

## Video Lottery/Tourism Promotion

### The proposed amendment to the Colorado Constitution:

- ◆ 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 purposes specified in state law; and
- ◆ exempts revenue from the video lottery program from state and local spending and revenue limits.

### Background

Legal gambling in Colorado includes betting on horse and greyhound races, bingo and raffle games, scratch tickets, lotto, multi-state powerball, and limited gaming in the cities of Black Hawk, Central City, and Cripple Creek. Limited gaming includes slot machines, blackjack, and poker with a maximum single bet of \$5. The proposal expands gambling by creating a new video lottery program that permits video lottery terminals at racetracks and casinos. After prizes and expenses are paid, video lottery proceeds will be spent on tourism promotion and other existing state programs.

***Video lottery terminals.*** A video lottery terminal, called a VLT, is an electronic device that offers games of chance and awards credits through a printed voucher. The voucher may be redeemed for cash or used to play another VLT. Video lottery terminals can be configured to offer games such as video slots, video poker and blackjack, and electronic bingo and keno.

***The video lottery program.*** 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 any 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 these racetracks or at casinos. The program ends on July 1, 2019.

***Distribution of proceeds.*** 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

1 the 2002-03 budget year. The cap is adjusted annually to account for inflation. State law determines  
 2 how any revenue above the cap is spent. It is currently used to mitigate health and safety issues in  
 3 public school buildings.

4 New state revenue from the video lottery program will be distributed in a manner similar to  
 5 other lottery distributions with two exceptions. First, once the distribution to GOCO reaches its cap,  
 6 up to \$25 million of video lottery program revenue will be used to promote travel and tourism in  
 7 Colorado. Second, a one-time license fee of \$500 per machine will go directly for tourism promotion.  
 8 Table 1 summarizes the distribution of current lottery proceeds and the proposed distribution of VLT  
 9 proceeds.

10 **Table 1. 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
<b>From the Remaining 50 Percent:</b>		
GOCO	up to \$48.7 million in the 2002-03 budget year, 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 - Health and Safety	all remaining money above the GOCO cap	all remaining money above the tourism promotion cap

19 Under the proposal, a commission will be paid to the operators of the racetracks and casinos  
 20 that offer VLTs. The commission will be the lesser of 39 percent of all currency wagered minus the  
 21 value of vouchers issued, or six percent of the total amount of currency and credits wagered. Like  
 22 the current lottery program, commissions and expenses of the program will be deducted before the  
 23 remaining funds are distributed.

24 **Funding for tourism.** Until 1993, state funding for tourism promotion came from a tax of  
 25 20 cents for every \$100 spent on tourism-related items, such as restaurants, lodging, car rentals, and  
 26 ski lift tickets. The tax provided about \$13 million in yearly revenue. The tax ended in 1993, and  
 27 from 1994 through 1997, no state money was set aside for tourism promotion. In 1998, the state  
 28 legislature budgeted \$1.5 million for tourism promotion. The state legislature increased the tourism

# Final Draft

1 budget to between \$5 million and \$6 million per year between 1999 and 2003. A total of \$12 million  
2 was set aside to promote tourism during the current budget year. The Colorado Tourism Office was  
3 created in 2000 to oversee tourism promotion for the state. The office is administered by a board of  
4 directors appointed by the Governor. The board will be responsible for the tourism promotion money  
5 raised through the video lottery program.  
6

## 7 **Arguments For**

8 1) The proposal provides a stable funding source to promote Colorado as a destination for  
9 tourists. Colorado competes with other states and destinations for tourism revenue, and this proposal  
10 provides a 15-year source of money to market and advertise the state's attractions. A tourism  
11 campaign that is well-funded can promote a diverse set of attractions throughout the state, including  
12 cultural and historical sites. With a dedicated tourism funding source, the money that the legislature  
13 sets aside for tourism promotion would be available for other state programs.

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

19 3) The video lottery program will enhance the quality of life for Colorado residents and  
20 visitors by increasing money for existing lottery-funded programs. The program will add to the  
21 lottery money already used to renovate state and local parks and recreation facilities, construct and  
22 maintain trails, protect wildlife and the environment, and purchase land for permanent open space.  
23 Proceeds from the video lottery program could also provide funding to address health and safety  
24 issues in Colorado's public school buildings.

25 4) Video lottery terminals complement the gambling options currently available at  
26 racetracks. The video lottery program could help the sports of horse and greyhound racing, and the  
27 industries that support them, as well as provide tax revenue from job creation and income growth.  
28 In other states, VLTs have increased racetrack attendance and betting, improved the size of winnings,  
29 strengthened the racing competition, and invigorated related industries. In those states, several  
30 racetracks improved or expanded their racing facilities and added jobs, which resulted in the growth  
31 of state and local revenue without raising taxes.

## 32 **Arguments Against**

33 1) A VLT is so similar to a slot machine that VLT locations should be regulated as casinos  
34 rather than as lottery vendors. Classifying a VLT as a lottery game, rather than as a slot machine,  
35 bypasses the constitutional requirement that local voters approve limited gaming before it can be  
36 offered in their community. The voters of Larimer County, Commerce City, Arapahoe County,  
37 Colorado Springs, and Pueblo will not have the opportunity to decide whether they want casino-like

# Final Draft

1 gambling in their communities. Further, the proposal leaves too much discretion to the Colorado  
2 Lottery Commission because it does not specify the minimum age required to gamble using VLTs,  
3 the maximum number of VLTs at each location, the types of games that qualify for VLT play, or the  
4 maximum amount of a bet.

5           2) Racetrack operators will receive more than twice the amount of money that the proposal  
6 sets aside for tourism promotion. Racetrack operators will receive nearly \$60 million per year as their  
7 commission for providing space for VLTs. This amount will be even greater if the number of VLTs  
8 is increased above the minimum. Less than one-third of annual state proceeds will be used for  
9 tourism promotion.

10           3) Making at least 2,500 VLTs easily accessible in five communities along the front range  
11 may increase the number of compulsive gamblers in the state. The effects of compulsive gambling  
12 are costly to families and society. Compulsive gambling can lead to divorce, child neglect and abuse,  
13 domestic violence, bankruptcy, suicide, and crime. Furthermore, the proposal does not set money  
14 aside to address local costs such as police and fire protection, emergency services, traffic control,  
15 roads, or social services.

16           4) VLTs at racetracks will create a casino-like environment in the major metropolitan areas  
17 of the state that will compete directly with private industry and could take business away from  
18 Colorado casinos. Less gaming tax revenue will reduce funding for the programs currently supported  
19 by gaming taxes, such as historic preservation. Moreover, the five racetrack properties named in the  
20 proposal are not required to be licensed as racetracks in the future or run a single race in order to  
21 offer VLTs. Finally, there are already plenty of opportunities available for those who want to gamble  
22 without adding VLTs to front range communities.

## 23 **Estimate of Fiscal Impact**

24           *Revenues.* Table 2 shows projected state revenue from the video lottery program during the  
25 first three years. These estimates are based on the assumption that there will be 2,500 video lottery  
26 terminals at racetracks through the 2006-07 state budget year.

**Table 2. Projected State Revenue from the Video Lottery Program (\$ in millions)**

	State Budget Year		
	2004-2005*	2005-2006	2006-2007
<b>Revenue from VLT Program</b>			
VLT Revenue after Prizes	\$91.2	\$150.5	\$165.6
Less: Commission to Racetrack Operators	-35.6	-58.7	-64.6
Equals State Share of Revenue	55.6	91.8	101.0
Less: Administrative Costs	-9.4	-13.6	-14.8
Plus: VLT License Fees	1.3	0.0	0.0
<b>State Revenue Available for Distribution</b>	<b>\$47.5</b>	<b>\$78.2</b>	<b>\$86.2</b>
<b>Distribution of State Revenue</b>			
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
<b>Total Distributions</b>	<b>\$47.5</b>	<b>\$78.2</b>	<b>\$86.2</b>

*\*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.*

Under the proposal, GOCO revenue is projected to increase each year and reach its cap. Up to \$25 million per year will be set aside for Colorado tourism promotion. Assuming that a total of 2,500 VLTs are licensed at racetracks in the 2004-05 budget year, an additional \$1.25 million will be available for tourism promotion from the one-time license fee of \$500 per VLT. Funding for public school construction occurs only after the tourism promotion fund reaches its \$25 million annual cap.

**Expenditures.** The Colorado Lottery Commission will be responsible for regulating the video lottery program, including issuing licenses, approving games, and controlling the number and type of VLT machines. These responsibilities are expected to require 16 new state employees and cost about \$1.5 million per year for salaries and other expenses. An additional fee of approximately \$12 million per year will be paid to VLT vendors and a private technology provider to place the VLTs at the racetracks and to connect each VLT to a central computer system. The sales commission paid to the racetracks where the VLTs are placed is estimated to be nearly \$60 million per year. All of these expenses will be paid from revenue derived from the video lottery program.

# Final Draft

1           **Impact on tourism.** Recent studies conducted for the Colorado Tourism Office concluded  
2 that tourism advertising increased tourist spending on items such as hotels, food and beverage, tourist  
3 attractions and gasoline; created jobs in the tourist sector; and resulted in additional state and local  
4 tax revenue. Spending \$25 million annually on tourism promotion in the future will have a positive  
5 impact on the state economy. However, the direct impact has not been estimated.

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