the construction of new casino buildings that appear to violate the intent of the constitutional amendment.

Section 12-47.1-302, C.R.S., states that the rules and regulations promulgated by the Gaming Commission shall include “restrictions upon the times, places, and structures where limited gaming shall be authorized” and “the conditions and circumstances which constitute suitability of persons, locations, and equipment for gaming.” In accordance with the statutes, the Gaming Commission has established regulations relating to some aspects of gaming premises, such as the percentage of the building and floor licensed for gaming and the requirements for security and safety measures. However, the Commission has no rules requiring that gaming occur in pre-World War I style historic structures and does not consider the building style of a casino when it issues licenses. Division of Gaming officials noted that the Constitution authorizes the cities to individually define the architectural styles of buildings in which limited gaming can occur. Furthermore, Division staff indicated that although the

Commission is responsible for promulgating rules for regulating limited gaming, the Commission has not been specifically granted oversight authority for ensuring that the appearance aspects of casino buildings, such as size, scale and historical significance, are within the intent of the Constitution.

Providing clarification to statutory and even constitutional language is often a reason for exercising rule-making authority. For example, the Gaming Commission has established rules in another area, at the request of the gaming cities, to clarify the constitutional definition of the commercial districts of the cities. The Constitution states that limited gaming is confined to the commercial districts of the cities as the “districts are respectively defined in the city ordinances adopted by: the City of Central on October 7, 1981 [and] the city of Black Hawk on May 4, 1978.” The Commission established rules that allow the cities to include zoning maps from years prior to those cited in the Constitution (Black Hawk from 1971 and Central City from 1969) when determining the boundaries of their commercial districts for gaming purposes.

Larger Non-Historic Casinos Threaten the Cities’ Historic Designations

In 1997 the National Park Service placed all three Colorado gaming cities on the list of the most at-risk National Historic Landmarks in the country due to the effects of limited gaming. The Park Service cited the historical significance to Colorado and the nation of the three cities, and recommended that the communities strengthen their design review processes, particularly with respect to the size and scale of new casinos, to better safeguard historic skylines. It was also recommended that the Black Hawk/Central City National Historic Landmark District be surveyed to determine the number of buildings still contributing to the historical character of the District. The survey, which was recently begun by the National Park Service, should determine if the existing boundaries are still appropriate and whether portions of the District should be de-designated.

The constitutional mandate that no more than 35 percent of the square footage of any building and no more than 50 percent of any one floor may be used for limited gaming implies that the original focus of the initiative was on modifying historic buildings and supplementing the existing income of local businesses. The Legislative Council analysis of ballot proposals in 1990 stated that “limited gaming is designed to act as a supplement to, and not a replacement of, existing businesses in the communities.” During the first three years of limited gaming in Colorado, casino development projects involved existing historic buildings, rather than new construction on vacant land. However, this intent and the original developments have been replaced by large,

newly constructed casinos that overwhelm the historic nature of the communities as well as the small “historic” casinos.

The State Should Participate in the Approval Process for New Casinos

We believe there are several options available to protect the historic nature of the gaming cities as was intended. One option is to have the Colorado Historical Society participate in the review of plans and specifications for new casino buildings and/or remodeled historical casino buildings, and make recommendations to the Gaming Commission during the licensing process. Another option is to have the Historical Society approve plans and specifications of new casino buildings and/or remodeled historical casino buildings prior to the Gaming Commission’s granting a gaming license.

Recommendation No. 6:

The Limited Gaming Control Commission and the Colorado Historical Society should work with the General Assembly to develop legislation to include state participation in the construction of new casinos in the gaming towns of Black Hawk, Central City and Cripple Creek. Options for such participation include:

- a. Requiring the Colorado Historical Society to review plans and specifications for casinos in new buildings or renovated historical buildings and to make recommendations to the Gaming Commission during its licensing process.
- b. Requiring the Colorado Historical Society to approve plans and specifications for casinos in new buildings or renovated historical buildings and requiring the Gaming Commission to establish rules that prohibit the licensing of any casino buildings not approved by the Colorado Historical Society.

Colorado Historical Society Response:

Partially agree. The Colorado Historical Society agrees with the conclusion of the audit report that gaming licenses have been issued to casino operations in structures that do not conform to the architectural styles and designs that were common to the gaming towns prior to World War I. However, the Constitutional Amendment states that this issue is to be “determined by the respective municipal governing bodies.” The Colorado Historical Society is prepared to represent the interests of the people of Colorado with respect to this issue, and to participate with the Commission on Gaming in its licensing process. However, the Society would prefer not to work toward the development of legislation without a favorable opinion from the State’s Attorney General on the issue of the legality of the Society’s proposed role. In addition, fiscal impacts such as increases in FTE and associated administrative expenses should be considered.

Limited Gaming Control Commission Response:

Disagree. While the Commission supports cooperation with the General Assembly, it is beyond the power of the Commission to interject itself in an issue clearly defined by the Colorado Constitution. An informal Attorney General’s opinion states the language in Section 9 of the Colorado Constitution is not ambiguous in assigning, **to the respective municipal governments**, the responsibility of determining which buildings meet the intent of the amendment; and, any such participation by the Commission would exceed its Constitutional authority. Further, the General Assembly has rejected similar proposed legislation, SB 98-69.

The Commission firmly believes it does not have the jurisdiction to initiate the legislative change advocated by the SAO, and believes such change must be in the form of a Constitutional amendment.

Auditor’s Addendum

The Constitution requires that limited gaming be conducted in structures which conform to the architectural styles and designs common to the areas prior to World War I. The Constitution allows the individual gaming cities to determine whether casinos comply with this requirement, but also assigns the responsibility for promulgating rules and regulations relating to licensing to the Gaming Commission. Furthermore, statutes require that rules address restrictions on the places and structures where limited gaming is authorized and the conditions and circumstances which constitute suitability of locations for gaming. The Commission has not attempted to protect the historic characteristics of the gaming

cities by ensuring that gaming is limited to appropriate structures. Through its licensing process, the Commission has the ability to ensure that gaming occurs in pre-World War I type structures as intended by the Constitution. However, the Commission has not taken responsibility for this aspect of gaming nor been proactive in seeking legislative or constitutional change.

The Gaming Cities Receive Gaming Funds for Preservation and Restoration

The State Historical Fund, which is administered by the Colorado Historical Society, was created by the 1990 constitutional amendment that legalized limited stakes gaming in Black Hawk, Central City, and Cripple Creek. The Constitution directs the State Treasurer to distribute 28 percent of the Limited Gaming Fund to the State Historical Fund after Gaming Division and Commission expenses have been paid. The State Historical Fund is further broken down as follows:

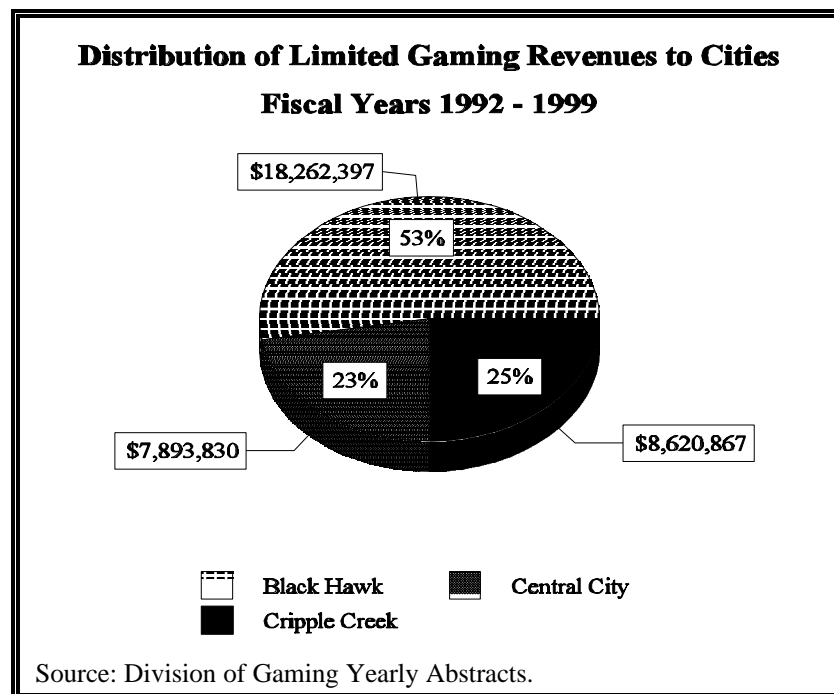
- The three gaming towns receive 20 percent of the State Historical Fund in proportion to the gaming revenues they collect. These monies are constitutionally directed to be used for the “preservation and restoration of the cities.”
- The remaining 80 percent is to be used for “historic preservation and restoration of historical sites and municipalities throughout the state in a manner to be determined by the general assembly.”

Limited stakes gaming in Colorado has resulted in the State having the largest historical preservation grant program in the country. The table below shows the cities’ shares of the State Historical Fund since Fiscal Year 1992. In addition to the cities’ portions, the Colorado Historical Society has distributed nearly \$78 million from the State Historical Fund for preservation activities throughout Colorado since Fiscal Year 1992.

State Historical Fund Distributions to the Gaming Cities				
Fiscal Year	Black Hawk	Central City	Cripple Creek	Total
1992	\$147,717	\$221,014	\$141,694	\$512,417
1993	\$637,507	\$598,079	\$471,260	\$1,706,846
1994	\$1,048,772	\$530,442	\$545,956	\$2,125,170
1995	\$1,206,974	\$550,279	\$576,416	\$2,333,669
1996	\$1,410,627	\$616,998	\$660,820	\$2,688,445
1997	\$1,561,487	\$599,222	\$734,364	\$2,895,073
1998	\$1,806,833	\$680,983	\$809,445	\$3,297,261
1999	\$2,397,366	\$628,817	\$903,925	\$3,930,108
Total	\$10,217,283	\$4,425,834	\$4,843,880	\$19,486,997

Source: Division of Gaming Yearly Abstracts.

In addition to revenues received by the cities for preservation activities shown above, the Constitution directs the State Treasurer to distribute 10 percent of the Limited Gaming Fund to the governing bodies of each city in proportion to the gaming revenues each generates. Since Fiscal Year 1992 the gaming cities have received 10 percent of the Limited Gaming Fund annually, totaling nearly \$35 million, which can be used at their discretion. The following chart provides a breakdown of these gaming revenues.



There is a limit to the number of projects that can be funded with these gaming revenues, in part because there is a finite number of historic structures in each city that can be preserved or restored. Because the Colorado Constitution includes the specific distribution percentages, the cities will continually receive both the State Historical Funds as well as the Limited Gaming Funds shown in the above charts. However, because of the limited number of houses and other eligible structures located within the cities, at some point in the future there will be a reduced need for preservation and restoration funds.

Guidelines Indicate Gaming Funds Are to Be Used for Preservation

The use of the State Historical Fund monies received directly by the three gaming towns is the responsibility of each individual city. All three towns originally established residential grant programs that generally met the United States Secretary of the Interior's guidelines for preservation and restoration of historic buildings. Broadly, the Secretary's standards include:

- The property will be used as it was historically or be given a new use which reflects the property's restoration period or maximizes the retention of distinctive materials, features or spaces.
- The historic character of the property will be retained and preserved and the removal or replacement of historic materials or features will be avoided.
- Replacement of severely deteriorated features will match the old in design, color, texture and materials.
- A false sense of history should not be created by adding conjectural features, features from other properties or combining features that never existed together historically.

In 1998 Black Hawk rewrote its grant program guidelines and stated as the purpose of the program "to distribute the benefits from gaming revenues to local residents and property owners." Considerations for grants included the "comfort" of the residents. Specific examples of Black Hawk's guidelines included:

- Eligible properties must be constructed prior to 1991.
- Exterior and interior work is eligible and may include tile, kitchen and bathroom cabinetry, and interior walls.

- The maximum amount of grants allowed was \$60,000 per property per year.
- Grants were awarded for future years and allowed to be stacked for larger projects.
- There was a 33 1/3 percent tax relief provided by the town to each grant recipient.

Since all three towns are listed as National Historic Landmark Districts, they are permitted to spend preservation dollars on public infrastructure-type projects within the District boundaries such as purchasing historic streetlights, street scape projects, and utility projects. In fact, the three towns have not spent all of their preservation dollars on residential grants; substantial town projects have been undertaken using the preservation funds. For example, Cripple Creek spent about \$1.2 million to restore buildings that have public uses; Central City has spent more than \$500,000 to rebuild historic Cornish rock walls throughout the town; and Black Hawk has used about \$1.4 million of preservation dollars to restore three historic buildings for use as town administration buildings.

State Involvement in Decisions About the Use of Funds for Preservation of the Gaming Cities Would Be Beneficial

The Colorado Historical Society believes it does not have any oversight authority or responsibility over funds distributed directly to the towns. In 1992 the Historical Society obtained an informal opinion from the Attorney General's Office on the oversight responsibilities of the 20 percent of the State Historical Fund that is distributed to the towns. The opinion stated that "the Colorado Historical Society would not have any obligations to assure that the funds actually go to 'the preservation and restoration' of their respective cities" and that "no such oversight is expressly provided for in either the statutes or the Colorado Constitution." As a result, the three towns have received millions of dollars for restoration and preservation since the advent of gaming in 1991 with no state requirements or fiduciary oversight.

However, a 1999 investigation by the Colorado Bureau of Investigation (CBI) indicates that some state-level participation in the grant process may be beneficial. In a presentation to the General Assembly, the CBI reported that Black Hawk had used preservation funds on private residences for non-historic renovation. Specifically, the CBI noted one instance where historic preservation funds were used

to build a new addition to connect two separate historic houses and another example where a new addition was built onto a house originally constructed in 1974. Furthermore, the investigation found that 13 residents who sit on either the Historic and Architectural Review Commission or the Town Council of Black Hawk had received more than \$900,000 in residential grants between 1996 and 1999, an average of \$75,000 each. The remaining \$937,000 in grants during the same period were distributed among 30 other residents for an average of about \$32,000 per grant.

The General Assembly Has Placed Requirements on the Use of Preservation Funds

In 1999 the General Assembly amended Section 12-47.1-101, C.R.S., in an attempt to ensure that the constitutionally directed preservation dollars were being used as they were intended to be used by the Colorado voters when they approved limited gaming in 1990. The General Assembly wrote in the legislative declaration for the bill (Senate Bill 99-232) that “when voters approved the conduct of limited gaming ... they believed that all moneys expended from the State Historical Fund would be used to restore and preserve the historic nature of those cities.” The new Section 12-47.1-1202, C.R.S., sought to regulate the manner in which the towns could use preservation funds for residential grants. The bill required the towns to adopt the following minimum standards prior to distributing preservation fund grants:

- Assuring compliance with the Secretary of the Interior’s standards for treatment of historic properties.
- Prohibiting a private individual from receiving more than one grant for the same property within any one-year period.
- Limiting grants to properties that are located within the National Historic Landmark District boundaries or on the National Register of Historic Places.
- Limiting grants to structures that have historical significance because they were constructed over 50 years ago.
- Prohibiting grants that exceed \$100,000 for a single residential property.
- Prohibiting using grant monies for payment of any tax liability.
- Requiring any member of a governing body to disclose any personal interest in a grant before voting on the application.

South Dakota laws may serve as a model for Colorado, since gaming in the two states has many similar aspects. For example, both states have constitutional amendments that authorized limited stakes gaming with five-dollar maximum bets, restrictions on where and when gaming can occur, and requirements that gaming revenues be used, in part, to restore and preserve the historic towns in which gaming occurs. However, in South Dakota subsequent legislation requires that the expenditure of the historic funds by the city of Deadwood be in accordance with standards and requirements established by the state historical society board. This requirement was implemented by the Legislature in an effort to prevent any misuse of the historic funds. Furthermore, the South Dakota Legislature later capped the amount the city of Deadwood receives for historic preservation activities at \$6.8 million annually. Revenues collected beyond this limit are distributed to the state general fund.

The State Should Participate in the Use of Preservation Funds by the Gaming Towns

To help ensure that all expenditures from the portion of the State Historical Fund distributed to the gaming cities are consistent with constitutional and statutory intent, the Colorado Historical Society should seek clarifying language to Section 12-47.1-1202, C.R.S., to require the Society to assist the cities in the use of the preservation funds. An alternative is to add language requiring the cities to obtain the approval of the Colorado Historical Society prior to expending State Historical Funds.

Recommendation No. 7:

The Colorado Historical Society should work with the General Assembly to develop legislation to amend Section 12-47.1-1202, C.R.S., to include state participation in the use of State Historical Fund dollars by the gaming cities. Options for state participation include:

- a. Requiring the Colorado Historical Society to assist and make recommendations to the gaming cities in their use of State Historical Funds.

- b. Requiring the Colorado Historical Society to determine the most efficient manner to approve or otherwise ensure that State Historical Funds are being used for the historical preservation of the gaming cities.

Colorado Historical Society Response:

Partially Agree. The Colorado Historical Society agrees with the conclusion of the audit report that at least one of the three gaming towns has used some portion of its preservation funding to carry out projects that have had only a very indirect benefit to historic preservation. The Society also agrees that there is currently no mechanism permitting state oversight of these expenditures. The Society is prepared to assume this role, if that is the will of the General Assembly. However, it should be noted that by obtaining a regulatory role in the three gaming towns, the Society might lose its ability to serve as an impartial advisor to those communities on general preservation issues. Again, fiscal impacts such as increases in FTE and associated administrative expenses should also be considered.

Division of Gaming Operations

Chapter 4

The Division of Gaming, which is responsible for regulating and licensing the gaming industry in Colorado, includes the following functional areas:

- **The Licensing and Operations Section** consists of six staff who are responsible for processing the paperwork for all of the Division's different types of licenses. The Division issues licenses to gaming employees, those who conduct or permit gaming on their premises, and those who manufacture or distribute slot or video gaming machines. A complete listing of the different types of licenses is included in Appendix A.
- **The Enforcement and Investigations Section** has 42 staff, including 35 peace officers. This section has two main responsibilities: background investigations of potential licensees and on-site enforcement of Division regulations and other laws in the gaming establishments.
- **The Auditing Section** employs 14 auditors and 2 administrative staff and is responsible for compliance oversight and training of licensees. The section performs various reviews and audits to ensure that casinos follow appropriate internal control procedures, accurately report their gaming revenues, and have automated systems that adequately collect and report data.
- **The Accounting and Administration Sections** include the Director's office, the secretary to the Commission, a director of administration, the Division controller, and three additional staff who process all the Division and Commission expenditures and prepare the Division's financial statements.

The following table shows the Division's FTE and expenditures along with statistics on the number of gaming devices (slot machines, blackjack tables, and poker tables) and casinos over the past five years.

Division of Gaming FTE, Expenditures, Casinos, and Devices Fiscal Years 1995 Through 1999				
Fiscal Year	Actual FTE	Division/Commission Expenditures	Number of Casinos¹	No. of Gaming Devices²
1995	65.0	\$6,792,293	59	13,000
1996	66.3	\$7,144,980	57	12,730
1997	69.0	\$7,647,132	55	13,610
1998	72.3	\$7,948,174	49	13,620
1999	71.2	\$8,560,380	49	14,050
Change	9.5%	26.0%	-17.0%	8.1%
Source: Division of Gaming budget requests and annual abstracts.				
Notes: ¹ As of June each year.				
² Devices are slot machines, blackjack tables, and poker tables.				

Division Staffing

According to Division of Gaming officials, FTE and workload are driven primarily by the numbers of casinos, devices (i.e., slot machines, blackjack tables, and poker tables), and licensees. The table above shows that the number of casinos has decreased while the number of devices and FTE have increased between 1995 and 1999. Division data also indicate that the number of licenses processed each year, along with the number of off-year background checks of licensees, has increased from about 5,850 in 1995 to about 6,400 in 1999. The current ratios of devices and licenses to Division staff are 197:1 and 90:1, respectively.

We contacted nine other states to collect information on gaming regulatory processes to compare with Colorado. We found there is a wide variety of approaches to regulation that affects the level of staffing required. Specifically, there are differences in the types of employees licensed, how often they are licensed, what governmental entity issues the licenses (e.g., state or local), and the extent of background checks done prior to licensing. With respect to auditing of casino revenues, there are differences in the depth and extent of verification procedures, the percentage of revenues audited, and the frequency of audits. Finally, in terms of enforcement, we found variations primarily in the agency responsible for enforcement activities. However, to the extent possible, we compared Colorado with other states and

concluded that the Division's staffing levels appear fairly consistent with those of other states we contacted.

Other than staffing, we identified a number of areas where we believe the procedures of the Division could be improved. These areas relate to auditing, licensing, and general administration.

Auditing the Gaming Industry

The Division's audit section is responsible for conducting three types of reviews or audits of casinos as well as for providing casino training in a variety of compliance areas. The reviews include revenue audits to ensure that reported adjusted gross proceeds are accurate; compliance reviews to ensure that casinos are following internal control minimum procedures; and information system reviews of casinos' automated systems.

Revenue audits are conducted on a three-year cycle and generally cover the casino's most recent three-year period of adjusted gross proceeds. This approach is taken because the Division is authorized to collect unpaid taxes that are up to three years old. The audit section has implemented a risk-based audit approach which includes auditing the largest casinos (the top 15 to 20 revenue-generators) and smaller casinos that are owned by the same individual or organization that owns one of the larger establishments. This is because casinos under the same ownership generally share accounting offices and procedures. In addition, some other smaller casinos may be audited if compliance reviews have indicated the need for a revenue audit.

The Division Has Not Reached Its Revenue Audit Goal

The Division of Gaming has audited about two-thirds of annual adjusted gross proceeds for any year since the inception of gaming. The Division has increased its audit coverage since our 1994 audit, which noted that as of July 1993 less than 10 percent of total adjusted gross proceeds had been audited. However, the Division has not reached its goal of auditing 80 percent of adjusted gross proceeds over a three-year cycle. The following table shows the percentage of total annual adjusted gross proceeds that have been audited over the past five years.

Percent of Total Annual Adjusted Gross Proceeds (AGP) Audited As of December 1999			
Calendar Year	Total AGP	Audited AGP	Percent Audited
1995	\$384,342,947	\$227,454,074	59%
1996	\$411,666,442	\$248,169,879	60%
1997	\$430,901,211	\$290,048,030	67%*
1998	\$479,217,577	\$171,793,883	36%*
1999 (to date)	\$462,407,334	\$71,530,043	15%*
Source: Office of the State Auditor analysis of data from the Division of Gaming. * These percentages represent AGP audited to date. AGP can be audited up to three years after initial filing per Sections 12-47.1-604 and 39-21-107, C.R.S.			

Audits of the adjusted gross proceeds from 1997 through 1999 are still in progress. However, as of December 1999, the table shows the Division has audited about two-thirds of the adjusted gross proceeds for 1997, just over one-third of those for 1998, and about 15 percent of 1999's proceeds. If audits are not completed as intended, the amount of adjusted gross proceeds reported and taxes assessed may be misstated. Audits on 12 casinos completed over the past 24 months identified a net of about \$91,700 in underreported adjusted gross proceeds and about \$6,900 in underpaid taxes and interest. Although audits may not always identify significant dollar amounts of errors in revenue reporting, they serve as an important tool to promote accurate reporting of gaming proceeds. For example, recently completed audits of two casinos in Cripple Creek resulted in the assessment of \$150,000 in fines. The fines were issued due to unexplained variances in accounting records, missing documentation, and other instances of noncompliance with internal control and accounting procedures.

In Fiscal Year 1999 the audit section completed four revenue audits, which is about half of the number it had originally planned for the year. According to audit section management, it is not always possible to complete all the planned audits due to staffing difficulties and audits taking longer to complete than anticipated. We believe another factor is that the audit section does not devote sufficient staff resources to revenue audits. The audit section consists of 14 audit FTE who are assigned to revenue audits, compliance reviews, and information systems audits, as well as to other functions such as providing training to casinos, updating internal control requirements, and preparing the annual gaming abstract. According to staff plans for

Fiscal Year 2000, only about one-third of audit staff time is scheduled for revenue audits, while about 40 to 50 percent of audit staff time is assigned to conducting compliance reviews, which is the single most resource-intensive activity for the audit section. The remaining direct audit time is scheduled for audits of casinos' information systems.

The audit section's current prioritization of audit activities and assignment of staff among duties results in both revenue and compliance audits occurring in the same casinos within a year. For example, 12 revenue audits were completed between September 1997 and September 1999. Eleven of the audited casinos underwent compliance reviews within ten months of their revenue audits, and four casinos had compliance reviews within three months of their revenue audits. Audit section staff noted that they limit the scope of compliance reviews in these situations and do not duplicate work done in the revenue audits. We believe the audit section should evaluate its approach and make changes to reduce the instances where separate revenue audits and compliance reviews are conducted on a single casino within a 12-month period. In particular, the section should consider the value of conducting a compliance review of a casino within a few months after a revenue audit is done. This approach should permit more staff time to be assigned to revenue audits. In addition, the Division should consider contracting out audits if it does not have sufficient staff resources available to complete its schedule.

The audit section has been making progress in completing more of its planned revenue audits and its audit schedule reflects its 80 percent goal. Furthermore, as more large casinos become operational, it should be easier for the section to accomplish its goal because 80 percent of adjusted gross proceeds will be generated by a smaller number of casinos. However, we believe the section should take some steps to help ensure it accomplishes its revenue audit goal. First, the Division should examine and modify the allocation of audit resources and its audit approach to increase its focus on completing revenue audits. To further improve the audit process, once the Division has reached the 80 percent goal over three years, the audit section should take steps to move toward a shorter audit cycle with the long-term goal of conducting revenue audits annually.

Recommendation No. 8:

The Division of Gaming should increase its revenue audit coverage by considering several changes to increase the amount of staff resources available for revenue audits, including:

- a. Discontinuing the practice of scheduling separate compliance reviews of casinos in years when they undergo revenue audits and combining revenue audits and compliance reviews whenever possible.
- b. Contracting out some audits if sufficient staff resources are not available within the Division.
- c. Planning for a shorter audit cycle with a long-term goal of conducting annual revenue audits to replace the three-year cycle in the future.

Division of Gaming Response:

Disagree. The Division believes, by fully implementing the SAO's 1994 audit report recommendations that we have an audit methodology and plan in place that will achieve the aggressive internal goals we have set for ourselves. The Division has taken a proactive approach to regulating the gaming industry and the compliance review process plays an integral role in fulfilling the Division's overall philosophy. During compliance reviews, the Audit Section already reduces the amount of work performed on a licensee when we have recently performed a revenue audit on their operations. In most cases, the compliance review team will not review any of the areas that were covered during the revenue audit. However, we believe it is important to still review areas such as the cashier cage, key control and slot drop/count procedures that are not normally reviewed during revenue audits. We have found this is best accomplished through the compliance review process.

Our Commission has expressed disagreement with the approach of contracting out audits and performing annual revenue audits. To some degree, the Audit Section already relies on the services of independent accountants during revenue audits. For licensees who file audited financial statements with the Division, we take into account the audited financial statements and accompanying footnotes when planning and determining the scope and extent of our audit procedures. Further, engaging independent accountants to perform revenue audits is not without costs to the Division. The Division must carefully weigh the costs involved in contracting out some revenue audits against performing them internally. The added costs associated with contract audits would have to be considered in the overall budgetary scheme. The Division has a longstanding commitment to finding new and innovative ways to make our processes more efficient and customer service oriented and we will continue to do so.

The Division has increased its revenue audit coverage in accordance with a risk-based audit approach that has been approved by the Commission. Under our existing structure, the Division is making good progress in attaining our internal goal of auditing 80 percent of adjusted gross proceeds over a three-year audit cycle. Based on our projections, the Division will achieve this goal for the three-year audit cycle 1997 through 1999. In fact, we will come very close to achieving our goal for the audit cycle 1996 through 1998. Currently, we continue to audit adjusted gross proceeds reported by our licensees from 1997 through 1999. As the table below illustrates, we believe our audit coverage will exceed the 80% mark we have set for ourselves.

Audited AGP Analysis Through October 1999							
Calendar Year	Total AGP	Actual Audited AGP	%	Planned Audited AGP	%	Rolling 3-yr. AGP%	
						Actual	Planned
1995	\$384,342,947	\$227,454,074	59	\$227,454,074	59	NA	NA
1996	\$411,666,442	\$248,169,879	60	\$221,217,703	60	NA	NA
1997	\$430,901,211	\$290,048,030	67	\$334,595,429	78	62	66
1998	\$479,217,577	\$171,793,883	36	\$409,220,585	85	54	75
1999	\$462,407,334	\$ 71,530,043	15	\$393,422,622	85	39	83

Note: Differences between actual and planned amounts in 1997, 1998 and 1999 are due to the fact that we are still auditing agp reported by licensees for these years. 1999 figures are calculated based on agp reported by licensees through October 1999.

Auditor’s Addendum

The focus of our discussion in this area is on how the Division could achieve its own goal of auditing 80 percent of adjusted gross proceeds over three years. In our 1994 audit we reported that the Division had not established a consistent audit approach and had only completed revenue audits of 10 percent of total adjusted gross proceeds. Subsequent to that audit, the Division developed a standardized audit approach and methodology and, in 1996, established the goal of auditing 80 percent of adjusted gross proceeds over three years. However, as of the end of 1999, the goal has not yet been reached. The Division’s response indicates that based on projections, the Division will achieve its goal for the 1997 through 1999 audit cycle. These projections assume that the Division will accomplish its schedule. However, in Fiscal Year 1999, the Division was not able to complete its audit schedule. Our recommendation is intended to suggest alternative

approaches the Division could take to help ensure that it accomplishes what it plans.

Delays in the Division's Automated Licensing System Were Costly

In January 1996 the Division began working with the Department of Revenue's Information Technology (IT) Division to develop a computerized licensing system. The new system was intended to be completed by the summer of 1997 and include Year 2000 compliance aspects. However, due to IT staffing problems, the selection of a programming language that was unfamiliar to IT staff, and changes to the scope and requirements by the Division of Gaming, the project had not been completed as of the spring of 1998. In August 1998 an outside consultant hired by the Information Technology Division reviewed the status of the system and made recommendations on how best to complete the project. The consultant recommended that all work on the project be discontinued. As a result, the Department of Revenue and both Divisions agreed that the Division of Gaming should contract with a private firm to install an automated licensing system along with imaging and administrative tracking systems. The licensing and imaging systems had already been developed by the consultant in another state and only required installation and maintenance activities.

According to estimates by both the Gaming and Information Technology Divisions, the costs incurred in the original effort to develop a licensing system were about \$500,000. This included personal service costs as well as hardware and software purchases used in the development of the project. In a financial audit of the Division completed in December 1999, the Office of the State Auditor recommended that the Division of Gaming attempt to recover the costs paid to the IT Division for this project. The contract executed with the private firm totals nearly \$870,000, including \$225,000 in maintenance expenses, through the end of Calendar Year 2002.

According to Division of Gaming and Information Technology staff, and confirmed by the consultant hired to review the licensing project, there was little evidence that a system requirements document had been developed or discussed by the Gaming Division or IT. Due to the lack of written documentation, it is difficult to determine the specific problems that arose with the project. However, it is clear that no written agreements on the deadlines or outcomes of the project were developed. Furthermore, the consultant found that there was no formal methodology within the IT Division for developing client/server applications. This methodology would have

imposed disciplines and requirements on the Division and IT to focus on the goal of completing the project.

Future Information Technology Division Programming Projects

The Department of Revenue does not have policies covering the ability of the Division of Gaming to engage private firms for programming work. Furthermore, the Department does not require performance agreements, similar to contracts with private firms, to be written when the Division engages IT to perform programming work. While the contract the Division of Gaming executed with the private firm included a specific scope of work and timetables for deliverables to the Division, no such agreement was written between the Division of Gaming and the IT Division. Performance agreements between agencies that are enforceable and include accountability measures improve the performance of all interested participants.

On the basis of our review of the licensing programming project and the report of the consultant hired to review the project, these agreements should include the following components:

- A formal project management methodology must be put in place that includes a defined management method with measurable milestones. Formal project management steps that specifically address the project management discipline including status meetings, programming reviews, and issue tracking should be actively managed.
- A formal connection between the users and the developers is important to continually and actively channel involvement by the users in the development process, specifically, formal periodic user reviews should occur to ensure the application meets their needs.
- Project management, team leaders, and developers should be held accountable to meaningful and measurable objectives. Project management should outline performance goals and milestones that are clearly understood and accepted.

In an effort to prevent future programming projects from becoming over budget and past due, the Division of Gaming should seek clarification on the Department's policy for entering into contracts with private consultants either before or after communicating their programming needs to the IT Division.

In addition, the Division of Gaming should require performance agreements with the IT Division and any contractors for future programming projects.

Recommendation No. 9:

The Division of Gaming should ensure that all programming projects include performance agreements that formally document the requirements and scope of the projects with agreed upon costs. The Division should also seek to clarify Department of Revenue policies for engaging in third party contracts for computer programming work.

Division of Gaming Response:

Implemented. The Division will closely monitor and evaluate future information technology projects performed by the Department of Revenue's IT Division, other agencies, or third party vendors. The Division will assess the cost of the project in relation to established plans, benchmarks and budgets. This recommendation will be implemented on all future projects.

Auditor's Addendum

During the audit, we found no evidence that the Division has implemented a policy to address the concerns raised relative to planning for and oversight of information technology projects. At the time of the IT project for the licensing system, the Division had no established methodology to follow and no written agreement of any kind with the IT Division. Since that time, the Gaming Division has not been involved in any information technology projects in which an improved process has been followed.

Licensing of Individuals Involved in Limited Gaming

According to Section 12-47.1-501, C.R.S., anyone who works directly with the gaming portion of a retail gaming establishment must be licensed by the Gaming Commission. There are two types of employee gaming licenses: Key and Support. Key licensees are those employees who are in charge of gaming activities while on duty, such as floor managers and supervisors. Support employees are all other employees directly involved in gaming activities, such as card dealers, cashiers, slot

machine technicians, and security personnel. At the end of Fiscal Year 1999, the Division of Gaming reported that there were approximately 6,100 active Key and Support gaming licensees, of which almost 92 percent (5,592) were Support license holders.

For Fiscal Year 2000, initial license fees for Key applicants is \$250. In addition, Key applicants must deposit \$1,000 with the Division of Gaming to pay for a background investigation. Support applicants pay an initial fee of \$175 and do not undergo background investigations requiring the deposit of funds.

Both Key and Support licenses are valid for two years from the date of issuance. The Division of Gaming began issuing two-year licenses in 1996 as a result of a 1994 Office of the State Auditor report and a 1995 Sunset Review by the Department of Regulatory Agencies, Office of Policy and Research. Both reports recommended increasing the license term from one year to two for Key and Support licensees. Statutes require the Division of Gaming to issue a certificate or validating sticker to be attached to each license upon renewal. Renewal license fees are \$200 for Key licensees and \$150 for Support. According to Division of Gaming licensing officials, not all licensees continue to work in the industry after they are initially licensed; currently about 60 percent of Key and Support employees renew their licenses.

Extending the Life of the Photo Badges Would Benefit Licensees and the Division

Key and Support license applicants are issued a new photo identification badge when their licenses are renewed. Licensees can renew their license by mail, but are still required to obtain a new badge. According to Division information, in Fiscal Year 1999 about 40 percent of renewal applicants were approved by mail. However, all these applicants then had to go to a Division of Gaming office to obtain new photo identification badges. This results in an inconvenience to licensees and a consumption of Division resources.

The Division could change the requirement of replacing the badge each time a license is renewed and instead permit licensees to keep their identification badges for four years, issuing validation stickers for the interim renewal. Issuing renewal stickers would allow renewal applications to be processed entirely by mail in some years, thus relieving Key and Support licensees of the time and expense of traveling to a Division office to have their photos taken every two years. In addition to increasing the convenience of the renewal process for licensees, this practice would improve efficiency within the Division by reducing renewal activities. We estimate the Division

would be able to save about \$13,000 annually in personnel and materials costs if it adopted this procedure, which would be offset by the cost of validation stickers estimated at about \$2,500 annually. Savings could be reallocated to other activities or passed on to the licensees who would be the primary beneficiaries of such a change due to the increased convenience of being able to renew their licenses by mail.

Some other states we contacted require less frequent renewal of licenses or identification badges. For example, New Jersey issues four-year Key and Support licenses after an initial license term of two and three years, respectively. South Dakota requires annual license renewal but issues a photo identification every two years. In the intervening year, the South Dakota Gaming Commission issues a validation sticker to Key and Support licensees. Due to the nature of the current South Dakota license (laminated, traditional-type photo paper), state officials re-laminate the licenses with the new sticker. However, South Dakota is seeking a licensing system similar to Colorado's, (digital photo and credit card-type license) that will enable the issuance of renewal stickers through the mail.

Issuing validation renewal stickers rather than replacing identification badges every four years would not eliminate all Key and Support license renewal efforts. To maintain a level of security, the Division would still conduct the background investigation and administrative work necessary to ensure that licensees remain suitable to possess a gaming license. In addition, the Division could use other existing security measures to help ensure that only employees with valid licenses work in the industry. For example, casinos are currently required to submit a monthly list of their employees to the Division. To prevent trading or misuse of the validation stickers by licensees, Division staff could monitor these lists to identify any employees who were not granted renewal licenses.

Growth in the gaming industry increases the importance of the Division establishing efficient licensing procedures. Since Fiscal Year 1996, the Division has issued an annualized average of approximately 2,900 Key and Support renewal licenses. According to casino industry representatives, the opening of new, large casinos in Black Hawk and Central City is expected to increase the number of Key and Support employees by about 1,000 to 1,200, or almost 20 percent, in just the next two years. As a result, the average number of Key and Support license renewals will increase by at least 550 each year, bringing the number of annual license renewals to approximately 3,500 with an estimated 2,100 licensees maintaining their licenses for at least four years.

Recommendation No. 10:

The Division of Gaming should streamline its license renewal process for Key and Support licenses by:

- a. Extending the period for which a photo identification badge is good to four years with license renewal every two years.
- b. Developing a system to issue renewal stickers to Key and Support licensees, allowing them to complete the entire renewal transaction by mail for years when a new badge is not issued.

Division of Gaming Response:

Disagree. The photo identification badge issued by the Division of Gaming is proof to gaming patrons, casino employers and Division investigative staff that the badge holder is properly licensed and under the jurisdiction of the Division. The current ID badge issuance process ensures that the person who is actually licensed receives the proof of licensure (the ID badge).

Without extensive security, tracking and verification procedures in place to ensure that a renewal sticker is affixed to the proper identification badge, there is no guarantee that the proof (the renewal sticker on the ID badge) matches the person wearing it. Tracking and verification costs would more than offset any personnel cost savings; and, verification procedures would more than likely require licensees to come into contact with Division staff, negating any customer inconvenience concerns.

Auditor's Addendum

This recommendation was intended to reduce some of the burden on licensees while maintaining the Division's regulatory authority. The Division currently requires the casinos to submit a monthly list of employees which enables the Division to monitor where licensees are working. Therefore, tracking procedures are already in place and being used by the Division.

Follow-Up

Chapter 5

Included in the audit were procedures to determine the status of prior audit recommendations to the Division of Gaming, the Department of Local Affairs, and the Colorado Historical Society. The Division of Gaming, the Department of Local Affairs' administration of the Contiguous County Limited Gaming Impact Fund, and the Colorado Historical Society's administration of the State Historical Fund were audited in 1994. The Historical Society was subsequently audited in 1997. This chapter indicates the status of recommendations made in both the 1994 and 1997 audits.

1994 Audit of the Division of Gaming

Listed below are the recommendations made in the 1994 Gaming Division audit along with the current implementation status of those recommendations. Recommendations 1 through 9 and 12 were directed to the Gaming Commission or the Division of Gaming; Recommendations 10, 11, and 13 were directed to the Department of Local Affairs; Recommendations 14 through 19 were directed to the Colorado Historical Society.

Recommendation No. 1: The Commission should ensure the appropriateness of its fees and fee uses by developing and documenting methodologies and policies for determining fees.

Recommendation No. 2: The Division of Gaming should ensure that fee assessment is consistent with statutes and policies by:

- a. Developing a cost allocation method for the various activities and programs which are related to fees.
- b. Evaluating the relationship between fees and costs regularly.

Current Status of Recommendations 1 and 2: *Implemented.* The Division has developed a cost allocation methodology and reviewed fees in 1996, 1997, and 1999. This methodology identifies the direct costs of different licensing activities and allocates overhead and indirect costs to the activities to develop its licensing fee structure. The results of this analysis are provided to the Commission for use in fee setting.

Recommendation No. 3: The Division of Gaming and the Gaming Commission should evaluate the costs and benefits of performing less frequent renewals for support licensees and make recommendations to the General Assembly for statutory changes as needed to Sections 12-47.1-501(d) and 519(1), C.R.S.

Current Status. *Implemented.* The statutory requirement for annual renewals was changed in 1996 and the Division began renewing licenses every two years rather than annually. Until August 1999 the Division continued to run complete background checks on licensees in the years when they were not renewing their licenses. However, at that time (August 1999) the Division changed to conducting off-year background checks on only 10 percent of applicants, which is consistent with the recommendation.

Recommendation No. 4: The Division of Gaming should ensure that its Auditing Section clearly defines and states its auditing approach and follows through on its implementation.

Current Status: *Partially implemented.* The Audit Section has clearly stated its goals and audit approach in its policy manual, last revised in August 1999. The goals of the Section include:

- Performing revenue audits of 80 percent of adjusted gross proceeds over a three-year audit cycle.
- Performing information systems (IS) audits of new systems within three months of completion of licensee testing.
- Performing compliance inspections of 100 percent of casinos each year.

In addition, the Section has a written audit approach that explains the Section's overall philosophy and risk-based approach to audit work. Documentation shows that the Section schedules its workload in accordance with these goals and approach. However, the Section has not been entirely successful in accomplishing these goals to date. See Recommendation No. 8 in Chapter 4.

Recommendation No. 5: The Division of Gaming should ensure that its Auditing Section increases audit coverage by establishing achievable goals and by implementing an audit selection plan that is:

- a. Consistent with the Section's, the Division's, and the Department's goals and objectives.
- b. Sufficiently risk-based and comprehensive.
- c. Communicated to the Commission and to Division staff and requires management approval for changes.

Current Status: *Partially implemented.* The Audit Section has increased its revenue audit coverage in accordance with a risk-based audit approach that has been approved by the Commission. The Section has not been entirely successful, however, in accomplishing its goal of auditing 80 percent of adjusted gross proceeds every three years. See Recommendation No. 8 in Chapter 4.

Recommendation No. 6: The Division of Gaming should eliminate any unnecessary duplication of internal control compliance activities between the Auditing and Investigations Sections, and appropriately assign responsibility for this function.

Current Status: *Implemented.* The Division has a joint checklist which is divided between the audit and investigations sections. Based on our review of checklists maintained by the Division, the work is divided between the two sections with little or no duplication.

Recommendation No. 7: The Division of Gaming should ensure that Auditing Section staff spend time on direct auditing activities in accordance with standards by:

- a. Clearly defining and communicating the audit activities which it classifies as direct and indirect.
- b. Establishing a timekeeping system which accurately captures indirect activities.
- c. Monitoring staff activities and time routinely to ensure that goals and objectives are being met.

Current Status: *Implemented.* The Section has a stated goal for staff of spending 65 percent of their time on direct audit activities. According to time records for Fiscal Years 1998, 1999, and 2000 (through July 1999), section staff spend an average of 65 percent of their time on direct audit work. The range of percentages for Fiscal Years 1998 and 1999 and for July 1999 were from 64 percent to 68 percent.

Recommendation No. 8: The Division of Gaming should ensure the complete implementation of useful performance measures by:

- a. Developing measurable goals and objectives for each section which link performance measures to the Division's overall goals, objectives, and mission statements.
- b. Reporting performance data consistently over time.
- c. Reducing reliance upon workload measures and creating more measures which demonstrate the benefit of specific activities.

- d. Linking performance measures to budget requests and other planning and management documents.

Current Status: *Implemented.* The Division has improved and simplified its performance measures to make them more outcomes-oriented. The Division has used and reported on these measures consistently since 1997.

Recommendation No. 9: The Division of Gaming should ensure that investigative activities are performed cost-effectively by:

- a. Evaluating and assigning investigative clerical activities to clerical staff.
- b. Evaluating the reallocation or reassignment of investigator resources.
- c. Reporting on the reallocation of resources in budget and staffing request documents, as appropriate.

Current Status: *Implemented.* Clerical staff have been assigned to routine, administrative license processing and investigative activities. Investigators have been reassigned to spend more time in casinos.

Recommendation No. 10: The Department of Local Affairs and the Gaming Impact Advisory Committee should comply with Contiguous County Limited Gaming Impact Fund statutes, policies, and procedures by:

- a. Enforcing policies and procedures for the measurement and documentation of impacts and costs.
- b. Ensuring that the criteria for evaluating both the cost and benefit impacts from gaming are comparably measured and applied, where appropriate.

Current Status: *Partially implemented.* The Contiguous County Limited Gaming Impact Fund was discontinued in 1997 at the same time the Local Government Limited Gaming Impact Fund was created. The Department has maintained similar forms for eligible local governments to document their impacts as required by the statutes for the Local Government Limited Gaming Impact Fund. In 1999 virtually all applicants submitted the required forms with their grants applications. With respect to the documentation of positive impacts, the statutes for the Local Government Limited Gaming Impact Fund do not specifically require the reporting or consideration of benefits of gaming. However, Department of Local Affairs staff still produce some estimates of increased revenues, such as from sales or property taxes, that may be due to gaming. We believe the Department could further improve the impact data requested from applicants, as discussed in Recommendation No. 1 in Chapter 1.

Recommendation No. 11: The Executive Director of the Department of Local Affairs should review the use of resident gaming employees as a means of distributing 50 percent of the Contiguous County Limited Gaming Impact Fund and make recommendations for statutory change, if needed.

Current Status: *Implemented.* In 1996 a Gaming Impact Task Force, which included a representative of the Department of Local Affairs, was formed in accordance with House Bill 96-1240 to:

- Evaluate the overall effectiveness and impact of existing methods of distributing revenues derived from limited gaming activity.
- Develop legislative proposals to recommend changes to the methods and otherwise address the burden of accommodating gaming.
- Report to the [Limited Gaming] Commission, the Governor, and the General Assembly.

The task force included members of the General Assembly, representatives of the cities and counties affected by gaming, and representatives of state agencies impacted by gaming, and was staffed by Department of Local Affairs personnel. The task force recommended repealing the Contiguous County Limited Gaming Impact Fund and the Municipal Limited Gaming Impact Fund and consolidating the two into a Local Government Limited Gaming Impact Fund. The monies in this combined Impact Fund would be distributed on a non-formula basis and would not include distributions based on casino employee residency. Consistent with the recommendations of the task force, in 1997 the Contiguous County Limited Gaming Impact Fund was eliminated. Effective July 1, 2002, the Municipal Limited Gaming Impact Fund will be repealed.

Recommendation No. 12: The Limited Gaming Control Commission should ensure that the statutory provision to provide assurances of the uses of the Contiguous County Impact Fund is accomplished by:

- a. Conducting or causing to be conducted an annual financial and compliance audit of the contiguous counties' special accounts to determine if the uses of fund revenues are reasonably related to gaming impacts.
- b. Reporting the findings of the audits to the General Assembly.

Current Status: *No longer applicable.* The statutes for the Local Government Limited Gaming Impact Fund, which replaced the Contiguous County Limited Gaming Impact Fund, do not require audits of grant recipients. The procedures used by the Department of Local Affairs require that grantees submit documentation to support their need for and use of funds.

Recommendation No. 13: The Department of Local Affairs should ensure that it accounts for all of its gaming-related costs through regular and comprehensive evaluation.

Current Status: *Implemented.* The focus of this finding was on the Department of Local Affairs' tracking its costs for gaming-related activities and recovering the costs of those activities from gaming tax revenues. The Department of Local Affairs has estimated its costs for gaming-related activities and, as a result, has increased the amount of funding it requests from the Gaming Commission. Under its agreement with the Commission, the Department is now reimbursed for about 1.1 FTE at an annual cost of about \$66,000, compared with less than 1 FTE at a cost of \$33,000 in Fiscal Year 1995.

Recommendations 14 through 19 were directed to the Colorado Historical Society and were followed up in the 1997 audit of the State Historical Fund.

1997 Audit of the State Historical Fund

In 1997 the Office of the State Auditor conducted an audit of the State Historical Fund which included follow-up on recommendations from the 1994 Division of Gaming audit that were directed to the Historical Society. The 1997 Historical Fund audit concluded that all those recommendations from 1994 were fully or partially implemented. The recommendations listed below include any areas where issues remained from the 1994 audit.

Recommendation No. 1: The Colorado Historical Society should use *Colorado Preservation 2000* as a foundation for developing an operational plan for the State Historical Fund. This process should include:

- a. Performing an updated assessment of the historic preservation needs of Colorado.
- b. Targeting funds for annual priorities.
- c. Developing mechanisms for measuring the State Historical Fund's progress in meeting the historic preservation needs of the State.

Current Status: *Implemented.* The State Historical Fund retained a consultant to assist in developing a strategic plan. The State Historical Fund Strategic Plan was completed in April 1999 and includes the input from stakeholders throughout the State. The stakeholder survey provided the Historical Fund with information on preservation priorities across Colorado. The Historical Fund is analyzing grant applications to determine where grants could be more useful. Through data

received from the survey, the Historical Fund has identified 11 specific funding priorities.

Recommendation No. 2: The Colorado Historical Society should develop policies for the State Historical Fund concerning projects eligible for funding and the types of allowable matching expenses.

Current Status: *Implemented.* The Historical Fund has specifically prohibited the approval of any grant application that is located within the three gaming towns due to the amount of preservation monies the cities receive directly from the Limited Gaming Fund. The Historical Fund has also produced a program guidelines booklet that details the types of projects that do not compete well among other projects and that may even be ineligible.

Recommendation No. 3: The Colorado Historical Society should increase the amount allowed for mini-grant awards up to a maximum of \$25,000.

Current Status: *Partially implemented.* The State Historical Fund increased the mini-grant amount to \$10,000 from \$5,000 in 1998 as an initial increase. The Historical Fund is in the process of assessing the effect of the increased amount. Future increases in mini-grant amounts could result from the assessment. Mini-grants can be approved by the staff of the State Historical Fund and do not have to go through the grant selection and approval process with all other applications.

Recommendation No. 4: The Colorado Historical Society should evaluate the benefits of conducting one general and one or more mini-grant rounds per year, and hold the grant rounds when they best correspond with project funding needs.

Current Status: *Implemented.* The stakeholder survey conducted by the Historical Fund found that conducting only one grant round was not favored by grant participants. Grant applicants are concerned about waiting a full year for another grant round if they either miss the deadline or are denied a grant. As a result, the Historical Fund has maintained two general grant rounds

Recommendation No. 5: The Colorado Historical Society should improve the review and selection process by:

- a. Prescreening applications and eliminating marginal ones from going through the selection process.
- b. Providing scoring and descriptive feedback to denied applicants.

Current Status: *Implemented.* Beginning in April 1998, the State Historical Fund staff has provided substantially more feedback to denied applicants, including copies of all application scoring sheets. Historical Fund staff report that the overall quality of applications has improved. Furthermore, with the addition of eligibility rules, marginal projects that were once accepted are no longer being received by the Historical Fund.

Recommendation No. 6: The Colorado Historical Society should enhance the effectiveness and efficiency of the reader process by:

- a. Selecting readers with technical knowledge and experience in historic preservation.
- b. Eliminating the need for the State Historical Fund Review Committee.
- c. Using staff as one of the assigned readers.
- d. Increasing the number of applications reviewed by each reader.

Current Status: *Partially implemented.* The Historical Fund implemented a new reader process that significantly reduced the number of potential application readers from 100 in 1997 to 25 currently. The number of readers used per grant round averages between eight and ten, resulting in more applications being read per reader. Historical Fund staff report that scores on applications are much more consistent with the new process. The Historical Fund still uses the Review Committee in the review process because members of the Historical Society Board felt that the preservation expertise on the Committee was important for the application selection process.

Recommendation No. 7: The Colorado Historical Society should comply with Colorado's Open Meetings Law by giving timely, public notice of all Board and committee meetings.

Current Status: *Implemented.*

Recommendation No. 8: The Colorado Historical Society should streamline its contracting process by:

- a. Increasing the standardization of items to be submitted by grantees.
- b. Structuring the application so that appropriate exhibits and other information can be incorporated in a contract without the need for revisions.
- c. Evaluating current workload needs and allocating more resources to contract processing as necessary.

Current Status: *Implemented.* The Historical Fund has streamlined the contracting process in a number of ways. For example, a new contract now includes standardized project deliverables for all recipients and incorporates

certain application materials, eliminating the need to revise the contract for each grant. In addition, the contract handbook for general grants has been standardized and reduced from 31 pages to 10 pages.

Recommendation No. 9: The Colorado Historical Society should develop a standard method of having grantees report project progress and develop procedures for monitoring project progress that include using a risk-based approach.

Current Status: *Implemented.* The Historical Fund developed a risk-assessment rating form to use in determining the level of monitoring needed for individual grantees. The Preservation Specialist reviews a list of risk-based criteria and determines the level of attention required by that project. Examples of risk-based criteria include the amount of the grant, the technical difficulty of the project, the grant recipient's prior experience with State Historical Fund grants, and the presence of a local government review authority.

Recommendation No. 10: The Colorado Historical Society should simplify its expenditure reporting requirements by requiring standard expenditure reporting for all grantees while retaining its ability to request supporting documentation if necessary.

Current Status: *Implemented.* The State Historical Fund no longer requires grant recipients to submit backup documentation for every expense incurred. The Historical Fund does recommend that recipients maintain a record of expenses for future reporting or auditing needs.

Recommendation No. 11: The Colorado Historical Society should improve its method of obtaining feedback from participants in the State Historical Fund program by:

- a. Developing an objective and measurable customer satisfaction survey.
- b. Conducting an annual meeting of stakeholders.

Current Status: *Partially implemented.* As noted in Recommendation 1, the Historical Fund retained a consultant to conduct an in-depth stakeholder survey of all aspects of the State Historical Fund operations, as well as historic preservation issues facing Colorado. The consultant recommended that the Historical Fund conduct a survey among all stakeholders on a three-year basis rather than conduct an annual meeting. The Historical Fund has recently included a measurable survey form with its grant application forms.

Recommendation No. 12: The Colorado Historical Society should develop a procedures manual that contains staff responsibilities and operating procedures for the State Historical Fund.

Current Status: *Partially implemented.* The Historical Fund is currently in the process of producing a procedures manual. The Historical Fund plans to obtain a new computer database and software and will complete the procedures manual after internal processes for the new database are developed. Historical Fund staff estimate the procedures manual will be prepared by spring 2000.

LICENSES & FEES

The Colorado Gaming Control Commission issues five (5) types of licenses:

Manufacturer/Distributor—Companies that manufacture or serve as a distributor for approved slot or video machines and component parts.

Retailer—Persons permitting or conducting limited gaming on their premises.

Operator—Persons permitting slot machines on their premises or to persons, such as slot machine routers, who place and operate slot machines on the premises of a retailer.

Key Employee—Person who has the responsibility of making management or policy decisions in a gaming establishment.

Support Employee—Persons such as dealers, cashiers, etc. Anyone who works directly with the gaming operation.

Application Fees (annual)

Type I*	Type II*
Mfg./Distributor \$500	Mfg./Distributor \$1,000
Operator \$500	Operator \$1,000
Retailer \$1,000	Retailer \$2,000

There are no application fees for Key or Support employee applications.

*Type I applicants have six or fewer persons with a 5 percent or more interest in the license, all of whom live in Colorado. A Type II applicant is any not falling within the Type I qualifications.

License Fees

Mfg./Distributor	\$1,000
Operator	\$1,000
Retailer	\$1,250
Key Employee (original)	\$250
Key Employee (renewal)	\$200
Support Employee (original)	\$175
Support Employee (renewal)	\$150

Background Deposits

Type I applicants	\$5,000
Type II applicants	\$10,000
Key Employee	\$1,000
No deposit required for Support applicants	

Key and Support licenses are effective for two years. Mfg./Distributor, Operator and Retail licenses are effective for one year.

The Division of Gaming collects a background deposit to cover the costs of conducting a thorough background check. The Division bills against this deposit at the rate of \$53 per hour and also charges for any travel or out-of-pocket expenses. Any remaining moneys at the end of the background investigation are refunded to the applicant.

Appendix B

LIMITED GAMING FUND DISTRIBUTION									
RECIPIENT	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	TOTAL
Total Limited Gaming Revenues	\$13,458,607	\$35,546,314	\$43,816,751	\$49,054,641	\$55,084,892	\$59,238,986	\$66,981,572	\$78,548,750	\$401,730,513
Amount Set Aside for Division and Commission Expenses	\$ 4,343,877	\$ 5,066,927	\$ 6,078,451	\$ 7,381,973	\$ 7,076,942	\$ 7,541,248	\$ 8,101,904	\$ 8,368,247	\$ 53,959,569
Amount Available for Distribution	\$ 9,114,730	\$30,479,387	\$37,738,300	\$41,672,668	\$48,007,950	\$51,697,738	\$58,879,668	\$70,180,503	\$347,770,944
General Fund***	\$ 4,114,136	\$13,424,676	\$16,558,795	\$17,013,267	\$17,505,173	\$19,613,407	\$21,543,896	\$27,322,157	\$137,095,507
Contiguous County/Local Gov't. Limited Gaming Impact Fund	\$ 425,000	\$ 1,754,059	\$ 1,895,234	\$ 2,325,995	\$ 2,766,259	\$ 2,957,089	\$ 3,238,382	\$ 3,859,928	\$ 19,221,946
Woodland Park (from Municipal Limited Gaming Impact Fund)	N/A*	N/A*	\$ 283,037	\$ 312,545	\$ 360,060	\$ 387,733	\$ 441,598	\$ 526,354	\$ 2,311,327
Victor (from Municipal Limited Gaming Impact Fund)	N/A*	N/A*	\$ 94,386	\$ 104,182	\$ 120,020	\$ 129,244	\$ 147,199	\$ 175,451	\$ 770,482
Department of Transportation	**	**	**	\$ 997,000	\$ 3,156,448	\$ 2,658,000	\$ 3,951,000	\$ 3,066,000	\$ 13,828,448
Tourism Promotion Fund	\$ 18,229	\$ 60,959	\$ 37,738	\$ 83,345	\$ 96,016	\$ 103,395	\$ 117,759	\$ 140,361	\$ 657,802
Colorado Historical Society	\$ 2,552,124	\$ 8,534,228	\$10,566,724	\$11,668,347	\$13,442,226	\$14,475,367	\$16,486,307	\$19,650,541	\$ 97,375,864
Black Hawk (from Historical Fund)	\$ 263,783	\$ 1,138,405	\$ 1,862,385	\$ 2,155,457	\$ 2,518,849	\$ 2,788,369	\$ 3,226,488	\$ 4,308,662	\$ 18,262,398
Central City (from Historical Fund)	\$ 394,629	\$ 1,067,998	\$ 941,948	\$ 982,548	\$ 1,102,018	\$ 1,070,040	\$ 1,216,042	\$ 1,118,607	\$ 7,893,830
Cripple Creek (from Historical Fund)	\$ 253,061	\$ 841,536	\$ 969,497	\$ 1,029,262	\$ 1,179,928	\$ 1,311,365	\$ 1,445,437	\$ 1,590,781	\$ 8,620,867
Teller County (from Historical Fund)	\$ 303,673	\$ 1,009,477	\$ 1,163,396	\$ 1,235,115	\$ 1,415,914	\$ 1,573,638	\$ 1,734,524	\$ 1,908,938	\$ 10,344,675
Gilpin County (from Historical Fund)	\$ 790,095	\$ 2,648,049	\$ 3,365,200	\$ 3,765,606	\$ 4,345,040	\$ 4,630,091	\$ 5,331,036	\$ 6,512,723	\$ 31,387,840
*The Municipal Impact fund was first established in Fiscal Year 1994.									
** Section 12-47.1-701, C.R.S., was amended in 1994 to specifically allow gaming revenues to be transferred to the State Highway Fund for costs associated with gaming.									
*** The General Fund figures shown here are the amounts that remain after distributions to the Local Government Limited Gaming Impact Fund, the Municipal Impact Fund, the Department of Transportation, and the Tourism Promotion Fund.									
Source: Division of Gaming Annual Abstracts.									

Appendix C

GAMING IMPACTS REPORTED BY VARIOUS AGENCIES TO THE LIMITED GAMING CONTROL COMMISSION				
LOCALITY/ AGENCY	PROJECT OR IMPACT DATE	IMPACT OR PROJECT	COST OR (REVENUE)	COMMENTS
Gaming Cities				
Black Hawk	Ongoing	Water pipeline	\$13,000,000	Issued > \$13 M in bonds to finance.
	Not reported	Other water projects.	Not reported	
	Not reported	Road work coordinated w/CDOT	Not reported	For SH 119 & 279
	Done in 1999	Bobtail Street	\$10,000,000	\$4 M budgeted in 1999 for completion.
	Not reported	Renovation of old bldgs for City office space.	Not reported	Appears to have been completed in the past.
	Upcoming	Construction of new city hall.	Not reported	Reported as tentative.
	Upcoming	Reconstruction of 2 city streets.	Not reported	
	Ongoing	Construction of many new structures, heavy visitor traffic, and increased resident services.	Not reported	Due to rapid casino growth.
	1999	City operating & personnel expenses.	\$28,000,000	Most is attributed to gaming.
	1999	Device fee revenue & sales tax revenue.	(\$6,116,500)	
	1999	State shared rev	Not reported	
Central City	1990, 1994, 1999	City staffing levels.	Not reported	Staff went from 9 in 1990 to 110 in 1994 to 37 in 1999.
Cripple Creek	1999	GF, Enterprise, & Historic Preservation budgets.	\$11,000,000	Total increase of city budget from 1990 to 1999.
	1999	City Revenues	(\$6,676,000)	Total increase in city revenues in general, enterprise, & historic preservation funds from 1990 to 1999.
Gaming Counties				
Teller County	1998	Road paving & new building.	\$822,700	Received Impact Fund Grant of this amount to help fund these projects.
	1995	Increased costs in the county.	\$2,324,000	Due to increased law enforcement, emergency services, and other county services between 1990 and 1995.
	1995	Increased county revenues.	(\$1,411,000)	From gaming tax and gaming-related sales tax.
Gilpin County	1998	Increased county expenditures.	\$6,297,000	Increase in total county spending between 1990 & 1998 = 321% increase. Not clear if all due to gaming.
	1998	Increased county revenues.	(\$5,331,000)	Amount of county revenues listed as gaming in 1998.
Tribal Gaming	FY 1999 & 2000	Conduct impact study of tribal gaming.	\$226,000	Gaming is responsible for about \$66,000 of this. The rest comes from 3 counties and 2 tribes.

Appendix C

GAMING IMPACTS REPORTED BY VARIOUS AGENCIES TO THE LIMITED GAMING CONTROL COMMISSION				
LOCALITY/ AGENCY	PROJECT OR IMPACT DATE	IMPACT OR PROJECT	COST OR (REVENUE)	COMMENTS
State Agencies				
Department of Public Safety	FY 1997 thru 2000	State Patrol traffic enforcement in Gilpin and Teller counties.	\$1,042,000	Average annual cost in Fiscal Years 1997, 1998, 1999, & 2000.
Department of Public Safety	FY 1997 thru 2000	Division of Fire Safety inspections of casinos.	\$140,500	Average annual cost in Fiscal Years 1997, 1998, 1999, & 2000.
Colorado Bureau of Investigation	FY 1997 thru 2000	Colorado Bureau of Investigation criminal enforcement & intelligence support for gaming.	\$585,000	Average annual cost in Fiscal Years 1997, 1998, 1999, & 2000.
Department of Local Affairs	FY 1997 thru 2000	For administering the Contiguous Counties and Local Government Limited Gaming Impact Funds.	\$66,000	Average annual cost in Fiscal Years 1997, 1998, 1999, & 2000.
Department of Transportation	Recently done	Reconstruction and upgrades on roads in Black Hawk/Central City and Cripple Creek areas.	\$2,300,000	CDOT contributed a minimum of another \$6.5 million to these projects.
Department of Natural Resources	FY 1996 thru 2000	<u>Inactive Mined Land Program</u> for reclamation & safeguarding of sites exposed by gaming activities. <u>Water Conservation Board</u> for master drainage plans & flood mitigation planning. <u>Minerals & Geology</u> to safeguard abandoned mine hazards & provide a safety awareness program. <u>Parks & Recreation</u> due to increased travel in state parks requiring more patrols and maintenance. <u>Soil Conservation</u> to meet increased demand for soil surveys & to compile a final report. <u>Division of Wildlife</u> for increased staff time to comment on proposed developments, process applications for land use changes. <u>State Land Board</u> has seen appreciated land value in Teller County.	\$121,000	Average annual cost in Fiscal Years 1996, 1997, 1998, 1999, & 2000.
Judicial Department	FY 1995 thru 2000	Additional court clerks and judgeships added in FY 1995.	\$204,000	Average annual cost in Fiscal Years 1995, 1996, 1997, 1998, 1999, & 2000.

Appendix C

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LOCALITY/ AGENCY	PROJECT OR IMPACT DATE	IMPACT OR PROJECT	COST OR (REVENUE)	COMMENTS
Ute Mountain Ute Tribe & Colorado Department of Transportation	FY 2001 & 2002	Road construction & improvement including US 6 & I-70 overlay & improvements, SH 119 widening, maintenance of all roads.	\$16,167,000	Increases in average daily traffic of roads surrounding gaming communities: 370% on SH 119, 118% on SH 67, 124% on SH 24, and 38% on SH 160 north of Towaoc. Traffic counts during peak periods may exceed 20,000 ADT. CDOT to pay for \$8.46 million.
Net Dollar Amount of Impacts Listed*			\$72,760,700	

* This net figure reflects the reported costs and revenues of gaming impacts over about eight years (Fiscal Year 1995 through 2002). This is not intended to represent the total of impacts or additional revenues. Furthermore, as noted above, some of the projects include aspects that may not be strictly gaming related and therefore will use some non-gaming funding sources.

1999 GAMING IMPACTS REPORTED TO THE DEPARTMENT OF LOCAL AFFAIRS THROUGH THE LOCAL GOVERNMENT LIMITED GAMING IMPACT FUND GRANT PROCESS				
LOCALITY/ AGENCY	IMPACT OR PROJECT	TOTAL PROJECT COST	GAMING SHARE (REQUEST AMOUNT)	GRANT AMOUNT AWARDED
Archuleta County	To offset their portion of a joint gaming study commissioned by La Plata county, the Division of Gaming and the South Ute Indian Tribe.	\$ 118,000	\$ 15,000	\$ 15,000
Boulder County Sheriff's Dept.	To maintain increased DUI patrols along Highway 119.	\$ 56,732	\$ 32,292	\$ 32,292
Town of Nederland	Completing one portion of a street widening project and beginning another.	\$ 212,000	\$ 47,000	\$ 47,000
Voices of Children	To provide advocacy and direct service to victims of child abuse and neglect in Boulder County.	\$ 30,000	\$ 15,000	\$ 15,000
Boulder County Columbine Health	To upgrade computer equipment and medical equipment based on gaming impacts.	\$ 335,696	\$ 53,200	\$ 30,000
Nederland Fire Protection District	To offset costs related to eliminating emergency communications "dead spots" between Highway 119 dispatchers.	\$ 12,975	\$ 6,488	\$ 6,488
Clear Creek Ambulance/Fire Authority	For the construction of a 6,000 sqft station to house administrative offices for Clear Creek Ambulance and Fire Authority.	\$ 411,980	\$ 262,544	\$ 262,544
Clear Creek County	For flood mitigation project on Clear Creek County Road 281.	\$ 335,398	\$ 256,978	\$ 256,978
Clear Creek District Attorney's Office	To purchase a facsimile machine and copy machine. Approximately 18% of the criminal cases prosecuted were gaming related.	\$ 10,495	\$ 7,871	\$ 6,000
City of Idaho Springs	To purchase a speed detection/traffic counter trailer for speed enforcement and planning purposes and to purchase street repair equipment.	\$ 53,200	\$ 37,000	\$ 37,000
Volunteers of America	To offset pay roll costs inflated due to wage competition with the casinos in Gilpin County.	\$ 51,963	\$ 10,932	\$ 10,932
Clear Creek County Advocates	To continue the operation of a youth support group previously funded with gaming grant funds. The group counsels children exposed to domestic violence.	\$ 12,600	\$ 7,400	\$ 7,400
Clear Creek Ambulance/Fire Authority	To purchase an ambulance, a 9000 watt command light tower and a hydraulic power generator. In 1998, 14% of the fire calls were gaming related.	\$ 103,534	\$ 79,534	\$ -
4th Judicial Dist. Attorney's Office	For costs associated with prosecuting gaming related cases in Teller and El Paso counties. 36% of the cases handled in Teller County were gaming related and 5% of the total cases handled in El Paso were gaming related.	\$ 502,375	\$ 264,557	\$ 224,400
CASA of Colorado Springs	To provide advocacy and direct service to victims of child abuse and neglect in El Paso County.	\$ 43,550	\$ 43,550	\$ 30,000

1999 GAMING IMPACTS REPORTED TO THE DEPARTMENT OF LOCAL AFFAIRS THROUGH THE LOCAL GOVERNMENT LIMITED GAMING IMPACT FUND GRANT PROCESS				
LOCALITY/ AGENCY	IMPACT OR PROJECT	TOTAL PROJECT COST	GAMING SHARE (REQUEST AMOUNT)	GRANT AMOUNT AWARDED
Center for Prevention of Domestic Violence	To pay for a portion of its gaming related operating and personnel costs in El Paso County. 6% of the cases handled were gaming related.	\$ 47,930	\$ 22,025	\$ 15,000
Green Mtn. Falls Fire Protection District	For the creation of a training center to be used by all fire districts in the region. The District incurred \$53,031 in gaming related expenses.	\$ 19,500	\$ 16,500	\$ 12,000
El Paso County	To initiate a dust abatement pilot project on Old Stage Road. There has been an increase of 95% in vehicle traffic on the Road since 1991.	\$ 76,000	\$ 76,000	\$ 30,000
Cascade Fire Protection District	For construction of an equipment storage facility. 11% of the calls responded to were gaming related.	\$ 144,611	\$ 61,611	\$ 40,000
Fremont County	To chip/seal a 15 mile portion of High Park Road. There has been an average increase of 98% in vehicle traffic on the three county roads included.	\$ 225,000	\$ 180,000	\$ 180,000
Gilpin Ambulance, Inc.	To construct a facility to house ambulances, administrative offices and other facilities. 85% of the calls handled were gaming related.	\$ 368,400	\$ 300,000	\$ 300,000
Central City Volunteer Fire Dept.	To purchase a four-wheel drive rescue vehicle to be used primarily for accidents along Highway 119.	\$ 120,000	\$ 70,000	\$ 70,000
Gilpin County Columbine Family Health	For the purchase of a copier/fax machine, computer, paving the parking lot and to offset a portion of the personnel and operating costs. 30% of the clients served in 1998 were gaming related.	\$ 356,000	\$ 82,000	\$ 60,000
Eagle's Nest Child Care Center	To supplement wages paid to center employees in response to wage competition with local casinos.	\$ 205,705	\$ 57,314	\$ 50,000
Centura St. Anthony's Gilpin County	To purchase a modular building for a health care clinic. The clinic served 960 gaming-related clients in 1998.	\$ 170,000	\$ 92,000	\$ 92,000
High Country Fire Protection District	To purchase and equip a new fire engine which will respond to fires and accidents along SH 119 and 46. An estimated 16% of calls are gaming related.	\$ 250,000	\$ 125,000	\$ 75,000
1st Judicial District Attorney's Office	To cover costs associated with gaming related prosecutions. An estimated 88% of cases handled in the 1st quarter of 1999 were gaming related.	\$ 302,687	\$ 176,687	\$ 176,687
Golden Gate Fire Protection District	To upgrade the radio communication system The FPD responds to calls in Gilpin and Jefferson counties.	\$ 37,914	\$ 32,414	\$ 20,000
Jefferson County Sheriff's Office	To cover gaming related costs of operating the Jefferson County Jail. An estimated .03% of inmates are gaming related.	\$ 105,235	\$ 105,235	\$ 95,000
Jefferson County	To offset a portion of the cost of improving Gap Road which connects to SH 72 which is an alternate route to gaming cities in Gilpin County.	\$ 116,450	\$ 25,620	\$ 25,620

1999 GAMING IMPACTS REPORTED TO THE DEPARTMENT OF LOCAL AFFAIRS THROUGH THE LOCAL GOVERNMENT LIMITED GAMING IMPACT FUND GRANT PROCESS				
LOCALITY/ AGENCY	IMPACT OR PROJECT	TOTAL PROJECT COST	GAMING SHARE (REQUEST AMOUNT)	GRANT AMOUNT AWARDED
City of Golden	To offset costs of various city services and programs, some of which are gaming related.	\$ 4,013,306	\$ 113,136	\$ 113,136
Pleasant View Fire District	To purchase a pumper/rescue fire engine and equipment. An estimated 1% of calls the FPD responded to were gaming related in 1998.	\$ 375,158	\$ 375,158	\$ -
La Plata County	To offset costs for patrols of road near gaming localities. Between 2% and 5% of the Sheriff's office functions in 1998 were gaming related.	\$ 228,483	\$ 142,462	\$ 142,462
La Plata County	For a pavement overlay on part of County Road 516 which is needed due to increased traffic since the opening of a casino in the County.	\$ 515,442	\$ 200,000	\$ 200,000
La Plata County	To pay for routine maintenance on twelve county roads affected by gaming traffic. Traffic has increased on the roads by an average of 16% since gaming began.	\$ 426,330	\$ 30,947	\$ -
6th Judicial District Probation Dept.	To provide indigent therapy, treatment services, and education programs for gaming related offenders.	\$ 5,000	\$ 5,000	\$ -
Town of Ignacio	For expenses related to law enforcement work including the replacement of two police vehicles and equipment. About 12% of police calls are considered gaming related.	\$ 148,595	\$ 69,155	\$ 69,155
Montezuma County	To upgrade county roads with greatly increased average daily traffic (ADT) since gaming began. ADT is estimated to have increased over 1,000% on these roads.	\$ 680,660	\$ 416,900	\$ 250,000
City of Cortez Police	To upgrade the 911 service for Y2K compliance. An estimated 1% of police calls in 1998 were gaming related.	\$ 27,000	\$ 21,000	\$ -
Park County	For costs of rebuilding part of County Road 102. Average daily traffic on the road has increased about 190% since gaming began.	\$ 98,000	\$ 78,400	\$ 50,000
Lake George Fire Protection Dist.	To purchase fire and emergency equipment. An estimated 2% of calls in 1998 were gaming related.	\$ 39,179	\$ 29,179	\$ 29,179
Southern Park County Fire Protection Dist.	To purchase a multi-purpose emergency response vehicle. An estimated 40% of calls in 1998 were gaming related.	\$ 74,500	\$ 44,500	\$ 44,500
Teller County	For costs of repaving part of CR 11. Traffic has increased about 200% on the road since gaming began.	\$ 1,705,695	\$ 316,278	\$ 316,278
Teller County	For costs of repaving part of CR 1. Traffic has increased about 85% on the road since gaming began.	\$ 2,609,559	\$ 1,158,645	\$ -
Teller County*	For a study on the needs for enhanced emergency services radio communications.	\$ 52,514	\$ 36,870	\$ 30,000
Teller County*	For costs of an ongoing water quality/quantity study. Growth due to gaming has placed strains on the current water systems.	\$ 67,000	\$ 50,000	\$ 40,000

1999 GAMING IMPACTS REPORTED TO THE DEPARTMENT OF LOCAL AFFAIRS THROUGH THE LOCAL GOVERNMENT LIMITED GAMING IMPACT FUND GRANT PROCESS				
LOCALITY/ AGENCY	IMPACT OR PROJECT	TOTAL PROJECT COST	GAMING SHARE (REQUEST AMOUNT)	GRANT AMOUNT AWARDED
Northeast Teller County Fire Prot. Dist.	To build a fire substation. An estimated 9% of calls in 1998 were gaming related.	\$ 46,800	\$ 46,800	\$ 40,000
CASA of Colorado Springs	To provide advocacy and direct services to child victims of abuse and neglect. An estimated 60% of reported cases in 1998 were gaming related.	\$ 35,000	\$ 26,000	\$ 23,000
Prospect Homecare Hospice	To provide hospice home care services for indigent gaming related clients.	\$ 4,410	\$ 4,410	\$ 4,410
Teller County*	For an assessment of Teller County road system.	\$ 172,500	\$ 150,000	\$ 120,000
Teller County	For capital improvements and maintenance of 2 county buildings.	\$ 50,500	\$ 42,000	\$ 40,000
Homes for Teller County	Funds to assist in the development of a project to develop a 45-unit housing development. The housing is needed due to gaming.	\$ 52,000	\$ 50,000	\$ -
Teller County	For maintenance and renovation of systems in the County courthouse. An estimated 20% of court cases handled in 1998 were gaming related.	\$ 217,830	\$ 207,180	\$ -
Divide/Florissant Fire Protection District	To build a fire substation and purchase a vehicle and equipment. An estimated 20% of calls in 1998 were gaming related.	\$ 170,300	\$ 75,000	\$ -
Community of Caring Fndtn., Teller County	To create an alternative education program for at-risk students in Teller County.	\$ 134,174	\$ 50,000	\$ 50,000
Jefferson County	To fund a study of the impacts of gaming on the criminal justice system, social services, and other county services.	\$ 154,198	\$ 153,989	\$ -
Totals		\$ 16,940,063	\$ 6,454,761	\$ 3,784,461

* These 3 Teller County requests were given a combined award of \$190,000, or about 80% of the combined requests. These are reflected in the Grant Awarded column.

Source: Department of Local Affairs files.

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