

Ohio Casino Tax Overview

Cuyahoga County Fiscal Office

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Casino Tax Overview

- Definition and allocation of casino tax revenue
- Revenue projections and annual impact
- County casino tax receipts
- Permissible uses of casino revenue
- Challenges and other considerations



Casino Tax – What is it?

- In November of 2009 Ohio voters approved an amendment to the State constitution legalizing casino gambling in four cities.

- Article 15 § 06 (C)(2) creates the casino tax:

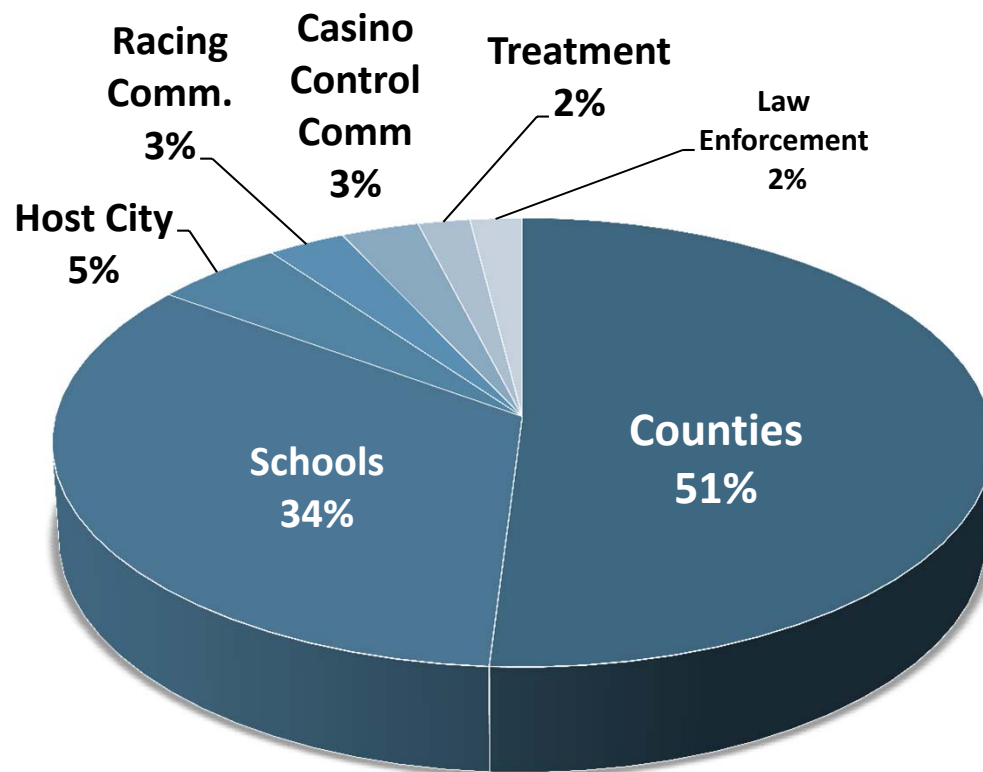
“A thirty-three percent tax shall be levied and collected by the state on all gross casino revenue received by each casino operator of these four casino facilities”

- Ohio’s counties, school districts, cities and the State are the beneficiaries of this tax on casino revenue.

Casino Tax – Where does it go?

- The distribution of the **33%** tax on gross casino revenue *from gambling* is specifically designated in the constitution
- Article 15 § 06 (C)(3) assigns the allocation of the revenue on a percentage basis for seven distinct uses:
 - **51%** - to county governments based on population.
 - **34%** - to all public school districts based on student population
 - **5%** - of the tax on each casino would go directly to the host city
 - **3%** - to the Ohio State Racing Commission
 - **3%** - to fund the operations of the Ohio Casino Control Commission
 - **2%** - to a state fund to be used for the treatment of problem gambling and substance abuse
 - **2%** - to a state fund to be used for training for law enforcement agencies

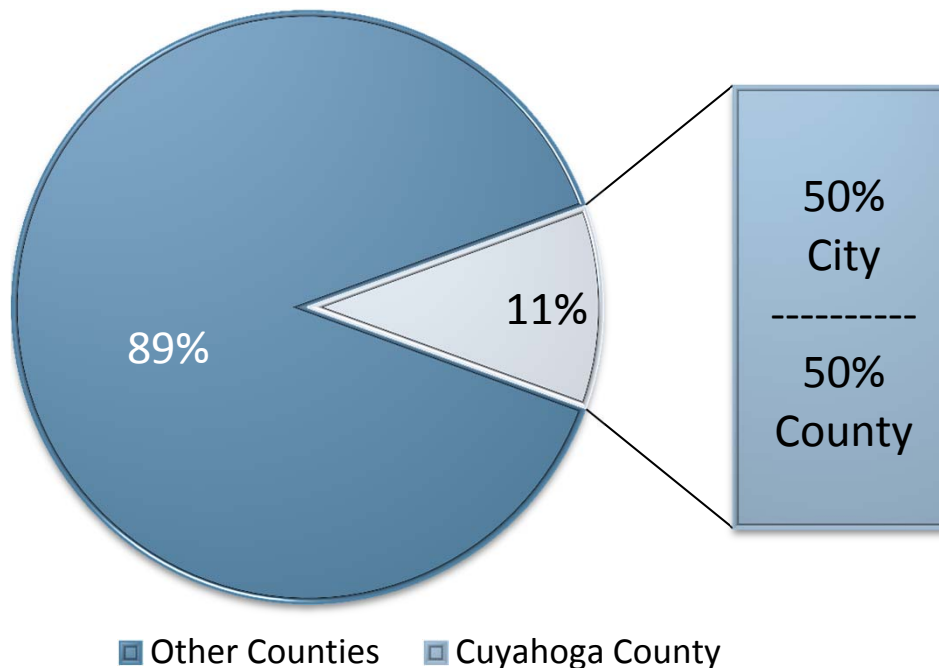
Casino Tax Allocation



- The revenue allocation distributes combined casino tax revenue from all four casinos.
- Cuyahoga County will receive a share of the **51%** of the revenue collected from all four casinos – not just the Cleveland venue.
- The actual allocations are hard-coded in the constitution and will not change. *We'll come back to this point.*

Casino Tax Allocation

51% Ohio County Share Breakout



- Cuyahoga County will be allocated a share of the 51% revenue allocation based on population. **Currently 11.09% based on 2010 census.**
- In counties whose largest city has a population greater than 80,000, half of the county's distribution is split with that city.
- The 11% apportionment Cuyahoga receives will then be split 50/50 with the City of Cleveland.
- Cleveland's 50% share of the County's allocation is in addition to their host city share of the revenue (5%).

Casino Tax Revenue Projections - Factors

The ability of the County to realize anticipated levels of tax revenue relies on a variety of factors:

- Opening dates:
 - Cleveland and Toledo venues are open (May 2012)
 - Columbus planned opening in November 2012
 - Cincinnati opens in first quarter of 2013
- Revenue estimates for each casino
- Amount of time for each casino to ramp up operations and resulting gross receipts at each location
- Sustainability of revenue stream and chance of diminution over time.

Casino Tax Revenue Projections - Distribution

- With a set distribution the flow of casino revenue to the County is largely a function of how well the casinos perform in terms of **gross revenue** from gambling
- Casino revenue will be distributed by the State Department of Taxation the month following the end of each quarter (April, July, October, January).
- The first distribution will occur this July and will include the 33% of gross gambling revenue earned by the Cleveland and Toledo venues since their respective opening dates.

Casino Tax Revenue Projections - Calculation

- There is a maximum annual potential of revenue that will be realized as all four casinos come online and ramp up business
- **Using the latest available and preliminary revenue projections we can get an idea on the amount and timing of potential casino tax revenue**
- The first full year of maximum annual potential tax revenue is 2014 – the first year all four casinos are open for 12 months
- It is important to note that the original revenue estimates provide by the two operators have decreased since voter approval in 2009

Casino Tax Revenue Projections - Calculation

Casino Gross Revenue Estimates (millions)

Location	Opening Date	Projected Revenue *	Max. Annual Tax Revenue (33%)
<i>Cleveland</i>	5/14/2012	300	99
<i>Cincinnati *</i>	3/31/2013	300	99
<i>Toledo</i>	5/29/2012	195	64
<i>Columbus **</i>	12/1/2012	248	82
		\$ 1,043	\$ 344

* Revenue estimates as reported by Cincinnati Enquirer on June 1, 2012

** Columbus estimate based on 50% of 2009 estimates.

- The current estimate for maximum **annual gross revenue** based on revised estimates and our “best guess” for the Columbus venue totals \$1.04 billion
- **Applying the basic 33% tax rate to this estimate of gross receipts yields a potential annual casino tax revenue of \$344 million**
- This would be the amount of revenue available for distribution based on the legal allocation levels prescribed by the casino amendment
- The combined estimate in 2009 was set at almost \$2 billion or more than \$650 million in tax revenue
- *The updated estimates (2012) have declined by almost 50%*

Casino Tax Revenue Projections - Calculation

Take the revenue estimate and apply these three numbers:

51 - 11 - 50

Basic Casino Revenue Allocation Calculation

Maximum Annual Casino Tax Revenue	\$	344.0	
Ohio County Distribution	\$	175.5	51%
County Per capita distribution	\$	19.5	11%
Cuyahoga County Share	\$	9.7	50%

- 51% of the potential annual maximum revenue (\$344 million) is allocated to Counties - **\$175.5 million**
- 11% of the county share or **\$19.5 million** is allocated to Cuyahoga based on our population of 1,280,122.
- 50% of Cuyahoga's share is allocated to the City of Cleveland because the population exceeds the 80,000 threshold set in the casino amendment
- Cuyahoga County government would be left with a maximum annual casino tax distribution of **\$9.7 million** by the stabilized year 2014.

Casino Tax Revenue Projections – Next Steps

- Once we have an established basis for the potential tax revenue assumptions it can be used to develop basic revenue estimates
- A revenue estimate for the next three years takes into account these ingredients:
 - Casino revenue projections
 - Timing of venue opening
 - Build up to potential capacity (gross revenue)
 - Distribution of revenue to the County
- These factors are used to present three separate revenue scenarios for the 2012-2014 time frame
- The following estimates provide alternate versions of casino tax revenue based on varying assumptions of revenue potential, opening date and casino revenue estimates

Casino Tax Revenue Projection – Scenario 1

Summary Analysis of Casino Tax Distribution

Casino	Revenue Potential				
	Base Revenue Estimate *	% Change in Rev. Est.	2012 Revenue	2013 Revenue	2014 Revenue
Cleveland	300	0%	162.5	300	300
Cincinnati	300	0%	0.0	225	300
Toledo	195	0%	97.5	195	195
Columbus **	248	0%	20.6	248	248
Gross Revenue			\$ 280.6	\$ 967.5	\$ 1,042.5
Tax Distribution			\$ 92.6	\$ 319.3	\$ 344.0
Ohio County Distribution (51%)			47.2	162.8	175.5
County per capita distribution (11%)			5.2	18.1	19.5
Cuyahoga County Share (50%)			\$ 2.6	\$ 9.0	\$ 9.7

* Casino revenue estimates taken from Cincinnati Enquirer article dated June 1, 2012.

** Columbus revenue assumes 50% decrease of 2009 revenue estimate.

- Opening dates:
 - Cleveland and Toledo venues are open
 - Columbus planned opening in November 2012
 - Cincinnati opens in first quarter of 2013
- Using current revenue estimates
- Revenue potential builds is 100% for open casinos in 2012 -2014
- Most of the tax revenue capacity is reached in 2013

Casino Tax Revenue Projection – Scenario 2

Summary Analysis of Casino Tax Distribution

Casino	Base Revenue Estimate *	% Change in Rev. Est.	Revenue Potential		
			75%	90%	100%
			2012 Revenue	2013 Revenue	2014 Revenue
Cleveland	300	0%	121.9	270	300
Cincinnati	300	0%	0.0	203	300
Toledo	195	0%	73.1	176	195
Columbus **	248	0%	15.5	223	248
Gross Revenue			\$ 210.5	\$ 870.8	\$ 1,042.5
Tax Distribution			\$ 69.5	\$ 287.3	\$ 344.0
Ohio County Distribution (51%)			35.4	146.5	175.5
County per capita distribution (11%)			3.9	16.2	19.5
Cuyahoga County Share (50%)			\$ 2.0	\$ 8.1	\$ 9.7

* Casino revenue estimates taken from Cincinnati Enquirer article dated June 1, 2012.

** Columbus revenue assumes 50% decrease of 2009 revenue estimate.

- Opening dates:
 - Cleveland and Toledo venues are open
 - Columbus planned opening in November 2012
 - Cincinnati opens in first quarter of 2013
- Using current revenue estimates
- Revenue potential builds to 90% 2013 and reaches 100% in 2014
- County revenue would reach the lower end of the anticipated range (\$8.1 million) by the end of 2013.

Casino Tax Revenue Projection – Scenario 3

Summary Analysis of Casino Tax Distribution

Casino	Revenue Potential			75%	80%	100%
	Base Revenue Estimate *	% Change in Rev. Est.	2012 Revenue	2013 Revenue	2014 Revenue	
Cleveland	300	-10%	109.7	216	270	
Cincinnati	300	-10%	0.0	108	270	
Toledo	195	-10%	65.8	140	176	
Columbus **	248	-10%	13.9	149	223	
<i>Gross Revenue</i>			\$ 189.4	\$ 612.9	\$ 938.3	
<i>Tax Distribution</i>			\$ 62.5	\$ 202.3	\$ 309.6	
Ohio County Distribution (51%)			31.9	103.2	157.9	
County per capita distribution (11%)			3.5	11.4	17.5	
Cuyahoga County Share (50%)			\$ 1.8	\$ 5.7	\$ 8.8	

* Casino revenue estimates taken from Cincinnati Enquirer article dated June 1, 2012.

** Columbus revenue assumes 50% decrease of 2009 revenue estimate.

- Opening dates:
 - Cleveland and Toledo venues are open
 - Columbus planned opening in December 2012
 - Cincinnati opens in second quarter of 2013
- Reduce current revenue estimates by 10%
- Revenue potential builds to 80% 2013 and reaches 100% in 2014
- County revenue would build slower than first two scenarios.
- Maximum annual potential is limited by casino performance

Casino Tax Revenue - Other Considerations

Sustainability of casino revenue and casino tax distribution

- Casino business model and revenue estimates – will business continue to build or plateau and fade over time?
- Competition from other nearby states – there are casinos/gambling in Michigan, Indiana, Pennsylvania, New York, West Virginia and Canada
- Diminution of casino revenue as a result of race track VLTs (racinos) - Scioto Downs near Columbus serves as an example of this impact
- The enhancement to the local economy could include other multipliers in the form of increased sales tax, bed tax, property tax, and other revenue – we'll need a year to make sense of the impact

Casino Tax Revenue - Other Considerations

There is a potential for offsets and legislative changes that could complicate the net benefit of casino tax revenue received by the County

- The 51% allocated to Counties can't be altered by legislative action – the distribution is hard coded in the constitution
- Legislation could be crafted in an attempt to direct counties to spend a portion of their revenue on specific purposes (law enforcement, treatment, etc.)
- HB386, the casino regulation bill addressed State allocations but did not earmark any portion of the county casino allocation
- The Ohio CCAO has indicated that the potential to earmark county casino revenue is still possible , “...general discussion on counties’ use of casino revenues as well as a bigger picture discussion of dollars going to various local governments is likely to occur in the future...”
- There has been a movement to change the formula for Local Government Fund distribution to redirect some amount of LGF dollars to townships – as a result of the casino tax windfall that counties are expected to receive

Casino Tax Revenue - Other Considerations

What are the permissible uses of casino tax receipts

- Tax revenue realized by Ohio counties is typically used to fund operations but...
- The County's 2012-2013 budget was developed without assuming the need to use casino revenue to fund operations making it available for other County priorities like economic development
- Spending tax revenue dollars on traditional economic development is limited or restricted by Article VIII § 13 of the Ohio Constitution and Chapter 165 of the Ohio Revised Code.
- Developing a plan for productive investment of this new revenue stream will have to consider the various legal guidelines for spending the tax dollars in kind or pledging them as security for bonds

Casino Tax Revenue - Other Considerations

There is additional research to be completed before the feasibility of securing or repaying bonds with casino tax receipts can be determined

- There are four main areas of concern that the County must consider when issuing debt obligations
 - Credit risk
 - Statutory and legal limits
 - Operational capacity
 - Revenue model
- County has traditionally used one of three pledges for securing bonds – general obligation, non tax revenue and sales tax
- Additional analysis of how a bond issue would fit within the confines of the existing covenants and legal requirements would need to occur before considering bonds
- There are some unconventional aspects of casino revenue that would create some challenges
 - The stability of the revenue stream is untested for bonding purpose
 - The revenue stream could prove to be a complicated credit to rate
 - The fall back for repayment would be operating revenue

Casino Tax – links to various sources

- <http://www.legislature.state.oh.us/constitution.cfm?Part=15&Section=06>
- <http://www.dispatch.com/content/stories/local/2012/04/29/a-big-payout.html>
- <http://news.cincinnati.com/article/20120601/BIZ/305300141/Ohio-casino-tax-revenue-projections-decline>
- <http://www.newsandsentinel.com/page/content.detail/id/561793/Officials-not-counting-on-casino-tax-windfall.html?nav=5061>
- <http://www.newarkadvocate.com/article/20120523/COMMUNITIES01/205240323/Etna-officials-push-share-casino-revenues>
- <http://www.ccao.org/Portals/0/Statehouse/SHR20120217.pdf>
- <http://www.dispatch.com/content/stories/business/2012/05/17/pols-cant-keep-approving-new-casinos.html>