

Update on Iowa's Gaming Industry and Associated Revenues

ISSUE

This **Issue Review** provides an update on Iowa's gambling industry, including pari-mutuel, slot machine, and excursion boat gambling activities and revenue through the end of FY 2017. The **Issue Review** provides a brief analysis of recently enacted legislation regarding gambling activity and discusses revenue taxation at Iowa casinos, racetracks, and river excursion boats. Please note that revenues and activity reported by Native American tribe-operated casinos are not addressed in this **Issue Review**, as the State has no jurisdiction in their regulatory and revenue matters.

AFFECTED AGENCIES

Iowa Racing and Gaming Commission (IRGC)
Department of Inspections and Appeals (DIA)
Department of Public Safety/Division of Criminal Investigation (DPS/DCI)

CODE AUTHORITY

Iowa Code chapters [99D](#) and [99F](#)

BACKGROUND

There are currently 19 gaming facilities in the State of Iowa, including 15 land-based casinos, two land-based casinos with racetracks, and two river excursion boats. The newest addition, the land-based gaming facility "Wild Rose Jefferson" in Greene County, Iowa, opened for business in July 2015. **Appendix A** displays the locations of all 19 gaming facilities in Iowa.

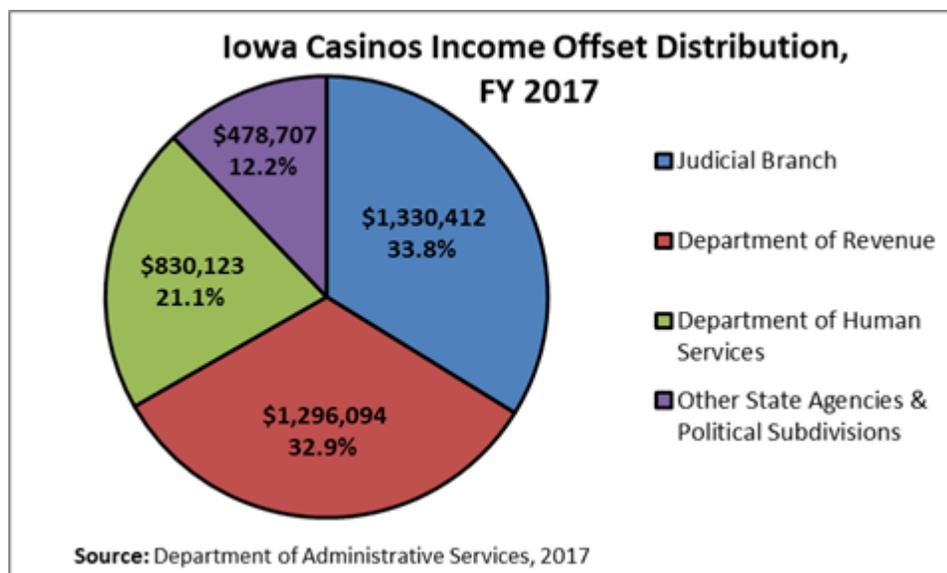
All 19 gaming facilities are regulated by the [Iowa Racing and Gaming Commission](#) (IRGC), an agency housed under the Department of Inspections and Appeals (DIA). The IRGC administers the establishment and provision of pari-mutuel gaming and wagering laws, excursion boat gambling laws, and the implementation of agency administrative rules. The Commission consists of five members who are appointed by the Governor and confirmed by the Senate. With the enactment of [Senate File 2362](#) (Greyhound Racing III Act) in FY 2015, the Commission also assumed duties of overseeing the distribution of funds designated to alleviate hardship associated or promulgated by the cessation of greyhound racing in the State.¹

¹ [Senate File 2362](#) authorized the discontinuation of live greyhound racing in Dubuque County on October 31, 2014, and in Pottawattamie County on December 31, 2015. The legislation also established a Live Racing Cessation Fee to be paid for seven years (2015-2022) by both establishments to fund the Iowa Greyhound Pari-Mutuel Racing Fund. The Fund is split equally, with 50.0% distributed to the Iowa Greyhound Association (IGA) to pay costs associated with conducting live racing and pari-mutuel wagering and 50.0% to be distributed by the IRGC to applicable greyhound industry participants, no-kill greyhound adoption agencies, kennel owners, operators, and greyhound

Together with the Division of Criminal Investigation (DCI) of the Department of Public Safety (DPS), the IRGC also works to regulate individual gambling operations and gaming floor activity. The Commission is in charge of processing occupational gambling licenses, preparing administrative rules, reviewing and analyzing incident reports, and observing floor and racetrack activities to ensure compliance with Iowa law and regulations. Employee background checks are specifically performed by the DCI, which also provides additional on-site regulation enforcement at each of the 19 gaming facilities. Additional analysis regarding the DCI's regulation of criminal activity at gaming facilities is discussed later in this *Issue Review*.

GAMING REGULATION AND SETOFF PROCEDURES

The State of Iowa permits individuals age 21 or older to take part in gambling games and related activities. Each gambling licensee must collect debts owed to the State from persons participating in gambling activity. Under current law, a single occurrence win equal to or greater than \$1,200 is considered a taxable event and subject to outstanding debt collection. The amount of the debt constitutes a valid lien against the winnings of the person and is collected from the winnings. Each licensee is provided electronic access to the names of persons indebted to the State for purposes of this setoff procedure. The setoff procedure is conducted by the Department of Administrative Services (DAS) pursuant to Iowa Code section [8A.504](#). The DAS is also allowed to charge a \$7 administrative fee for the setoff procedure. Delinquent debt and past due taxes are deposited in the General Fund in the fiscal year collected. In FY 2017, the DAS collected a total of \$3.9 million in casino offset funds. The chart below displays a breakdown of the total collected revenue by distribution source.



owners for costs incurred in removing property from the dog racetrack located in Pottawattamie County. The Commission administers the Iowa Greyhound Pari-Mutuel Racing Fund and its distribution. Individual kennel owners, operators, and greyhound owners/trainers may file a financial hardship claim up to \$100,000 to be reviewed by the IRGC. Payments occur annually. Final decisions on the payout of any claim are made by the Commission. The deadline for hardship claims resulting from greyhound racing cessation was June 30, 2016.

REVENUE FLOW AND DISTRIBUTION

Several different types of revenue are generated from gaming activities throughout the State of Iowa. These types of revenue include admission fees, wagering tax revenue, and fines and fees resulting from criminal or illegal activity. Total revenue collected from Iowa gaming facilities is displayed in **Table 1**. Each revenue category is discussed below.

**Table 1: State Revenue from Iowa Casinos
(Dollars in Millions)**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Wagering Taxes	\$ 290.5	\$ 282.5	\$ 287.8	\$ 297.8	\$ 299.8	\$ 2.0	0.7%
Enforcement and Regulatory Fees							
Public Safety DCI	12.0	9.7	10.8	10.3	8.9	-1.3	-13.1%
Racing and Gaming Commission	6.1	6.1	6.1	6.1	6.2	0.1	1.5%
Parimutuel Receipts	3.8	3.8	3.7	3.5	3.4	-0.1	-2.9%
New Facility License Fees	5.0	6.0	5.0	5.0	5.0	0.0	0.0%
Other	0.4	0.4	0.5	0.4	0.3	-0.1	-25.0%
Total	<u>\$ 317.8</u>	<u>\$ 308.6</u>	<u>\$ 313.9</u>	<u>\$ 323.1</u>	<u>\$ 323.6</u>	<u>\$ 0.6</u>	<u>0.2%</u>

Source: Legislative Services Agency (LSA), Iowa Racing and Gaming Commission (IRGC)

State Wagering Tax

The State of Iowa imposes a wagering tax on gambling revenue collected by all gaming facilities in the State. Current law requires the wagering tax to be calculated on the total amount of gross receipts reduced by paid-out winnings, or total aggregate gross receipts (AGR). Gambling revenues are taxed by the State based on AGR received from gambling games. The first \$1.0 million of total aggregate gross receipts is taxed at a rate of 5.0% and the next \$2.0 million of AGR is taxed at a rate of 10.0%. The tax rate imposed on AGR that exceed \$3.0 million is calculated on an individual fiscal year basis as follows:

- Licensees of a gambling entity with a racetrack enclosure claiming AGR of \$100.0 million or more are taxed at a rate of 24.0%.
- All other licensees are taxed at a rate of 22.0%.

Prairie Meadows Racetrack, Casino, and Hotel of Altoona and Horseshoe Casino/Bluffs Run of Council Bluffs are taxed at a rate of 24.0%. The remaining 17 entities are taxed at a rate of 22.0%.

When compared to other Midwestern states, Iowa imposes a relatively average casino revenue taxation rate. **Table 2** provides a listing of other states' taxation rates across the Midwest. Of the data listed below, Indiana levies the lowest starting taxation rate, beginning at a taxation rate of 5.0% and ending at a rate of 25.0%. Illinois imposes the highest tax rate, with a graduated tax rate maxing out at 50.0% of AGR. Iowa falls in the middle to higher end of this spectrum, taxing casinos at a rate 22.0% of total AGR exceeding \$3.0 million, and casinos with racetracks at 24.0% of total AGR exceeding \$3.0 million.

Table 2: State Gaming Revenues Across the Midwest, CY 2016

Midwest Region Comparison: State Gaming Tax Revenues, 2016				
	Gaming Legalized	Gaming Tax Rate	Gaming Tax Revenue	Increase/Decrease in Gaming Tax Revenue Compared to 2015
Illinois	1990	Graduated Tax Rate: 15.0%-50.0% Riverboat Graduated Tax Rate: 5.0%-40.0%	\$ 76.0 Million	-2.5%
Indiana	1993	Racino Graduated Tax Rate: 25.0%-35.0% Casino Graduated Tax Rate: 5.0%-25.0%	\$ 597.3 Million	-1.8%
Iowa	1989	Racino Graduated Tax Rate: 22.0%-24.0%	\$ 317.5 Million	2.5%
Kansas	2007	Straight Line Tax: 27.0%	\$ 97.4 Million	-1.9%
Michigan	1996	Straight Line Tax: 19.0%	\$ 263.3 Million	0.7%
Missouri	1993	Straight Line Tax: 21.0%	\$ 445.2 Million	0.3%
Ohio	2009	Casino Straight Line Tax: 33.0% Racino Straight Line Tax: 33.5%	\$ 565.2 Million	3.0%
South Dakota	1989	Straight Line Tax: 8.0%	\$ 15.7 Million	-1.4%

Source: [Rubin Brown Gaming Statistics](#), 2017

Table 2 also displays the total gaming tax revenue collected in calendar year 2016 in Midwestern states. Indiana collected the most gaming tax revenue in 2016, totaling \$597.3 million. Ohio follows Indiana closely, collecting a total of approximately \$565.2 million. Out of the eight Midwestern states listed above, Iowa collected the fourth highest amount of gaming tax revenue, totaling approximately \$317.5 million in 2016. Compared to other states, Iowa also experienced the second highest growth in gaming tax revenue in 2016, seeing a 2.5% increase in revenue collection compared to calendar year 2015. This increase is close behind the 3.0% increase in collected gaming tax revenue experienced by Ohio for the same period.

Casino Promotional Play Taxation

The 86th General Assembly enacted gaming legislation in 2016 that ultimately adjusted the State wagering tax procedure. [House File 2445](#) (Casino Promotional Play Taxation Act) established a limit on the State wagering tax collected on AGR for redeemed promotional play credits at Iowa casinos by amending the method of calculating the State wagering tax on gambling receipts as provided in Iowa Code section [99F.11](#). The Act redefined “adjusted gross receipts” as gross receipts less winnings paid to wagerers, not including promotional play receipts received after the date in any fiscal year that the IRGC determines that the wagering tax on promotional play receipts exceeds \$25.82 million. “Promotional play receipts” are defined as the total funds wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by a licensee without an exchange of money. According to the data collected by the IRGC and the Legislative Services Agency (LSA), the average annual wagering taxes collected total approximately \$25.8 million from AGR associated with promotional play. [House File 2445](#) set this amount as the annual maximum limit of collected wagering tax, effective July 1, 2016. On July 10, 2017, the IRGC released data regarding the total amount of promotional play revenue collected in FY 2017 in excess of the taxation limit established in [House File 2445](#). For FY 2017, the IRGC reported that an aggregate amount of \$6.6 million of promotional play revenue was collected after the taxation cap of \$25.8 million had been reached. This amounted to approximately \$1.5 million in tax revenue that was not collected.

Enforcement and Regulatory Fees

As mentioned earlier in this *Issue Review*, the IRGC works with the DCI to provide regulatory and enforcement support to gaming facilities throughout the State. **Table 3** shows the total number of casino-related cases opened and closed by special agents for FY 2017.

Table 3: Casino Related Cases, FY 2017

Casino Related Cases Opened	479
Casino Related Cases Closed	534
Casino Related Arrests	110

Source: Department of Public Safety, Division of Criminal Investigation

As can be seen in **Table 1** on page 3, for FY 2017, the DCI collected a total of \$8.9 million in regulatory and enforcement fees. These fees are deposited in the Gaming Enforcement Revolving Fund. Pursuant to Iowa Code section [80.43](#), the Fund consists of fees paid by licensees to cover costs for special agents and officers (or any direct support costs) of the DCI. Fees are collected following investigations and inspections of racetracks, excursion boats, or other gaming entities. Special agents assigned to gaming facilities are tasked with enforcing Iowa laws regarding illegal gambling, amusement devices, charitable gaming, lotteries, and tribal gaming compacts. The primary role of a special agent is to conduct criminal and background investigations, as well as provide regulatory enforcement to support gaming entity staff and guests.

Pursuant to Iowa Code section [99D.14\(2\)\(e\)](#), the DCI must file an annual report for the Justice System Appropriations Subcommittee, detailing the type and amount of regulatory investigations for the preceding fiscal year. The most recent data available, Fiscal Year 2016, is displayed below.

- **370 Fraud/Theft Investigations:** Such investigations include but are not limited to forgery, theft, unlawful use of a driver's license, falsifying an IRGC license application, or using counterfeit currency or chips.
- **23 Money Laundering Investigations:** Investigations related to money laundering arise from individual players manipulating smaller sums of money won on a variety of machines to give the appearance of winning a large quantity of gambling winnings.
- **64 Narcotics Investigations:** These investigations include both felony and misdemeanor narcotics-related investigations.
- **25 Cheating Investigations**
- **3,034 Background Investigations:** The DCI performs Class A (key personnel), Class D (corporate), Class C, and Class O investigations, as well as Iowa Lottery background and personnel investigations.
- **26,667 Regulatory Inspections/Reviews:** A variety of activities fall under this kind of regulatory investigation, including dice, card, roulette, and pit stand inspections; table cover

inspections; soft drop and soft count observations; and surveillance approvals. At gaming entities with racetracks, DCI investigators also perform starting gate, box, and barn/kennel inspections.

- **2,572 Other Incidents:** Other incidents include all additional criminal investigations, arrests, and any calls for service or assistance.

Table 1 on page 3 also indicates that the IRGC collected \$6.2 million in regulatory fees in FY 2017. These funds are deposited into the Gaming Regulatory Revolving Fund, established pursuant to Iowa Code section [99F.20](#), and consist primarily of occupational licensing fees charged by the Commission to individual licensees who participate in any horse or dog racing event. In cooperation with the DCI, the Commission collects \$10 per nongaming license and \$20 per gaming license, as well as a \$42 fingerprinting fee for any individual participating in any racing-related or gaming-related activity. The Commission also utilizes the revenue in the Gaming Regulatory Revolving Fund to cover costs associated with comprehensive drug testing of participating racing animals. Animal blood and urine specimens are tested to affirm that no foreign substances are being administered to racing animals prior to an event. The drug testing program is conducted by the Iowa State University Veterinary and Diagnostic Laboratory, the Commission's racing chemist.²

Pari-mutuel Receipts

Upon granting an operational license to a pari-mutuel gaming facility that includes a racetrack, the IRGC charges the licensee an operational license fee of \$200 for each day of racing at the associated track. This fee applies equally to both horse and dog races. The revenue collected from operational license fees is distributed as designated in Iowa Code section [8.57\(5\)](#).

Revenue collected as a result of the charging of operational license fees to pari-mutuel gaming facilities that do not include racetracks, as well as excursion gambling boats, is collected and distributed differently based on whether the license is being issued for the first time or is being renewed. Upon granting a gaming license to an excursion boat or a pari-mutuel gaming facility without a racetrack that is located in a county with a population of 15,000 or less, an initial \$5.0 million licensing fee is charged. An initial fee of \$10.0 million is charged to gaming facilities located in counties with a population of 15,001 to 99,999, and a fee of \$20.0 million is charged to facilities located in counties with a population of 100,000 or more. Gaming facility operators are allowed to pay their respective fee over a five-year period. Additionally, an annual fee is charged to each gaming facility regardless of the population size of its county location, and consists of a charge of \$5 per person capacity, which is deposited into the State General Fund.

New Facility Licensing Fees

As can be seen on **Table 1** on page 3, in FY 2017, a total of \$5.0 million was paid in new facility licensing fees. This total payment can be broken down into two separate payments made by two individual gaming licensees. Sioux City Entertainment, LLC (Hard Rock Hotel and Casino) completed a \$4.0 million payment, which acted as a fifth and final installment of the total licensing fee of \$20.0 million. Wild Rose Jefferson, LLC (Wild Rose Casino and Resort) paid a total of \$1.0 million in operational and initial licensing fees, which acted as the fourth installment of its \$5.0 million licensing fee. Wild Rose Jefferson will pay the fifth and final installment of its licensing in FY 2018. The table also notes that from FY 2014 to FY 2015, new facility licensing

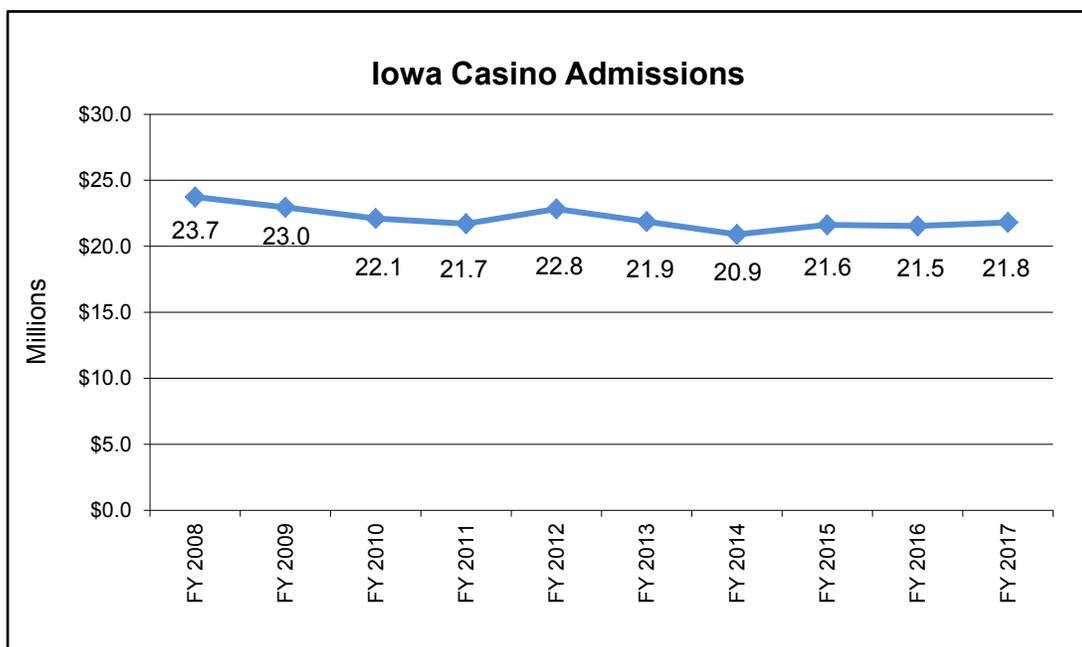
² Iowa Racing and Gaming Commission, [Annual Report](#), 2016

fees decreased by approximately 16.7%. With the exception of Wild Rose Casino in Jefferson, Iowa, the IRGC has not granted any operational gaming licenses since its Commission meeting in July 2014 and limited new license fees have been collected, causing a decrease in total revenue collected from licensing fees.

Admission Fee Revenue

The IRGC charges gaming facilities (including racetracks) and river excursion boats admission fees for each individual visitor to either enter a pari-mutuel facility/racetrack enclosure, or embark on an excursion boat. Land-based gaming facilities and racetracks charge an admission fee of \$0.50 per person, whereas entrance fees charged on excursion boats are calculated by a formula designated by Iowa Code section [99F.10](#). The designated formula is based on the legislative appropriation earmarked for the operation and regulation of excursion boats, including 65.0% of the salary and benefits for a maximum of two DCI special investigative agents. For excursion boats operating prior to July 1, 2016, a maximum of four DCI gaming enforcement officers may be stationed on each excursion boat. **Table 4** displays total casino admissions for FY 2012-FY 2017.

Table 4: FY 2012-FY 2017 Total Admissions



Source: Iowa Racing and Gaming Commission, Legislative Services Agency

Pursuant to Iowa Code section [99F.10](#), one additional special agent may be added if deemed necessary by the DCI. For excursion boats beginning operation on or after July 1, 2016, the cost of salary and benefits for a maximum of three special agents stationed on an excursion boat will be calculated into the designated admission fee formula. Admission fees collected from both pari-mutuel gaming facilities, including racetracks and excursion boats, are deposited into the Gaming Regulatory Revolving Fund and the Gaming Enforcement Fund.

GAMING REVENUE ALLOCATION

The various forms of revenue collected from the 19 gaming facilities in the State of Iowa are distributed in a specified order to individual funds pursuant to Iowa Code section [8.57\(5\)](#), as **Table 5** displays below.

Table 5: Gaming Tax Revenue Distribution, By Fund

Amount	Distribution Allocation	Purpose
\$ 55.0 Million	Revenue Bonds Debt Service Fund	\$55.0 million is allocated to pay the debt service on bonds that were issued in July 2009 to fund a variety of infrastructure and environmental projects, as well as the I-JOBS Program.
\$ 3.8 Million	Federal Subsidy Holdback Fund	\$3.8 million is allocated to the Revenue Bonds Federal Subsidy Holdback Fund to ensure that the debt service is covered in the event the federal subsidy for the Build America Bonds (part of the 2009 revenue bond issuance) is not received. Once the Treasurer of State receives the federal subsidy, the \$3.8 million is transferred into the Rebuild Iowa Infrastructure Fund (RIIF).
\$ 15.0 Million	Vision Iowa Fund	\$15.0 million is allocated to pay the debt service on bonds issued for the Vision Iowa Program. The Program is used to assist communities in the development of major tourism facilities by providing grants, loans, forgivable loans, pledges, and guarantees. The Vision Iowa bonds are scheduled to be retired in FY 2021, and the final allocation will occur in FY 2020.
\$ 66.0 Million	Iowa Skilled Worker and Job Creation Fund	Beginning in FY 2014, \$66.0 million is allocated to the Skilled Worker and Job Creation Fund. These funds are appropriated annually to the General Assembly and are intended to fund a variety of job creation programs.
Remaining Revenue*	Rebuild Iowa Infrastructure Fund (RIIF)	The RIIF receives any remaining revenue after all the above allocations have been made. The RIIF is used for funding a variety of vertical infrastructure and environmental programs and projects.

*Excluding allocations listed in Table 6

Source: Iowa Racing and Gaming Commission, Legislative Services Agency

Other Revenue

Pursuant to Iowa Code section [99F.11](#), any additional tax revenue collected from Iowa's 19 gaming entities is distributed to several other funds to promote economic development and

cultural investment across the State. After the distribution of collected tax revenue as displayed in **Table 5** on page 8, the following State Funds receive additional collected tax revenue:

Table 6: Additional Gaming Tax Revenue Distribution, By Fund

Allocation	Amount	Purpose
County Endowment Fund	0.8% of AGR	Funds are transferred equally to counties that do not have a licensed casino for funding charitable organizations.
Cultural Grants, Tourism, and Tax Credits	0.2% of AGR	Funds are allocated to the Department of Cultural Affairs for cultural grants and operations, and to the Iowa Economic Development Authority for tourism marketing.
General Fund – Other Fees	Varies	Revenues transferred to the General Fund include annual license fees charged to manufacturers and distributors of gambling games and devices, and the annual license fees for casinos to operate gambling games.

Source: Iowa Racing and Gaming Commission, Legislative Services Agency

Finally, in addition to the revenue collected and disbursed to the categories above, 1.0% of all gaming facility revenue is divided equally between the county and the city where a casino or racetrack is located. Funds collected for this purpose are transferred directly from individual gaming entities to their respective cities and counties, and do not pass through the State accounting system. These funds are not included in the calculation of the total revenue distribution to the State.

Outlook

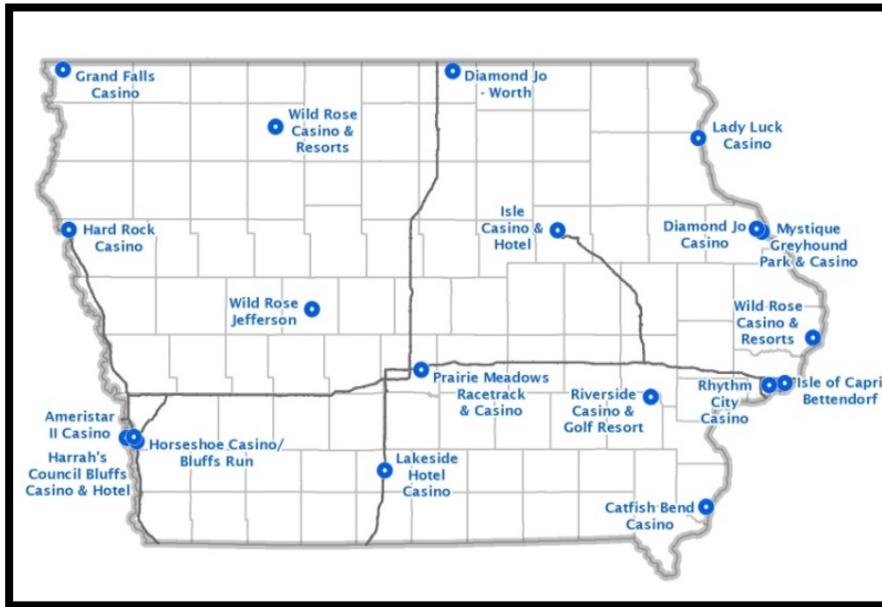
Fiscal year 2017 proved to be a year with relatively minimal growth in Iowa's gaming activity. When compared to FY 2016, collected wagering tax revenue rose only by 0.7%, or \$2.0 million, for a total of \$288.8 million. The slight increase in wagering tax revenue also corresponds to the small increase of 1.2% in admission for FY 2017, and a 1.1% increase (\$15.8 million) in total AGR. Concerns stemming from national and State trends of slow economic growth and a decrease in disposable income may continue to have an effect on future gambling receipts, though preliminary FY 2018 gaming revenues do not reflect any significant changes.

The Revenue Estimating Committee (REC) met on December 11, 2017, and projected a 0.9% increase in gambling revenue for FY 2018, totaling \$291.5 million. Gambling revenue estimates for FY 2019 were slightly higher at \$294.4 million, which equates to a 1.0% increase compared to FY 2018 projections. Additional information regarding these estimates can be found [here](#). The General Assembly will need to be mindful of the slow growth in gaming activity, as discussions continue for legalizing sports betting and online fantasy sports play on a national and State level.

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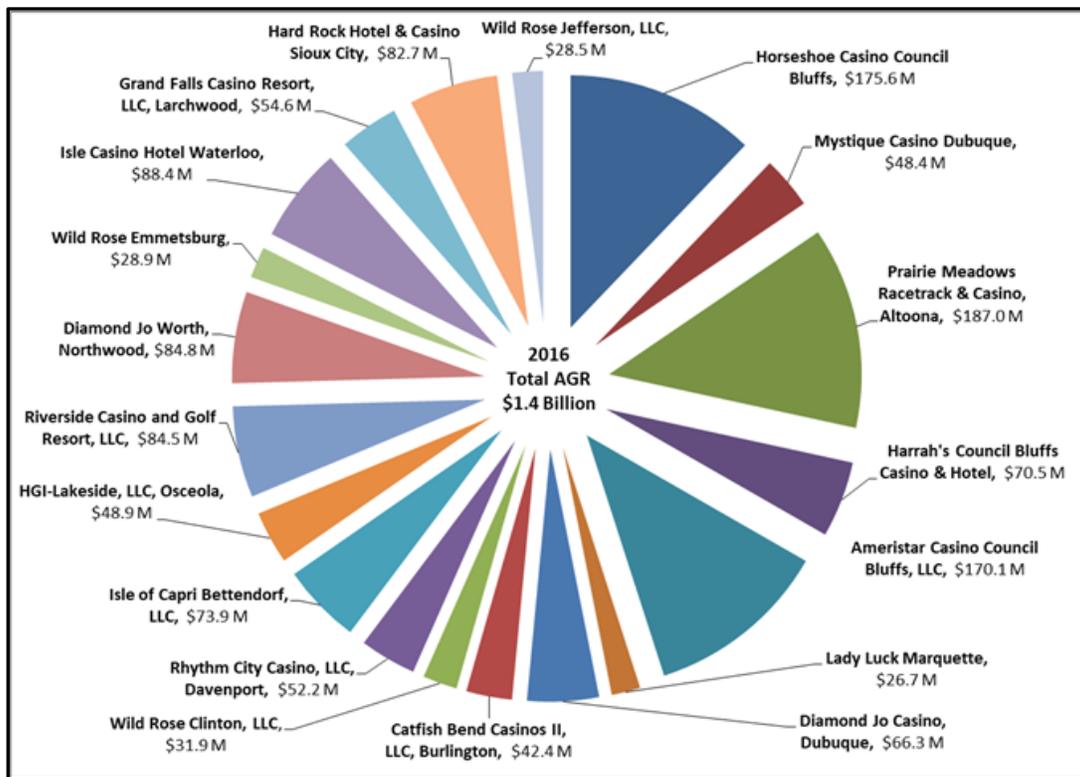
APPENDIX A

Location of Iowa Gaming Facilities, 2017



Source: Legislative Services Agency, Iowa Racing and Gaming Commission

FY 2016 Total AGR (per Casino)



Source: Legislative Services Agency, Iowa Racing and Gaming Commission