Amendment 33

Colorado Legislative Council Staff

FISCAL IMPACT STATEMENT

Date: July 25, 2003 **Fiscal Analyst**: Harry Zeid (303 866-4753)

BALLOT TITLE: SHALL THERE BE AN AMENDMENT TO THE COLORADO CONSTITUTION CONCERNING THE GENERATION OF ADDITIONAL STATE REVENUES THROUGH THE AUTHORIZATION OF VIDEO LOTTERY TERMINALS, AND, IN CONNECTION THEREWITH, DIRECTING THE LOTTERY COMMISSION TO ALLOW VIDEO LOTTERY TERMINALS AT DESIGNATED RACETRACKS AND LIMITED GAMING ESTABLISHMENTS; AFTER THE ALLOCATION OF NET PROCEEDS FROM VIDEO LOTTERY TERMINALS TO THE GREAT OUTDOORS COLORADO PROGRAM, ALLOCATING UP TO $25 MILLION OF SUCH NET PROCEEDS IN A FISCAL YEAR TO AN EXISTING FUND TO PROMOTE TOURISM IN COLORADO; IMPOSING A $500 LICENSE FEE ON EACH VIDEO LOTTERY TERMINAL AND ALLOCATING SUCH LICENSE FEES TO THE TOURISM PROMOTION FUND; EXEMPTING NET PROCEEDS AND LICENSE FEES FROM VIDEO LOTTERY TERMINALS FROM ALL RESTRICTIONS ON SPENDING, REVENUES, AND APPROPRIATIONS; AND REPEALING THIS MEASURE ON JULY 1, 2019?

Fiscal Impact Summary	FY 2004/2005	FY 2005/2006	FY 2006/2007
State Revenues			
General Fund			
State Lottery Fund	$9,388,000	$13,562,000	$14,767,000
Other Cash Funds	47,500,000	78,200,000	86,200,000
State Expenditures			
General Fund			
State Lottery Fund	$9,388,000	$13,562,000	$14,767,000
Other Cash Funds	47,500,000	78,200,000	86,200,000
FTE Position Change	13.5 FTE	16.0 FTE	16.0 FTE
Other State Impact: None Identified - Revenue is exempt from TABOR restrictions			
Effective Date: Upon approval by the voters. The state-supervised video lottery program would begin November 1, 2004, and expires July 1, 2019.			
Appropriation Summary for FY 2003/2004: None Required			
Local Government Impact: Forty percent of net VLT revenue will go for local parks and recreation purposes, and additional money will become available for public school construction. In addition, funding for tourism promotion will have a positive impact on sales tax revenue for many local governments. Communities where VLTs are placed will have revenue and expenditure impacts as well.			

Summary of Proposal

This proposal would add a new section to the Colorado Constitution. The proposal:

- requires the Colorado Lottery Commission to implement a state-supervised video lottery program at specific horse and greyhound racetracks and at licensed casinos by November 1, 2004;
- creates a distribution formula for video lottery proceeds that allocates up to $25 million annually for tourism promotion, provides additional revenue for open space and parks and recreation, potentially provides additional revenue for Great Outdoors Colorado (GOCO), and designates any remaining revenue for school construction purposes; and
- exempts revenue from the video lottery program from state and local spending and revenue limits.

Under the proposal, the Colorado Lottery Commission would oversee and regulate a video lottery program in order to maximize VLT proceeds. The commission would approve the games to be offered; set the age and bet limits; and control advertising, promotion, and security of the program. The proposal permits the initial placement of 2,500 VLTs, including 500 VLTs at the horse racetrack in Aurora and 500 VLTs at each of the greyhound racetracks in Loveland, Commerce City, Colorado Springs, and Pueblo. The proposal also permits the placement of VLTs at licensed limited gaming establishments in the cities of Black Hawk, Central City, and Cripple Creek. The Colorado Lottery Commission may approve the placement of additional VLTs at any racetrack or casino. The program ends on July 1, 2019.

State Revenue

Current Lottery Distributions. 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 the remaining proceeds to GOCO for open space, parks and recreation, and protection of wildlife and the environment. The maximum distribution to GOCO was capped at $48.7 million in the 2002-03 budget year. The cap is adjusted annually to account for inflation. Any revenue above the cap is used for health and safety issues in public school buildings. Table 1 shows projected lottery revenue from current lottery games based on forecasts made by the Colorado Lottery Division. These estimates suggest that annual lottery revenue from current games will not be sufficient to reach the GOCO cap during each of the next four state fiscal years.

Table 1. Projected Lottery Revenue from Current Lottery Games ($ in millions)

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Conservation Trust	$41.6	$38.3	$37.4	$37.1	$36.8
Parks	10.4	9.6	9.4	9.3	9.2
GOCO	48.7	47.9	46.8	46.4	46.0
School Construction	3.3	0	0	0	0
Total	$104.0	$95.8	$93.6	$92.8	$92.0
GOCO Cap	$48.7	$49.6	$50.6	$52.5	$54.1
Amount to Reach Cap	0	1.7	3.8	6.1	8.1

Distributions of VLT Revenue. New state revenue from the video lottery program will be distributed in a manner similar to other lottery distributions with two exceptions. First, once the distribution to GOCO reaches its cap, up to $25 million of video lottery program revenue will be used to promote travel and tourism in Colorado. Second, a one-time license fee of $500 per machine will go directly for tourism promotion. Table 2 summarizes the distribution of current lottery proceeds and the distribution of proposed net VLT proceeds.

Table 2. Current and Proposed Distribution of Lottery Revenue

Use of Money	Current Distribution of Lottery Revenue	Proposed Distribution of Revenue from the Video Lottery Program
Local Parks and Recreation	40 percent	40 percent
State Parks	10 percent	10 percent
From the Remaining 50 Percent:		
GOCO	up to $48.7 million in the 2002-03 budget year and adjusted annually for inflation	the amount needed, after the distribution of current lottery revenue, to reach the inflation-adjusted GOCO cap
Tourism Promotion	none	up to $25 million from video lottery proceeds after the GOCO cap is reached, plus one-time VLT license fees of $500 per machine
Public School Construction	all remaining money above the GOCO cap	all remaining money above the tourism promotion cap

"Net VLT proceeds" is defined as all proceeds from the operation of video lottery terminals, net of prizes and expenses of the State Lottery Division, including sales agent commissions. Revenue from the one-time license fee of $500 per video lottery terminal that is credited to the tourism promotion fund is not counted as net VLT proceeds. Therefore, license fees do not count against the annual $25 million tourism promotion cap. The facilities where the VLTs are located will receive a sales agent commission The commission is the lesser of: six percent of the total amount of currency and credits wagered, or 39 percent of all currency wagered less the value of all pay vouchers issued.

Estimates of Net VLT Proceeds. The proposal permits a minimum of 2,500 VLTs be placed at five Colorado horse and greyhound racetracks. However, the Colorado Lottery Commission would have the authority to approve the licensing of an unlimited number of additional machines at racetracks and casinos. Table 3 shows estimates of state revenue, after prize payouts based on the following assumptions:

- daily machine income per VLT will be $150 in FY 2004-05, and increase by ten percent annually;
- a total of 2,500 VLTs will be licensed for operation beginning November 1, 2004, at the five Colorado racetracks;
- the sales agent commission paid to the operators of the racetracks will be 39 percent of net machine income;
- administrative costs of the Colorado Lottery Commission includes an annual vendor fee to a technology provider of 8.0 percent of net machine income;
- projected revenue from current lottery games will not be sufficient for GOCO to reach its statutory revenue cap, however, the GOCO cap will be reached each year through current lottery game proceeds plus additional revenue provided from VLT proceeds;
- after the GOCO cap has been reached, up to $25 million will be set aside from net VLT proceeds for tourism promotion;
- VLT machine license fees do not count against the $25 million tourism promotion cap; and
- net VLT proceeds above the GOCO cap and the tourism promotion cap will be used for public school construction.

Table 3. Projected State Revenue from the Video Lottery Program

Use of Money	State Budget Year		
	2004-2005*	**2005-2006**	**2006-2007**
Daily Machine Income per VLT Annual Machine Income per VLT Number of VLTs	$150 36,500 2,500	$165 60,225 2,500	$182 66,248 2,500
	($ in millions)		
Net Machine Income	$91.25	$150.56	$165.62
Sales Agent Commission @39%of NMI	$35.59	$58.72	$64.59
State Share of Revenue Less: Administrative Costs** Equals Net VLT Proceeds Plus: VLT Licence Fees Total Revenue Available for Distribution	$55.66 9.39 $46.27 1.25 $47.52	$91.84 13.56 $78.28 0 $78.28	$101.03 14.77 $86.26 0 $86.26
Distribution of Net VLT Proceeds:			
Local Parks and Recreation	$18.50	$31.31	$34.50
State Parks	4.63	7.83	8.63
GOCO	3.80	6.10	8.10
Tourism Promotion***	20.59	25.00	25.00
Public School Construction	0	8.04	10.03
Total State Revenue	**$47.52**	**$78.28**	**$86.26**

**The video lottery program would begin November 1, 2004. Revenue projections during the 2004-05 state budget year are based on eight months of operation.*

***The administrative costs incurred by the Colorado Lottery Commission in FY 2003-04 would be reimbursed from revenue received in FY 2004-05.*

****Includes the one-time machine license fee of $500 per VLT in the year that the machine is licensed.*

The proposal requires that the rules of the Colorado Lottery Commission shall maximize the net VLT proceeds available for distribution. Furthermore, the proposal authorizes the Colorado Lottery Commission to approve the use of video lottery terminals at authorized locations in a number that the commission deems to be economically feasible for the commission's purposes. Table 4 shows estimates of state revenue assuming that the Colorado Lottery Commission were to authorize the placement of 1,000 additional video lottery terminals per year beginning in FY 2005-06.

Table 4. Projected State Revenue from the Video Lottery Program Assuming 1,000 Additional VLTs are Authorized Annually Beginning in FY 2005-06

Use of Money	State Budget Year		
	2004-2005*	**2005-2006**	**2006-2007**
Daily Machine Income per VLT Annual Machine Income per VLT Number of VLTs	$150 36,500 2,500	$165 60,225 3,500	$182 66,248 4,500
	($ in millions)		
Net Machine Income	$91.25	$210.79	$298.11
Sales Agent Commission @39%of NMI	$35.59	$82.21	$116.26
State Share of Revenue Less: Administrative Costs** Equals Net VLT Proceeds Plus: VLT Licence Fees Total Revenue Available for Distribution	$55.66 9.39 $46.27 1.25 $47.52	$128.58 18.38 $110.20 .50 $110.70	$181.85 25.37 $156.48 .50 $156.98
Distribution of Net VLT Proceeds:			
Local Parks and Recreation	$18.50	$44.08	$62.59
State Parks	4.63	11.02	15.65
GOCO	3.80	6.10	8.10
Tourism Promotion***	20.59	25.50	25.50
Public School Construction	0	24.00	45.14
Total State Revenue	**$47.52**	**$110.70**	**$156.98**

**The video lottery program would begin November 1, 2004. Revenue projections during the 2004-05 state budget year are based on eight months of operation.*

***The administrative costs incurred by the Colorado Lottery Commission in FY 2003-04 would be reimbursed from revenue received in FY 2004-05.*

****Includes the one-time machine license fee of $500 per VLT in the year that the machine is licensed.*

Impact on tourism. Recent studies conducted for the Colorado Tourism Office have shown that tourism advertising increased tourist spending on items such as hotels, food and beverage, tourist attractions and gasoline; created jobs in the tourist sector; and resulted in additional state and local tax revenue. The Colorado Visitors Study, 2002, a recent study conducted by Longwoods International for the Colorado Tourism Office, concluded that the $2,546,000 spent on tourism advertising by the State of Colorado in 2002 generated an incremental 1.86 million visitors to the state. These visitors spent an additional $522 million in Colorado, resulting in $32.4 million in additional taxes for the state and local governments ($16.1 million in state taxes and $16.3 million in local taxes). This translated into $205 in visitor spending per dollar spent on the advertising campaign. Taking the cost of the campaign into consideration, the study concluded that the state's tourism advertising budget in 2002 returned $12.74 in taxes to state and local governments for every dollar invested in tourism advertising.

Spending $25 million annually on tourism promotion will have a positive impact on the state economy, however, the impact of increasing the tourism advertising budget from $2.5 million to $25 million has not been estimated.

Other impacts. Video lottery terminals may increase business at horse and greyhound racetracks, as well as wagering for live and simulcast races, thereby increasing employment and tax revenue at these locations. Tax revenue from limited gaming in Colorado could decrease as a result of the increase in gaming competition which would reduce funding for historic preservation. The revenue impact on current lottery games is expected to be minimal.

State Expenditures

The Colorado Lottery Commission will be responsible for regulating the video lottery program, including investigative and compliance functions, issuing licenses to VLT manufacturers, and racetracks and casinos as lottery sales agents , approving games, and controlling the number and type of VLT machines that may be offered, and establishing security rules and regulations. These responsibilities are expected to require 13.5 new state employees in FY 2004-05, increasing to 16.0 Lottery Division employees in FY 2005-06. Projected administrative expenses for the State Lottery Division for the first three years of operation is shown in Table 5. These expenses will be appropriated from the cash fund exempt State Lottery Fund.

An additional fee, estimated to be eight percent of net machine income, will be paid to a private technology provider who will contract with the state to connect each VLT to a central computer system and to maintain the VLTs. The sales commission paid to the racetracks where the VLTs are placed is estimated to be $35.6 million for the first eight months of operation during FY 2004-05, and increasing to $64.6 million by FY 2006-07. All expenses will be paid from state revenue derived from the video lottery program.

Table 5. Projected Administrative Expenses for the State Lottery Division FY 2004-05 through FY 2006-07

	State Budget Year		
	2004-2005*	**2005-2006**	**2006-2007**
Personal Services	$1,058,000	$874,000	$874,000
Operating Expenses	1,030,000	643,000	643,000
Lottery Division Subtotal	$2,088,000	$1,517,000	$1,517,000
Vendor Fees (8% of Net Machine Income)	7,300,000	12,045,000	13,250,000
Total Administrative Expenses	$9,388,000	$13,562,000	$14,767,000
Number of New Employees	13.5 FTE	16.0 FTE	16.0 FTE

**The estimates of Lottery Division expenses for FY 2004-05 includes start-up costs of approximately $378,000 that will occur in FY 2003-04 prior to the November, 2004 video lottery program start date.*

State Appropriations

Funding for the State Lottery Division is provided from the State Lottery Fund, which is comprised of cash fund exempt revenue earned from state lottery operations. The proposal will require increased administrative expenses at the State Lottery Division beginning in FY 2003-04. Any appropriation required for the additional expenses that the State Lottery Division will incur during FY 2003-04 will be identified through a supplemental appropriation request. These expenses will be recovered during the first year of VLT operations in FY 2004-05.

The proposal states that all net VLT proceeds and revenue from one-time license fees shall be exempt from any restrictions on spending, revenues, or appropriations, including the restrictions of Section 20 of Article X of the State Constitution (the TABOR Amendment).

Local Government Impact

Forty percent of net VLT revenue will go for local parks and recreation purposes, and additional money will be made available for public school construction. In addition, funding for tourism promotion will have a positive impact on sales tax revenue for many local governments. Communities where VLTs are placed will have revenue and expenditure impacts as well. These have not been quantified.