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Speech to the Senate Taxation committee
Outline of my goals to cover
By Dan Meyer

Mr. Chairman and Members of the Committee, I have come to you today to give you some additional options and items to take into consideration on the proposed increase on slot route taxes and if time permit my concepts on government consolidation.

- The governor has proposed a 33% increase on all restricted accounts. No matter on size or ability to pay. I strongly believe that any flat, across the board tax proposal, without consideration of the market place and the size of operation is regressive to say the least. The ability to compete in the slot route business is as different as night and day.
- 1. The number of slot route operations in Nevada has been stagnating for twenty years, yet the few largest companies have grown into operations of 8,000 to 10,000 machines. This has been achieved mainly due to their complete control over the marketplace. Their control over supply and demand, and inherent control over the competition, by product manipulation, and price control has reduced any competitive nature in this business.
- 2. The advantage that these Companies display over the rest of the operators is shown in the ability to remove competition in the bidding for new accounts by offering many of the larger accounts a 90/10 percentage split of the win generated by these games. The remainder of the industry has a much different cost structure and thus have a much higher cost of operation, these smaller operations cannot compete in such a environment. Yet the value of these smaller route operations cannot be underestimated. These operations supply small business with added revenue, which give small business the ability to be competitive in the Nevada market place. These smaller operators require consideration, these lower volume accounts survive on lower profit and business volumes. These small businesses whether it is a small slot route or the businesses, work harder for less.
- 3. The few largest slot operations control manufacturing, distribution and thus have a monopolistic control over route operation within Nevada. Recently these companies have notified the rest of the slot route operators that product only a few year old will no longer be supported. Support will only be provided to their casino clients, leaving the rest of us to fend for ourselves.
- 4. These Larger manufacturing, distribution and route operation have helped push the Indian gaming movement and helped weaken Nevada's competitiveness in the marketplace. Therefore I would agree that these companies need to pony up, and feel that their operations should be ruled and taxed as a casino. Yet to do the same to the remainder of the operations would further inhibit Small route operations the ability to operate and provide the needed revenue to the small businesses within this state.
- 5. I propose a three tiered system that is based on the number of equipment in operation during any quarter in a fiscal year. The top level being at 1250 games in operation, and above. The middle level would be the few operations that operate between 1249 and 750 machines in operation, with the bottom level being the operations that operate 749 machines and bellow. I have

enclosed my outline of a system that I feel would balance a company's ability to pay while reducing the cost of regulatory compliance and oversight of operations. This would elevate the top route operations into a existing class, that of casino. This would bring higher monthly revenues to the state while leveling the competitive nature of the industry. This would also allow gaming control officials to increase regulatory supervision on the basis of ability to pay, and comply. This would help hold down cost to the state while increasing state revenue.

6. The reason I have smaller incremental tax increases on the next two levels is that these slot operations are at a stark disadvantage in the cost of operation and ability to bid on the higher quality accounts. Another important consideration is the benefit this revenue gives both the state coffers as well as the profitability of many Nevada small businesses. These businesses need the product support and access to this revenue.
7. Times have changed yet our regulations in many instances are outdated and ineffective. The Genie has let the bottle, to reevaluate the policy and regulation that we have developed over time is called for. Yet as common practice it has given way to increased regulations, and a corresponding lack of competitiveness. Currently we still have a 5 day waiting period to purchase antique slot machines while the consumer can buy these same machines just across the border in California
- Mr. Guinn has not touched on the accumulative effect these taxes will bring. The current slowdown of the economy and the added cost brought on by previous state and local increases in taxation and Fees have already taken its toll. Many of these future tax proposals have an accumulative effect that has a greater impact on the average Nevadan and will effect the smaller and midsized capitalized business more adversely than large cap businesses.
 1. Small cap businesses have weaker volumes of business activity, inventory buying power, and a lack of a destination quality to them. Any increase in cost will have to be either passed on the customer or if competition increases these cost will have to be eaten by the business owner.
 2. I resent the talk that business does not pay its fair share; in fact these businesses are the ones not placing the demand on the system. Large Corporation having billing and accounts receivable departments outside Nevada, and will avoid paying a gross receipts tax. With the use of technology, EFT transactions and other modes of accounting methods, large cap businesses will continue to place the demand on the system while avoiding the true cost.

In conclusion I would like you all to remember that the Casino industry itself does not operate under a gross receipts tax. I have enclosed both the yearly and monthly tax burden casinos pay. Both current systems of taxation, benefit the casinos by decreasing the tax burden on a per machine basis while during low volume months decrease the percentage tax rather than the 6.25% currently reported in the press. The gross win that the monthly tax rate is based, allows the casino industry to write off 80 to 85% of the gross revenue.

Hopper fills, jackpots and advertising through shilling its customers is taken off the gross figures. I suspect that with increased competition and the high debt loads the casino industry has placed on itself, that fewer and fewer casinos will find profitability. They themselves have been packing their own bags to leave the state, by going into contractual agreements to operate many of these new Indian casinos. What Mr. Guinn has proposed will further stress our economy by weakening the only part of this state that is growing. I agree with assemblyman Beers, that Nevada's current growth has sustained this state. It is the 1 billion in new spending that has brought us here. As a Father and businessman I know the value in saying no. I believe the state would benefit from a self-evaluation and restructuring. Nevada is in a position to benefit from having weak Californian political leadership, which refuses to make the necessary cuts. We will continue to grow and diversify if we avoid the traps increased taxes would bring. Remember this is Nevada, we are still a small state, and have made historic breaks with the political and economic norm. If I was playing poker with Mr. Guinn I would call his hand.

Respectfully,
Daniel Meyer

Current casino tax structure

monthly tax on Gaming Win or Adjusted Gross revenue

Monthly adjusted win \$ amount	3.00% on first 50,000	4.00% Tax on next 84,000	6.25% Tax on Remainder	Monthly Total tax On Gaming win	Realized Total Gaming Tax %	Comparison if State charged 6.25%
\$10,000.00	\$300.00			\$300.00	3.00%	\$625.00
\$15,000.00	\$450.00			\$450.00	3.00%	\$937.50
\$20,000.00	\$600.00			\$600.00	3.00%	\$1,250.00
\$25,000.00	\$750.00			\$750.00	3.00%	\$1,562.50
\$30,000.00	\$900.00			\$900.00	3.00%	\$1,875.00
\$35,000.00	\$1,050.00			\$1,050.00	3.00%	\$2,187.50
\$40,000.00	\$1,200.00			\$1,200.00	3.00%	\$2,500.00
\$45,000.00	\$1,350.00			\$1,350.00	3.00%	\$2,812.50
\$50,000.00	\$1,500.00			\$1,500.00	3.00%	\$3,125.00
\$55,000.00	\$1,500.00	\$200.00		\$1,700.00	3.08%	\$3,437.50
\$60,000.00	\$1,500.00	\$400.00		\$1,900.00	3.17%	\$3,750.00
\$65,000.00	\$1,500.00	\$600.00		\$2,100.00	3.23%	\$4,062.50
\$70,000.00	\$1,500.00	\$800.00		\$2,300.00	3.29%	\$4,375.00
\$75,000.00	\$1,500.00	\$1,000.00		\$2,500.00	3.33%	\$4,687.50
\$80,000.00	\$1,500.00	\$1,200.00		\$2,700.00	3.38%	\$5,000.00
\$85,000.00	\$1,500.00	\$1,400.00		\$2,900.00	3.41%	\$5,312.50
\$90,000.00	\$1,500.00	\$1,600.00		\$3,100.00	3.44%	\$5,625.00
\$95,000.00	\$1,500.00	\$1,800.00		\$3,300.00	3.47%	\$5,937.50
\$100,000.00	\$1,500.00	\$2,000.00		\$3,500.00	3.50%	\$6,250.00
\$120,000.00	\$1,500.00	\$2,800.00		\$4,300.00	3.58%	\$7,500.00
\$130,000.00	\$1,500.00	\$3,200.00		\$4,700.00	3.62%	\$8,125.00
\$134,000.00	\$1,500.00	\$3,360.00		\$4,860.00	3.63%	\$8,375.00
\$140,000.00	\$1,500.00	\$3,360.00	\$375.00	\$5,235.00	3.74%	\$8,750.00
\$150,000.00	\$1,500.00	\$3,360.00	\$1,000.00	\$5,860.00	3.91%	\$9,375.00
\$160,000.00	\$1,500.00	\$3,360.00	\$1,625.00	\$6,485.00	4.05%	\$10,000.00
\$170,000.00	\$1,500.00	\$3,360.00	\$2,250.00	\$7,110.00	4.18%	\$10,625.00
\$180,000.00	\$1,500.00	\$3,360.00	\$2,875.00	\$7,735.00	4.30%	\$11,250.00
\$190,000.00	\$1,500.00	\$3,360.00	\$3,500.00	\$8,360.00	4.40%	\$11,875.00
\$200,000.00	\$1,500.00	\$3,360.00	\$4,125.00	\$8,985.00	4.49%	\$12,500.00
\$250,000.00	\$1,500.00	\$3,360.00	\$7,250.00	\$12,110.00	4.84%	\$15,625.00
\$300,000.00	\$1,500.00	\$3,360.00	\$10,375.00	\$15,235.00	5.08%	\$18,750.00
\$350,000.00	\$1,500.00	\$3,360.00	\$13,500.00	\$18,360.00	5.25%	\$21,875.00
\$400,000.00	\$1,500.00	\$3,360.00	\$16,625.00	\$21,485.00	5.37%	\$25,000.00
\$450,000.00	\$1,500.00	\$3,360.00	\$19,750.00	\$24,610.00	5.47%	\$28,125.00

\$500,000.00	\$1,500.00	\$3,360.00	\$22,875.00	\$27,735.00	5.55%	\$31,250.00
\$550,000.00	\$1,500.00	\$3,360.00	\$28,000.00	\$30,860.00	5.61%	\$34,375.00
\$600,000.00	\$1,500.00	\$3,360.00	\$29,125.00	\$33,985.00	5.66%	\$37,500.00
\$650,000.00	\$1,500.00	\$3,360.00	\$32,250.00	\$37,110.00	5.71%	\$40,625.00
\$700,000.00	\$1,500.00	\$3,360.00	\$35,375.00	\$40,235.00	5.75%	\$43,750.00
\$750,000.00	\$1,500.00	\$3,360.00	\$38,500.00	\$43,360.00	5.78%	\$46,875.00
\$800,000.00	\$1,500.00	\$3,360.00	\$41,625.00	\$46,485.00	5.81%	\$50,000.00
\$850,000.00	\$1,500.00	\$3,360.00	\$44,750.00	\$49,610.00	5.84%	\$53,125.00
\$900,000.00	\$1,500.00	\$3,360.00	\$47,875.00	\$52,735.00	5.86%	\$56,250.00
\$950,000.00	\$1,500.00	\$3,360.00	\$51,000.00	\$55,860.00	5.88%	\$59,375.00
\$1,000,000.00	\$1,500.00	\$3,360.00	\$54,125.00	\$58,985.00	5.90%	\$62,500.00

Due to the lower volume of business many typical bar and tavern accounts operate at around \$28,000 per quarter in gaming.

The current tax structure currently is higher than a flat 6.25 % that the casinos are reported to be paying.

Since these numbers show that the casinos have many advantages. A closer look will tell that the current casino tax structure favors the casinos in a lower per unit cost than a slot route operation. The current casino tax structure allows the casino industry to be taxed at a lower rate if the gross win drops. Such consideration escapes the slot route operation.

The Casinos are currently pushing for a gross receipts tax on Nevada business.

However the casinos themselves are not taxed on a gross receipts basis.

A Casinos gross win is not, I repeat not the gross revenue. A casino is allowed to write off up to 80 to 85% of the gross revenue,

The Casino Industry is allowed to write off hopper fills, jackpots and advertising by shilling its customers.

The current tax system is more of a net tax than a gross tax system.

Current casino tax structure

monthly tax on Gaming Win or Adjusted Gross revenue

Monthly adjusted win \$ amount	3.00% on first 50,000	4.00% Tax on next 84,000	6.25% Tax on Remainder	Monthly Total tax On Gaming win	Realized Total Gaming Tax %	Comparison if State charged 6.25%
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Northern Nevada Slot Route operators proposed changes to existing gaming tax structure

Proposed Changes to the policy, Regulations and taxation for unrestricted Slot Route locations. These changes will both increase taxes , and correct the monopolistic pressure, that IGT and Bally Gaming has over the slot routes in Nevada

Advantages of the largest slot routes versus the smaller routes

- Lower equipment cost
- Lower parts cost
- Advantages in new technology
- Advantages in Bidding the largest and newest accounts
- Ability to pick and choose accounts
- Power over the remainder of market over product offered.

Disadvantages of the smaller slot route operations.

- Servicing lower volume accounts
- Operating older, many times used equipment at higher cost
- Offering better service, to maintain market share, at higher employee cost.
- Weaker ability to transfer higher energy or fuel cost to customers.
- Weaker contractual and profitability due to operating in smaller accounts with a higher turnover, and closure rate.

A new three tiered system of Taxation and Regulation

- Level 1 Slot operators that operate 1250 gaming machines (lease space or participate) within a quarter during a fiscal year
- Level 2 Slot operators that operate from 750 to 1249 gaming machines (lease space or Participation accounts) within a quarter during a fiscal year
- Level 3 Slot operators that operate from 15 to 749 gaming machines within a quarter during a fiscal year.

The reason for these changes

- By allowing the two major manufacturers to have the ability to place and operate, distribute as well as manufacture, places great monopolistic pressures on the market place. This is evident by the fact that these two companies control the largest slot routes in the state. The advantage over equipment cost, service, and replacement cost of maintenance, creates unfair business advantage over the other 55 route operators. This is why the number of operators has not grown, over the last 20 years, yet the number of games IGT and Bally operate continue to grow.

Taxation and regulation changes of level 1 slot operators license

- pay taxes on a monthly basis as a small casino, as a flat 6.25%
- conduct drops under the same regulations as a casino
- year tax per location would remain the same at a flat \$350.00 per machine per year
- Quarterly reporting of NGC 36 and key employee reports

Restrictive gaming regulations adversely effecting the smaller operations

- Location ownership verification forms, based on each location versus the route licensee
- Prior gaming approval to remove or increase the # of machines, Could be done by allowing operators to increase up to 10 machines without prior approval, as long as initial drawing has shown the placement of the games by numbering them.
- Quarterly NGC 36, I have been told that these numbers are not looked at. Restricted accounts that do not use a operator are not required to file. I would remove this requirement on the lowest level operation.

Taxation and regulation changes of level 2 slot operators license

- Changes in current tax structure as follows
- Increase in quarterly tax based on \$71.00 per game versus the current \$61.00
- The tax increase on the 6th game increases incrementally at \$15.00 per game to 15 Games
- Year tax increased to \$300.00 per Machine
- Quarterly reporting of the NGC 36 and the Key employee reports
- Allow this level to add and remove up to 10 machines, without gaming approval. As per my prior suggestion on machine location

Taxation and regulation changes of level 3 slot operators license

- Changes in current tax structure as follows
- Increase in quarterly tax based on the current \$61.00, change to a flat \$61.00 per machine to 10 games then incremental increases of \$9.00 per machine up to 15 games
- Year tax increased to \$300.00 per Machine
- Require once a year Key employee report, and ownership verification based on the operators versus the license location.
- Currently Gaming Control does not look at or use the NGC 36 revenue reports of the smaller slot routes yet the operators are still required to file the report. I would waive this requirement and continue to have it reported on the fiscal year report.

This tax increase is based on size and ability to pay,

- Bally and IGT are currently using their advantage to limit competition.
- The participation agreements with the larger supermarkets are approaching 90/10 participation agreements.
- The smaller slot route operators cannot be judge and taxed as these two monopolies
- What I propose will increase taxes, and give allowances for size of operation. This system will increase the ability for the smaller operators to bid and compete in the market place
- While increase the monthly tax revenue that the state needs to operate
- These changes would reduce the cost to gaming control by working within the system and allow its managers to decrease unnecessary regulation requirements on the smaller accounts.

Flat line tax increases can no longer be done without further restricting competition

- Without basing regulations and taxes on size and market control, Nevada has turned Gaming from a privilege to a monopolistic privilege
- The smaller slot routes have been stagnate for years mainly due to inability compete
- Flat line tax increases will further lessen competition and access to this revenue for many Nevada small businesses. Both slot routes and the accounts they service, don't mind paying higher taxes as long as the system is fair, and realizes the different size of the businesses effected.
- These smaller operators and smaller accounts rely on this income, and work harder for it.