The Economic impact of the adult dance establishments on the community

Christina Henry
University Of Nevada Las Vegas

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THE ECONOMIC IMPACT OF THE ADULT DANCE ESTABLISHMENTS ON THE COMMUNITY

By

Christina Henry

Bachelor of Science
University of Madras, India
1985

Master of Science
University of Madras, India
1987

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Department of Public Administration
Greenspun College or Urban Affairs

Graduate College
University Of Nevada, Las Vegas
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ABSTRACT

The Economic Impact of the Adult Dance Establishments on the Community

By

Christina Henry

Dr. Lee Bernick, Examination Committee Chair
Professor of Public Administration
University of Nevada, Las Vegas

The study attempts to answer some fundamental questions about the adult dance establishments. That is, whether the adult dance establishments add or subtract to the well-being of the community. In order to accomplish this it is necessary to determine the benefits and costs of the adult dance establishments on the community and more specifically find out if benefits outweigh the costs.

In this study it was decided to make use of the readily available information from the government agencies. The government collects license fees and property taxes from these establishments. Based on the analyses it was concluded that the revenue that the government receives as license fees from these establishments is very small. The government is charging the license fees for these establishments as a way of constraining the market and regulating the businesses and not as a source of revenue.

The property tax revenue from the property on which these establishments are housed is quite substantial. They pay their fair share of property taxes and they do not appear to have a negative externality attributed to their presence, in a locality. That is, the property value of the neighboring properties is not negatively affected economically by the presence of these establishments.
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CHAPTER 1

INTRODUCTION

Las Vegas is a community that thrives, or to be more precise, depends on tourism that is based purely on entertainment; most of which is adult oriented. “Nevada’s economy was built upon the legalization of activities that were considered as vices by the rest of the United States.” (Thompson, 2001). In fact Las Vegas takes pride in being known as the “Sin City” as it offers gambling and other non-traditional entertainments to tourists.

One particular segment that is controversial is the sex-oriented business. It is thought that the sex industry contributes substantially to the Las Vegas economy. One form of the sex-oriented entertainment is prostitution. Prostitution has been banned in the Clark County, which includes Las Vegas. Historical records suggest that prostitution was banned for two reasons. One was to keep away the possible involvement of Joe Conforte the owner of Nevada’s largest brothel, and the other was that “good image” had to be maintained for the gambling and tourism industries. Though the casinos publicly condemn the evils of prostitution, they are aware that it is needed to attract customers, and they inconspicuously support its existence, as events in February 2003 confirm. In February 2003 the Clark County adopted ordinances to control lap dancing, and many people spoke for and against it.

Usually we think of the sex industry as prostitution and pornography; however, there are other forms of activities available. Topless reviews, gentlemen’s clubs, outcalls and
escort services are just a few of those activities. Strip clubs and lap dancing are two major forms of legal entertainments today.

In his essay “Sex and Gambling in Nevada”, Schmidt says that there are between 2000 and 2200 active exotic dancers in the metropolitan area of Las Vegas. (Thompson, 2001) But a Las Vegas Review Journal article maintained that there are about 100,000 exotic dancers registered with the sheriffs department in Las Vegas. Regardless of which figure is correct, there are substantial numbers of people involved in this business. The nature and size of the exotic dance business makes it very visible. One only has to listen to the radio to hear advertisements for lap dancing or drive through the “Las Vegas strip” to see signs advertising exotic dance shows to understand its importance in the entertainment industry in Las Vegas.

The highly visible nature of the sex industry has put it under the constant scrutiny of the public and their representatives. In Fall 2002, Clark County Commissioners passed an ordinance to control lap dancing. The Commissioner’s justification for this measure was to make lap dancing and other sex oriented entertainment safe for the customers as well as the dancers. Initially the Commissioners proposed very stringent lap dance rules. The reason for the ordinance is that some county officials consider lap dancing as foreplay for prostitution and a catalyst for other social evils. County commissioner Yvonne Atkinson Gates said, “everyone begins to push the envelope and go further and further because our laws today are unenforceable, and if you allow it to go too far, it is downright prostitution. (Las Vegas review journal, July 28, 2002)

Among the public who spoke for the ordinance was a grandmother of nine, who said that she blamed the downfall of her granddaughter on the hard life of working at a strip
club. She said her granddaughter was allowed to work illegally in the strip club six years ago, when she was 14 years old. The grand mother said her problems at the club eventually led to an abortion, drug addiction and homelessness. (Las Vegas Review Journal, Aug 1, 2002)

There were also many who argued against these laws. These were people from the community, dancers, owners of strip clubs and attorneys.

- A stripper employed at “Jaguars” (a recently opened strip club) said she believed that the new lap dancing regulation would severely erode her income. She said this would limit her ability to take care of her father, a disabled veteran. (Las Vegas Review Journal)

- A UNLV honors student said her chances of attending law school next year would be in jeopardy if the new ordinance slashed her income as a part time topless dancer. (Las Vegas Review journal)

- “If the ordinance is written and interpreted to prevent lap dancing or legal touching, the clubs might as well close their doors, and the tourists the come for that might not come here anymore,” said attorney Peter S. Christiansen, who represents Jaguars. (Las Vegas Review Journal)

These comments suggest that the exotic dancing is a lucrative business and that there is at least one section of the population that believes that sex oriented businesses are important for the economic well being of the community.

The legal sex oriented businesses are regulated, but they have not been studied for their social and economic impact on society. The issue of regulation of the sex oriented
businesses and the counter arguments that resulted, highlights the issue of benefits and costs. These costs and benefits include social and economic.

The debate for and against regulation of the sex oriented businesses points out a fundamental question. Do these sex-oriented businesses add or subtract to the well being of the community? The purpose of this study is to determine the benefits and the costs of these businesses to the community. More specifically, do the benefits of the Sex oriented businesses outweigh the costs of the sex-oriented businesses?
CHAPTER 2

LITERATURE REVIEW

Adult entertainment can be defined as entertainment catered for adults only. These sex-oriented entertainments are not accessible to minors or those below the age of 21. Gambling, alcohol, sex oriented entertainment are the major types of activities available to adult consumers.

Little literature exists on the sex-oriented businesses and hardly any on the economic impact of the sex-oriented businesses on the community. Dr. Kate Hausbeck of the Department of Sociology at UNLV in an interview to the Review Journal said, “What’s really amazing is that this town is not built just on gaming and on hotels. Like it or not, this town is also built on the sex industry. It is astounding that there is really great information and data about hotels and tourism and gaming, and have next to nothing on the sex industries.”(Las Vegas Review Journal, 1997)

There are not many studies done on the sex oriented businesses. The reason may be, the topic itself may be taboo. Even though what once were vices is now only a minor variance on the norm.(Thompson, 2001) An interim legislative committee of the Legislative Counsel Bureau did the most recent state sanctioned study which dealt with prostitution and that was in 1993. (Nevada Outpost, 1998)

In spite of the fact that the sex-oriented businesses are considered as vices and a taboo topic, the number of businesses has grown rapidly. In the past, the sex industry was
Considered detrimental and competitive to the Gambling industry, but recently the casinos recognize that it is in their interests to offer sex oriented entertainment to attract tourists. More and more casinos and other establishments are adding adult dance shows and strip clubs to their businesses. For example the Olympic Garden was converted from sporting house to a high-end topless operation. (Las Vegas Review Journal, 2002)

Another reason for the growth in the number of gentlemen’s clubs, strip clubs and topless reviews is due to the rapid growth of the convention business, which is a part of the tourism industry. Las Vegas has become a popular center for holding conventions and convention organizers offer adult entertainment to their participants. Substantial investments made by the local operators, and the growing acceptance of upscale gentlemen’s clubs by a larger segment of the nations business community also plays a part in the growth of adult businesses. (Thompson, 2001)

There are several types of adult entertainments available in Clark County. But prostitution is illegal. Other adult entertainments that are sex oriented are legal and licenses are issued to operate these businesses. The following is the types of businesses found in the business license category index and definitions for each of them as found in Clark County Codes:

Business license category index, Department of Business License, Clark County.

(As of May 15, 2002)

"Adult Bookstore" means an establishment which does or will derive fifty-one percent (51%) or more of its gross sales of books, magazines, films, tapes, discs and other periodicals from the sale or rental of books, magazines, films, tapes, discs, and other periodicals which are distinguished or characterized by their emphasis on matter
depicting, describing or relating to specified sexual activities, or specified anatomical areas.

"Adult Entertainment Cabaret" means a public or private establishment, that may be licensed to serve food and/or alcoholic beverages, which features topless dancers, strippers, male or female impersonators, exhibitions or contests wherein T-shirts, blouses, or similar garments, worn by participants are saturated with liquid so as to result in the exposure, highlighting or outlining of the participant’s breasts, or similar entertainment, which is not operated in conjunction with a resort hotel and a casino as defined in Section 8.04.310.

"Adult mini-motion picture theater" means an enclosed building with a capacity for less than fifty persons used regularly and routinely for presenting material distinguished or characterized by an emphasis on matter depicting, describing or relating to "specified sexual activities" or "specified anatomical areas," for observation by patrons therein, including closed circuit television viewing.

"Adult nightclub" means a fixed place of business, which may charge admission for entrance, which advertises, or holds out to the public that adult entertainment is provided, or advertises or implies that sensual or sexual entertainment is provided, and is licensed to sell nonalcoholic beverages or food.

"Attendant" means a natural person, who is employed by or who receives any monetary consideration from an adult nightclub for soliciting the sale or purchase of any product or service, including but not limited to beverages, and/or who collects entry fee, admission or cover charge.
"Sex Novelty Shop" means an establishment selling sex articles, materials, items, or devices which are neither books, films or pictures, tapes or discs which are designed or sold for the stimulation of human genital organs or sexual gratification including, but not limited to, dildos, vibrators, marital aids and artificial vagina.

"Adult Picture Arcade Theater" means any premises where there is maintained one or more machines or contrivances to show still or motion pictures, or television sets, designated for viewing by one (1) or more customers used regularly and routinely for presenting material distinguished or characterized by an emphasis on matter depicting, describing or relating to specified sexual activities or specified anatomical areas, and for which any charge, consideration or payment is required. This definition includes peep shows which exhibit motion pictures by means of coin-operated projection machine.

CCC 6.160.030 Definitions.

(d) "Erotic dance establishment" means a fixed place of business, which emphasizes and seeks, through one or more dancers, to arouse or excite the patrons' sexual desires. 

Erotic dance establishments are deemed to be places of public accommodation.

CCC 7.54.030

Sexually oriented commercial enterprise" means a commercial enterprise whose major business is the offering of a service which is intended to provide sexual stimulation or sexual gratification to the customer (i.e., bathhouse, nude studio, modeling studio, love parlor, talk shop, sexually oriented escort service, or nude shows, or massage parlor or other similar business); or any business who provides its principle business by use of employees or independent contractors who appear in the nude or in such state of undress
that "specified anatomical areas" (as defined in Chapter 29.49) are exposed to view of the public or business patrons; or any business that represents or implies to the public that sexual stimulation is provided at the business location.

These businesses are regulated through licensing and zoning. Clark County requires that adult entertainment establishments are restricted to the area known as the strip and commercial centers (Clark County Code 30.44.030). It is required that all persons working in an adult establishment possess a valid work card. (Clark County Code 6.160.080)

This paper is concerned with one segment of the Adult businesses; more specifically, the adult dance establishments (Erotic dance establishments and adult entertainment cabaret). This study attempts to evaluate the financial effects of the adult dance establishments in Clark County. Those for the establishment of the sex oriented businesses argue that it is vital for the economic well being of the community and the opponents feel that it is a cost to the community. The research question is, do adult dance establishments have a positive or a negative effect on the community?

Defining benefits and costs

How can we evaluate the benefits and costs of the sex-oriented industry? No model currently exists to directly related to evaluate the sex-oriented industry.

We refer to benefits as those impacts or consequences that we regard as favorable or positive. (Carter, 1989) That is, any profit or advantage realized from an activity is termed as benefit. For a Local Government or a community the profit that the
government or community derives from a business, or other organizations. A benefit for a community is something that enhances its well-being.

Costs are the negative impacts associated with a decision or a program, the consequences that anybody would want to avoid or minimize. (Carter, 1989) In a community costs are the expenditures of money or other resources, such as manpower and other facilities that are needed to allow a business or an organization to exist in the community. (Harry et al, 1976) Costs may also be outputs that follow as a consequence of a policy decision, as well as the inputs designed to implement it. (Carter, 1989)

The benefits and costs can be further broken down into direct and indirect benefits and direct and indirect costs.

**Direct benefits**

The value a community attaches to the output from a business or an organization present in that community is the direct benefit. One of the direct benefits may be the revenue that flows into the community from a business in the form of taxes and licenses. Another may be the employment provided by the business to the people in the community. Yet another direct benefit is the purchase of goods and services from other businesses in the community.

**Indirect benefits**

Indirect benefits include all the additional consumption that takes place in response to the generation of any new income as a result of the existence of a business or an organization. For example, when a business provides employment, the income in the
community increases and this will lead to increase in spending by the inhabitants of the community. The social benefits also come under indirect benefits the business may attract a lot of consumers and this in turn will attract other businesses to the locality. As a result more jobs are created. This is called the multiplier effect.

Recognition that a town or city may obtain as a result of the presence of certain activity is also an indirect benefit. For example the presence of Museums in a city gives it prestige and visibility. Museums, sports stadiums and theme parks attract tourists to the city.

Direct costs

The costs a community faces, as a direct result of the existence of the business are the direct costs. These are the costs that would not exist if the business did not exist. Maintenance of law and order, public safety and health care are some of the direct costs. If the property values in the neighborhood decrease because of the presence of the business, then it is also a direct cost.

Indirect costs

Social costs and the negative externalities can be placed under the indirect costs. The indirect costs are the ones that are invisible, but are something to be avoided. For example in the case of a crime, the victim may suffer from emotional problems, which may continue for a time long after the crime was committed against the victim. The decision to license a business may increase traffic congestion in the area or increase pollution.
Initial investment cost

The initial costs are the cost of investment in starting a business or a program. They include all the costs involved in beginning a project. For example, the cost of acquiring land and the building construction is the initial costs.

Operational cost

There is cost involved in running a program, like payment of salaries to people involved in the program and the maintenance of the facility.

Opportunity cost

It is defined as the sacrifice in other activities that is necessary to undertake an investment, which is not necessarily spent on the investment. (Noll and Zimbalist, 1997)

Using similar concepts researchers have studied the economic impact of the stadiums in a community. (Noll and Zimbalist, 1998) The direct benefits can be described as the value consumers attach to the output from a public investment. In the case of a stadium the net direct benefits include any incremental surplus from all of the consumption activities produced at the stadium for inhabitants of the city (games, broadcasts and concession products such as food, beverages, parking, programs, clothing and souvenirs), incremental consumer surplus from any additional expenditures and any externalities accruing to the residents because of the existence of the team. When a stadium is built workers are employed for construction work. This will increase the rate of employment in the community. Once the stadium begins to operate the community benefits from the
revenue received from the sale of tickets and renting spaces to vendors of food and beverages. Also more revenue is realized from taxes.

The indirect benefits include all the additional consumption that takes place in response to the generation of any new income in the production of these consumer products. (Noll and Zimbalist, 1998) For example, the establishment of a stadium in a community will attract sports fans to events. This in turn will attract other businesses to the locality. They may be Fast food places and restaurants, souvenir shops, sports goods stores etc. They again will increase the employment rate and also revenue in the form of taxes and license fees.

The costs of the stadium include the initial investment cost that is paid from the public taxes and the operational costs like upkeep and maintenance of the stadium. The initial costs are the cost of building the stadium. This will include the cost of employing people to plan, supervise and do the manual labor and purchase material and land to build the stadium. The operational costs include the costs involved in running the stadium. They are maintenance of the stadium, salary for people working in the stadium and the cost of maintaining law and order around the stadium.

Using these four variables the researchers came up with a simple algebraic expression to arrive at the net benefits realized from the stadiums. It is as follows:

\[
\text{Net benefits} = \text{direct benefits (consumption value of a team to fans)} - \text{direct costs (annual cost of stadium+ operating team costs)} - \text{indirect costs (environmental, congestion and public safety costs)} + \text{Indirect benefits (increase in local income x multiplier)}. \quad (\text{Noll and Zimbalist, 1998})
\]

In the equation there is the concept of the multiplier.
The multiplier, \( m \) is calculated as:

\[
m = 1(1-s)
\]

Where \( s = c*f; \) \( c = \) fraction of the increment to pre-tax income that is spent on consumption; and \( f = \) fraction of local consumption expenditures that generate an increase in local net income. (Noll and Zimbalist, 1998).

We can attempt to develop a similar cost and benefit model as it relates to the erotic dance establishments. In the case of the erotic dance establishments, there are at least three major direct benefits for the community. They are the 1. Revenue received from the adult businesses in the form of taxes and license fees, 2. Employment provided to people in the community 3. Money spent in the community to purchase goods and services like food and beverages. The indirect benefits include more consumption of food and other supplies and the creation of jobs. Other new businesses will move into the locality in order to provide goods and services to the erotic dance establishments. This will also create more jobs within the community. The erotic dance establishments also attract visitors to Las Vegas.

The direct costs may include the cost of maintaining law and order. A decrease in the property value in the neighborhood would reduce revenue from property taxes. L.L. Munsil, in his book “Protecting Communities from Sexually oriented Businesses” says “One of the most comprehensive studies of the impact of the sexually oriented businesses was undertaken in the state of Minnesota, under the leadership of the Attorney General Hubert Humphrey III, in 1989. After reviewing evidence from around the country, the working group on the Regulation of Sexually Oriented Businesses concluded that these
studies, taken together, provide compelling evidence that sexually oriented businesses are associated with high crime rates and depression of property values.”

Increased crime rate in the community and drug addition are possible indirect costs. The community may have to pay for the treatment and counseling of the drug addicts and the victims of crime. The taxpayers also have to bear the cost of detaining and prosecuting the criminals.

The indirect costs are the social costs like compulsive sex addiction, drug addiction, and negative moral messages to the children, especially teenagers. The erotic dance establishments advertise their businesses over the local radio stations and through billboards and as a result teach negative moral values to children who listen to the radio shows and see the billboards. Families may become dysfunctional as a result of compulsive sex addiction. This may cause emotional instability of members of the family and cause harm to the society.

Licensed counselors whose clients have compulsive sex addiction as a result of frequenting peep shows maintain that their clients have had homosexual contact with up to forty partners per day and have sought out children for “HIV free” sexual gratification after becoming aroused in the peep shows. (Munsil, 1996) One may theorize that watching erotic dance performances may have a similar effect on the patrons; on the other hand it is possible that those who are already addicted may be using these places. This will probably lead to prostitution, child molestation and other social ills. The possible cost of treating the compulsive sex addiction falls on the government.

Another cost that is important is the opportunity cost. It is the resources taken from other activities and put into the activity of our choice. For example the tickets to an
erotic dance show is usually 20 dollars a person. This is an affordable amount to customers whose income is above $100,000. If a person whose income falls below this level frequents the erotic dance establishments, then he is taking this out from the basic necessities like health care or proper clothing for his family or even an educational trip for his children. In this case the opportunity cost is high. On the other hand, for a tourist spending time in Las Vegas, it does not really matter where the money is spent. The opportunity cost is low here.

In determining the benefits and costs of the sex-oriented businesses the analysis is somewhat different from the stadiums. The stadiums are public investments so the focus of the studies on stadiums is on initial costs and the operational costs and benefits. But in the case of adult entertainment the government is not concerned with the initial costs or the cost of running the business. It is the owners of sex entertainment establishments who bear these costs. While important, they are not the focus of this study of sex-oriented businesses. Here we borrow from the gaming industries’ model of costs. In the research on gaming, costs are considered to be additional public expenditures on the regulation and supervision of the adult entertainment venues, additional police officers and firefighters. In addition the costs to the public would include the negative externalities such as additional traffic noise, increase in crime rate (Higher police costs and incarceration costs), property value decline, and problems of addiction (counseling and treatment costs). (Gazel, 1998) increase in noise of traffic, traffic congestion and problems related to drug addiction and compulsive sex disorder are intangible and are difficult to measure.
A significant percentage of the income from the sports team goes to the owners and the players. The owners and players may not be residents of the community that pays them. In this case the revenue will leave the community. We can apply a somewhat similar argument in the case of the Sex oriented businesses. It is very likely that many dancers and some owners may be residents of another city or state. A number of dancers come to the strip on weekends and other days. Schmidt, in his essay “Sex and Gambling in Nevada” notes “The number of dancers increases by over 40% during the weekend in Las Vegas. The majority of the weekend increase in dancers is a result of out-of-state dancers who work only the weekends.”

The question is, will this money be spent within the community or is it taken out of the community? Likewise it will be a cost to the community if the locals use these entertainments more than the tourists. It is thought that the out of town dancers usually spend about 20% of the wages in Las Vegas for shopping and boarding. The customers are usually tourists or those attending conventions. They spend on hotels and restaurants and shopping for souvenirs.

Now we can create a formula to calculate the net benefits of the adult businesses to the community as follows:

Net benefits = Direct benefits (Tax revenue, license fees, work card fees, visitor expenditure, Wages and salaries paid to the dancers and other employees, Food and beverage purchases advertisements, insurance utilities and new construction) + Indirect benefits (increase in local income x the multiplier effect) – Costs (regulation and supervision, new roads, additional police officers and firefighters) – negative externalities (possible addictions and the expenses to counsel this addiction, increase in crime rate, possible use of drugs, demoralizing effect on youngsters, broken families etc.).
CHAPTER 3

RESEARCH METHODS

The community selected for the study is the Clark County. The main reason for choosing this area is the presence of wide variety of adult entertainments that are sex oriented. These forms of entertainment play an important role in attracting tourists to Las Vegas.

This studies’ focus is on the dance establishments namely the Adult entertainment Cabaret and the Erotic Dance establishments and have been combined into one category called the Adult dance establishments.

The research will be done by collecting data on the revenue collected from these establishments by Nevada agencies. There were twenty adult dance establishments in Clark County in 2003. The data on the license fees paid by these twenty establishments was collected from the Department of Business License. Also, the approximate gross revenue of these adult dance establishments will be calculated. Using these data analyses will be made of the size of the industry in terms of revenue and numbers.

The next set of data to be collected is the data on the property tax paid by the owners of the property on which the adult dance establishment is housed. This information is available on the Internet on the Assessors and treasurers web sites. The tax paid per acre of land will be calculated and further analysis will be made using these calculations.
The Nevada State Department of Taxation collects Business taxes and the sales taxes from the adult dance establishments. The business taxes are computed based on the number of employees in an establishment and the sales tax is computed based on the total taxable sales the establishment makes in a year. The information on the revenue received by the government through these taxes from the adult dance establishments could not be collected because of privacy issues. (The amount of these two types of taxes paid by individual businesses is not public information.) An effort was made to find out the total taxes paid (business and sales) by all the adult dance establishments lumped together. While the Employment Securities Department was willing to share the total business and sales taxes collected from the Adult dance establishments, the taxes were not reported in the name of the adult dance establishments. The tax reported is the total business or sales tax for the parent company that owns adult dance establishment, which is usually in a different name.

Thus, for the purpose of this research on the adult dance establishments the analysis makes use of the information available to the public: the property tax revenue and the license fees collected. The Treasurers Office, Clark County, collects the property taxes and the Department of Business License, Clark County, collects the license fees. Again, the information on the amount of License fees collected from an individual Adult dance establishment is not public information. However, total license fees collected from these establishments for each type of license was obtained from the Department of Business License. (See Appendix- Adult Entertainment establishments License fee paid)
CHAPTER 4

DISCUSSION

Research is on the impact of the businesses on a community, tending to evaluate the costs and benefits of businesses in order to study the effects of these establishments on the community. The initial focus of this study was to be on the economic benefits derived from the adult dance establishments. There are different levels of benefits and they fall under two categories, i.e., direct and indirect.

The first direct benefit is the creation of employment for the local population in the individual adult dance establishments. People are employed as regular workers, for serving food or drinks to customers and to manage and maintain the establishment. However, the major personnel in the business, the dancers, are hired on a contract basis. Hundreds of dancers are from out of town and they usually work on weekends, but many dancers are residents of the community. A second direct benefit is the revenue for the government through license fees and taxes from these establishments.

Under indirect benefits there is the benefits to the society at large, that is, could be more spending within the community as a result of the employment. This is called the multiplier effect. In other words, for every job created there are a number of additional jobs created and for every dollar spent there are additional dollars going back into the community (Sprayer et al, 1999). Secondly, although the number of the adult dance establishments is not as big in comparison to other types of businesses in Clark County,
they do attract tourists to the community. The tourists don’t stop with watching adult dance performances, they spend more money in the community for food, liquor, souvenirs and lodging to mention just a few. This is a positive externality attributed to the adult dance establishments.

The focus of this study is on the second type of direct benefits, that is, the revenue received by the government from the adult dance establishments through the license fees and taxes: property taxes, fees, business taxes and sales taxes.

Before going into the analysis of the fees and taxes it would be appropriate to look into the structure of the adult entertainment businesses.

Structure of the Adult entertainment businesses in terms of dances

Adult book and video, adult novelty, adult motion picture, adult mini motion picture, adult picture arcade, adult entertainment cabaret, and erotic dance establishment are the various licensed adult entertainment available in Clark County. Since the adult book and video category has been established only from the year 2000 it was combined with the Adult novelty category for the sake of uniformity. This studies’ focus is on the dance establishments namely the Adult entertainment Cabaret and the Erotic Dance establishments and have been combined into one category called the Adult dance establishments.
Figure 1 shows the growth in number of the adult dance establishments in five years starting from the FY 1998 to 2002. There was an increase in the number of these adult dance establishments during the years 1999 and 2000, but a slight dip was observed in 2001 followed by an increase in 2002, the number jumped from 19 in 2001 to 32 in 2002. This is almost a 150 percent increase from the previous year. This significant increase in number of businesses shows that it may be important money making sector of the entertainment industry and more specifically, the adult entertainment industry. The fact that they are making more money suggests that people are interested in these types of entertainment and if the establishments are not seeing ample profits we would not witness an increase in the number of adult dance establishments.
Not only is the growth in adult dance establishments in the real number sizable, but the growth of these businesses in comparison to other categories of adult entertainment businesses is also significant. In Figure 2, it is observed that the other two significant categories of adult businesses are the adult picture arcade and the adult novelty establishments. Though they show an increase in number the growth percentage is not as significant as the adult dance establishments. The number of adult novelty businesses has grown from 10 in 1998 to 25 in 2002, which is a little over 150 percent increase. This 160 percent increase is misleading because from the year two thousand a new category of business was added and for the sake of convenience of the study it has been placed into the adult novelty category. The adult picture arcade has grown from 5 in 1998 to 8 in 2002. This is about 60 percent increase in number, but it is a small number when compared to the adult dance establishments. Whereas the number of adult dance establishments has gone up from 12 in 1998 to 32 in 2002, which is about 160 percent increase.
The Structure of license fees

The Department of Business License, Clark County, Nevada charges a license fee for all categories adult entertainment establishments and it is paid twice a year by the establishments. For some categories like the Adult motion picture a semi annual flat fee is charged. For example the adult motion picture establishment pays a flat fee of $650.00 a year. For all of the other categories of adult entertainment establishments the license fee is calculated as a percentage of the gross revenue of the establishments. (See appendix for table on Clark County, Gross schedule of license fees)

A close analysis of the Clark County Fee schedule shows that the fee structure varies by the gross revenue of the establishments. The fees in the lower end are $1.00 in fees for every $400.00 to $600.00 in revenue. In the middle the fee is $1.00 for every $1800.00 revenue. At the upper end it is $1.00 for every $1790.00.

Growth in fees

Figure 3 shows the increase in the license fees collected from the adult dance establishments. There is a slight dip in 2001, but that could be the result of the number of establishments decreasing that year.
If the license fees is calculated on a per business basis then it is controlled for the number of business, it is observed that it is increasing each year from 1998 to 2001 and then there is a drop in 2002. But Figure1 makes it is clear that the number of businesses has increased that year. If the number of businesses is now more than in the past, it would be only natural to expect the fees collected to be more too. Though the total fees collected do show an increase, the fee collected per establishment has actually dropped. (Figure 4) The total money spent on adult dance establishments is not elastic. The most probable explanation for the drop in the business to fee ratio is that there are more adult dance establishments now and the fees are now spread out among them, while the total revenues may be somewhat the same.
Another likely reason for the drop could be the effect of the September 11, 2001 tragedy. There was probably a decline in the number of tourists and business dropped for at least a quarter of a year after the disaster. The numbers in Table 1 show that there was a slight dip in the Gross revenue collected in the year 2001. It was $759,676 less than the previous year. If it is true that the drop in the revenue amount was a result of the drop in tourism, it implies that the majority of people using these adult oriented entertainments are tourist. However, tourism returned to somewhat normal levels in 2002 and the gross revenue of the Adult Dance establishments increased by $4,086,409.00 from year 2001 to 2002.
Growth in fee revenue of the Adult dance establishments in relation to the other Adult entertainment establishments

Approximating gross revenues

Due to the difficulty in obtaining the gross revenue figures for the adult establishments, there is no way to actually measure the growth in terms of gross revenue. But it is possible to approximate the gross revenue of different categories of the adult dance establishments with the help of the Fee schedule that the Clark County Department of Business licenses uses to compute the semi annual license fees. It was necessary to make the following assumptions. First, the calculations would help to get a glimpse of the size of this sector of the adult entertainment industry. Second, it would be interesting to see the impact on these businesses if they were taxed and if the taxes were based on the gross revenue receipts of these businesses. Table 1 shows the gross revenue numbers for the three largest groups of the adult entertainment industry.

The license fee per establishment for each year was calculated based on the license fee information from Department of Business License, Clark County. Using this fee per business and Fee schedule the approximate gross revenue for one establishment was computed and then multiplied by the number of businesses in each category to arrive at the gross revenue for a particular category of businesses.
Example: Calculation of gross revenue of the Adult dance establishments for the year 1998.

Fees paid by 12 establishments in 1998 = $4215.00

Fee paid by 1 establishment = $4215/12

= $351.00

For six months it would be $351/2 = $175.00

If the Fee paid is $175.00, then from the fee schedule the gross revenue will be approximately $320,000 for half a year. For one year it is 320,000 x 2 or 640,000.

Total for Adult dance Establishments = $640,000 x 12 = $7,680,000

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<tr>
<td>Adult novelty</td>
<td>$4,531,053</td>
<td>$5,672,367</td>
<td>$10,765,077</td>
<td>$11,026,103</td>
<td>$12,680,468</td>
</tr>
<tr>
<td>Adult dance</td>
<td>$7,587,758</td>
<td>$13,033,303</td>
<td>$15,251,125</td>
<td>$14,491,449</td>
<td>$18,577,857</td>
</tr>
<tr>
<td>picture arcade</td>
<td>$20,945,094</td>
<td>$22,336,634</td>
<td>$20,671,467</td>
<td>$17,551,755</td>
<td>$20,066,606</td>
</tr>
</tbody>
</table>

Figure 5 demonstrates that the Adult picture arcades forms the largest part of the adult entertainment industry. It also shows the growth pattern of the three largest groups of the adult entertainment establishments. Though all three groups show a growth in the revenue, the group that shows the largest growth is the adult dance establishments. This can be observed in Figure 6, which depicts the percentage increase in fees received from Adult dance establishments.
The increase in growth for the adult novelty establishments is about 8 percent. Though the revenue from the adult picture arcade showing growth, the rate of growth has actually started falling over the years. The adult picture arcade has fallen from 60 percent of the total revenue in 1998 to 40 percent in 2002. However the Adult Dance Establishments have shown a steady growth rate, growing from 20 percent in the year 1998 to 40 percent of all fees in the year 2002. This 20 percent growth in the revenue through license fees is quite significant.

Figure 5. Adult dance establishments- growth in revenue
Though the number of the adult dance establishments seems to be more, their gross revenue is not that significant. If the assumption about calculating the gross revenue is right then the gross revenue collected per adult dance establishment per year is only about $600,000.00. This shows that the size of this industry is small.

Two points are important. First, if the gross revenue calculated is correct, most of these businesses would not be taxed under the proposed gross receipts tax system. Second, either the establishments are not reporting the actual gross revenue receipts or the government is using different ways to calculate the gross revenue from what has been done in this study.

The license fees collected for the adult dance establishment category is $10,320.00 for the year 2002. This is about $876.00 a month total for all adult dance establishments. The Department of Business License has received a total income of $117,700,000 from all license fees and permits collected by the County in the year 2002. (See Clark county

Figure 6. Adult dance establishments- Percentage increase in revenue
pie chart.) The total fees paid by all the adult entertainment establishments that year were $29,836.00. Thus only 0.25 percent of all fees are from adult entertainment industry. The percentage of license fee revenue from adult dance establishments must be even smaller. This not only shows the small size of the industry, but also that the income for the government from them is also very small. It may well be that the government pays more to the person employed to compute the taxes than what they get from these establishments.

The real purpose behind licensing these adult dance establishments and collecting fees seems to be to constrain the market and regulate the industry rather than use it as a means of raising revenue for the government. This argument is further reiterated when we look at the fee structure in the schedule. As mentioned earlier the fee is a function of the gross revenue. A closer analysis of the schedule shows that the fee is about $1.00 for every $480.00 gross revenue at the lower end and it is $1.00 for every $1790.00 gross revenue at the upper end. At the middle the businesses are paying $1.00 fee for every $1,500.00 revenue. If the fees were collected as a means to raise revenue for the government then it would probably be proportional or progressive. However, the fees are neither proportional or progressive, instead, at the middle and the lower level the businesses are charged a higher rate of fees than the large businesses.
Taxes

Another source of revenue for the County are the taxes paid by various businesses. The Adult Dance establishments pay property taxes, business taxes and sales taxes. The property taxes are an important source of revenue for the local government. This revenue is the most stable source of revenue for local governments. The tax rates levied by each entity are limited to a complex statutory formula with the combined tax rate of all entities further limited to $3.64 per $100 of assessed valuation. The following pie chart shows that the property tax forms 23.4 percent of the local revenue.

Revenues and Transfers in $803.5 Million (Clark County Budget and financing section)

http://www.co.clark.nv.us/finance/budget/General_Fund.htm

General Fund Revenue and Expenditure Mix - Fiscal Year 2002
The taxes paid by any particular property can be determined by looking at the County Treasurer’s web site. Typing in the parcel number or address or owners name will make the property details pop up on the screen.

All Adult Dance establishments are concentrated in one particular area of the industrial part of the city. (See appendix for Clark County, adult use site map) The Clark County Zoning Codes Chapter 30 Section 44 provides regulation on the zoning of the adult entertainment sites. Taking a drive around these areas showed that these businesses exist in the commercial areas and close to the strip. Property on which the adult dance establishment is located sometimes belongs to the owners of those establishments or sometimes it is rented.

Table 2 lists the businesses and the total taxes paid by the owner of the property which houses the adult dance establishments. It also gives the mean taxes paid for all 20 establishments. The taxes vary greatly because the establishments vary in size of business and property.

The county property tax rate is 2.89 mills of the assessed value of the property. To control for the size of the property, the value of land per acre was calculated. The assessed land value was divided by the total number of acres to get the value of land per acre. The result was multiplied by the property tax rate 2.89 mills and divided by 100 to determine the tax per acre.

Example:

If the total land value of a property was $112,210.00 and the size of the land was 1.84 acres, then the land value per acre would be 112210/1.84. That is $60,984.00. The tax paid per acre of land is 60984 x 2.89/100 which is $1762.44.
Observation of the amount of taxes paid by the property on which the adult dance establishments are housed and the properties around it show that they are mostly uniform. Table 3 confirms this statement. The revenue from the property taxes is significantly more than the revenue from license fees. Also, the revenue from taxes is not affected by the gross revenue received by the business.

Table 2. Property taxes paid by the Adult Dance Establishments

<table>
<thead>
<tr>
<th>Name of adult business</th>
<th>Tax paid (annual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby dolls</td>
<td>5,856</td>
</tr>
<tr>
<td>Can Can Room</td>
<td>19,756</td>
</tr>
<tr>
<td>Club Paradise</td>
<td>9,856</td>
</tr>
<tr>
<td>Club Platinum</td>
<td>3,947</td>
</tr>
<tr>
<td>Deja Vu Showgirls</td>
<td>15,408</td>
</tr>
<tr>
<td>De Janeiro Eager</td>
<td>7,257</td>
</tr>
<tr>
<td>Diamond Cabaret</td>
<td>1,669</td>
</tr>
<tr>
<td>Divas Las Vegas</td>
<td>4,627</td>
</tr>
<tr>
<td>Foxy Girls</td>
<td>3,186</td>
</tr>
<tr>
<td>Kitten Lips</td>
<td>1,469</td>
</tr>
<tr>
<td>Lannon's library</td>
<td>8,265</td>
</tr>
<tr>
<td>Leopards Lounge</td>
<td>9,563</td>
</tr>
<tr>
<td>Play It Again Sams</td>
<td>7,964</td>
</tr>
<tr>
<td>Pussy Cats Inc</td>
<td>3,108</td>
</tr>
<tr>
<td>Sapphire</td>
<td>44,321</td>
</tr>
<tr>
<td>Silhouettes</td>
<td>7,604</td>
</tr>
<tr>
<td>Spearmint Rhino</td>
<td>26,161</td>
</tr>
<tr>
<td>Striptease</td>
<td>9,372</td>
</tr>
<tr>
<td>The Jaguars</td>
<td>25,162</td>
</tr>
<tr>
<td>Wild J's Book and video</td>
<td>9,358</td>
</tr>
<tr>
<td>total</td>
<td>223,920</td>
</tr>
<tr>
<td>Mean</td>
<td>11,195</td>
</tr>
<tr>
<td>Median</td>
<td>8,115</td>
</tr>
</tbody>
</table>
Some people are concerned about the negative externalities of these businesses on the community. One negative externality could be the reduction in property value in the locality that they are situated within, as a result of the presence of these businesses. A second issue is the equity, which is the fairness in payment of taxes. To address this issue it is important to determine to what extent the adult entertainment establishments pay differently than their neighbors. To make this comparison it is essential to determine the ratio of the tax paid per acre of land on which the adult dance establishment is located and that of those properties surrounding the establishment.

This was done with the help of the Clark County Assessors and the Treasurers websites. Upon typing the parcel number of the Adult dance establishment in the appropriate field a map showing the establishment and its neighbors pops up. By clicking on the properties in the map treasurer’s information on the property value and the taxes paid is displayed. Using this information the tax paid per acre for the neighboring properties were calculated. It was done the same way the adult dance establishment taxes were calculated. The findings are presented in Table 3.
Table 3. Ratio of Tax/acre of land of Adult Dance Establishment to The surrounding establishments

<table>
<thead>
<tr>
<th>Name of the business</th>
<th>Property tax/acre</th>
<th>ADE: surrounding establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby dolls</td>
<td>1766</td>
<td>0.92</td>
</tr>
<tr>
<td>Can Can Room</td>
<td>3530</td>
<td>0.32</td>
</tr>
<tr>
<td>Club Paradise</td>
<td>4326</td>
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<td>Club Platinum</td>
<td>3548</td>
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</tr>
<tr>
<td>Daja Vu Showgirls</td>
<td>2204</td>
<td>0.29</td>
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<td>De Janiero Eager</td>
<td>3530</td>
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<td>Diamond Cabaret</td>
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<td>Divas Las Vegas</td>
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<td>Foxy Girls</td>
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<td>Kitten Lips</td>
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<td>Lannon's library</td>
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<td>1.28</td>
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<tr>
<td>Leopards Lounge</td>
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<tr>
<td>Play It Again Sams</td>
<td>6088</td>
<td>1.64</td>
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<td>Pussy Cats Inc</td>
<td>3120</td>
<td>0.76</td>
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<td>Sapphire</td>
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<td>0.48</td>
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<td>Silhouttes</td>
<td>3096</td>
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<td>Sperarmint Rhino</td>
<td>1548</td>
<td>0.85</td>
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<td>Striptease</td>
<td>3543</td>
<td>1.00</td>
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<tr>
<td>The Jaguars</td>
<td>3975</td>
<td>1.28</td>
</tr>
<tr>
<td>Wild J's Book and video</td>
<td>3548</td>
<td>0.41</td>
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<tr>
<td><strong>mean</strong></td>
<td></td>
<td><strong>0.86</strong></td>
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<tr>
<td><strong>Median</strong></td>
<td></td>
<td><strong>0.92</strong></td>
</tr>
</tbody>
</table>

The Value of 1 means that the taxes paid was equal. A value less than 1 means the Adult dance establishment paid less than the surrounding establishments. A value more than one shows that the adult dance establishments paid more than the surrounding establishments.

The mean and the median of the ratios are almost equal. The mean is very close to 1, which shows that the tax paid by the adult dance establishments is almost the same as that paid by the other establishments in a particular area. The reason that sometimes the ratio
is significantly below 1 is that there may be a hotel or motel near the adult dance establishment. For example, the ratio for Déjà vu Showgirls is only 0.29 (Table 3). The reason is a Hotel casino (Star Dust) and a motel located near it. The value of hotel land is much higher and the taxes paid by them were obviously also much bigger. When the value is more than 1, it means that the adult dance establishments paid a little more than the rest. From the analysis of the property tax data collected, we can safely conclude that the properties where the adult entertainment business is located pay their fair share of the property taxes.

All the 20 Adult dance establishments were located in commercial centers and away from residential areas. Usually they are located near casinos or with other adult businesses in commercial areas of unincorporated Clark County. Thus the presence of the Adult Dance Establishments does not reduce the property value of the businesses around it. There does not appear to be a negative externality in terms of property value for the adult dance establishments.
CHAPTER 5

CONCLUSION AND RECOMMENDATION

The adult dance establishments form a sector of the adult entertainment industry. These businesses have existed for a reasonable period of time and due to the nature of the entertainment, is a very visible part of the entertainment industry. This study sought to determine if there were any benefits from these establishments to the government in revenue. One way to look at it was to find out what revenues were collected from these businesses.

The adult dance establishments pay business taxes, sales taxes, property taxes and business license fees. Difficulties were encountered in gathering information on the business and sales taxes. The business and sales taxes were reported in the name of the parent company and not by the name of the adult dance establishment. Data on the number of the adult dance establishments and the license fee paid was obtained from the Department of Business License.

The number of these adult dance establishments has grown from 7 in the year 1998 to 32 in the 2002. The fact that the number of businesses has been increasing tells us that the popularity of these entertainments is growing and the owners find these businesses viable.

The total revenue from fees from the adult dance establishments has shown growth over the years, but the fees on a per business basic has dropped. It was also observed that
the number of these businesses have increased, so the decrease in revenue on a per business basis may be due to the fact that the fees were spread out among the businesses. The Clark County has received totally $117,700,000 from all licenses and permits for the year 2002. It has received $10,320 as license fees from adult dance establishments. This is only .01 percent of the total revenue from license fees. Probably the County spends more on regulating these businesses than it receives in revenue. The assumption here is that the county is using the fees as a way of constraining the market and not as a means to raise revenue.

The revenue received through the property taxes is significantly more than from fees. Moreover the property taxes are not dependant on the gross revenue and they are a steady source of income to the government. The properties on which the adult dance establishments are housed pay their fair share of the taxes. The presence of the adult dance establishment has no negative effect on the property value of the surrounding establishments.

More research can be done on the adult entertainment industry. The employment created by this industry, the revenue received from sales and business taxes and expenditure to regulate this industry are some of the areas that need more research. The question arising from this study is whether the government could collect more fees and taxes from these establishments? The gross revenue collected per establishment seems to be small, but the number of establishments is growing. This will not happen if the adult dance establishments are not profitable, so it makes one wonder if the businesses are reporting the gross revenues correctly.
A joint research by the Department of business license, Department of Taxation and the Las Vegas Metropolitan Police Department would yield a better picture of the economic impact of this adult dance industry.
# Gross Schedule of License Fees and Penalties

<table>
<thead>
<tr>
<th>6 Month Gross Revenue</th>
<th>Fee</th>
<th>After 15 Days</th>
<th>After 30 Days</th>
<th>After 60 Days</th>
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<td>$ 0</td>
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<td>1,200,001 AND OVER</td>
<td>.00555555</td>
<td>10%</td>
<td>20%</td>
<td>20% + $45.00</td>
</tr>
</tbody>
</table>

If paid after 60 days

The fee, penalty and the included $45.00 reinstatement fee is due.
Clark County Map showing Adult Use Sites
## ADULT ENTERTAINMENT LICENSE FEES PAID
### FY98-FY02

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th># of Businesses</th>
<th>License Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 98</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>804-Adult Novelty</td>
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<td>10</td>
<td>$2,517.00</td>
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<tr>
<td>806-Adult Motion Picture</td>
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<td>650.00</td>
</tr>
<tr>
<td>807-Adult Mini Motion Picture</td>
<td></td>
<td>1</td>
<td>900.00</td>
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<td>808-Adult Entertainment Cabaret</td>
<td></td>
<td>5</td>
<td>1,710.00</td>
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<tr>
<td>809-Adult Picture Arcade</td>
<td></td>
<td>5</td>
<td>11,635.00</td>
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Total fees paid by Adult Entertainment business for fy98-fy02 was $126,162.00
REFERENCES


The Economic Impacts of casino Gambling at the State and Local Levels. Gazel, Ricardo ANNALS, AAPSS. 1998.


http://www.uno.edu/~coba/dber/gambling1998/


VITA

Graduate College
University of Nevada, Las Vegas

Christina Henry

Local Address:
8824 Libertyvale Drive
Las Vegas, Nevada 89123

Home Address:
8824 Libertyvale Drive
Las Vegas, Nevada 89123

Degrees:
Bachelor of Science, Botany, 1985
University of Madras India

Master Of Science, Botany, 1987
University of Madras, India

Dissertation/Thesis Title: The Economic Impact of the Adult Dance Establishments on the Community

Dissertation/Thesis Examination Committee:
Chairperson, Dr. Lee Bernick, Ph.D
Committee Member, Dr. William Thompson, Ph.D
Committee member, Dr. Karen Layne, Ph.D
Committee member, Dr. Barbara Brents, Ph.D