

1 **Video Lottery/Tourism Promotion**

2 **The proposed amendment to the Colorado Constitution:**

- 3 ♦ requires the Colorado Lottery Commission to implement a state-supervised video lottery
4 program at specific horse and greyhound racetracks and at licensed casinos by November
5 1, 2004;
- 6 ♦ creates a distribution formula for video lottery proceeds that allocates up to \$25 million
7 for tourism promotion, provides additional revenue for open space and parks and
8 recreation, potentially provides additional revenue for Great Outdoors Colorado
9 (GOCO), and designates any remaining revenue for school construction purposes; and
- 10 ♦ exempts revenue from the video lottery program from state and local spending and
11 revenue limits.

12 **Background**

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

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

24 ***The video lottery program.*** Under the proposal, the Colorado Lottery Commission would
25 oversee and regulate a video lottery program, including approval of the games to be offered, with the
26 purpose of maximizing VLT proceeds. The proposal permits the initial placement of 500 VLTs at
27 the horse racetrack in Aurora and at each of the greyhound racetracks in Loveland, Commerce City,
28 Colorado Springs, and Pueblo. The proposal also permits the placement of VLTs at licensed limited
29 gaming establishments in the cities of Black Hawk, Central City, and Cripple Creek. The Colorado
30 Lottery Commission may approve the placement of additional VLTs at any racetrack or casino. The
31 program ends on July 1, 2019.

32 ***Distribution of proceeds.*** The current distribution of Colorado lottery proceeds after the
33 payment of prizes and expenses is: 40 percent for local parks and recreation; 10 percent for state
34 parks; and the remaining proceeds to GOCO for open space, parks and recreation, and protection of
35 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. Any revenue above
 2 the cap is used for health and safety issues in public school buildings.

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

9 **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
GOCO	remainder of money 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

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

21 **Funding for tourism.** Until 1993, state funding for tourism promotion came from a tax of
 22 20 cents for every \$100 spent on tourism-related items, such as restaurants, lodging, car rentals, and
 23 ski lift tickets. The tax provided about \$13 million in yearly revenue. The tax ended in 1993, and
 24 from 1994 through 1997, no state money was set aside for tourism promotion. In 1998, the state
 25 legislature budgeted \$1.5 million for tourism promotion. The state legislature increased the tourism
 26 budget to between \$5 million and \$6 million per year between 1999 and 2003. A total of \$12 million
 27 was set aside to promote tourism during the current budget year. The Colorado Tourism Office was
 28 created in 2000 to oversee tourism promotion for the state. The office is administered by a board of

1 directors appointed by the Governor. The board will be responsible for the tourism promotion money
2 raised through the video lottery program.

3 **Arguments For**

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

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

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

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

28 **Arguments Against**

29 1) A VLT is a slot machine, and VLT locations should be regulated as casinos rather than
30 as lottery vendors. Classifying a VLT as a lottery game, rather than as a slot machine, bypasses the
31 constitutional requirement that local voters approve limited gaming before it can be offered in their
32 community. The proposal deprives the voters of Larimer County, Commerce City, Arapahoe County,
33 Colorado Springs, and Pueblo of the right to decide whether they want casino-like gambling in their
34 communities. Further, the proposal leaves too much discretion to the Colorado Lottery Commission
35 because it does not provide the specifics of the program, such as the minimum age required to gamble
36 using VLTs, the maximum amount of a wager, or the types of games that qualify for VLT play.

1 2) Racetrack owners will receive more than twice the amount of money that the proposal
2 sets aside for tourism promotion. Racetrack owners will receive nearly \$60 million per year as their
3 commission for providing space for VLTs. This amount will be even greater if the number of VLTs
4 is increased above the minimum. Less than one-third of the estimated \$78 million in annual state
5 proceeds will be used for tourism promotion.

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

11 4) Colorado already has enough gambling options available with limited gaming, lottery
12 games, horse and greyhound racing, and bingo and raffles. State-owned and operated VLTs at
13 racetracks will create a casino-like environment in the major metropolitan areas of the state that will
14 compete directly with private industry and could take business away from Colorado casinos. Less
15 gaming tax revenue will reduce funding for the programs currently supported by gaming taxes, such
16 as historic preservation.

17 **Estimate of Fiscal Impact**

18 *Revenues.* Projected state revenue from the video lottery program during the first three years
19 is shown in Table 2. The amount shown is after prize payouts, expenses of the State Lottery
20 Division, and payment of sales agent commissions to the racetrack owners, and is in addition to
21 revenue received from existing lottery games. These estimates are based on the assumption that no
22 more than 2,500 video lottery terminals will be authorized by the Colorado Lottery Commission
23 through the 2006-07 state budget year.

Table 2. Projected State Revenue from the Video Lottery Program (\$ 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

*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.

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

Projections of revenue from current lottery games suggest that lottery revenue will not be sufficient to reach the GOCO cap during each of the next three years. Under the proposal, GOCO revenue will reach its authorized cap. Up to \$25 million per year will be set aside for Colorado tourism promotion. Assuming that 500 VLTs are licensed at each racetrack 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 will occur once 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 that may be offered. These responsibilities are expected to require 15 new state employees and cost about \$1.5 million per year for salaries and other expenses. An additional fee, estimated to be eight percent of net machine income, will be paid to a private technology provider 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 nearly \$60 million per year. All of these expenses will be paid from revenue derived from the video lottery program.

Impact on tourism. Recent studies conducted for the Colorado Tourism Office have shown that tourism advertising increases tourist spending on items such as hotels, food and beverage, tourist attractions and gasoline; creates jobs in the tourist sector; and results in additional state and local tax revenue. It is reasonable to expect that spending \$25 million annually on tourism promotion will have a positive impact on the state economy, however, the direct impact 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.