

A Profile of Montana Gambling Establishments

The Survey

As part of the 1998 gambling study, the Bureau of Business and Economic Research surveyed licensed gambling establishments in Montana. Questionnaires were mailed in March 1998 to a random cross section of 800 gambling license holders. Responses were received from 427 establishments by July 2, 1998, yielding a response rate of 55 percent. There are no response rate standards for business surveys (Paxson 1995).

The questionnaire was designed to capture business-related items from the gambling establishments in an efficient and unobtrusive manner. For example, the relevant line number was included when the information could be obtained from the respondents' tax forms. Also, the questions closely resembled those in other business surveys—such as the *1997 Census of Business*, conducted by the U.S. Bureau of the Census—which may have been recently completed by the respondents.

Each mailing contained letters from industry leaders supporting this survey and urging their members to complete the questionnaire, which certainly increased the response rate.

General Characteristics

Montana licenses about 1,740 gambling establishments, and nearly all must hold on-premise alcohol licenses. The remaining establishments are either non-profit organizations, or firms that were "grandfathered" in under other arrangements. Each gambling establishment is authorized to operate up to 20 video gambling machines.

The general characteristics of Montana gambling establishments are presented in Table 1. Separate data are presented for establishments based on the number of VGMs. The characterization of these categorizes was based on their revenue sources and is arbitrary. Travel stops are gas stations/convenience stores/casinos.

Gambling establishments with few machines are more likely to be sole proprietorships, and less likely to be corporations. About 40 percent of the establishments with one to five machines are sole proprietorships, compared to 12 to 16 percent for travel stops and casinos. The remaining establishments are partnerships and nonprofit organizations, such as fraternal groups. The legal form of

Table 1
Characteristics of Montana Gambling Establishments

Type	Number of establishments	Video machines	Revenue [thousands]	Revenue sources*	Ownership*	Planned expansion in next year	More than 15 years in business	Had gambling less than 5 years
Establishments with no machines	85	0	\$59	Food 45% Alcohol 30%	Sole Proprietor 45% Corporation 30%	12%	70%	NA
Restaurant with bar	518	1-5	\$296	Food 54% Alcohol 26% Gambling 5%	Sole Proprietor 40% Corporation 46%	14%	53%	21%
Bar with food	464	6-10	\$318	Food 30% Alcohol 38% Gambling 14%	Sole Proprietor 37% Corporation 46%	15%	58%	20%
Restaurant with bar/casino	309	11-19	\$397	Food 29% Alcohol 33% Gambling 28%	Sole Proprietor 30% Corporation 61%	17%	52%	16%
Travel stop	234	13.5 (average)	\$2,454	Food 14% Fuel 65% Gambling 19%	Sole Proprietor 12% Corporation 79%	3%	58%	47%
Casino	130	20	\$811	Food 22% Alcohol 13% Gambling 62%	Sole Proprietor 16% Corporation 75%	21%	31%	26%

*Totals do not add to 100.

NA: data not available.

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

organization determines the financial reporting rules an establishment must follow.

Most establishments predate the introduction of video gambling in 1985. More than half of the establishments in each type of category have been in business more than 15 years. However, more than two-thirds of establishments in the casino category (each with 20 VGMs) have been in business less than 15 years.

Most establishments have long featured gambling. Only travel stops have recently changed their character, with 47 percent adding gambling in the last five years. The corresponding figures for the other types of establishments ranged from 16 to 26 percent.

With the exception of travel stops, between 12 and 21 percent of the gambling establishments plan to expand during the next year. Only 3 percent of travel stops plan to expand next year, perhaps because many of them recently remodeled when they added gambling.

Financial Condition of Gambling Establishments

Montana gambling establishments received about \$923 million in revenue in 1997. Gambling activities accounted for about \$219 million, roughly 24 percent of total revenue. Other important revenue sources included food (27 percent), alcohol (19 percent), and gasoline and fuel (22 percent). Miscellaneous revenue sources, such as membership dues, accounted for the remaining 9 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 \$358 million, or 41 percent of total expenses. Payroll costs, including fringe benefits, totaled about \$150 million, or 16 percent. Rent for video gambling machines was about 19 million, or 2 percent. Other costs include taxes and licenses (3 percent), advertising (2 percent) and interest (2 percent).

With products ranging from gasoline to video poker, and widely different rules for financial reporting, gambling establishments' diverse sales and operations are difficult to track. The technical definition of profit will be different for each establishment, depending on their accounting practices and whether they are a proprietorship, partnership, corporation, or nonprofit organization. As a result, profit cannot be calculated for this industry.

Net margin provides an overall financial perspective of Montana gambling establishments and may be calculated from revenue and expense data. The gambling establishments reported total revenue of \$923 million and expenses of about \$795 million, leaving a net margin of \$128 million, or 13.8 percent of total revenue. The net margin includes before tax returns to owners (proprietors, partners, and stock holders), capital charges, and certain other costs not specified on the questionnaire (such as casino promotion). The value of the liquor license—which can exceed \$350,000 in certain areas—is not explicitly included in these calculations.

Gambling establishments differ significantly in their sources of revenue. As shown in Figure 2, revenue gener-

ated from gambling ranges from 5 to 62 percent, depending of the type of gambling establishment. The maximum share of 62 percent was reported by those establishments with 20 VGMs. This is the only establishment category where gambling provides more than one-half of the total revenue.

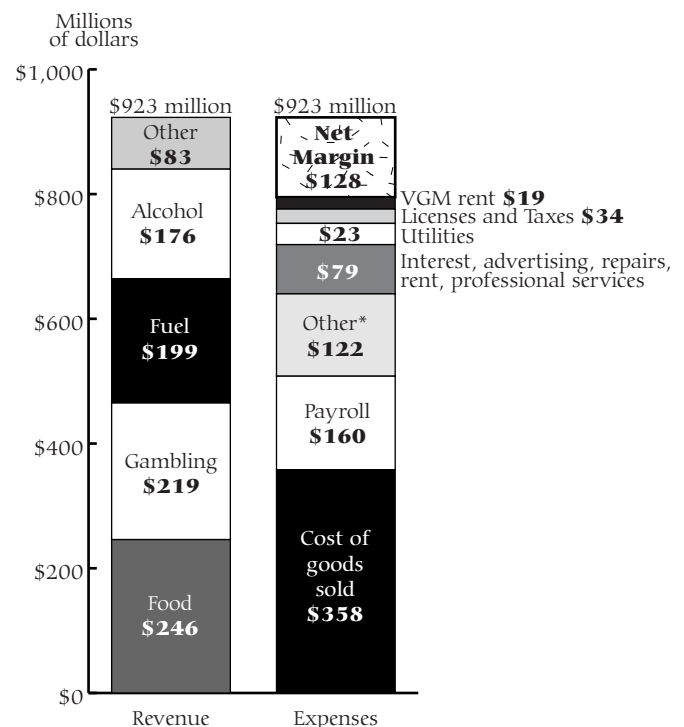
The net margin cannot be calculated for the six types of gambling establishments because of the variations in ownership, products, and accounting practices. The best estimate of net margin for each category is the industry-wide average of 13.8 percent.

Gambling Establishment Employment and Wages

There is no standard definition for gambling-related employment. Three separate estimates are presented in Figure 3, and they provide ranges in employment and worker numbers for 1997.

- Total gambling establishment employment was 16,300 workers.
- Roughly 10,000 employees (of the 16,300) have face-to-face contact with gamblers.
- Revenue allocated jobs refers to employment fully supported by gambling. The estimate of

Figure 1
Revenue and Expenses
Montana Gambling Establishments, 1997



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

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3,700 workers is based on the gambling establishments' 24 percent of total revenue that is derived from gambling.

Employees at gambling establishments earned an average of \$189 per week, excluding benefits and tips. The corresponding figure for those with face-to-face contact could not be calculated because of different reporting schemes. Assuming they worked 51 weeks per year, the estimated average annual wage for all gambling establishments workers was \$9,600. In comparison, the 1997 statewide average for workers in eating and drinking places was \$8,200. Employees in amusement and recre-

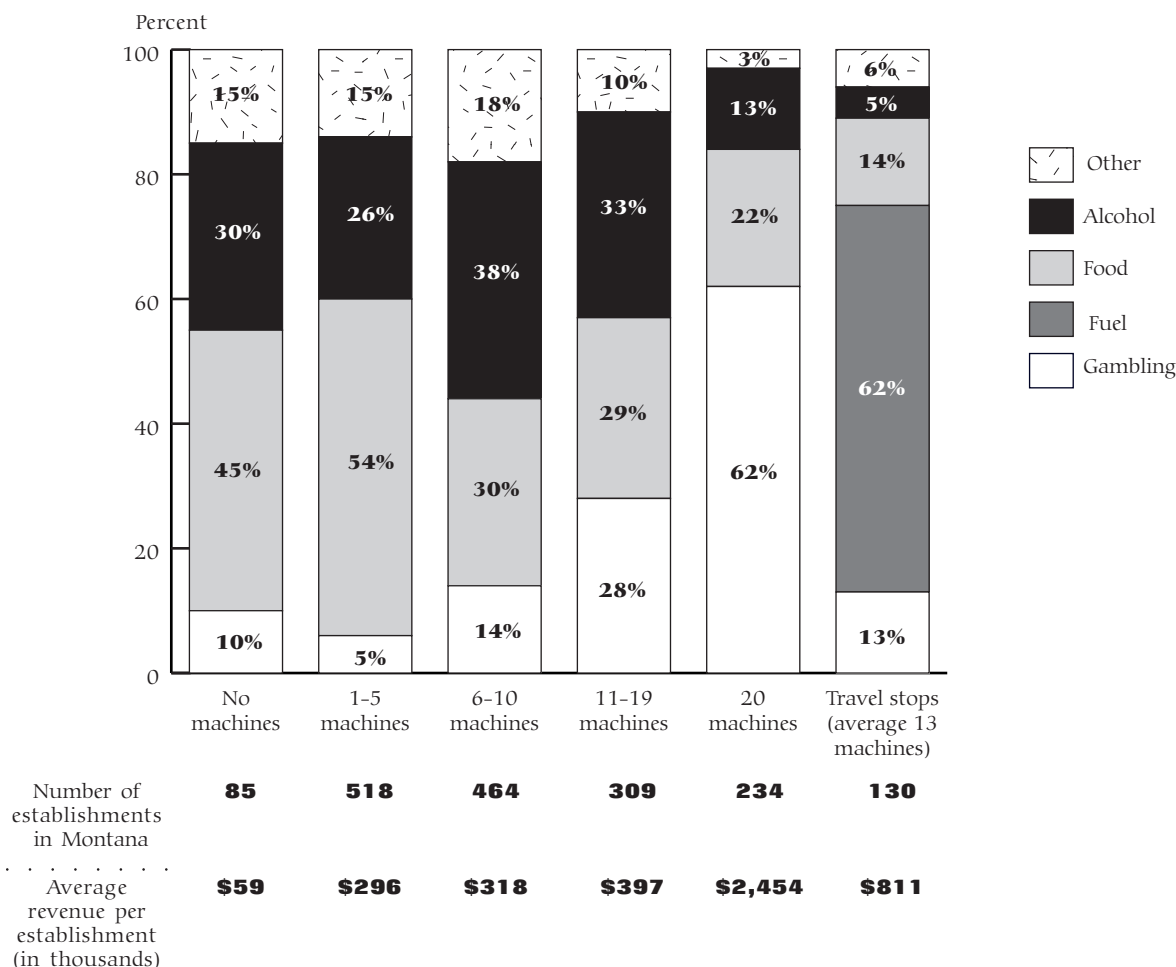
ation services earned an average of \$11,000 per year, and employees for hotels and lodging places earned an average of \$10,900. These latter figures may include some tips.

The average hours worked per week for all gambling establishment employees was 29. The corresponding figure for face-to-face workers was 30.

Gambling Manufacturers

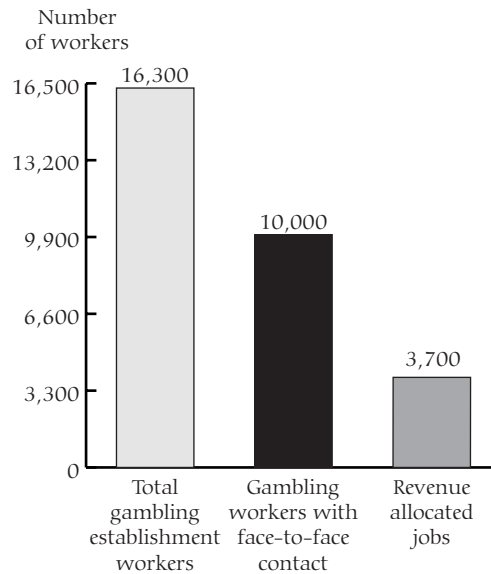
There are three gambling products manufacturers in Montana with total employment of approximately 375 people. These workers average about \$34,000 annually in wages and salaries, well above the earnings for workers in gambling establishments.

Figure 2
Sources of Revenue
Montana Gambling Establishments, by Type, 1997



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

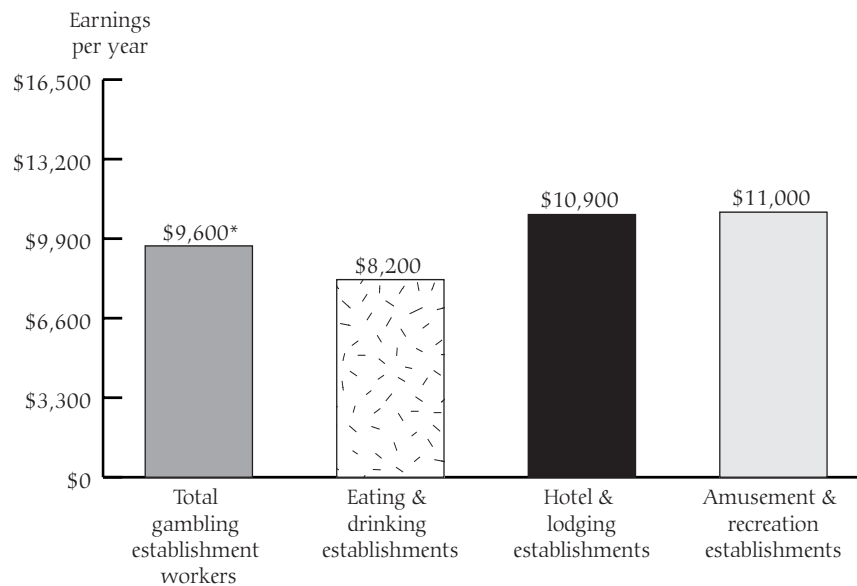
Figure 3
Gambling Establishment Employment, 1997
Alternative Definitions



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

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Figure 4
Average Annual Wages and Salaries, 1997



*Based on 51 work weeks per year.

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

American Indian Tribal Gaming

American Indian tribal gaming is authorized under the Indian Gaming Regulatory Act of 1988. As summarized in Table 2, two Montana tribes have not yet signed compacts with the state, and four others have signed in the last two years. American Indian tribal gaming compacts generally permit only those games that are allowed elsewhere in that state. In Montana, table games such as craps and black jack are not allowed at tribal casinos.

The state of gambling on reservations and the apparent higher rates of gambling participation among American Indians do not appear to measurably affect nearby gambling establishments. The 17 gambling establishments adjacent to the Fort Peck Reservation have these similarities to their statewide counterparts:

- They average about seven VGMs per establishment.

- Gambling accounted for about 13 percent of total revenue, compared to the statewide average of 14 percent for similar establishments.

Conversely, gambling establishments adjacent to the Fort Peck Reservation generated an average annual revenue of approximately \$150,000, which is about one-half the statewide figure for similar establishments.

VGM Vendors

Vendors, also known as route operators, provide about 66 percent of Montana's VGMs to gambling establishments under a variety of rental, lease, and revenue-sharing agreements.

Most route operator licenses are owned by Montanans, although there is no legal requirement concerning resi-

Table 2
Montana Tribal Gaming
July 1, 1998

<u>Tribes</u>	<u>Compact</u>	<u>Compact effective date</u>	<u>Compact length</u>	<u>VGM payout limit</u>	<u>VGMs per business</u>	<u>Types of Gambling</u>
Assiniboine & Sioux (Fort Peck)	Yes	6/24/92	10 years	\$1,000	100 tribal 20 individual members	VGM, simulcast racing, live keno, lottery
Crow	Yes	3/6/96	5 years	\$1,000	100 tribal in Crow Agency	All games legal under state law
Chippewa-Cree	Yes	5/10/96	Automatic extension	\$1,000	100 tribal 20 individual members	All games legal under state law
Northern Cheyenne	Yes	4/30/98	10 months	\$1,000	100 tribal	All games legal under state law
Blackfeet	No					
Confederated Salish & Kootenai	Yes	3/17/97	3 years	\$1,000	41 at single tribal locations 20 other tribal 20 individual members	All games legal under state law
Gros Ventre & Assiniboine (Fort Belknap)	No					

Note: Tribal Gaming establishments operated by tribal members on tribal land do not pay state gambling taxes or fees.
Source: Montana Gambling Control Division.

dence. As shown in Table 3, only four of the 99 vendors are owned by nonresidents, and seven have both resident and nonresident owners.

Route operators fall into three groups:

- Gambling establishment owners who are also route operators. Many gambling establishment owners have chosen to legally separate VGM ownership from their operation, perhaps to take advantage of financial opportunities. These route operators include those with a small number of VGMs (under 40) and several with hundreds of VGMs at multiple statewide locations.
- Vendors providing a variety of coin-operated machines, including VGMs, video and pinball games, and vending machines.
- Vendors specializing in VGMs.

Vendor employment and wages have not been estimated, except to the extent that they are included in the reports for gambling establishments with common owners. Vendors may also be classified in a number of industries, and their employment and wages are not easily derived using published data.

Concentration of License Ownership

Several entities own or partially own numerous gambling licenses, but most own or partially own only one. In one case, a single name appears on 35 licenses. About 45 percent of the owners of vendor (manufacturer, distributor, and route operator) licenses also own all or part of a gambling license.

Montana Gambling Control Division records show 2,542 entities (either people or corporations) that own all or part of a gambling or vendor license, as shown in Table 4. There are 2,411 entities that own only one license, 82

Table 3
Montana Video Gambling Machine Vendors
By Ownership and Number of Machines

<u>Number of Machines</u>	<u>Total vendors</u>	<u>Montana owners</u>	<u>Out-of-State owners</u>	<u>Montana and out-of-state owners</u>
0-10	13	12	1	
11-20	24	23		1
21-30	8	7		1
31-40	16	15	1	
41-100	12	10	1	1
101-200	11	10		1
201-400	6	5		1
401-600	4	3		1
601-800	3	2		1
801 and over	2	1	1	
Total	99	88	4	7

Source: Montana Gambling Control Division.

entities that own two licenses, and 49 entities that own more than two licenses. There are 10 entities that own 10 or more licenses, and one entity that owns 35 licenses.

Of the 2,542 licensed entities, 2,372 own or partially own only a gambling licenses, while 94 own or partially own only vendor licenses. There are 76 entities that own both gambling and vendor licenses.

Tables 4 and 5 are based on data provided by the Montana Gambling Control Division. These reports list the entities that own or partially own gambling or vendor licenses. These records do not show the owners' state of residence or the proportion of ownership. Both corporations and individuals are listed.

The interlocking ownership of gambling establishments and route operators may affect the apparent

concentration rental VGMs. For example, a statewide chain of travel stops may be serviced by one route operator license, because the owners have found it advantageous to separate VGM ownership from operation. In this case, ownership of a large number of machines does not indicate market power, but simply a financial reporting practice and perhaps a tax advantage. More detailed information to identify to various types of route operators was not provided by the Montana Gambling Control Division, because they believe they cannot legally do so.

References

Paxson, M. Chris, Don A. Dillman, and John Tarnai. 1995. "Improving Response to Business Mail Surveys," in Cox, Brenda, et al., *Survey Methods for Businesses, Farms, and Institutions*. New York, NY: John Wiley Co. Pp. 303-315.

Table 4
Concentration of Gambling and Vendor License Ownership, 1998

<u>Gambling/vendor licenses owned</u>	<u>Number of entities</u>	<u>Percent of total</u>
More than 2	49	2.0
2	82	3.2
1	2,411	94.8
Total	2,542	100.0

Source: Montana Gambling Control Division.

Table 5
Individuals with Gambling and/or Vendor Licenses, 1998

<u>License owned</u>	<u>Number of entities</u>	<u>Percent of total</u>
Gambling only	2,372	93.3
Vendor only	94	3.7
Both gambling and vendor	76	3.0
Total	2,542	100.0

Source: Montana Gambling Control Division.