Since 1997, when the Legislature stepped in to save them, cardrooms in Washington have made a strong comeback.

Their numbers and revenues have increased markedly. Since 1996, cardroom revenue has jumped nearly sixfold to $109 million.

That has meant more tax revenue for cities. Taxes cardrooms paid to cities and counties in fiscal 1999, ended June 30, totaled $12.2 million, up by a factor of nearly seven from $1.8 million in 1996.

Today, better than half of the cardrooms across the state no longer conform to the old image of small, smoky, bare rooms where customers grouped at a few tables to play poker.

What state regulators call “enhanced cardrooms” – often referred to as “minicasinos” by the press – vie with one another to feature the kind of décor, service and entertainment that can attract and hold the more social and lucrative blackjack players.

In 1996 and 1997, seeing that the industry was losing customers by the drove, the Legislature granted cardroom operators permission to triple their tables and to offer house-banked blackjack, wherein players bet against the cardroom: when they win, the cardroom pays them; when they lose, the cardroom takes in the money bet by the players.

The advent of tribal casinos in Washington during the early 1990s posed a lethal threat to the state’s small cardroom industry. While cardroom owners were severely restricted to offering customers no more than five tables for small-wager poker games, tribal casinos opened with a full range of tables games, including blackjack, craps and roulette.

As their customers flocked to the tribal casinos, cardroom owners saw their revenue plummet. For 1996, the cardroom industry reported a 17 percent drop in gross receipts.

Cardroom owners took their plight to the Legislature, which responded in 1996 and 1997 with legislation aimed at making cardrooms more competitive. The most significant change in state gaming law by legislators was that of allowing cardroom owners to offer house-banked card games, in which customers bet against the establishment rather than against each other.

House-banked blackjack has made all the difference to the cardroom industry. Since 1997, the number of cardrooms has grown to 92 from 83. Since 1996, cardroom revenue has soared nearly sixfold to $109 million. At the same time, expenses and industry employment have also increased dramatically.

Nonetheless, in 1998 cardrooms represented only 5 percent of the state’s legal gambling activity.
New Competitors, New Games

Before the Legislature acted, cardroom owners had been losing customers to tribal casinos. In 1991, the Tulalip and Nooksack tribes were the first to enter into compacts with the state to operate Class III casinos – Nevada-style casinos featuring such house-banked games as roulette, craps and blackjack. Now 12 tribal casinos operate under formal agreements with the state, and six others independently.

Cardroom owners had been hampered by state law limiting each owner to five small tables for small-stakes poker playing. Owners made money by charging players a “chair” fee of up to $3 per half-hour. Card players were permitted to bet no more than $10 a hand for poker and $24 a hand for a strangely structured game called Washington blackjack.

Tribal casinos, by vivid contrast, had been marketing a full range of table games, including standard blackjack, craps, roulette, and now the new electronic lottery machines (“slots”). No contest. Once the tribal casinos came on line, it was doubtful that the old, severely constrained cardrooms could hold their own.

By 1995, the cardroom industry was headed into decline, according to Frank Miller, who served as director of the Washington State Gambling Commission (WSGC) from 1991 through 1997. “It was really hurting.”

(Figure 1 shows the decline in the number of cardroom licenses prior to 1999 from their peak in 1991.)

George Teeny, owner of the New Phoenix and Last Frontier, in La Center, recalls that tribal competition slashed his business by 40 percent and forced two other nearby cardrooms to fold. Fred Steiner, owner of Diamond Lil’s, in Renton, saw his monthly revenue plummet by 60 percent.

For 1996, the cardroom industry reported a 17 percent drop in gross receipts, to $15.3 million, from the year before.

The industry responded by taking its problems to the Legislature and lobbying hard for new rules that would enable it to survive tribal competition. In 1996, legislators moved to give cardroom owners a greater ability to compete. Cardroom owners were permitted to increase the number of their tables from 5 to 15; to charge card players per-hand fees or to “rake” in a percentage of each pot (up to 10 percent or $5, whichever is lower) or to charge per-hour fees; and to organize player-supported jackpots.

The Gambling Commission increased the betting limit to $25 for
Washington blackjack and also for poker, provided owners agreed to employ a closed-circuit television surveillance system. Otherwise, poker wagers were limited to $10.

All this helped. But not enough. The following year, in 1997, cardroom owners asked the Legislature to grant them more options. Lawmakers responded by passing SSB 5560, authorizing house banking.

In 1996, the Gambling Commission – the fee-supported state agency charged with regulating gambling activities authorized by the Legislature – began a pilot regulatory test aimed at determining the best rules for implementing legislative changes and regulating the new activities allowed to cardrooms. The test was scheduled to end July 1, 1999, but the Commission elected to extend the study until March 2000 before adopting final rules governing enhanced cardrooms. “The study has allowed staff to evaluate the level of regulation and the cost to the agency to regulate these activities, prior to developing rules,” the Commission said in its March 1999 newsletter.

By the end of the second quarter of 1999, of the 92 active cardrooms in the state, 47 had been approved for house banking. (See Figure 2) And through October 1999 a total of 59 cardrooms had received Gambling Commission approval, although some were not in operation.

(Figure 3 shows both the decline in revenues prior to approval of house banking and the sharp increase in 1999.)

Freeze Requested

In January 1999, the Gambling Commission published a Cardroom Pilot Study Report, projecting that “80 house banked cardrooms will be operating within the next few years.”

However, the report was issued before Gov. Gary Locke in April called for freezes on both the
approval of new enhanced cardrooms and on the enactment of new gambling legislation. In a letter to legislators and the Gambling Commission, Locke said, “I am convinced we could all use a cooling-off period before adopting or rejecting” any new gambling legislation.

Locke’s letter was prompted by the proliferation of legislative proposals and plans before the Gambling Commission, many of which were in conflict with each other or that affected other areas of state law and policy.

The governor also wrote: “If these moratoria are imposed, I will then ask local governments across the state to refrain from making any tax changes relating to the gambling industry.”

The Gambling Commission responded by slowing the rate of house-banking application approvals to no more than two a month from the previous rate of three or four.

At the same time, the Commission apparently tried to allay concerns that minicasino growth was out of control. In its May newsletter, the Commission declared: “As our licensees can attest, gambling is well regulated in Washington; the gambling statutes are some of the strictest in the nation. The Gambling Commission performs criminal background investigations on all cardroom owners and cardroom employees. We also perform a financial investigation on the cardroom operators to verify who has invested in the operation and where they received their funds. In addition, our Agents, who are commissioned law enforcement officers, routinely inspect the businesses. We also have Agents who work in an undercover capacity to ensure that the games are conducted fairly and honestly.”

To the industry’s dismay, many cities have banned cardrooms. In 1999, Kenmore, Marysville, Shoreline and Tukwila imposed moratoriums on new cardrooms.

In July of that year, the Pierce County Council voted to ban new cardrooms in unincorporated areas. And in October, Tacoma’s city council adopted a controversial ordinance banning new enhanced cardrooms and gave other license-holders a business life of five years.

In all, 35 cities across the state prohibit cardrooms, according to the Gambling Commission’s tally. There may be others; cities are not required to report moratoria to the commission and there is no official list. Among the cities banning cardrooms or restricting additional entrants to the market are Seattle, Bellevue, Gig Harbor, Puyallup, Longview, Kirkland, Vancouver and Wenatchee.

Municipal Zoning Power Uncertain

Part of the problem stems from debate about whether cities may use their zoning power to regulate where cardrooms may operate. Tukwila, for instance, adopted a moratorium not out of fear that more cardrooms would result in more crime, but because of uncertainty about the zoning issue.

A March 8 state Attorney General memo notes that “the Gambling Commission has exclusive authority to license and regulate gambling
activities authorized under the Gambling Act. This provision specifically preempts any local jurisdiction’s authority to do so, except as specifically outlined in the Act.”

The memo goes on to opine that municipal ordinances that “prohibit gambling activities in certain areas under the local jurisdiction’s zoning authority” conflict with the Gambling Act. In municipally zoned areas that allow for businesses “primarily engaged in the selling of food or drink for consumption,” the memo says, “it is beyond the purview of the local jurisdiction to determine whether they may also engage in gambling activities on that premises.” So cities apparently are left with the choice of allowing cardrooms, providing they’re linked to a business selling food and drink, or banning them altogether.

The Association of Washington Cities disputes this interpretation of the law. The association agrees that cities may not regulate internal cardroom operations pertaining to gambling, such as betting limits and so on. But cities may act on matters outside the Gambling Commission’s regulatory scope, the association contends, and that includes determining where within a city cardrooms may locate.

The Recreational Gaming Association (RGA), the statewide cardroom industry association, sides with the cities. For if cities have the option of controlling cardrooms through zoning, they might refrain from banning them. The RGA and Association of Washington Cities plan to support legislation clarifying the authority of cities to zone cardrooms.

Cardrooms Small Slice of Gambling Activity

Cities are not the only ones concerned about gambling. The Legislature is, too, seeing that Washington residents now spend about $2 billion a year on gambling. In late July of 1999, the Legislature’s House and Senate Commerce committees held the first of four public hearings on gambling – which besides cardrooms includes tribal casinos, horse racing, bingo games, punch boards, pull tabs and the state lottery. Cardroom owners are quick to note that they account for only a small slice of the gambling pie.

As Figure 4 depicts, in 1998, cardrooms represented just 5 percent of net receipts from gambling operations. While the emergence of house banking has increased cardroom revenues, so too has the introduction of slots increased the revenue stream for tribal casinos. More recent data on

![Figure 4: For 1998 cardrooms represented only 5% of gambling in the state.](image-url)
gambling operations are not available, but it is clear that cardrooms continue to represent a small fraction of the state’s gambling activity.

Senate committee staff have indicated that legislators are taking another look at gambling because with the overall industry’s growth in this state, gambling interests – including charitable organizations – are pressing the Legislature for permission to expand their gaming activities.

Former Gambling Commission director Miller, now a Tacoma gaming law attorney, had predicted this would happen. In his March newsletter, Miller said: “The challenge facing the gaming industry in Washington today is the equitable division of the gambling pie. What complicates this issue is the uncertainty of the impact of recently negotiated compact amendments with 20 tribal governments authorizing a new form of Class III electronic gaming.”

In June, the Gambling Commission approved video lottery machines – essentially, slot machines – for tribal casinos. For cardroom operators the competition from tribal casinos increased dramatically. Up to 425 machines are permitted in the first year of operations, increasing to 675 after twelve months, with a maximum of 1500 machines per tribal facility.

New electronic gaming is going to strongly affect the other players in the gambling industry, Miller said. “It is only a matter of time before all these sectors of the industry march into the state capital to seek relief to protect their share of the gambling pie.”

Community Impacts

Though cardrooms account for only a small part of the gambling pie, there are people who protest that minicasinos stain their communities with attendant crime and disrepute. The industry has responded with efforts to show that cardrooms are small service businesses that contribute to their communities, not detract from them.

On February 11, 1999, the Seattle Times published an op-ed column by Vito Chiechi, executive director of the Recreational Gaming Association, responding to charges by King County Executive Ron Sims about the “proliferation” of cardrooms that has “led to crime, reduced property values, and businesses leaving the neighborhood.”

Chiechi declared that Sims had been unable to substantiate his indictment. And he said that “Sims’ unfounded assertions – widely parroted in the press and among local jurisdictions – have the potential to hurt thousands of decent, hard-working, real people.”

These people work for decent, law-abiding small businesses, Chiechi said. “The fact is, today’s cardrooms, often called ‘minicasinos,’ are attractive, local operations, which, as far as gambling is concerned, are truly ‘mini’ in scope. They’re limited to 15 tables of card games, such as blackjack, with wagering limits of $25. No craps, no keno, no roulette, like the more sophisticated tribal casinos with $500 betting limits; and no slots like tourist casinos in neighboring British Columbia and Oregon, not to mention
Nevada. Betting limits of $100 are authorized only after an extensive, costly review process that only a few cardrooms have chosen to undergo."

Later on that month, cardroom workers rallied in Olympia to protest proposed measures restricting or eliminating minicasinos. The Seattle Times began a story on the rally this way: “For Sandra Rodriguez, a job as a card dealer at Goldie’s Shoreline Casino could mean paychecks instead of welfare checks.” Farther on, the story returned to Rodriguez: “‘I really want to have this job,’ said Rodriguez, a mother of two who expects to make $50 to $60 a day as a dealer. ‘I just feel like finally something is coming to me and they want to take it away from me.’”

A Gambling Commission survey confirms the relatively high compensation paid to cardroom employees. Fifty-six establishments, representing 4,662 employees, responded in late August 1999, to the Commission survey. Twenty-seven cardrooms provided medical benefits, including nine of the ten largest. Seven offered retirement benefits. Wages for floor supervisors ranged from $9 to $23 per hour; at the ten largest cardrooms, wages ranged from $15 - $19.25 per hour. Cashiers at the largest businesses received wages of from $8 - $15 per hour, and security personnel were paid from $7 - $20 per hour.

Cardroom owners point out that they employ many good people with little education, many of whom are former welfare recipients, and give them the opportunity to make much more money than they could in other jobs. Bob Brennan, co-owner of the Royal Casino, in Everett, says he pays his roughly 70 card dealers the minimum wage, but with tips they earn between $40,000 and $42,000 a year. With their level of education and job experience, Brennan says, these employees could not make nearly as much money in other jobs. Many of the people he first hired were unemployed, irregularly employed or on welfare.

In late 1988, the Recreational Gaming Association (RGA) commissioned a survey “to assess and document the view and perceptions of the cardroom workers themselves about their jobs, and about the issue that have a critical impact on their lives.”

The RGA published the results of its unscientific survey in April 1999, observing that “the jobs we create, the taxes we pay, and the stability we provide are making an important difference in our communities.”

Clearly that’s the case in La Center, a town of about 1,500 near Portland that has four enhanced cardrooms. In a 1999 front-page article on gambling in Washington, the Seattle Post-Intelligencer noted that the tax revenue from La Center’s cardrooms support nearly half of the city’s $4.4 million budget and employ a workforce equal to a fourth of its population.

Seeing that the town had no tax base, the city council in the 1980s allowed several cardrooms to move in, restricted them to a four-block area and imposed a 15 percent tax on their gross revenue. La Center’s mayor, Liz Cerveny, says the town has experienced no resulting crime problem.

The RGA survey was based on 386 returned questionnaires. It reflected responses from 39 businesses, which employed 3,792 employees working in their cardroom and other operations. In analyzing the prior work
experience of responding cardroom employees, the RGA said, “What is significant about these numbers is that today’s cardroom workers came from jobs with generally low or minimum wage pay, often with little opportunity for advancement. A gaming job in the cardroom industry – e.g. a blackjack dealer – generates between $10-17 per hour, from wages and gratuities combined.”

The survey includes comments from cardroom employees. This from casino manager Lin Hertel: “It’s important to know that this industry is a service industry like any other in the recreation field.” And from cage supervisor Michelle Fokey: “This job enables me as a single mother of two to support my children without asking for aid from the state.”

Business Operations

Cardrooms are small businesses, and except for the card games they offer, essentially no different than other for-profit service providers. They face the same issues of raising equity and debt capital, of ironing out problems pertaining to management, marketing, staffing and customer service.

By state law, cardrooms must offer on-premise food and drink. Typically, they are linked to a restaurant and lounge. Some are attached to bowling alleys, providing the owners with revenue during the off-season. Some offer pool, darts or dancing as well as card-playing and pull-tab gambling.

(As Figure 5 shows, cardrooms’ greatest investment is in personnel. According to filings with the state gambling commission, wages represent 52 percent of cardroom expenses. Taxes represent the second greatest expense, 22 percent.)

But people go to cardrooms mainly to play poker or other card games. At enhanced cardrooms, the most popular game is blackjack. Other card games include Caribbean stud, progressive blackjack and let-it-ride-bonus.

Cardroom owners say what they really offer is recreation. “We stress entertainment,” says Rick Jones, general manager of Silver Lanes, in Spokane. “People want to get away, have fun, play a game.”

In “The Economics of Casino Gambling,” University of Nevada economist William Eadington writes that “one can view customers of gambling services as rational economic actors, who are typically
purchasing a commodity that offers entertainment and excitement, as well as some hope of acquiring a higher level of income and wealth, in spite of the games’ negative expected monetary value. Within the context of the modern casino, one can argue that the customer is purchasing a package of entertainment amenities centered on casino activities.

Growth of the Gambling Industry

Apart from other cardrooms, the biggest competition cardroom owners face is from tribal casinos. In 1988, Congress passed the Indian Gaming Regulatory Act, defining “the relationship of states to tribes in regulating Indian gaming within their borders,” according to Eadington. Between 1990 and 1997, Indian casinos opened in 20 states.

Tribal casinos showed up in Washington after the Gambling Commission in 1992 approved four tribal-state compacts. Today, the National Indian Gaming Association lists 18 tribal casinos in this state.

In “The Business of Gaming: Economic & Management Issues,” Eadington and colleague Judy Cornelius discuss casino growth: “The casino industry has indeed evolved at warp speed, in comparison to most other industries of the late 20th century. It has moved out from the gray shadows of illegitimacy and become a major and visible presence on Wall Street and Main Street.

“Much of this is a direct result of extensive growth. Casinos and casino-style gaming – limited to Nevada and Atlantic City as recently as 1989 – could be found in nearly 30 states by 1999.

“The venues and forms for casinos also multiplied – riverboats, racetracks, mining towns, Indian reservations, urban and suburban casinos, etc. Furthermore, casinos exist under a variety of market structures (competitive, exclusive franchise monopoly, regional monopoly, oligopoly) and ownership regimes (private sector with low tax rates; private sector with high tax rates; government owned and privately managed; government owned and managed).

“Ownership of casinos in America is now characterized by publicly traded corporations with broad-based institutional participation. The biographical profiles of modern casino executives and managers look much like those of executives and managers in the hotel, airline or insurance industries.”

Other than tribal casinos, none of this pertains to Washington, where minicasinos operate more like conventional small businesses, but Eadington’s work provides a context for showing just how small the local cardrooms really are. In 1998, total cardroom revenue in Washington state amounted to $30 million, equal to only 17.6 percent of the $170 million taken in by tribal casinos, according to the Gambling Commission.
Significant Investment Required

As with any business, however, enhanced cardrooms need capital to get started. Fred Steiner, a Renton businessman who owns or co-owns four cardrooms, says his Everett enhanced cardroom required nearly $4 million in capital. Bob Brennan and partner Jim Flood needed about $5 million for their Royal Casino cardroom. Gary Murrey, owner of Wizards Restaurant and Casino, in Burien, says it takes about $2 million to open a minicasinio. Indeed, the owners of a proposed new enhanced cardroom in Yakima reportedly plan to invest just that amount.

Tom Humphrey, legal affairs director at Michels Development L.L.C., in Sea-Tac, estimates that adding a cardroom on to an existing restaurant takes a minimum of between $250,000 and $300,000, to cover the cost of internal controls, gaming equipment, security equipment, remodeling and enough working capital to cover the first six months of expected operating losses.

Organized a few years ago to own, operate and manage cardrooms, Michels Development owns two enhanced cardrooms and manages five. In deciding whether to invest, the company first analyzes the market it has in mind, looking at the demographics, the competition and potential competition. It determines whether the market offers a population base that can support one or more cardrooms.

Then the company does financial projections, weighing whether a new cardroom can yield revenue sufficient to cover debt service and overhead and to make a reasonable profit. It reviews data published by the Gambling Commission, checks out cardrooms on comparable locations and extrapolates to calculate the projections.

Investments in enhanced cardrooms have paid off. Cardroom owners submit quarterly income and expense statements to the Gambling Commission. The filings show the overall effects of the 1996 and 1997 legislation on cardroom operations.


The big revenue increases in 1998 and 1999 coincided with the growing number of enhanced cardrooms, authorized to market house-banked blackjack. The first enhanced cardrooms opened in the fourth quarter of 1997. At the time, two of the total 81 cardrooms reporting to the Gambling Commission were enhanced. Their number and percentage of total cardrooms have climbed steadily since then, reaching 47, or 51 percent of all cardrooms, by the second quarter of 1999, according to the latest Commission report.

Blackjack has made all the difference to cardroom prosperity. There are big differences between the blackjack and poker-playing groups, says minicasinio owner George Teeny. “There’s probably 40 or 50 blackjack players for every poker player. Blackjack players have more money to spend. And the game is easier to understand; it doesn’t take years of studying the game to expect success.”
Employment Growth

Meanwhile, the number of people employed by cardrooms has kept pace with revenue growth, as measured by wages. Total wages paid by cardroom operators have increased steadily since 1996, rising from $4.6 million to nearly $43 million in 1999 – an increase of more than 900 percent.

Data are unavailable for a comparison of the actual number of employees for years 1996 and 1999. A recent Gambling Commission survey pegs the current number of enhanced-cardroom employees at 4,663.

Owners of cardrooms that converted to house-banked operations say they’ve beefed up personnel not only because business has picked up but because state regulations require it, for better security.

(Figure 6 details the changes in expenses and revenues for a typical cardroom before and after the conversion to house banking. This representation, based on data gathered from seven cardroom establishments, shows both the dramatic increase in expenses and personnel costs and the significant growth in taxes paid by the businesses following conversion.)

Silver Lanes manager Rick Jones says he increased his staff to about 200 from 70, following his operation’s 1997 conversion from a traditional cardroom to a 15-table enhanced cardroom. Jeff Combe, owner of All Star Lanes Restaurant, in Silverdale, says he hired another 110 employees after converting to house banking. Keith Vormsberg, owner of the Golden Nugget, in Tukwila, added 50 more employees. And George Teeny, owner of two enhanced cardrooms in La Center, says, “We went from about 35 employees to about 250.”

Just as wage expenses have risen, so have outlays for supplies, everything from cards and chips to laundry and paper. Supply costs rose from about $241,000 in 1996 to $6.8 million in 1999. Many of these dollars presumably fed directly into local communities.

A better measure of the dollar-benefits to local communities is advertising expense. It has soared dramatically, from about $389,000 in 1996 to $6.8 million in 1999.

It should be noted that the numbers collected by the Gambling Commission provide a somewhat incomplete and misleading picture of the cardroom business. The reported dollars spent on capital investment and supplies are understated because of regulatory accounting conventions. And net income reported by cardrooms fails to account for both non-gaming revenue and costs associated with what in reality is a unitary business.

Gambling Taxes

Best of all for cities that have cardrooms has been the roughly sevenfold increase in tax revenues. Figure 7 shows the local tax collections from house-banked cardrooms for the second quarter of 1999. As new cardrooms open, these figures will increase substantially, so data from the most
Both revenues and expenses increase when a cardroom converts to house banking

The effect on a cardroom operation of the shift to house banking is reflected in these numbers, derived by averaging the experiences of seven existing cardroom that converted to house banking in late 1997 and early 1998.

Prior to the transition to house banking, cardroom revenues were less than one-half million dollars a year, as the establishment did not participate in the gaming and only collected by renting seats at the table to the players. Costs were correspondingly low.

As the establishment becomes a direct participant in the games, expenses grow dramatically.

Revenue from food and drink sales fell somewhat in the year prior to the transition to house banking, reflecting the loss of business resulting from the competition from Indian casinos. Food and drink revenue rose by about 20 percent after the transition to house banking. This considerably understates the increase in food and drink volume. Prior to the initiation of house banking, the establishment made its money on food and drink. For the house-banked cardroom, food and drink are a service provided to the gaming patrons, and gaming revenues subsidize their cost.

Wages and taxes are the two largest components of expense for the house-banked cardroom.

Because the establishment runs the games, employment increased dramatically with the transition to house banking.

In addition, tax payments increased greatly. The federal taxes depicted here include the federal unemployment insurance tax, social security and Medicare taxes, and the federal gambling tax. (Income taxes on the establishment’s profit are not included.) State taxes include the state unemployment insurance tax, the workers compensation tax, and the B&O tax. Local taxes include the local gambling tax (up to 20 percent) and any local B&O.

The chart does not include taxes on non-gaming activities of the establishment.

Source: WRC Calculations from WSGC data
recent quarter provides the best estimate of annual collections. As the table indicates, local governments vary in the tax rates applied, with many of them imposing a tax in excess of ten percent.

Cardrooms are subject to a tax of up 20 percent of gross receipts. For house-banked games, “gross receipts” are defined as the house’s win after collecting all losing wagers and paying players with winning hands. The 20 percent tax rate was initially imposed on the traditional cardroom, prior to the initiation of house banking. That is, the high tax rate was established at a time when operating costs were exceptionally low. With house banking, costs have climbed dramatically, and the high tax rate represents a major cost as margins shrink.

The 20 percent cardroom tax rate is unusually high when compared with the Business & Occupation Tax for retail businesses of 0.471 percent. The rate is high even when compared to the maximum municipal taxes applied to other gambling activities. For example, bingo and raffles are subject to a 10 percent gross receipts tax; punch boards and pull tabs operated as commercial stimulants pay a 10 percent gross receipts tax (or 5 percent net of prizes).

The 20 percent maximum rate for card games was adopted in 1981, before house banking, as mentioned above. The tax revenues are to be used for local gambling enforcement programs, but local governments may place the money in the general police budget and do not have to account for the taxes separately. Specifically, the relevant statute says: “Any county, city or town which collects a tax on gambling activities authorized pursuant to RCW 9.46.110 shall use the revenue from such tax primarily for the purpose of enforcement of the provisions of this chapter by the county, city or town law enforcement agency.” (RCW 9.46.113)

These taxes are not paid by the cardrooms’ primary business competitors. Tribal casinos do not pay state or local taxes, as they are exempt by law.

---

**FIGURE 7**

In the second quarter of 1999 house-banked cardrooms provided significant revenues to local governments

<table>
<thead>
<tr>
<th>City</th>
<th>Taxes</th>
<th>No. of Rooms</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn</td>
<td>$123,797</td>
<td>1</td>
<td>10(^1)</td>
</tr>
<tr>
<td>Bellingham</td>
<td>$24,353</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Bremerton</td>
<td>$39,849</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Everett</td>
<td>$82,895</td>
<td>3</td>
<td>3.5(^2)</td>
</tr>
<tr>
<td>Federal Way</td>
<td>$338,094</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Kenmore</td>
<td>$60,999</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Kennewick</td>
<td>$79,514</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Kent</td>
<td>$7,603</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>La Center</td>
<td>$650,094</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Lakewood</td>
<td>$213,756</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Longview</td>
<td>$72,313</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Moses Lake</td>
<td>$13,691</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Renton</td>
<td>$365,840</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Richland</td>
<td>$40,102</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Shoreline</td>
<td>$329,234</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Spokane</td>
<td>$398,258</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Tacoma</td>
<td>$38,062</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Tukwila</td>
<td>$328,047</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Yakima</td>
<td>$13,131</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Unincorporated King</td>
<td>$213,775</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Unincorporated Kitsap</td>
<td>$7,989</td>
<td>1</td>
<td>2/10(^3)</td>
</tr>
<tr>
<td>Unincorporated Pierce</td>
<td>$90,869</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Unincorporated Snohomish</td>
<td>$103,224</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Unincorporated Spokane</td>
<td>$265,530</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$3,901,019</strong></td>
<td><strong>42</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: The total local taxes for all cardrooms for the quarter was $4,026,835
\(^1\)Increased to 12% September 1999
\(^2\)Increased to 5% for all cardrooms January 2000; increases further to 7.5% for house-banked cardrooms January 2001; increases still further to 10% for house-banked cardrooms January 2002
\(^3\)%2 for house-banked games; 10% for other games

Source: WSGC, cities and counties
The high rate of cardroom taxation poses a major threat to the viability of these local businesses. In evaluating the impact of applying the maximum tax rate of 20 percent, PricewaterhouseCoopers noted that other states levying 20 percent gambling taxes permit full casino gaming. The cardroom experience in Washington is simply not comparable. Casinos in other jurisdictions generate the vast majority of their revenues from games not permitted in Washington, especially slot machines. Card games incur high labor costs, in sharp contrast to the low marginal costs associated with slots.

Local taxes paid by cardrooms advanced from $1.8 million in 1996 to $3.5 million by the end of 1998, and then surged to $12.2 million in 1999.

**Industry Outlook**

Cardroom revenues have risen rapidly during the past two years as a result of changes in the laws governing them, particularly from the introduction of house-banked card games. Cardrooms that converted their tables to house banking and newly established enhanced cardrooms alike have flourished as local blackjack players have discovered these new entertainment centers.

“Our industry has not invented anything new,” says Steven Dowen, owner of the Riverside Inn, in Tukwila. “Basically, customers are coming back from the reservations. Very few are first-time gamblers.”

Whether cardroom revenues will continue to grow as rapidly as they have in the past few years is problematic. An early 1999 study of the industry by the national accounting firm PricewaterhouseCoopers projected that cardroom gaming revenue would hit $100 million in calendar-year 2000. In fact, revenues reached $109 million for fiscal year 1999, ended June 30.

It seems likely that cardroom revenues, following a period of rapid growth, will plateau as the market saturates and the growth rate simply mirrors that of the general economy.

After house-banked gaming came on line, the rate of revenue growth peaked in the fourth quarter of calendar-year 1998. It has been trending downward since, as shown in Figure 8. Should this trend hold, the period of rapid revenue growth may well end by the first quarter of 2001, with the industry posting quarterly revenues of about $50 million.

The competitive position of the tribal casinos, however, has improved with the introduction of slot machines. Slots are apt to present a major competitive threat.
to the enhanced cardrooms. In Nevada and Atlantic City, slot machines dominate the market, showing a high degree of popularity with customers. In 1998, slots accounted for 65.3 percent of gaming revenues in Nevada and 70.1 percent in Atlantic City.

Based on that experience, cardroom operators may expect some players to shift their gaming from card games to slots. As well, customers who continue to play blackjack may choose to play in casinos that also offer slots, either as an intermittent diversion or to accompany companions who prefer slots.

As mentioned above, the labor and overhead costs associated with slots are minimal, allowing casino operations in other states to remain profitable despite exceedingly high taxes, such as Washington’s 20 percent maximum rate. As these machines become more prevalent in tribal casinos, cardrooms risk losing market share once again to competitors enjoying substantial business advantages.

Incremental growth for cardrooms may turn on whether increasing competition pushes owners to upgrade their facilities, thereby augmenting the value of the entertainment packages they offer. However, keener competition will drive down profit margins, as cardroom owners boost their expenditures on amenities and inducements (such as complementary dinners) to retain old customers and to attract new ones.

In addition to the tax and competitive pressures threatening the industry, increases in the state minimum wage will further reduce profitability. Generally, in the gaming operations, the only workers paid at the minimum wage are dealers, who receive substantial tip income in addition to their wages. Under the provisions of voter-approved Initiative 688, the state’s minimum wage will increase to $6.50 in 2000. That is $1.35 over the federal minimum wage. This increases the annual cost for operating a single gaming table by nearly $10,000 a year, up to $150,000 for the full legal complement of fifteen tables. That, of course, seriously understates the total impact of minimum wage increases because typically minimum wage increases drive up much of the payroll schedule for these kinds of businesses, especially in their nongaming operations.

Whether competition will increase depends in good part on the implicit cost-benefit calculations made by cities across the state. To the extent that some cities decline to lift bans and others opt to impose them, cardroom numbers will fall short of market saturation. Instead of smaller profit margins, surviving cardrooms will enjoy economic rents, i.e., the higher profits associated with limited competition for customers.

In any event, competition from tribal casinos will constrain cardroom numbers, as will the usual factors of market saturation, management decisions and changing economic conditions. With the continual evolution in the gaming industry in Washington, cardroom operators may find that the competitive relief provided by the legislature will not be enough to sustain them profitably in the future. To avoid the loss of market share that plagued the industry in the early 1990s, additional gaming venues may be required.