Welcome

Ball State Business Roundtable

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U.S. Economic Outlook

Michael J. Hicks, PhD
Ball State University
# U.S. Economy in 2010

## TIME SERIES FORECAST 2009 (%) vs. CONSENSUS (%)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2009 Avg. (%)</th>
<th>Q 1</th>
<th>Q 2</th>
<th>Q 3</th>
<th>Q 4</th>
<th>2010 Avg.</th>
<th>Round Table</th>
<th>Blue Chip</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>0.1</td>
<td>4.7</td>
<td>2.8</td>
<td>3.9</td>
<td>5.0</td>
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</tr>
<tr>
<td>Inflation</td>
<td>0.7</td>
<td>1.4</td>
<td>1.1</td>
<td>2.0</td>
<td>0.7</td>
<td>1.3</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Unempl. Rate</td>
<td>9.2</td>
<td>10.7</td>
<td>11.1</td>
<td>11.4</td>
<td>11.4</td>
<td>11.2</td>
<td>9.6</td>
<td>9.9</td>
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<tr>
<td>10-yr T-Bond</td>
<td>3.3</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
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<td></td>
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</tr>
</tbody>
</table>
Producer Price Index

Corn, cottonseed, soybean cake & meal (seasonally adjusted)
Indiana Gaming Tax Revenue: Sources and Uses

Jim Landers, PhD
Indiana Legislative Services Agency
Gaming Time Line

1988
• Repeal of Constitutional Prohibition

1989
• Lottery legalized
• Pari-mutuel Wagering legalized
• Hoosier Lottery begins

1990
• Charity Gaming legalized

1992
• Pari-mutuel Wagering at OTBs legalized

1993
• Riverboat casinos legalized

1994
• Racetrack opens: Anderson

1995
• Casino opens: Evansville
• OTBs open: Merrillville, Ft. Wayne, Indianapolis

1996
• Casinos open: Gary, Hammond, Rising Sun, Lawrenceburg

1997
• Casinos open: E. Chicago, Michigan City

1998
• Casino opens: Harrison County

1999
• Casinos open: Gary, Hammond, Rising Sun, Lawrenceburg

2000
• Casino opens: Switzerland County

2001
• Racinos open: Anderson, Shelbyville
• Pull tabs at taverns legalized

2002
• Dockside Gaming
• Racetrack opens: Shelbyville

2003
• French Lick Casino legalized
• OTB opens: Evansville

2004
• OTB opens: Clarksville

2005
• Racinos legalized

2006
• Casino opens: French Lick

2007
• Racinos legalized

2008
• Racinos open: Anderson, Shelbyville
• Pull tabs at taverns legalized
Gaming Taxes and Revenue Yield
# Taxes on Gaming Established Before 2007

| **Hoosier Lottery** | • $0.39 per $1.00 ticket sale gross margin  
|                     | • $0.27 per $1.00 ticket sale to state funds |
| **Pari-mutuel Wagering Tax** | • 2%-2.5% of wagers on live or simulcast races |
| **Charity Gaming** | • 10% Excise Tax on price of gaming cards  
|                     | • License fee on organizations and game suppliers |
| **Riverboat Gaming** | • Admissions - $3 per admission to casino*  
|                     | • Wagering - 15%-40% of casino AGR |

*The French Lick Casino Admissions Tax was $4 per admission until July 1, 2010.*
Taxes on Gaming Established Since 2007

Slot Machine Wagering Tax

- State - 25%-35% of racino AGR
- Counties - 3% of racino AGR up to $8 M annually
- Supplemental - 1% of racino AGR until July 1, 2012

Gaming in Bars and Taverns

- 10% Excise Tax on price of gaming cards
- License fee on taverns and game suppliers
Gaming Revenue by Source
FY 2010 Total = $1,088.3 M

Hoosier Lottery
Surplus Revenue $183.9 M
Other Horse Racing Taxes $0.5 M

Horse Racing
Pari-mutuel Wagering Tax $3.2 M
Charity Gaming License Fees $4.2 M

Charity Gaming
Charity Gaming Excise Tax $1.3 M

Riverboat Casinos
Riverboat Wagering Tax $672.8 M
Riverboat Admissions Tax $80.9 M

Racinos
Slot Machine Wagering Taxes $137.9 M
Other Slot Machine Revenue $3.0 M

Type II Gaming
Type II Gaming Excise Tax $0.3 M
Type II Gaming Fees $0.3 M
### State and Local Shares

**Total FY 2010 = $1,088.3**

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>State Share</th>
<th>Direct Local Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hoosier Lottery*</td>
<td>$183.9 M</td>
<td>$0</td>
</tr>
<tr>
<td>Horse Racing</td>
<td>$3.7 M</td>
<td>$0</td>
</tr>
<tr>
<td>Charity Gaming</td>
<td>$5.5 M</td>
<td>$0</td>
</tr>
<tr>
<td>Riverboat Casinos</td>
<td>$565.0 M</td>
<td>$188.7 M</td>
</tr>
<tr>
<td>Racinos</td>
<td>$128.1 M</td>
<td>$12.8 M</td>
</tr>
<tr>
<td>Type II Gaming</td>
<td>$0.6 M</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$886.8 M</td>
<td>$201.5 M</td>
</tr>
</tbody>
</table>

*A portion of the state share is redistributed to local units.*
Gaming Revenue Uses
Distribution of State Share  
Total FY 2010 = $886.8 M

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>General Fund</th>
<th>Build Indiana Fund</th>
<th>Other Dedicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hoosier Lottery</td>
<td>$0 M</td>
<td>$123.9 M</td>
<td>$60.0 M</td>
</tr>
<tr>
<td>Horse Racing</td>
<td>$0</td>
<td>$1.3 M</td>
<td>$2.4 M</td>
</tr>
<tr>
<td>Charity Gaming</td>
<td>$0</td>
<td>$3.0 M</td>
<td>$2.5 M</td>
</tr>
<tr>
<td>Riverboat Casinos</td>
<td>$430.1 M</td>
<td>$121.8 M</td>
<td>$13.1 M</td>
</tr>
<tr>
<td>Racinos</td>
<td>$123.8 M</td>
<td>$0</td>
<td>$4.3 M</td>
</tr>
<tr>
<td>Type II Gaming</td>
<td>$0.3 M</td>
<td>$0</td>
<td>$0.3 M</td>
</tr>
<tr>
<td>Total</td>
<td>$554.2 M</td>
<td>$250.0 M</td>
<td>$82.6 M</td>
</tr>
</tbody>
</table>
Lottery, Pari-mutuel, and Charity Gaming Distributions
FY 2010 Total = $188.2 M

- Hoosier Lottery: $123.9 M
- Teacher’s Retirement Fund: $30.0 M
- Local Pension Relief: $30.0 M
- Pari-mutuel Wagering Tax: $1.3 M
- Charity Gaming Fees/Excise Tax: $3.0 M
Riverboat Wagering Tax Distributions
FY 2010 Total = $672.8 M

- Riverboat Wagering Tax
  - $3.2 M
  - $1.85 M
  - W. Baden Hotel Preservation
    - $3.2 M
    - Indiana Gaming Commission
      - $1.85 M

- Riverboat Adm. Tax Replacement
  - $33.0 M
  - $100.1 M
  - $534.6 M
  - Build Indiana Fund
    - $121.8 M
    - $40.8 M

- General Fund
  - Revenue Sharing
  - Local Units Share
## Riverboat Admission Tax

### FY 2010 Collections and Replacement

<table>
<thead>
<tr>
<th>Receiver</th>
<th>Collections</th>
<th>Replacement</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Fund</td>
<td>$17.3 M</td>
<td>N/A</td>
<td>$17.3 M</td>
</tr>
<tr>
<td>State Fair Comm.</td>
<td>$3.8 M</td>
<td>$2.6 M</td>
<td>$6.4 M</td>
</tr>
<tr>
<td>Div. of Mental Health</td>
<td>$2.5 M</td>
<td>$1.7 M</td>
<td>$4.2 M</td>
</tr>
<tr>
<td>IN Econ. Dev. Corp.</td>
<td>$1.1 M</td>
<td>N/A</td>
<td>$1.1 M</td>
</tr>
<tr>
<td>W. Baden Hotel Preservation (DNR)</td>
<td>$0.6 M</td>
<td>N/A</td>
<td>$0.6 M</td>
</tr>
<tr>
<td>Local Units Share</td>
<td>$55.6 M</td>
<td>$36.5 M</td>
<td>$92.1 M</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$80.9 M</strong></td>
<td><strong>$40.8 M</strong></td>
<td><strong>$121.7 M</strong></td>
</tr>
</tbody>
</table>
Racino License Fee

**Initial License Fee**
- $250 M Per Racino
- $300 M paid in October 2007
- $200 M paid in October 2008
- Distributed to the Property Tax Reduction Trust Fund

**Continuing Annual License Fee**
- Begins in 2013 (5 years after initial licensure)
- $100 per slot machine
- Distributed to the State General Fund
Racino Tax Revenue

**Slot Machine Wagering Tax Distributions**
FY 2010 Total = $137.9 M

- State General Fund $120.8 M
- Madison County/Shelby County 12.8 M
- French Lick Casino 4.3 M

**Racino AGR Distribution**
FY 2010 Total = $3.0 M

- Revenue from Horsemen’s Distribution exceeding inflationary growth
- Distributed to the State General Fund
Type II Gaming in Bars & Taverns

- **Type II Gaming Excise Tax**
  - State General Fund
  - FY 2010 = $0.3 M

- **Type II Gaming Fees**
  - Alcohol & Tobacco Commission Enforcement and Administrative Fund
  - FY 2010 = $0.3 M
Other Revenue Uses

- Spending from the Build Indiana Fund
- County revenue sharing from Riverboat Wagering Tax
- Riverboat local development agreements
- Distributions to horse racing interests from Racino AGR
Distributions to the Build Indiana Fund (BIF)

Annual Funding: Effectively Limited to $250 M

- Curbs annual expenditures from the BIF
- Restricts the types of expenditures made from the BIF
## Distributions to the Build Indiana Fund (BIF)

<table>
<thead>
<tr>
<th>BIF Funding Formula</th>
<th>FY 2010</th>
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<tbody>
<tr>
<td>Annual Funding Limit</td>
<td>$250.0 M</td>
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<tr>
<td>Less:</td>
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</tr>
<tr>
<td>Lottery Revenue</td>
<td>($123.9 M)</td>
</tr>
<tr>
<td>Pari-mutuel Revenue</td>
<td>($1.3 M)</td>
</tr>
<tr>
<td>Charity Gaming Revenue</td>
<td>($3.0 M)</td>
</tr>
<tr>
<td>Wagering Tax To BIF</td>
<td>$121.8 M</td>
</tr>
</tbody>
</table>
Distributions from the BIF

- State General Fund
- Technology/Other
- Local Capital Projects
- Motor Vehicle Excise Tax Replacement
- Property Tax Replacement Fund
Wagering Tax Revenue Sharing

$33 M annually from Riverboat Wagering Tax

Distributed by August 15th each year

Per capita distribution to counties not containing a riverboat casino

• Distributed to the county treasurer
• Distributed to counties and to cities and towns within the counties
Riverboat Casino
Local Development Agreements

Financial agreements between casino owners and local units, community foundations, etc.

State Statute – No specific requirement; No regulations

Usually include temporary lump sum payments

Ongoing payments typically based on wagering levels at casinos

Gaming Commission Reports:
- $122.5 M paid in 2009
- $828.3 M paid 2003 to 2009
Distribution of Racino AGR to Horse Racing Industry
FY 2010 Total = $57.8 M

Remainder of AGR:
- Gaming Integrity Fund: $500 K
- Equine Promotion & Welfare: $0.3 M (0.5% of AGR)
- Backside Benevolence: $1.4 M (2.5% of AGR)
- Horse and Horse Racing Promotion: $55.6 M (97.0% of AGR)

Equine Promotion & Welfare:
- Thoroughbred Purposes: 46%
  - TB Breed Dev. Fund: 60%
- Standardbred Purposes: 46%
  - SB Breed Dev. Fund: 50%
- Quarter Horse Purposes: 8%
  - QH Breed Dev. Fund: 30%

Backside Benevolence:
- Thoroughbred Owners and Breeders: 0.6%
- Standardbred Purses: 96.5%
- Quarter Horse Purses: 95%

Further breakdown and allocation:

- Thoroughbred Owners & Trainers Assoc.
  - 46% of TB Purposes
  - 46% of SB Purposes
  - 8% of QH Purposes

- Standardbred Owners & Trainers Assoc.
  - 46% of TB Purposes
  - 46% of SB Purposes
  - 3.5% of QH Purposes

- Quarter Horse Owners & Trainers
  - 8% of TB Purposes
  - 8% of SB Purposes
  - 5% of QH Purposes
Casino/Racino Tax Base
Revenue Growth Potential

**Trends**

- Riverboat Admissions slowing to a decline in 2 of last 3 years
- Riverboat AGR slowing to a decline in each of last 3 years
- Historically low growth in AGR per patron has changed to decline in last 2 years

**Factors in Play**

- Market maturation/saturation
- Recessionary effects
- Displacement of casino business by racinos
- Competition from gaming facilities in surrounding states
Indiana & Surrounding State Gaming Facilities
Market Maturation/Saturation

Dollars (in millions)

Number of Riverboat Patrons (in millions)

Riverboat AGR  Racino AGR  Riverboat Attendance
Potential Future Tax Base Growth
Recessionary Impacts
Casino/Racino AGR

Casino AGR Indexed (FY 2000=100)

- Illinois
- Indiana
- Iowa
- Missouri
Competition from Other States

Out-of-State Patronage at Indiana Casinos

- Est. 68% of patrons at Lake Michigan casinos are nonresidents
- Est. 64% of patrons at Ohio River casinos are nonresidents

Affect on Riverboat Gaming Revenue

- OH: Casinos opening in 2012-2013
- MI: Tribal casinos near Michigan City
- KY: No casino gaming, but they’re trying
- IL: 10th license, deregulation, tax changes, smoking ban
Market Competition

- Blue Chip Casino
- Four Winds Casino
Market Competition Impact I
(In Millions)
Market Competition Impact II
(In Thousands)
## Estimated Impact

<table>
<thead>
<tr>
<th></th>
<th>18%-20%</th>
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<tbody>
<tr>
<td>%Reduction in Patrons</td>
<td>18%-20%</td>
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<tr>
<td>Admissions Tax Loss</td>
<td>$1.3 M-$1.5 M</td>
</tr>
<tr>
<td>Wagering Tax Loss</td>
<td>$12.0 M-$13.2 M</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13.3 M-$14.7 M</strong></td>
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S. E. Indiana Casinos

### Estimated Impact

<table>
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<tr>
<th>Category</th>
<th>Impact</th>
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<tbody>
<tr>
<td>%Reduction in Patrons</td>
<td>30%-38%</td>
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<tr>
<td>Admissions Tax Loss</td>
<td>$6.1 M-$7.8 M</td>
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<tr>
<td>Wagering Tax Loss</td>
<td>$67.1 M-$86.1 M</td>
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<tr>
<td>Total</td>
<td>$73.2 M-$93.9 M</td>
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## Estimated Impact

<table>
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<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>%Reduction in Patrons</td>
<td>14%</td>
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<tr>
<td>Admissions Tax Loss</td>
<td>N/A</td>
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<td>Total</td>
<td>$9.7 M</td>
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## Estimated Impacts

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<th>Affected Area</th>
<th>Admission Tax Loss</th>
<th>Wagering Tax Loss</th>
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<tbody>
<tr>
<td>S. E. Indiana</td>
<td>$6.1 M-$7.8 M</td>
<td>$67.1 M-$86.1 M</td>
</tr>
<tr>
<td>Central Indiana</td>
<td>N/A</td>
<td>$9.7 M</td>
</tr>
<tr>
<td>Michigan City</td>
<td>$1.3 M-$1.5 M</td>
<td>$12.0 M-$13.2 M</td>
</tr>
<tr>
<td>Total</td>
<td>$7.4 M-$9.3 M</td>
<td>$88.8 M-$109.0 M</td>
</tr>
</tbody>
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| % of Total Revenue | 9.8%-12.4% | 12.9%-15.8% |
Information on Gaming Taxes and Other Taxes

- Indiana Handbook of Taxes, Revenues, and Appropriations by LSA
- [http://www.in.gov/legislative/pdf/TaxHandbook09_online.pdf](http://www.in.gov/legislative/pdf/TaxHandbook09_online.pdf)
Thank you

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