

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 552(FIN)
 (H) Publish Date: 4/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Gambling RDU Revenue Programs & Services
 Component Tax Division
 Sponsor House Finance Committee
 Requester House Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES	*	*	*	*	*	*
CHANGE IN REVENUES ()	*	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2004) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	*	*	*	*	*	*
Part-time						
Temporary						

ANALYSIS: *(please see attached for more analysis)*

* We have not included projections because of the lack of information on the size of the casino, choice of the mix of games and location for the proposed Casino. Although the city location is known because the only city in the state "with at least 150,000 in population" is Anchorage, the exact location of the facility is unknown. There has been some speculation about the former Alaska Seafood International plant (Juneau Empire - April 7, 2004), but the bill does not include any specific reference to a particular site.

The American Gaming Association lists eleven states with commercial casinos, six states with racetrack casinos and 23 states with American Indian casinos. The number of casinos in each state varies between 3 in Michigan to 249 casinos with gross revenues (after-prize income) of at least \$1 million in Nevada. Gross revenue for commercial casinos varies between \$66 million in South Dakota (38 casinos) and \$9.4 billion in Nevada.

(continued)

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 Division Tax Division Date/Time 4/19/04 7:06 AM
 Approved by: Steve Porter, Deputy Commissioner Date 4/19/2004
 Agency Department of Revenue

ANALYSIS CONTINUATION

Finding a state or casino that is a proxy for Alaska is complicated by differences in state and local statutes and regulations, choice of gaming mix, population densities, availability of substitutes, income levels and many other factors. However, below we provide some very rough estimates of expenditures and revenues.

Expenditures

We based our operating costs on a similar organization of auditor and investigator staff as found in South Dakota. South Dakota casino revenue closely approximates what we are estimating for Alaska. Most other states have much higher casino related expenses and would not be appropriate as a model for Alaska. It is expected that the Alaska Gaming Commission would consist of three (3) gaming commissioners, nine (9) new positions and seven (7) charitable gaming positions transferred from the Department of Revenue. It is difficult to project the operating costs under this legislation as some costs will be funded or reimbursed by fees set by the Commission.

Overall funding request of \$1.7 million in FY 05 and \$1.5 million in the following fiscal year includes \$548,000 General Fund Program Receipts currently in the Governor's FY05 budget request for charitable gaming. Because the Commission has the power to set fees and investigations are reimbursed, it is possible that most of the costs would be paid by the Casino.

Personal service costs include the Executive Director, seven audit staff, four investigators, an analyst programmer and three technical and administrative staff. Travel costs include travel to hearings, Commissioner per diem, and audit and investigator staff travel. Contractual costs include professional services for background investigations, and associated staff costs for communications, leased vehicle, advertising, printing, training and professional memberships. Supply costs include office, data needs and desk peripherals for each year. Equipment costs are a one-time projection for FY05 or first year of operation for necessary office setup and equipment.

Revenues

There are two variables that normally enter into the estimation of potential revenues from casinos. The first is the size of the facility or the number of gaming devices and tables and the second is the distance from potential gamers. Cummings Associates (2004) found that these are the two most important determinants in predicting gaming facility revenues. The Bear Stearns 2002 North American Gaming Almanac includes participation rates (number of visits per adult population) for ten states and 34 communities. Statewide rates vary from 3.2 in Oregon to 6.2 in New Mexico. The problem with statewide participation rates is that they reference multiple casinos. Bear Stearns shows 8 tribal casinos in Oregon and 12 tribal casinos and 4 racinos in New Mexico. Clearly, multiple casinos will have an effect on the participation rate in a State. Consequently, we used the following two criteria in our choice of communities: (1) the market potential adult population within 100 miles (as determined by Bear and Stearns) had to be less than 500,000 and (2) the market had to be served by only one casino.

Bear and Stearns

We used the "2002-2003" North American Gaming Almanac produced by Bear and Stearns to find casinos that met the criteria discussed above. We found five casinos that fit the criteria and then we used the median and high participation rate and median and high revenue per visit to estimate potential revenues from a casino in Anchorage. After including tourists and Alaskans on and off the road system we developed a range from \$8.6 to \$10.4 million a year after the casino is fully operational.

Substitution

The after-prize income from Anchorage pull-tabs is approximately \$13 million with \$5.6 million going to charities. We do not know how much charitable gaming revenues will decline as a result of a casino in Anchorage.

Visitors

Given that we have over 1.5 million visitors to our state annually, the number of casino visits from tourism, (31,254) may seem low. However, it is necessary to consider that approximately 780,000 of these visitors arrive or depart by cruise ship and already have full casino facilities available on board. In addition, approximately 60 percent of cruise ship passengers just cruise the inside passage and never go to Anchorage. Alaska tourism is also highly seasonal with about 84 percent of the visitors arriving in the Summer months. It seems unlikely that tourists whose primary purpose of traveling is to game would not choose other more highly developed gaming areas where the casinos include hotels and resort amenities. The tourist participation rate we used is for Washington (17 casinos) and Oregon (8 casinos). These casinos are often located on very busy highways and are not just accessible by air so tourism participation in Alaska could easily be lower.

ANALYSIS CONTINUATION

Income

One of the shortcomings of the above analysis is that all of the small casinos used as proxies for the Anchorage casino are in areas where incomes are relatively low. Per-capita income in Alaska is approximately 44 percent higher than in Mississippi, 14 percent higher than in Iowa and 11 percent higher than in Missouri. In a 2004 report by Cummings Associates, Cummings refines his model by using "less critical" parameters such as per capita income, urban/rural mix and relative reach of other casinos. On per capita income he argues that "higher is not necessarily better, but lower-income areas appear to spend less." All of these "less critical parameters" would argue for a revenue estimate at the higher end of the suggested range.

Bear and Stearns Representative Casinos								
City	Pop. Market ¹ 0-100 Miles	Participation Rate ²	Gamer Visits	Gaming Revenue	Revenue Per Visit	Casino Sq. Ft.	Slots	Tables
Caruthersville, Missouri ³	234,197	2.8	655,752	\$26,200,000	\$40	20,000	753	15
Fort Madison, Iowa ⁴	191,526	3.6	679,967	\$33,300,000	\$49	14,021	532	26
Natchez, Mississippi ⁵	217,712	3.7	804,231	\$41,600,000	\$52	15,783	702	15
Boonville, Missouri ⁶	458,692	3.9	1,780,592	\$89,000,000	\$50	28,000	900	27
La Grange, Missouri ⁷	151,913	4.1	622,843	\$34,000,000	\$55	10,000	450	15

* Note - Communities with only one casino and a market population area less than 500,000

Anchorage Estimates using High and Median Revenue per Visit and Participation Rate									
	Population (21+ Alaska)	Participation Rate		Visits		Rev. Per Visit		Revenue	
		Median	High	Median	High	Median	High	Median	High
Anchorage ⁸	253,132	3.7	4.1	936,588	1,037,841	\$50	\$55	\$46,829,420	\$57,081,266
Out of Market Fairbanks ⁹	57,055	0.6	0.6	34,233	34,233	\$50	\$55	\$1,711,637	\$1,882,801
Out of Market Alaska ¹⁰	114,617	0.1	0.1	11,462	11,462	\$50	\$55	\$573,086	\$630,395
Total Tourists ¹¹	1,562,700	0.02	0.02	31,254	31,254	\$50	\$55	\$1,562,700	\$1,718,970
Totals				1,013,537	1,114,790			50,676,844	\$61,313,432
State Tax @ 17 percent								8,615,063	10,423,283

Source: Ader, N Jason. Bear Stearns 2002-2003 North American Gaming Almanac. Huntington Press - Las Vegas, Nevada.

¹ The population is an estimate by Bear and Stearns for 2006 of the market for a particular casino within a 100 mile radius. Casinos were only chosen if there was only one casino in the market area and the market potential within 100 miles was less than 500,000 adults.

² Participation rate is the estimate of the number of visits per person.

³ The Caruthersville market has of one riverboat property, Casino Aztar. The adult population within 100 miles is almost 1.8 million but the market potential adult population estimate for 2006 is 234,197.

⁴ The Fort Madison market has a single casino called Catfish Bend. Although the adult population within a 100 mile radius is over a million, the market potential adult population estimate for 2006 is 191,526.

⁵ The Natchez market has a single Isle of Capri casino. The adult population within a 100 mile radius is about 1.5 million but the market potential adult population estimate for 2006 is 217,712. The participation rate is a weighted average for each 50 mile increment.

⁶ The Boonville market has one Isle of Capri riverboat property. The adult population within a 100 mile radius is about 1.5 million but the market potential adult population estimate for 2006 is 458,692. The participation rate is a weighted average for each 50 mile increment.

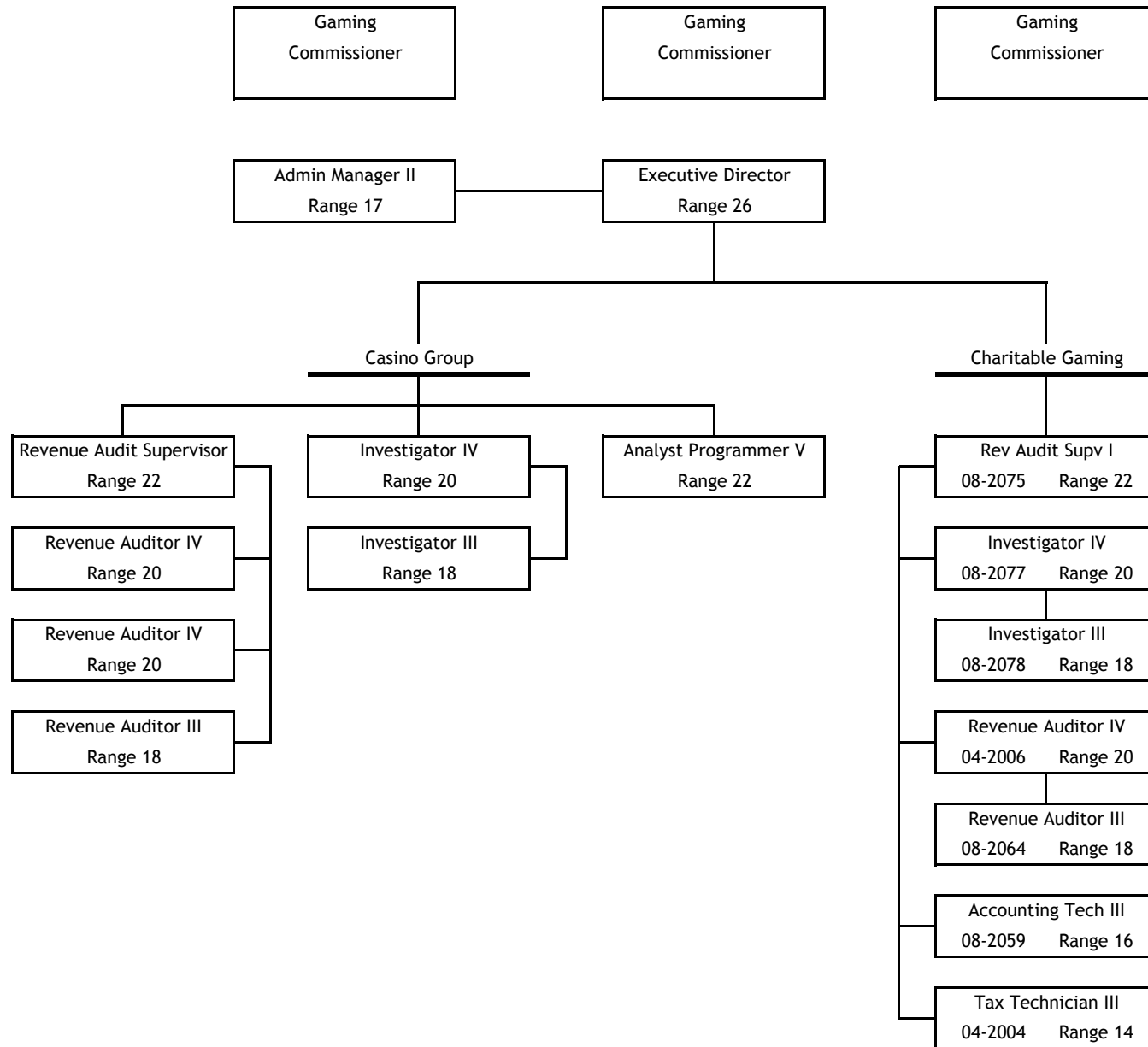
⁷ The La Grange market has the Mark Twain Riverboat Casino. The adult population within a 100 mile radius is about 1.0 million but the market potential adult population estimate for 2006 is 151,913. The participation rate is a weighted average for each 50 mile increment.

⁸ Because the only legal competition for the casinos with a 100 mile radius of Anchorage are Bingo halls and pull-tabs, it is assumed that the market population is equivalent to the adult population of Anchorage, Mat-Su and the Kenai Peninsula Borough.

⁹ The adult population of Fairbanks and Denali are included at a higher participation level than others outside of the 100 mile radius because of road access.

¹⁰ The remaining adult Alaska population is shown at the level of access in Detroit outside of the 100 mile but within 150 miles. This is probably generous given the lack of road access and only one not three large casinos.

¹¹ Total visitors to Alaska is from Northern Economics visitor statistics for Summer 2003 and Fall/Winter 2002-2003 statistics. Participation rate is for Washington and Oregon tourist participation where there are eight and seventeen casinos, respectively.



HB 552 Expenditures	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
PERSONAL SERVICES						
Executive Director	106.0	106.0	106.0	106.0	106.0	106.0
Administrative Manager II	65.7	65.7	65.7	65.7	65.7	65.7
<i>Casino Group</i>						
Revenue Audit Supervisor I	92.0	92.0	92.0	92.0	92.0	92.0
Revenue Auditor IV	81.0	81.0	81.0	81.0	81.0	81.0
Revenue Auditor IV	81.0	81.0	81.0	81.0	81.0	81.0
Revenue Auditor III	70.1	70.1	70.1	70.1	70.1	70.1
Investigator IV	81.0	81.0	81.0	81.0	81.0	81.0
Investigator III	70.1	70.1	70.1	70.1	70.1	70.1
Analyst Programmer V	92.0	92.0	92.0	92.0	92.0	92.0
<i>Charitable Gaming</i>						
Revenue Audit Supervisor I	99.9	99.9	99.9	99.9	99.9	99.9
Investigator IV	92.2	92.2	92.2	92.2	92.2	92.2
Investigator III	72.9	72.9	72.9	72.9	72.9	72.9
Revenue Auditor IV	84.2	84.2	84.2	84.2	84.2	84.2
Revenue Auditor III	84.8	84.8	84.8	84.8	84.8	84.8
Accounting Technician III	59.3	59.3	59.3	59.3	59.3	59.3
Tax Technician III	52.6	52.6	52.6	52.6	52.6	52.6
	1,284.8	1,284.8	1,284.8	1,284.8	1,284.8	1,284.8

TRAVEL						
Staff Travel	41.4	41.4	41.4	41.4	41.4	41.4
Commissioner Meetings/Hearings ^(A)	31.2	31.2	31.2	31.2	31.2	31.2
	72.6	72.6	72.6	72.6	72.6	72.6

CONTRACTUAL						
Professional Services	184.0	92.0	92.0	92.0	92.0	92.0
Communications (Phones, Postage, Data)	5.4	5.4	5.4	5.4	5.4	5.4
Leased Vehicle Costs	5.8	5.8	5.8	5.8	5.8	5.8
Advertising, Printing	3.0	3.0	3.0	3.0	3.0	3.0
Equipment Maintenance	3.0	3.0	3.0	3.0	3.0	3.0
Training Costs	5.0	3.0	3.0	3.0	3.0	3.0
Memberships, Conference Costs	2.0	2.0	2.0	2.0	2.0	2.0
	208.2	114.2	114.2	114.2	114.2	114.2

SUPPLIES						
Office and Data Supplies	40.0	40.0	40.0	40.0	40.0	40.0
	40.0	40.0	40.0	40.0	40.0	40.0

EQUIPMENT						
9 Positions - Offices, Equipment ^(B)	72.0	0.0	0.0	0.0	0.0	0.0
	72.0	0.0	0.0	0.0	0.0	0.0

FY TOTALS **1,677.6 1,511.6 1,511.6 1,511.6 1,511.6 1,511.6**

^(A) 31.2 = 3 Commish * \$200 @ 52 mtgs/hrgs

^(B) Base estimate @ \$8.0/Position