

## Casino Revenue, Part II – Now What?

Ernie Strawser, PFR Consultant  
April 19, 2012

Ohio's public financial leaders will see a new source of revenue potentially phased in with fiscal year 2012. If the 2012 payment occurs it will be a portion of the phased-in casino revenue allocated for local governments. The business activity (operating casinos) supporting the revenue has no recent historical precedent in the state of Ohio. In addition the business itself is still evolving as legal navigation continues. Our team at PFR recently had a spirited discussion as a result of our research and analysis of impending casino operations in Ohio. At the basis of our discussion the team broached these subjects:

1. Are casino revenue estimates credible?
2. Will the dollars be received all at once?
3. Will casino revenue dollars replace existing state revenue or be new?
4. Should casino revenue be included in the forecast, if so, how much?

Of course there are other questions but these were the gist of our late-night debate and collaborative work via online meetings. Let's take a look at the PFR team's questions and conclusions.

Are casino revenue estimates credible? We believe that they are. The estimates used valid assumptions and economic indicators. Of course variables can change, specifically, the economy. But the estimates are a good starting place for you to use. If you would like more information about the estimates please contact us.

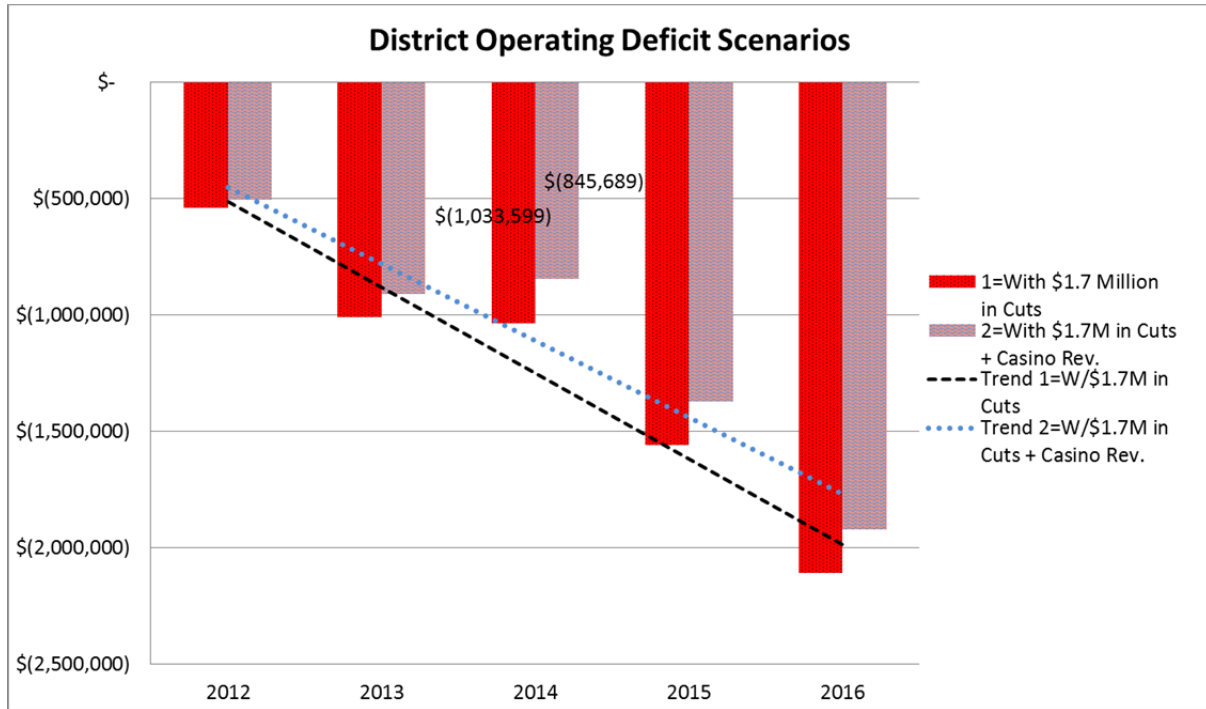
Will the dollars be received all at once? No. The revenue is paid quarterly based upon the gambling activity tax for the previous three months. Also, some of the casinos are opening in 2012 and others in 2013. It will probably be 2014 before the casino revenue represents a full-year of operations.

Will casino revenue dollars replace existing state revenue or be new? The constitutional amendment calls for the revenue to not be used to supplant existing state revenue for schools anyway. For other local governments the case may not seem as evident. However, the revenue may be used to provide a portion, if not all of any new money allocated to public education. The dollars can become comingled over time and so supplanting accountability with respect to what is and what would have been is difficult to say the least.

Should casino revenue be included in the forecast, if so, how much? This is perhaps the main question for the CFO to answer. With credible estimates the CFO should prepare its organization to understand the order of magnitude or potential impact. Let's look at a real-life case study.

- School district operating budget of \$18.5 million
- Operating deficit of \$2.8 million (revenue shortfall) in 2014
- Proposing \$1.7 million in budget cuts in 2013
- Considering local tax levy options

The CFO will model the impact of the potential casino revenue. Does it change the overall trends, reduce levy amounts significantly, or keep the district from making cuts? Is the casino revenue a game-changer? Look carefully at the two trend lines in the chart below to see the modeling by this district's CFO.



Using the estimated casino revenue of \$187,910 fully implemented in the 2014 school year. The blue dashed line represents the district's structural operating deficit with casino revenue. The black dashed line shows the structural deficit without casino revenue. The trend lines in the chart above shows that the structural operating deficit does not change very much at all.

The additional casino revenue, while nice, and needed, certainly does not change the overall financial direction of this district. In modeling the impact of the casino revenue the CFO can gain confidence in her estimated trends and help the organization to make sound decisions.

Should the casino revenue be included? Yes. The question is how? Is it to be included in the revenue estimates? Is it better to reflect the revenue as a disclosure note? Each CFO will make that decision specific to their organization.

One thing is for certain – do not leave it unaddressed in your forecast. Show your stakeholders the amount, the impact, and the change in underlying trend in your district. In many cases, the casino revenue by itself is not a “game changer.” By doing his homework now the CFO will be better able to message his district's key financial indicators and not be steered off course.