

Video Lottery

The proposed amendment to the Colorado Constitution:

- ◆ requires the Colorado Lottery Commission to implement a state-supervised video lottery program at existing horse and greyhound racetracks and licensed casinos by November 1, 2004;
- ◆ specifies that revenues from the video lottery program will go to Great Outdoors Colorado (GOCO), state and local parks and recreation, and up to \$25 million for tourism promotion, with any remaining revenues for school construction; and
- ◆ exempts proceeds from video lottery terminals from state spending and revenue limits.

Background

Legal gambling in Colorado includes horse and greyhound races, bingo and raffle games, lottery, lotto, powerball, and limited stakes gaming in the cities of Black Hawk, Central City, and Cripple Creek. Limited stakes gaming includes slot machines, blackjack, and poker with a maximum single bet of \$5. This proposal expands gambling by creating a video lottery program.

Video lottery terminals. A video lottery terminal, frequently called a VLT, is a device that offers a game of chance and awards credits through a printed voucher. The voucher may be redeemed for cash or used to play another VLT. The proposal permits the placement of at least 500 VLTs at the horse racetrack in Aurora and at each of the greyhound racetracks in Loveland, Commerce City, Colorado Springs and Pueblo. Upon the approval of the Colorado Lottery Commission, licensed limited gaming establishments in the cities of Black Hawk, Central City, and Cripple Creek would also be allowed to offer gaming through VLTs. VLTs are capable of offering games of chance similar to video slot machines, video poker, and video blackjack. The Colorado Lottery Commission would approve the games to be offered by the state video lottery program.

Distribution of proceeds. As shown in Table 1, the current distribution of Colorado lottery proceeds after the payment of prizes and expenses is: 40 percent for local parks and recreation; 10 percent for state parks; and 50 percent to GOCO for open space, local parks and recreation, state parks, wildlife protection, and environmental projects. The maximum distribution to GOCO is capped at \$48.7 million in the 2002-2003 budget year. This amount is adjusted annually to account for inflation. Any revenue above this cap is used for school construction to address health and safety issues in public school buildings.

State revenue from VLTs is distributed in a manner similar to other lottery distributions except that up to \$25 million will be used to promote travel and tourism in Colorado once the distribution to GOCO reaches its cap. In addition, a one-time license fee of \$500 per machine will go directly for tourism promotion. The program ends on July 1, 2019.

Table 1. Current and Proposed Distribution of Lottery Revenue

Use of Money	Current Distribution	Proposed Distribution
Local Parks and Recreation	40 percent	40 percent
State Parks	10 percent	10 percent
GOCO	50 percent capped at \$48.7 million in 2002-03 and adjusted annually for inflation	50 percent capped at \$48.7 million in 2002-03 and adjusted annually for inflation
Tourism Promotion	none	up to \$25 million after the GOCO cap is reached, plus one-time VLT license fees of \$500 per machine
Public School Construction	money above the GOCO cap	money above the GOCO cap after \$25 million for tourism promotion

Funding for tourism. Until 1994, state funding for tourism promotion came from a tax of 20 cents for every \$100 spent on tourism-related items, such as restaurants, lodging, car rentals, and ski lift tickets. This tax provided about \$13 million in yearly revenue. Between 1994 and 1998, no state money was set aside for tourism promotion.

In 1999, the state legislature budgeted \$5 million for tourism promotion. In 2000, the state's Colorado Tourism Board and private industry's Colorado Travel and Tourism Authority merged to become the Colorado Tourism Office to oversee tourism promotion for the state. The office is administered by a board of directors appointed by the Governor. In 2002, funding for tourism promotion was increased to \$5.7 million, and in 2003, the state legislature budgeted \$9 million to promote tourism.

Arguments For

1) Providing up to \$25 million to promote tourism will boost tourism and the state's economy. Investment in tourism creates jobs, particularly in the retail, lodging, recreation, and restaurant industries. The economy is further strengthened because employees spend most of their earnings locally. As a result, government will receive additional sales tax revenue from consumer spending and additional income tax revenue from job growth.

2) The proposal guarantees a stable funding source for tourism promotion. With a dedicated tourism funding source, the money that the legislature sets aside for tourism promotion would be available for other state programs. A tourism campaign that is well funded can promote a diverse set of attractions, including cultural and historical sites.

1 3) Proceeds from VLTs increase revenue for public parks and land preservation, as well as
2 for health and safety issues in public school buildings. Lottery revenue is used to renovate state park
3 facilities, construct and maintain trails, protect wildlife and the environment, and purchase land for
4 permanent open space. Revenue from the proposal will enhance the quality of life that makes
5 Colorado attractive to both residents and visitors.

6 4) VLTs at racetracks could help the sport of horse and greyhound racing, and the industries
7 that support it, as well as provide tax revenue from job creation and income growth. In other states,
8 VLTs have increased attendance and participation in racetrack betting. Additional wagers improved
9 the size of winnings, strengthened the racing competition, and invigorated the breeding industry.
10 Several racetracks improved or expanded their racing facilities and added jobs, which resulted in the
11 growth of state and local tax revenue without raising taxes.

12 **Arguments Against**

13 1) VLT locations should be subject to the same rules as casinos where slot machines are
14 located because there is no difference between VLTs and slot machines. The Colorado constitution
15 requires that voters in a community approve limited stakes gaming before it can be offered in their
16 community. Classifying a VLT as a lottery game bypasses the constitutional requirement that local
17 voters decide if they want gambling in their community.

18 2) Making VLTs easily accessible in five communities along the front range may increase
19 the number of compulsive gamblers in the state. The effects of compulsive gambling are costly to
20 families and society. Compulsive gambling can lead to divorce, child neglect and abuse, spousal
21 abuse, bankruptcy, suicide, and crime. The proposal does not set money aside to address local costs
22 such as law enforcement or social services.

23 3) Colorado already has enough gambling options available with limited stakes gaming,
24 lottery games, horse and greyhound racing, and bingo and raffles. State-owned and operated VLTs
25 at racetracks will compete with private industry and will take business away from Colorado casinos.
26 Lower gaming revenue will reduce funding for the programs currently supported by gaming taxes,
27 such as historic preservation.

28 4) The proposal leaves too many unanswered questions. The proposal does not provide the
29 specifics of the program, such as the minimum age required to gamble using a VLT, the maximum
30 amount of a wager, and the types of games that qualify for VLT play. Moreover, the proposal
31 expands the role of government by increasing the need for new regulation and enforcement, and puts
32 government in the position of promoting gambling.

33 **Estimate of Fiscal Impact**

34 Table 2 shows projected state revenue from VLTs during the first three years.

1 **Table 2. Projected State Revenue from VLTs (\$ in millions)**

Use of Money	State Budget Year		
	2004-05*	2005-06	2006-07
Local Parks and Recreation	\$18.5	\$31.3	\$34.5
State Parks	4.6	7.8	8.6
GOCO	3.8	6.1	8.1
Tourism Promotion**	20.6	25.0	25.0
Public School Construction	0	8.0	10.0
Total State Revenue	\$47.5	\$78.2	\$86.2

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9 **The video lottery program begins November 1, 2004. Revenue during the 2004-05 state budget year is based on eight months of operation.*

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11 ***Includes the one-time machine license fee of \$500 per VLT in the 2004-05 budget year.*

12 **Revenues.** Projections of revenue from current lottery games suggest that lottery revenue
13 will not be sufficient to fund GOCO to its cap during each of the next three years. The proposal will
14 provide money to GOCO to the maximum allowed by law. Up to \$25 million per year will be set
15 aside for Colorado tourism promotion. Assuming that 500 VLTs are licensed at each racetrack in
16 the 2004-05 budget year, an additional \$1.25 million will be available for tourism promotion from the
17 one-time license fee of \$500 per VLT. Money will also become available to address health and safety
18 issues in public schools once the tourism promotion fund reaches its \$25 million annual cap.

19 **Expenditures.** The Colorado Lottery Commission will be responsible for issuing licenses,
20 approving games, and controlling the number and type of VLT machines that may be used. These
21 responsibilities are expected to require 15 new state employees. Including administrative expenses,
22 this cost is estimated to be \$1.5 million per year and will be paid from proceeds of the video lottery
23 program. Other expenses paid from the proceeds of the program include a vendor fee and a sales
24 commission. The vendor fee, estimated to be eight percent of net machine income, will be paid to
25 a private technology provider to connect each VLT to a central computer system and to maintain the
26 VLTs. The sales commission paid to the racetracks is estimated to be nearly \$60 million per year.

27 **Other impacts.** Video lottery terminals will likely increase wagering for both live and
28 simulcast races at horse and greyhound racetracks, thereby increasing employment and tax revenues
29 at these locations. Tax revenue from limited stakes gaming in Colorado will most likely decrease as
30 a result of the increase in gaming competition. The revenue impact on current lottery games is
31 expected to be minimal.