



ABSTRACT: This report is a historical review of revenue and net income for the downtown Las Vegas casinos from fiscal year 1990 to fiscal year 2007. It is for people who are interested in projecting potential impact on payroll and income due to the loss of revenue from the recent economic downturn. Comparisons can be made to previous year's revenue and cost cutting measures.

Gambling revenue for the first quarter of fiscal year 2009 (1 Jul to Sep 30, 2008) has been down by 11.45%. Projecting that percentage loss for the entire fiscal year would mean a loss of **\$71m** in gambling revenue for the year. Gambling revenue for downtown casinos has only dropped **\$66m** in the eleven year period from its high in FY1997 to the low in FY2008. Over the course of these years the casinos eliminated thousands of jobs. So such a loss in one year would probably have devastating impact.

As a result of 9-11 tragedy, gaming revenue downtown went down by **\$10.51m**, and revenue from all sources decreased by **\$16.91m** relative to the previous year. For the next two fiscal years revenue was flat. Profitability was increased by reducing payroll and other costs. Workforce was reduced by 2637 employees over the three years. Most of the casinos also changed ownership. In contrast, gaming revenue alone for the business quarter from 1 Jul to 30 Sep 2008 was reduced by **\$17.81m** relative to the same quarter a year ago.

Fiscal Year	Revenue \$millions	Income \$m
Jul '00-Jun '01	\$ 1,102.63	\$ 20.79
Jul '01-Jun '02	\$ 1,085.73	\$ 0.58
Jul '02-Jun '03	\$ 1,085.23	\$ 23.92
Jul '03-Jun '04	\$ 1,085.72	\$ 42.10

INCOME CHANGES DIFFERENTLY THAN GAMING REVENUE

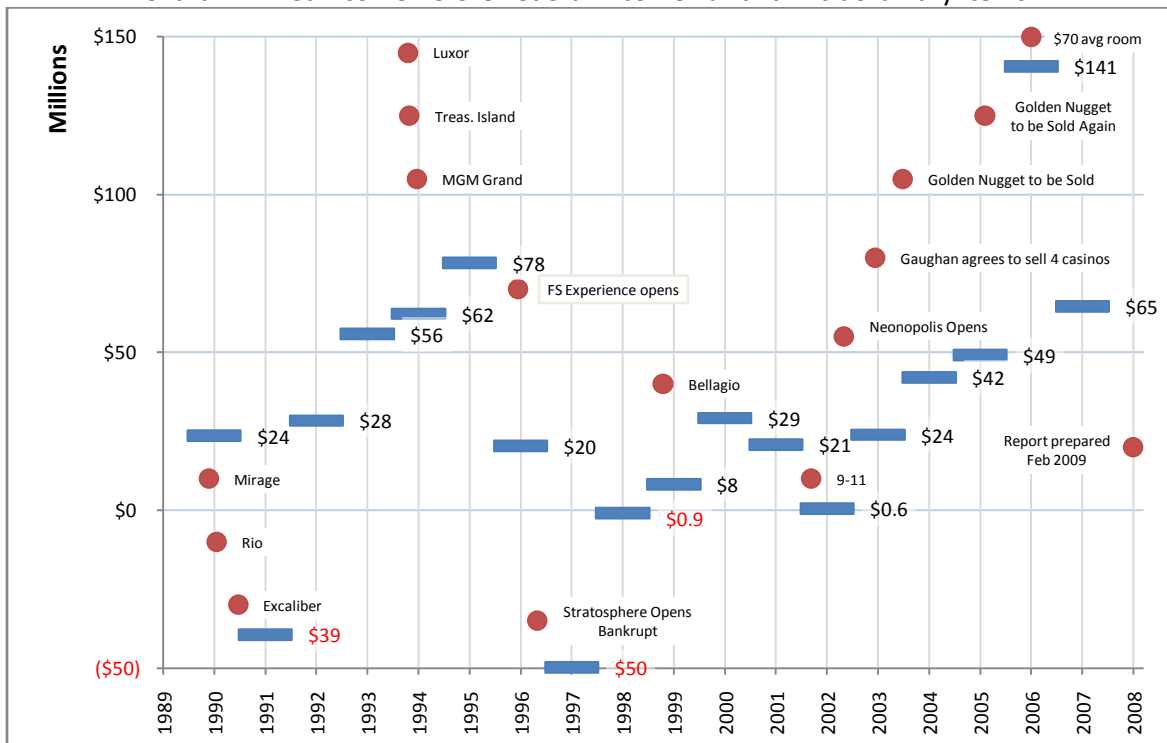
The gaming revenue of Las Vegas casinos are extensively reported in the media, and are the subject of numerous media reviews. Less widely reported is the net income of the casinos which often changes radically differently than gaming revenue (see table). The large percentage gain in 2003 reflects the recovery from 9-11. In the year 2002 income was under a million dollars. With the exception of the Boyd Gaming casinos, currently all of the downtown casinos are privately owned and do not make public their earnings.

Fiscal Year	Gambling Revenue	Change in Income
2007	-2.73%	-54%
2006	-2.54%	186%
2005	0.79%	17%
2004	-0.27%	76%
2003	-0.94%	4012%
2002	-1.56%	-97%
2001	0.25%	-29%
2000	0.46%	257%
1999	-2.34%	-1060%
1998	-0.67%	-98%

The **NEVADA GAMING COMMISSION** prepares an annual Abstract Report which provides an financial analysis of nonrestricted gaming licensees producing \$1 million or more in gaming revenue (July-June). This report is available in mid-February for the prior fiscal year. Casino revenue information is not reported individually, but in certain logical groups. One such grouping is the “downtown casinos” which consist of the casinos near Fremont street, along with The Stratosphere and the Silver Saddle Saloon.

The highest level summary metric provided by the report for the downtown casinos is shown on the chart below. Some historical events of interest are also indicated on the graph.

Chart #1: “Net Income Before Federal Income Tax and Extraordinary Items”



A historical review of unusual years (1991; 1997-98; 2002; 2006) is included in an appendix.

CASINO REVENUE (All DEPARTMENTS)

The casino revenue graph shows the gaming revenue from the downtown casinos over the last year for the previous 12 years. There is a clear and unmistakable downward trend in revenue. However, the casinos are steadily reducing costs to maintain income. But the downturn in 2008 has been especially severe. Downtown casinos in August 2008 garnered the lowest amount of monthly revenue in 12 years. The table below shows the annual revenue for all departments

Chart #2: Monthly Gaming Revenue for Downtown Las Vegas:

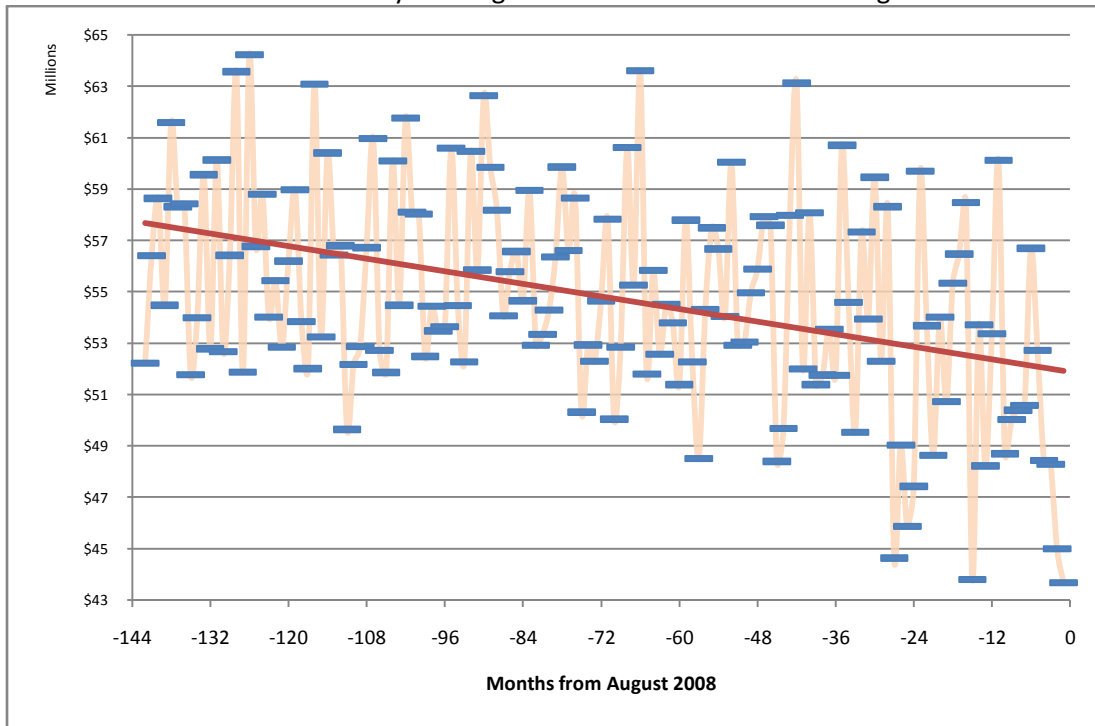


Table #2: Yearly Revenue from All Department in Millions

Year	Casino	Rooms	Food	Beverage	Other	Total
2007	\$ 624	\$ 185	\$ 157	\$ 64	\$ 69	\$ 1,100
2006	\$ 642	\$ 232	\$ 158	\$ 61	\$ 99	\$ 1,192
2005	\$ 659	\$ 171	\$ 156	\$ 61	\$ 66	\$ 1,113
2004	\$ 653	\$ 160	\$ 149	\$ 54	\$ 69	\$ 1,086
2003	\$ 655	\$ 144	\$ 149	\$ 51	\$ 87	\$ 1,085
2002	\$ 661	\$ 147	\$ 151	\$ 52	\$ 73	\$ 1,086
2001	\$ 672	\$ 146	\$ 152	\$ 52	\$ 79	\$ 1,103
2000	\$ 670	\$ 145	\$ 151	\$ 52	\$ 79	\$ 1,097
1999	\$ 667	\$ 141	\$ 153	\$ 52	\$ 82	\$ 1,096
1998	\$ 683	\$ 141	\$ 160	\$ 52	\$ 87	\$ 1,123
1997	\$ 688	\$ 149	\$ 160	\$ 56	\$ 94	\$ 1,146
1996	\$ 654	\$ 124	\$ 126	\$ 40	\$ 61	\$ 1,005

ROOMS DEPARTMENT INCOME

The average room rates in 2006 were exceptionally high in comparison with the last decade. Income from all departments, (casino, room, food, beverage, and "other") is balanced against the general and administrative cost of the entire casino. That's why department income is higher than the income for the casino. For example, the "room department" income is between \$100 million and \$200 million, and the overall casino income is between \$50 million and \$80 million (except for 2006)."

Chart#3: Income from Room Department for Downtown Casinos in \$ Millions

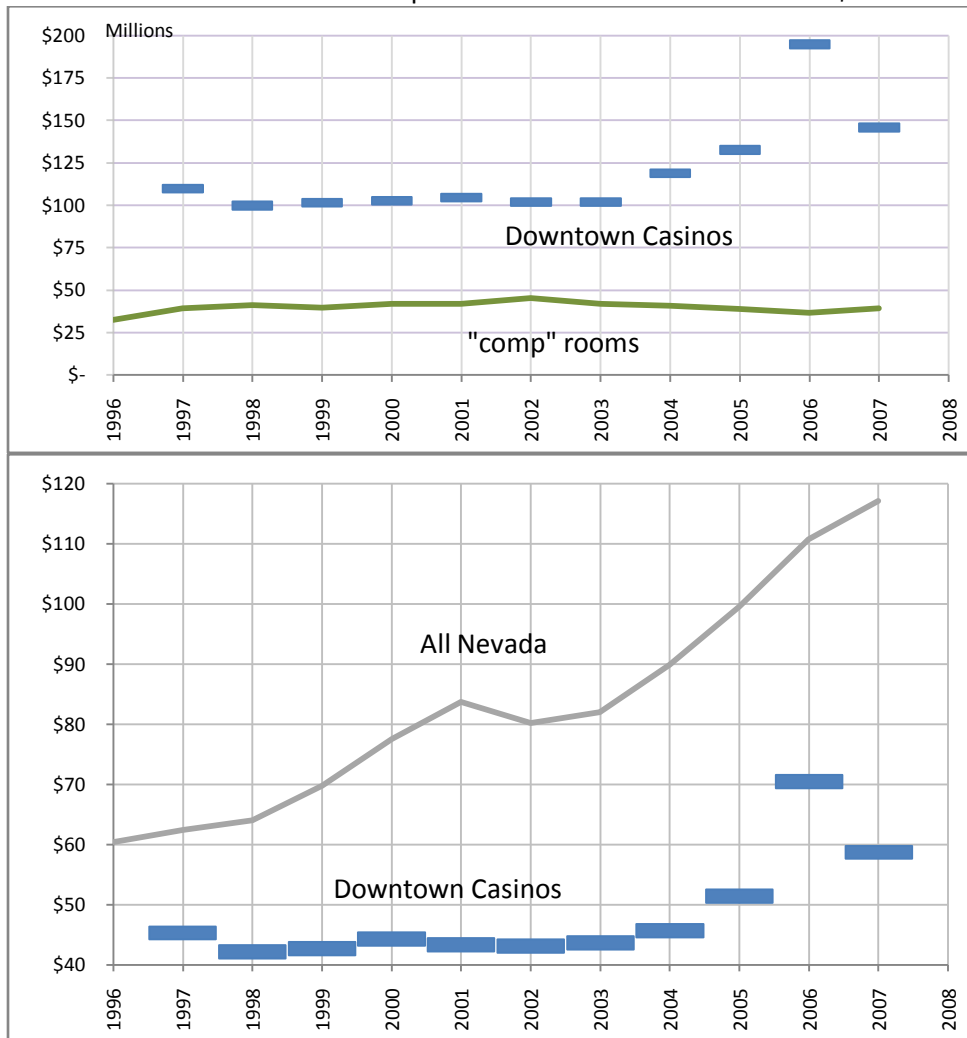


Chart #4: Average Room Rates for Downtown Las Vegas Casinos vs. all Casinos in Nevada

CASINO DEPARTMENT REVENUE/INCOME

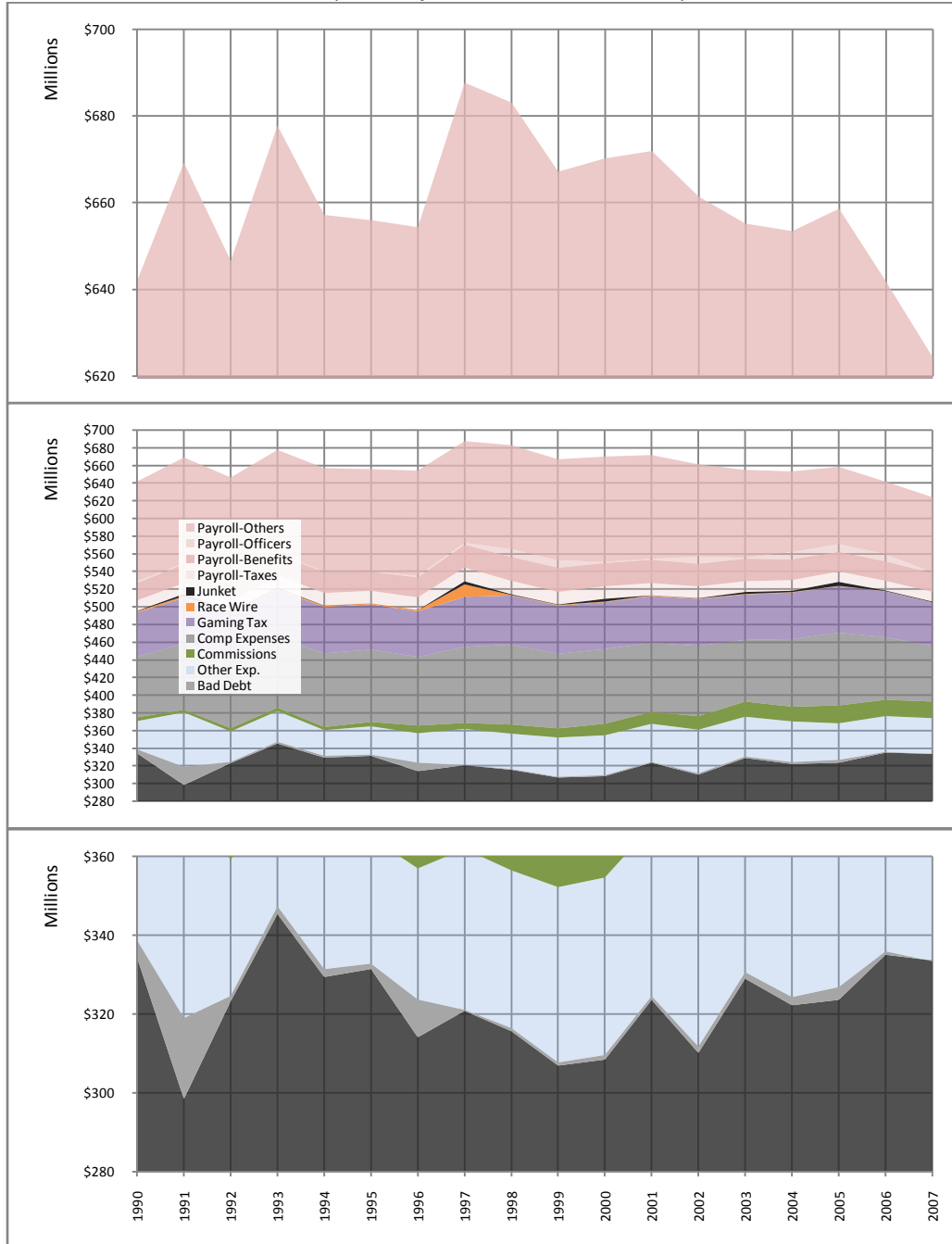
Gaming revenue decreased from a high of \$685 million in 1997 to a low of \$620 million in the year 2007. However, expenses are being reduced over the years. Casino departmental income remains between \$298.3 (1991) and \$345.3 (1993) million. Casino department income is \$333.6 million in year 2007.

Chart #5: Casino Department

Chart #5a: Total revenue

Chart #5b: Revenue, all categories of expenses; and income

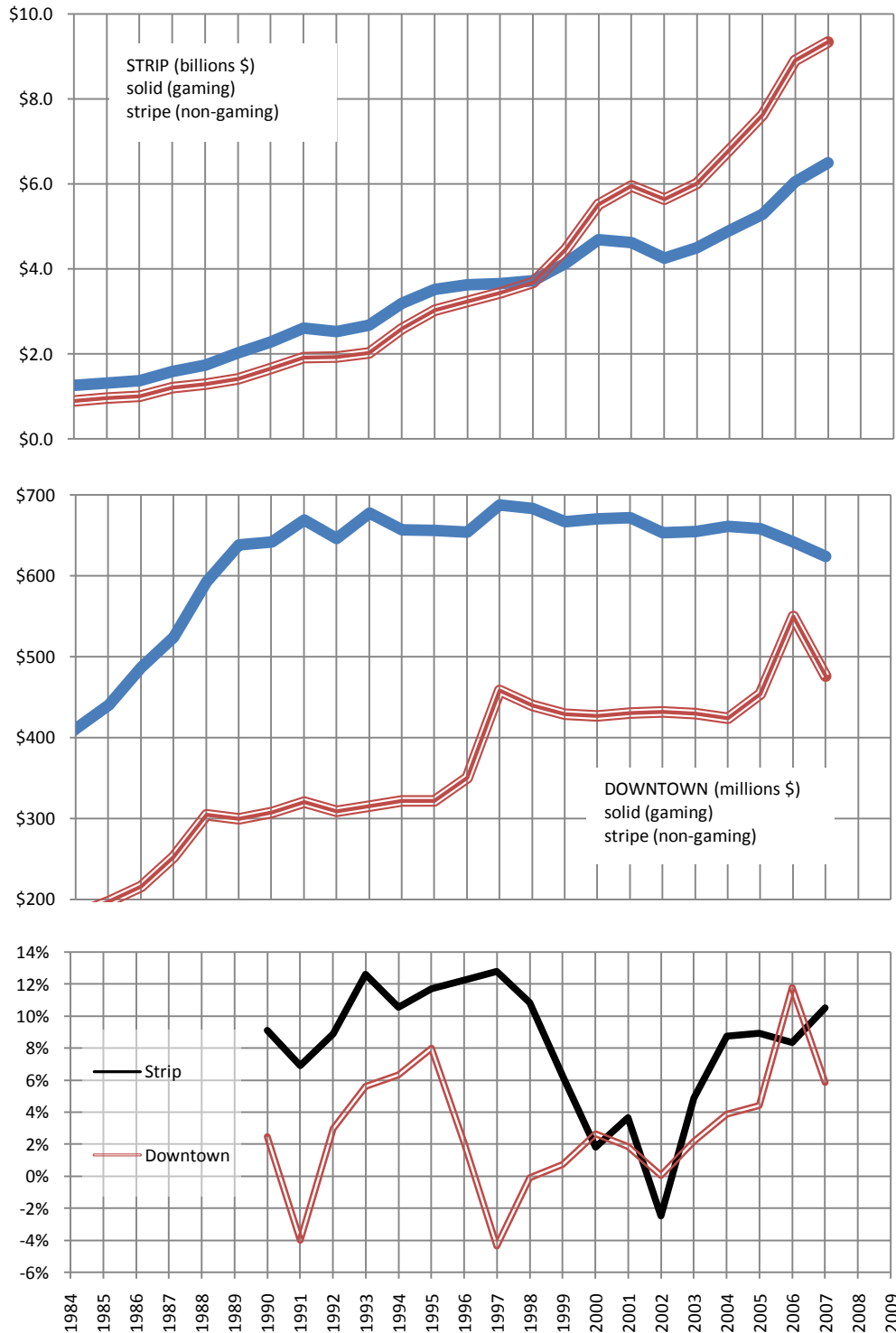
Chart #5c: Expansion of income; bad debt; 'other expenses'



COMPARISON WITH THE STRIP

Chart #6: Revenue

Chart #6a: Strip Revenue (Gaming & Non Gaming) Billions \$
 Chart #6b: Downtown Revenue (Gaming & Non Gaming) Millions \$
 Chart #6c: Income, Strip vs Downtown (As % of Total Revenue)



REDUCTION IN EXPENSES

Obviously, in a flat or decreasing revenue market, casinos and other businesses can only make money by cutting expenses, including reducing services and payroll, and being more efficient. Table #2 shows the number of employees in the downtown casinos since fiscal year 1997 when the Stratosphere opened.

Table #3: Number of Employees of Downtown Casinos

Department	2007	2006	2005	2004	2003	2002	2001	2000	1999
Casino	3,686	3,940	4,108	4,437	4,551	5,076	5,706	6,017	6,137
Rooms	1,881	2,025	2,148	2,193	2,134	2,334	2,418	2,454	2,490
Food	2,717	2,829	2,941	3,192	3,079	3,187	3,579	3,830	3,974
Beverage	782	772	741	895	924	921	1,078	1,117	1,125
G&A	2,452	2,308	2,117	2,221	2,557	2,536	2,405	2,579	2,561
Other	428	427	438	534	615	648	923	565	811
Total	11,946	12,301	12,493	13,472	13,860	14,702	16,109	16,562	17,098
Change	-355	-192	-979	-388	-842	-1,407	-453	-536	-1,402

The smallest reduction in personnel occurred in the year 2006 when revenue was at an all time high because of the increased room rates. From 2003 to 2007 staff was reduced by 13.7% or 1,914 positions. Because of increased salaries over those four years payroll costs were only reduced by \$16.4 million or 3.5%. The following table shows the change in payroll. It also shows the change in "all expenses" in all departments: food, beverage, casino, "other", general and administrative. This summary number includes the change in payroll.

In the last 8 fiscal years reported, the maximum that the downtown casinos have managed to reduce expenses in one year from all departments is \$23.8 million.

Table #4: Payroll in Millions of Dollars and All Expenses

Fiscal	Payroll	Change Payroll %	Change Payroll	Change All Expenses
2007	\$452.1	-2.2%	-\$10.1	-\$15.4
2006	\$462.2	+0.9%	+\$4.0	-\$12.3
2005	\$458.2	+0.6%	+\$2.6	+\$19.9
2004	\$455.6	-2.8%	-\$12.9	-\$17.7
2003	\$468.5	-2.4%	-\$11.4	-\$23.8
2002	\$479.9	-0.8%	-\$3.7	+\$3.3
2001	\$483.6	-0.4%	-\$2.0	+\$14.1
2000	\$485.6	-1.2%	-\$5.7	-\$20.1
1999	\$491.3			

Payroll includes taxes & extra benefits for officers & other employees.

For the four years 2003 to 2007 gambling revenue dropped by 4.7%. In contrast, gambling revenue for the downtown casinos has dropped by 6.0% for the first 8 months of calendar year 2008. In addition, the room rates are nowhere near the highs in fiscal year 2006.

A simultaneous loss of \$20 million to \$70 million in gambling revenue combined with a potential loss of \$30 million to \$70 million (if they return to their historical rates) would be impossible to make up with payroll reductions or most other cost cutting measures consistent with the recent past. The district will certainly have a negative "net income".

APPENDIX 1: REVIEW OF YEARS WITH UNUSUAL PERFORMANCE

(YEAR 1991) The first negative income indicated is in fiscal year 1991. Although it is commonly believed that downtown lost gaming revenue when the new generation of strip casinos opened (like The Mirage). Actually the new casinos brought many more people to Vegas and downtown gaming revenue in 1991 was up 4.24% from 1990. However, the casinos reported unusually large \$20 million “bad debts” that year. Also “other expenses” (catchall category) was higher by \$30 million. The end result was a large loss for the year. Remember data is summed for all the casinos. There is no way to know if the “bad debts” came from a single casino or several casinos.

(YEAR 1997-98) In fiscal year 1997 the Stratosphere Casino opened. Gaming revenue hit an all time high, while income hit an all time low the same year as “general and administrative” expenses increased by a third in one year. The Stratosphere went bankrupt shortly after opening which probably had a great deal to do with the runaway costs. In 1998, gaming revenue remained high, but G&A costs came down by 14% resulting in an improvement of income (to about zero).

(YEAR 2002) In fiscal year 2002 (starts 1 July 2001) there was an obvious reaction to the events of the terrorist attacks. There was only a 1.5% drop in gaming revenue, but other revenue sources dropped. Income was almost zero for the fiscal year. Starting with this fiscal year, there was a large changeover in ownership of the downtown casinos. Many casinos which had been owned by the same people for decades changed hands. Fitzgerald’s is the first to be sold in 2001; followed by Four Queens; then The Plaza, Las Vegas Club, the Gold Spike, and the Western owned by Jackie Gaughan were sold in 2004; Binion’s Casino sold in 2004; and again in 2007 and the “Golden Nugget” agreed to a sale price in 2003(sold in Jan 2004) and was sold again in 2005. The last sale was the El Cortez in 2008.

(YEAR 2006) After the year 2002, gaming revenue went flat for three years, then began to decline. However, the casinos began to show increased revenue in other areas. Income increased in food, beverage, room rates, and “other” areas. In fiscal year 2006 room rates peaked at an average of \$70.49 per night, up from \$45.68 in the year 2004 (with only a modest increase in expenses). Complimentary rooms, food, and beverage were not increased. This unexpected windfall resulted in the largest revenue since 1990. The Golden Nugget as the only AAA 4 diamond hotel in the group appears to lead the way under their new corporate ownership of Landry’s Restaurants.

(ALL YEARS) In general there has been a steady decay of gaming revenue over the period of 1990-2007, with the exception of the boost caused by the construction of the Stratosphere and its subsequent expansion. To counter the decay in gaming revenue, downtown casinos started cutting the losses they used to permit on food and beverages. The casino department reduced payroll considerably. By 2007, the downtown hotels had reduced by half the people employed in casino-related positions in 1990. In all departments the downtown casinos employed an average of 12,000 people in 2007, vs. a high of almost 19,500 people in 1997.

APPENDIX 2: TABLE OF REVENUE AND EXPENSES

Year	Revenue						Expense				Net
	Casino	Rooms	Food	Beverage	Other	Total	C. of S.	Dept.	G&A	Total	Income
2007	\$ 624	\$ 185	\$ 157	\$ 64	\$ 69	\$ 1,100	\$ 83	\$ 569	\$ 384	\$ 1,036	\$ 64.6
2006	\$ 642	\$ 232	\$ 158	\$ 61	\$ 99	\$ 1,192	\$ 85	\$ 579	\$ 387	\$ 1,051	\$ 140.6
2005	\$ 659	\$ 171	\$ 156	\$ 61	\$ 66	\$ 1,113	\$ 84	\$ 612	\$ 368	\$ 1,063	\$ 49.1
2004	\$ 653	\$ 160	\$ 149	\$ 54	\$ 69	\$ 1,086	\$ 85	\$ 599	\$ 360	\$ 1,044	\$ 42.1
2003	\$ 655	\$ 144	\$ 149	\$ 51	\$ 87	\$ 1,085	\$ 83	\$ 599	\$ 380	\$ 1,061	\$ 23.9
2002	\$ 661	\$ 147	\$ 151	\$ 52	\$ 73	\$ 1,086	\$ 89	\$ 624	\$ 372	\$ 1,085	\$ 0.6
2001	\$ 672	\$ 146	\$ 152	\$ 52	\$ 79	\$ 1,103	\$ 96	\$ 614	\$ 372	\$ 1,082	\$ 20.8
2000	\$ 670	\$ 145	\$ 151	\$ 52	\$ 79	\$ 1,097	\$ 97	\$ 629	\$ 342	\$ 1,068	\$ 29.2
1999	\$ 667	\$ 141	\$ 153	\$ 52	\$ 82	\$ 1,096	\$ 100	\$ 631	\$ 356	\$ 1,088	\$ 8.2
1998	\$ 683	\$ 141	\$ 160	\$ 52	\$ 87	\$ 1,123	\$ 110	\$ 634	\$ 380	\$ 1,124	\$ (0.9)
1997	\$ 688	\$ 149	\$ 160	\$ 56	\$ 94	\$ 1,146	\$ 114	\$ 640	\$ 442	\$ 1,196	\$ (49.8)
1996	\$ 654	\$ 124	\$ 126	\$ 40	\$ 61	\$ 1,005	\$ 90	\$ 563	\$ 332	\$ 985	\$ 20.4

C. of S. means Cost of Sales (food, beverage and other)

Dept. means Departmental Expenses (rooms, food, beverage, and other)

G&A means General and Administrative (corporate expenses)

Net Income: "Net Income Before Federal Income Tax and Extraordinary Items"

APPENDIX 3: DOWNTOWN INCOME

Event Annotation Separated from Data

