

The Business of Gambling in Montana 2008 Update

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Over the years, many of the state's residents have come to recognize and accept gambling as a form of recreation and entertainment. However, gambling still ignites heated debate centered on social, ethical, and economic issues. What kind of impact do gambling establishments have on Montana's economy? How many people do they employ? What kind of taxes do these businesses pay?

Answers are not easy to find. Unlike other industries, there is not a standard set of statistics available for gambling firms. In fact, statistics are scattered among a number of industry classifications. For example, some gambling establishments are restaurants or bars and are classified in the eating and drinking category; others are casinos and are considered a service industry; still others may be technically categorized as gas stations. This situation makes it difficult to compare gambling to other industries using common yardsticks such as sales, employment, and labor income.

At the request of the Gaming Research and Education Fund, the Bureau of Business and Economic Research conducted a survey of Montana gambling establishments to gather some of these statistics.

In August and September of 2008 the Bureau telephoned a random cross section of 1,117 gambling license holders. Following the guidelines of the American Association for Public Opinion Research (AAPOR), the calculated response rate was 444 / 1,117, or 40 percent. The overall sampling error associated with this survey is +/- 5%.

This report builds on a similar survey of gambling establishments conducted by the Bureau in 1998 and 2002. Most of the aggregate statistics (total sales, expenses, taxes) are comparable between the surveys, and may be used to evaluate industry changes in the past four years. However, some of the questions have been modified (we learned from our earlier experiences) and certain detailed items may not be comparable between the three surveys. The only conceptual difference is that the current study does not include statistics for the roughly 194 establishments that have licenses but report no video gambling machines (VGMs). We received too few responses from these firms to develop reliable estimates of their characteristics. However, these are mostly very small firms and non-profit organizations. Their exclusion should not significantly affect the estimates.



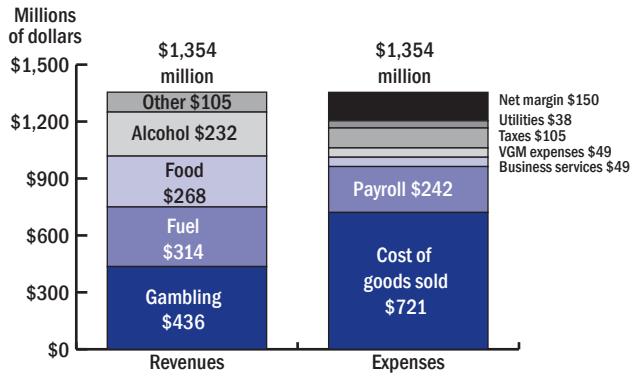
Financial Conditions of Gambling Establishments

Montana's gambling industry consists mostly of the 1,641 establishments with Montana Department of Justice licenses to operate video gaming machines (VGMs). These establishments received about \$1.354 billion in revenue in 2008 (**Figure 1**). Gambling activities accounted for \$436 million, roughly 32 percent of total revenue. Other important revenue sources include food (20 percent), alcohol (17 percent), and fuel (23 percent). Miscellaneous revenue sources, such as membership dues, accounted for the remaining 8 percent.

The largest expense for Montana gambling establishments was the cost of goods sold. The purchase of gasoline, food, alcohol, and other items for resale accounted for about \$721 million, or approximately 60 percent of total expenses. Payroll costs, including fringe benefits, totaled about \$242 million, or 20 percent. Business-related services (advertising, repairs, professional services, etc.) were about \$49 million, or 4 percent. Payments for vendor-owned VGMs, sometimes called vendor split, were also \$49 million, or roughly 4 percent of total expenses. Utility costs summed to approximately \$38 million, about 3.2 percent of total expenses.

Net margin provides an overall financial perspective of Montana gambling establishments and may be calculated from the revenue and expense data collected in this survey. Gambling establishments reported

Figure 1
Revenue and Expenses,
Montana Gambling Establishments, 2007



Source: Bureau of Business and Economic Research, The University of Montana.

total revenue of \$1.354 billion and expenses of about \$1.204 billion, leaving a net margin of \$150 million, or roughly 11.1 percent of total revenue. The net margin includes the before-tax return to owners (proprietors, partners, and stockholders), capital charges, and certain costs not specified in the questionnaire. The value of the liquor license - which can exceed \$300,000 in certain areas - is not explicitly included in these calculations. Finally, the net margin calculation also implicitly includes the risk premium associated with operating a gambling establishment. Some people may consider the gambling industry to be riskier than average because of close government regulation.

Gambling establishments differ significantly in their sources of revenue. As shown in **Figure 2**, revenue generated from gambling ranges from 11 to 72 percent, depending on the type of gambling establishment. Those establishments with 20 VGMs reported the maximum share of 72 percent.

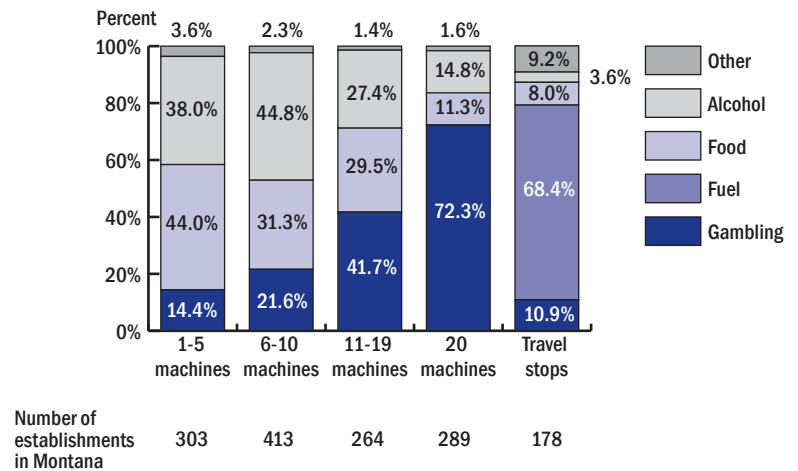
A Closer Look at Taxes

Based on the survey responses, Montana gambling establishments paid an estimated \$105 million in taxes and fees during calendar year 2007. An estimated \$59 million was paid in VGM taxes, which is not statistically different from the \$62 million in VGM taxes reported by the Montana Department of Justice in 2007. Montana gambling establishments paid an additional \$46 million in real estate taxes, business income tax, city taxes and/or fees, and other fees and licenses.

Employment

Based on this survey, Montana gambling establishments employed 24,014 persons in 2007. There were 13,766 full-time workers (32

Figure 2
Sources of Revenue, Montana Gambling
Establishments, 2007



Source: Bureau of Business and Economic Research, The University of Montana.

hours or more per week) and 10,248 part-time workers (less than 32 hours per week). As shown in **Table 1**, part-time employment is much more prevalent in smaller gambling establishments. For establishments with 1 to 5 machines, approximately 42 percent of the workers were full-time and roughly 58 percent were part-time. The percentage of full-time workers rises to 57 percent for those establishments with six to 10 machines. Finally, full-time workers represent about 60 percent of the total in gambling establishments with 11 or more machines.

Economics

This section uses the estimated sales and employment data for gambling establishments to compare them with other sectors of the Montana economy. These comparisons should be interpreted cautiously because there is some double counting. As was mentioned earlier, gambling establishments are classified in a number of industries, including some of those used for comparisons presented here. The purpose here is simply to provide measures of how the gambling industry compares to other major sectors of the state's economy.

Montana does not have a sales tax. Consequently, there are no up-to-date and reliable figures for retail sales. The retail sales figures presented in **Figure 3** are from the 2002 Economic Census conducted by the U.S. Bureau of the Census.

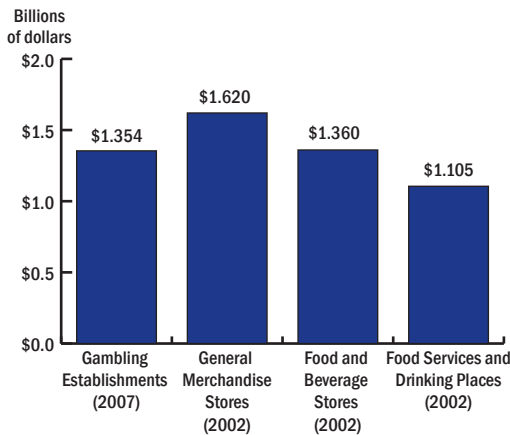
The estimated 2007 total sales of Montana gambling establishments were \$1.354 billion, slightly smaller than the 2002 sales of

Table 1
Full and Part-time Employment, Montana Gambling Establishments, 2007

	NUMBER OF VGMS											
	1 to 5		6 to 10		11 to 15		20		Fuel Stops		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Part-time Employees	1,377	58.4	2,710	43.1	2,157	41.9	2,152	38.2	1,852	40.3	10,248	42.7
Full-time Employees	980	41.6	3,574	56.9	2,991	58.1	3,477	61.8	2,744	59.7	13,766	57.3
Total	2,357	100.0	6,284	100.0	5,148	100.0	5,629	100.0	4,596	100.0	24,014	100.0

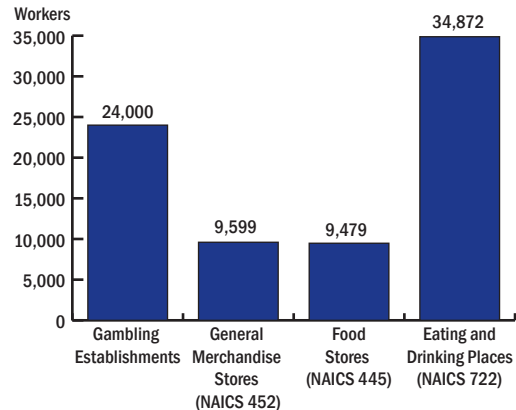
Source: Bureau of Business and Economic Research, The University of Montana.

Figure 3
Total Sales, Montana Gambling Establishments and Selected Industries, 2007



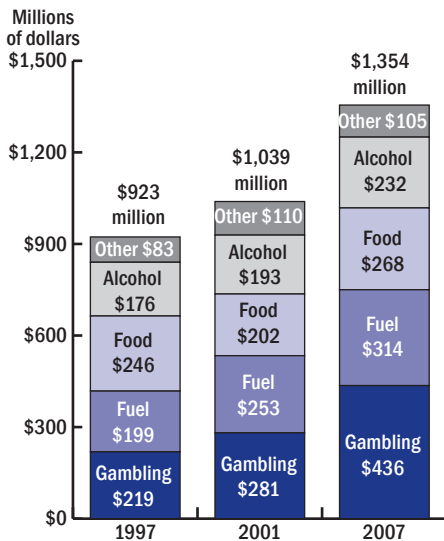
Sources: Bureau of Business and Economic Research, The University of Montana and U.S. Census Bureau.

Figure 4
Total Employment, Montana Gambling Establishments and Selected Industries, 2007



Sources: Bureau of Business and Economic Research, The University of Montana and Montana Department of Labor and Industry.

Figure 5
Sources of Revenue, Montana Gambling Establishments, 1997, 2001, and 2007



Source: Bureau of Business and Economic Research University of Montana

general merchandise stores (\$1.62 billion) and food and beverage stores (\$1.36 billion). General merchandise stores include department stores and superstores, and food and beverage stores include convenience stores, liquor stores, and grocery stores. Total sales in food services and drinking places in 2002 was \$1.05 billion.

As shown in **Figure 4**, estimated 2007 employment for Montana gambling establishments was 24,000 people. In 2006, general merchandise stores and food stores employed 9,600 and 9,500 workers respectively. Total employment in food service and drinking places was 34,900.

Growth Since 2001

The estimated total revenue of gambling establishments grew at an annual rate of 4.5 percent per year between 2001 and 2007, from \$1.039 billion in 1997 to \$1.354 billion in 2001. Inflation averaged about 2.5 percent per year. Therefore, gambling establishment revenue grew about 2.0 percent per year in inflation-adjusted terms between 2001 and 2007.

As shown in **Figure 5**, gambling revenues were the fastest growing major component, increasing an average of 5.1 percent per year between 2001 and 2007. Food was in second place, growing at 2.4 percent per year. Alcohol revenue increased at roughly 0.7 percent per year. Fuel revenue increased at about 1.3 percent per year.

In 2007 about 24,000 people were employed by Montana’s gambling industry. Year over year employment growth decelerated to about 1.1 percent per year during the 2001 – 2007 period. The 2001 employment estimate was 22,500. An apparent yearly employment growth rate of 8.5 percent between the 1997 estimate of 16,300 and the 2001 estimate was actually about 5.3 percent per year when accounting for a change in survey methods used in 2002.

Conclusion

With these data, we can compare gambling to other businesses such as department stores, grocery stores, and food service and drinking places. Gambling remains a significant industry in Montana. Attempts to modify the gambling industry could negatively impact a sizable portion of Montana’s economy.

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