


  
*Colorado Legislative Council Staff Fiscal Note*
  
**STATE and LOCAL**
  
**CONDITIONAL FISCAL IMPACT**

**This fiscal note is provided pursuant to Joint Rule 22(b)(2). It reflects an assessment of proposed Amendment L.002, which strikes everything below the enacting clause of the original resolution.**

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<b>Drafting Number:</b> LLS 10-1114	<b>Date:</b> April 27, 2010
<b>Prime Sponsor(s):</b> Sen. Romer; Tapia Rep. May; McFadyen	<b>Bill Status:</b> Senate SVMA <b>Fiscal Analyst:</b> Harry Zeid (303-866-4753)

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**TITLE:** SUBMITTING TO THE REGISTERED ELECTORS OF THE STATE OF COLORADO AN AMENDMENT TO ARTICLES XVIII AND XXVII OF THE CONSTITUTION OF THE STATE OF COLORADO, CONCERNING GAMES INVOLVING AN ELEMENT OF CHANCE, AND, IN CONNECTION THEREWITH, REQUIRING THE STATE LOTTERY COMMISSION TO ESTABLISH A MONITOR LOTTERY GAME, SPECIFYING THAT THE NET LOTTERY REVENUES GENERATED BY THE MONITOR LOTTERY GAME BE USED TO PROVIDE POSTSECONDARY EDUCATION FINANCIAL ASSISTANCE, AND SETTING THE RATE OF THE LIMITED GAMING TAX PAID BY ALL LICENSEES AT \_\_\_\_\_ PERCENT OF ADJUSTED GROSS PROCEEDS FROM LIMITED GAMING.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
<b>State Revenue</b> Multiple Cash Funds	revenue increase	revenue increase
<b>State Expenditures</b> Multiple Cash Funds	expenditure increase	expenditure increase
<b>FTE Position Change</b>	unknown FTE	unknown FTE
<b>Effective Date:</b> Upon approval by the voters at the November 2010 election.		
<b>Appropriation Summary for FY 2010-2011:</b> None required.		
<b>Local Government Impact:</b> See the Local Government Impact section.		

**Summary of Legislation**

SCR004\_L.002 strikes everything below the enacting clause. In its place, the amendment requires the Colorado Lottery Commission to approve, establish, and supervise two new lottery games: (1) a monitor lottery game; and (2) a limited video lottery game. Pertinent provisions of the amendment are described below.

**Monitor Lottery Game.** The monitor lottery game is defined to mean a lottery game in which 20 numbers are drawn from a field of 80 numbers by a central computer system. Players who match a certain number of balls will be awarded a pre-determined prize, as identified on an approved rate card.

***Limited Video Lottery Game.*** The limited video lottery game will be operated jointly by the Colorado State Fair Authority and a class B horse track pari-mutuel licensee at a facility owned or controlled by the authority in Pueblo, Colorado. All initial costs and expenses incurred in the establishment and operation of the limited video lottery game will be the responsibility of the Colorado State Fair Authority and the pari-mutuel licensee.

***New Financial Instruments.*** No later than March 1, 2011, the General Assembly must enact statutes authorizing the State Treasurer to issue financial instruments. The Colorado Scholars Cash Fund will be established to provide postsecondary education financial assistance and to pay the principal and interest on any financial instruments issued. The principal of and interest on the financial instruments will be paid from future net proceeds of the two new lottery games. The issuance of any financial instruments will not be subject to any limitation on spending or revenue imposed by Section 20 of Article X of the State Constitution (the TABOR Amendment) or by any state law.

***Adjusted Gross Proceeds of Limited Gaming.*** Currently, the state constitution requires up to a maximum of 40 percent of the adjusted gross proceeds of limited gaming be paid to the Limited Gaming Fund. The Colorado Limited Gaming Control Commission has set the tax rate in six tiers ranging from 0.25 percent to 20.0 percent, depending on the casino's net revenue. The resolution changes the limited gaming tax structure to an unspecified single percentage (intentionally left blank in the resolution) of adjusted gross proceeds.

## **State Revenue**

If approved by voters, this resolution will increase state revenue. However, no estimate has been made at this time regarding the amount of additional revenue that the state will receive from the authorization for new lottery games. After deduction of prizes and expenses of the State Lottery Division, proceeds from the operation of the two new lottery games will be credited to the Colorado Scholars Cash Fund to be used to provide postsecondary education financial assistance and to pay the principal and interest on any financial instruments issued. The resolution requires the General Assembly to enact statutes authorizing the State Treasurer to issue financial instruments in a form to be determined by the General Assembly.

The resolution also allows for a change in the gaming tax on adjusted gross proceeds. The impact of the change in tax rates cannot be considered until the new tax rate is identified in the resolution.

## **State Expenditures**

The resolution will increase state expenditures, but specific cost estimates to implement the resolution are not available at this time. It should be noted that the resolution states that all initial costs and expenses incurred in the establishment and operation of the limited video lottery game shall be the responsibility of the Colorado State Fair Authority and the pari-mutuel licensee. Further, "net proceeds" is defined in the resolution to mean all proceeds from the monitor lottery game and the limited video lottery game, after deduction of prizes and expenses of the State Lottery Division.

**Department of Revenue.** The **State Lottery Division** will incur additional costs to implement the new lottery games. Costs will include up-front expenses to acquire new hardware, consulting services, and communication infrastructure improvements. Additional expenditures will be necessary for the purchase of video lottery terminals, monitors, and communication links for each new retailer that contracts with the Lottery to participate in the new games. New staff will be necessary in the areas of sales, marketing, accounting, information technology, investigators, and licensing staff. Operating expenses for new vehicles, leased space, retailer compensation, and vendor fees will also be necessary to run the new games. While these expenses will be paid before net proceeds are determined, no estimate of annual revenue or expenses has been made.

It is assumed that the resolution will require the annual operation of a class B horse track racing season at the Colorado State Fair in Pueblo, Colorado. Additional revenue and expenditures will be incurred by the **Division of Racing Events**. No estimate of the impact of the operation of a new race track in Pueblo has been made.

**Department of Agriculture.** The limited video lottery game will be operated jointly by the Colorado State Fair Authority and a class B horse track pari-mutuel licensee at a facility owned or controlled by the authority in Pueblo, Colorado. The department assumes that the current infrastructure at the state fair grounds will not allow for the hosting a large number of video lottery terminals. Therefore, one option is to locate the terminals at another facility in Pueblo that the state fair will eventually own.

**State Treasurer.** After deduction of prizes and expenses of the State Lottery Division, proceeds from the operation of the two new lottery games will be credited to the Colorado Scholars Cash Fund to be used to provide postsecondary education financial assistance and to pay the principal and interest on any financial instruments issued in accordance with statutes enacted pursuant to the resolution. By March 1, 2011, the resolution calls for the General Assembly to enact statutes authorizing the State Treasurer to issue financial instruments.

**Impact on Limited Gaming and Other Lottery Games.** The impact of the two new lottery games on the current level of limited stakes gaming and other lottery games in Colorado is unclear. It is recognized that the new ventures may affect future gaming revenue in the three Colorado mountain cities, as well as at the Indian casinos where gaming is legal. State and local governments and government agencies that are recipients of limited gaming revenue will most likely receive reduced distributions in the future if some of the current gamblers switch their gaming habits to include the use of video lottery terminal locations.

### **Election Expenditure Impacts (For Informational Purposes Only)**

The bill refers a measure to the voters at the November 2010 general election. This measure will be published in newspapers and an analysis of the measure will be included in the Blue Book mailed to all registered voter households prior to the election. Under current law, costs for these functions will be paid through a General Fund line item in the Long Appropriations Bill. Table 1 below identifies the anticipated costs for the 2010 Blue Book.

Printing	\$400,000
Postage	\$450,000
Translation	\$20,000
Newspaper Publication (English & Spanish)	\$700,000
<b>Total Cost (14 issues)</b>	<b>\$1,570,000</b>
<b>Average Cost per Issue</b>	<b>\$112,143</b>

### **Local Government Impact**

The resolution authorizes the operation of a limited video lottery game facility in Pueblo, Colorado. The potential revenue and expenditure impacts on Pueblo and surrounding local governments is acknowledged but not estimated. Also, the impact of additional lottery games on casino revenue that is distributed through the state to communities impacted by gaming has not been estimated. The resolution also allows for modification of the tax rate imposed on gross limited gaming revenue. The change in the tax rate will also affect the amount of revenue available to be distributed to impacted communities.

### **Departments Contacted**

Revenue  
State Treasurer

Agriculture  
Legislative Council Staff

Higher Education