



The Colorado Lottery Commission may approve up to 2,500 VLTs at each of two sites, one of which may be at a licensed horse racetrack location. The Lottery Commission is given rule-making authority to implement the bill and to monitor and regulate the operation of VLTs. Each VLT is subject to approval by the commission in accordance with its rules and must meet certain requirements. Lottery retailers are responsible for all expenses necessary to purchase or lease, install, maintain, and operate VLTs.

The bill creates the Colorado Lottery Higher Education Fund in the State Treasury. With certain exceptions, all new revenue that would otherwise be allocated to the General Fund pursuant to section 3 (1) (b) (III) of article XXVII of the state constitution is to be transferred to the fund. Moneys in the fund are subject to annual appropriation by the General Assembly to provide postsecondary education financial assistance.

### **State Revenue and Expenditures**

After deduction of the lottery retailer compensation of 70 percent of net machine income, preliminary estimates of state revenue for the first full year of operation is **\$70.5 million in FY 2012-13**. Assuming that the VLT locations can be open for business on January 1, 2011, state revenue of **\$35.3 million** is estimated for **FY 2011-12**.

**Estimated Net Machine Revenue.** Currently, there are 14,300 slot machine devices in operation in Colorado. The largest casino in the state has 1,494 slot machine devices. Based on information provided from the Gaming Division, the average daily take-per-machine is \$128.82. This is based on activity from 37 locations in Cripple Creek, Central City, and Black Hawk with an average of 386 slot machine devices per location. The average daily net machine revenue for a VLT outlet in the Denver Metropolitan Area with 2,500 machines may be higher than the statewide average for slot machine devices. A second location located somewhere else in the state, however, may experience a lower average daily revenue per machine. For purposes of this fiscal note, the average daily net machine revenue for VLTs is estimated at the statewide average for slot machine devices.

**State Lottery Division Expenses.** By statute, all expenses of the division, including the expenses of organized crime investigation and prosecution relating to the lottery, are paid from the Lottery Fund. The Lottery Commission is authorized to promulgate rules as necessary to implement and to monitor and regulate the operation of video lottery terminals. The Director of the State Lottery Division and the commission will be responsible for managing and regulating the operation of VLTs.

Annual expenditures of the division will depend on the level of the division's involvement in the operation of the new VLT program. A clearer picture of the resource requirements will occur after the commission adopts rules to oversee regulation of the games. As a preliminary estimate, the division will require a minimum of \$600,000 and 10.0 FTE during the start-up period in FY 2011-12, and \$800,000 and 10.0 FTE in each year thereafter beginning in FY 2012-13. These will include positions in law enforcement, information technology, accounting and auditing. Expenses of the division will be paid from the Lottery Fund.

**Distribution of Net Revenue after Expenses.** Of the proceeds received from the operation of VLTs, and after the State Lottery Division remits the 70 percent compensation due to lottery retailers, the balance of the proceeds, net of prizes and expenses, are distributed in accordance with section 3 (1) (b) of article XXVII of the state constitution. In addition, the bill creates the Colorado Lottery Higher Education Fund to provide postsecondary education financial assistance. Revenue from VLTs that would otherwise be allocated to the General Fund, pursuant to the state constitution and other statutory provisions, except for moneys required to be transferred to the Public School Capital Construction Assistance Fund are transferred to the Colorado Lottery Higher Education Fund.

Table 1 identifies the projected annual revenue and distribution of new VLT proceeds for FY 2011-12 and FY 2012-13.

**Table 1. SB11-233 Projected Revenue Distribution for FY 2011-12 and FY 2012-13**

	<b>FY 2011-12*</b>	<b>FY 2012-13</b>
Average Daily Net Machine Revenue after Prizes	\$128.82	\$128,82
Number of Video Lottery Terminals	5,000	5,000
Daily Revenue	\$644,100	\$644,100
Annual Revenue	117,548,250	235,096,500
Lottery Retailer (Sales Agent) Revenue @70 %	82,283,775	164,567,550
State Revenue @ 30 %	35,264,475	70,528,950
Expected State Lottery Division Expenses	600,000	800,000
Net Revenue After Expenses Available for Distribution	34,664,475	69,728,950
Conservation Trust Fund @ 40%	\$13,865,790	\$27,891,580
Division of Parks and Outdoor Recreation @ 10%	3,466,448	6,972,895
Great Outdoors Colorado Fund (50% up to \$56 million)	0	0
Public School Cap Const Assistance Fund (capped at \$5.5 million)	5,200,000	5,200,000
Colorado Lottery Higher Education Fund (remaining balance)	<u>12,132,237</u>	<u>29,664,475</u>
<b>Total</b>	<b>\$34,664,475</b>	<b>\$69,728,950</b>

*\*One-half year impact, assuming a January 1, 2011, start date.*

**Impact on Limited Gaming and Other Lottery Games.** Adding two new locations to the Colorado market with 2,500 video lottery terminals per location will compete directly with Colorado's limited stakes gaming industry. The new facilities will reduce future gaming revenue in the three Colorado mountain communities where gaming is legal. Depending on the location, the Indian casinos may be affected negatively as well. To a lesser extent, bingo, and other lottery games may also be affected. Other forms of public entertainment, as well as travel to other gambling destinations outside of Colorado may also be impacted by the availability of VLTs. No estimate on these impacts or the effects on state tax revenue from these sources has been made at this time.

**Impact on New Job Creation and Local Economies.** It is recognized that two new VLT facilities of the magnitude contemplated by the bill will impact the state and local economies. The facilities will create both direct and indirect jobs and will have a synergistic effect on nearby entertainment and tourist venues. Conversely, infrastructure modifications such as roads and other local government services will be required. These impacts have not been estimated as part of the fiscal note.

### **Local Government Impact**

Local governments and other government agencies that are recipients of limited gaming revenue will most likely receive reduced distributions in the future from limited gaming sources as some gamblers switch their gaming habits to include the use of the new VLT locations.

### **State Appropriations**

For FY 2011-12, the fiscal note indicates that the Department of Revenue State Lottery Division should receive an appropriation of \$600,000 and 10.0 FTE from the Lottery Fund. The Department of Higher Education should receive an appropriation of \$12,132,237 from the Colorado Lottery Higher Education Fund.

### **Departments Contacted**

Revenue      Education      Higher Education      State Treasurer