Sports Facilities Funding Proposals

1997

Proceeds Benefit Our Natural and Economic Environments.

Management Summary

The Lottery has been asked to review and consider an earlier suggestion involving dedication under a "Statewide Sports Facilities Act" of existing revenues now directed to the General Fund, together with a summary of various revenue generating alternatives. Several of the "new" gambling revenue alternatives require further contextual comments to effectively present them. None should be considered editorial or favored by the Lottery, which merely intends to act as a resource.

Lottery funds are variable. Distributable profits have several elements and total about $87 million per year. (See Attachment 1.) $23 million annually is dedicated to the Environment and Natural Resources Trust Fund (ENRTF). The constitutional provision will expire in the year 2000, with an extension pending through constitutional amendment in the Legislature.

Through June 30, 2001, all General Fund net proceeds (or $32 million per year) are dedicated to the Cambridge Bank Bonds debt service by statute. Other non-Lottery funds are similarly dedicated to a multiple of that needed. We are advised that the Lottery portion could theoretically be stripped from the Cambridge Bank debt service, or that which remains could be prioritized for Lottery re-dedication. The current balance is $149 million. Approximately $200 million of the resource funds are returned to the General Fund each year. (See Attachment 2.) In any event, the Cambridge Bank case debt is extinguished July 1, 2001.

The "In-Lieu-of-Sales Tax", $23.5 million per year, is <u>not</u> tax revenue, is not dedicated to Cambridge Bank and is presently deposited in the General Fund. This, plus $34.3 million (FY97) of General Fund Net Proceeds equals $58 million per year, absent Cambridge Bank considerations. Unclaimed prize money of $2.6 million per year also flows to the General Fund. Thus, $60.4 million per year in non-tax Lottery funds exists for dedication to sports facilities. (See Attachments 1,3.)

Any dedication of Lottery funds currently deposited in the General Fund creates a reciprocal General Fund gap, which presumably must be dealt with through tax, surplus or future budget action.

The amounts needed, of course, are dependent upon the facilities to be funded. Additional revenue sources have been charted by Senate Counsel and Research. (See Attachment 4, issued July 24, 1997.) Bonding issues are beyond the scope of this memorandum, noting only the Cambridge Bank methodology.

Several extensions of lottery games are available. These include keno, slots in age controlled establishments and general casino gambling at one or more sites. Normally, these would be allocated between the General Fund and ENRTF. The receipts can technically be assessed/taxed so as to negate the ENRTF share. (See Attachments 5,6,7,8.) With the exception of slots at establishments, reduced lottery sales and pull tab taxes due to new gaming are not factored into estimates. Revenue splits substantially more favorable than HF1405 (drafted by liquor establishments) are possible.

General Background

Questions have arisen on how to fund certain sports facilities, including a new stadium. A variety of proposals will be floated, as they have already been, and support for each of them will no doubt be anything but unanimous.

Public opinion polls reflect the public mood that tax dollars not be used to "bail out" or support professional sports. Whether these are rational or informed opinions is beside the point. There is likely not enough time or energy to sway public opinion as to the wisdom of supporting even the Twins stadium with tax dollars. In polls, it was indicated that non-tax sources of revenue were favored, logical in light of the general "no new taxes" atmosphere. The Lottery is a primary source of non-tax revenue.

Lottery revenues to the state are composed of several elements:

1. In-lieu-of-sales tax. Six and one half percent (General Fund) was applied to the lottery sales dollar after the initial passage of the act. This effectively took millions of dollars off the top (from within the sales dollar) from day one. It had the effect of reducing the Environment and Natural Resources Trust Fund, the Lottery's operating funds and associated calculations previously based on the gross sales dollar and net profit. The true revenue split now is 71% for the General Fund and 29% for the Trust Fund. The impact on Lottery operations is negligible since it budgets below that which is allowed anyway, the Lottery having returned over $50 million that was otherwise authorized under the reduced allowance since inception. Trust Fund proponents, of course, covet the funds that were thus removed and annually state that they will remove the in-lieu-of-sales tax and thereby raise the Trust Fund share for programs.

2. The General Fund receives 60% of the "net", or that which is remaining after the payment of all prizes, expenses and the in-lieu-of-sales tax.

3. The Trust Fund receives 40% of the "net".

4. Unclaimed prizes previously returned to the players as prize pool enhancements were diverted as a budget move. 70% of unclaimed prizes now goes to the General Fund and Trust Fund, 60% and 40% respectively. 30% goes back to the players as before. These funds, without argument, would raise more if they were left in the prize fund through additional sales, but the immediacy of the need for revenues prevailed.

5. Compulsive gambling funds are provided through the Lottery prize pool, and as such do not affect the budget of the Lottery, but of course do reduce the "net". There is an increasing need and demand for these funds.

The Lottery General Fund monies from net proceeds (only) are pledged to the Cambridge Bank case. The various pledges in the prospectus are in an amount much greater than the obligation, but no doubt any action to dedicate the General Fund monies must properly address the issue.

The constitutional amendment requiring dedication of 40% of the "net" to the Trust Fund will, unless re-voted in 1998 or 2000, expire. The statutes could thereafter retain the dedication, but there is little confidence among the beneficiaries that present assurances would be valid as against a constitutional mandate. Renewal has broad support, although there is debate over duration and whether part of the corpus of the Trust Fund might be spent each year.

Gambling Alternatives/Considerations

Keno is a game drawn every five minutes in age controlled establishments. Operated by seven lotteries currently, it is a relatively low-cost and fast-track revenue source. It would compete directly with charitable pull tabs. Tribal interests have previously sought keno for the casinos. It is favored (after slots) by licensed beverage establishments. Our revenue estimate is net $37 million. (General Fund split of $22.5 million.) (See Attachment 5.) Keno is the current trend among states.

Slots in age controlled establishments are a high cost, high impact revenue source. Previous estimates (HF1405 from the 1995 session) are $130 million (General Fund). (See Attachment 6.) These would directly compete with both casinos and pull tabs. The establishments have previously proposed such legislation. Several state lotteries, race tracks and others run state authorized slots. The trend is now away from liquor establishment slots in the United States.

A state run Canterbury casino would be of similar size as e.g. a metro casino, and would merge racing and casino venues. Its proximity to Mystic Lake Casino severely restricts forecasted profits. It would be recommended that reel slots, blackjack and possibly other gambling formats would be needed to remain viable and competitive at this otherwise prime location, largely due to the enormous promotional resources available to Mystic Lake. Several racetracks have recently installed slots. Forecasted revenue is $25.6 million. (See Attachment 7.)

The Bloomington/Mall site, on Sports Facilities Commission property, is perhaps the most lucrative site in the country. 40 million mall visitors, prime metro location and separation from Mystic Lake Casino are extraordinary features. Facilities costs have not been estimated, but would likely exceed $100 million. General Fund revenue estimates range up to $165 million. (See Attachment 8.) Additional gambling options are suggested for reasons similar to the Canterbury discussion above. Other metro casino sites do not yield Bloomington forecasts, but would nevertheless exceed Canterbury Park by a factor of more than twofold. Site selection also shifts the impact on existing casinos. A north metro site would have a higher impact on both Grand Casino operations, less on Mystic Lake and Treasure Island.

Casino siting requires up front construction and other capital funding, an understanding of amenities and features not normally associated with governmental activities, and space. Consider several thousand parking spaces, among many other factors. A full 24 hour casino with restaurants, liquor, maintenance, management, security and the like would employ up to 3000 people. A Lottery operated casino would be a US first, but the Quebec Lottery operates a casino.

Dedicated games, e.g. a football instant ticket, do not generate substantial new funding, and effectively are only a smaller version of re-dedication of Lottery/General Fund revenues. The Lottery would suggest that game design and marketing considerations are best not left to statutory enactments.

A more detailed feasibility study, land acquisition and funding reviews must be made if casino alternatives are to be selected. Short term re-dedication of lottery funds presently going to the General Fund should therefore be utilized until the tasks can be costed and scheduled out. Funds are available from the Lottery's unbudgeted statutory allowance to cover such studies.

The Lottery holds a unique position among agencies to facilitate these alternatives. Special consideration must be given to the constitutional amendment requiring that the Lottery be "operated" by the state. Slots are generally recognized as a form of lottery. No restriction other than statute restricts non-lottery games of chance. The Lottery, of course, will enthusiastically do whatever is asked of it.

Proposal

The question presented is whether and how to dedicate all or a portion of the General Fund Lottery monies to the new facilities.

In 1997, $23.95 million was derived from the in-lieu-of-sales tax, $34.36 million from net proceeds and $2.64 million from the split of the unclaimed prizes. The remaining allocation was $22.9 million plus $1.76 million (40% of 70% of unclaimed prizes) to the Trust Fund. It is understood that all of these monies are calculated for the biennial budget and not to the surplus, and the General Fund gap would have to be plugged by some other means. Amounts will vary with sales.

There is a general public sense evidenced in our surveys that Lottery funds were to be "extra" resources applied to the environment, education or "something". Dedicated funds, however, do not receive favor among many elected officials, since they are then no longer available to shift to current needs. Even so, where there is a need, as here, to find non-tax revenue sources, this is the logical, and perhaps the only, place to do it.

It is suggested that by dedicating Lottery funds to a sports facilities fund instead of the General Fund, at least a substantial portion of the revenue need can be met without new forms of gambling:

1. Dedication of the in-lieu-of-sales tax, unclaimed prize share and "net" to the General Fund allocated to the stadium and facilities for six years. $61 million over six years yields $366 million. Perhaps enough to build the stadium, set up a maintenance fund for it and avoid most bonding costs?

2. Dedication to the stadium may require the recognition of other interests, such as the Metrodome rehabilitation, or Mighty Ducks, the St. Paul Arena. Ten years yields $610 million.

3. Long term interests might be accommodated by the formation of a Statewide Sports Facilities Act and Commission which would draw on these Lottery funds to accomplish the mission of the myriad of such interests that face the legislature each year. Prioritized for stadium/arena use, eventually pouring out to local and regional facilities and thereby augmenting K-12 and higher education budgets, it seems viable and practicable to the intent of the proposal.

The dedication of non-tax lottery funds would also yield increased support for the Lottery itself. There are a significant number of people who play, or would play, with the expectation and sense that the money they spend goes to good and worthy causes. Such support is a critical element of the acceptance and retention of lottery players. It is far easier to point with pride to specific examples of use of the revenue to an eager-to-know public, than it is to explain the good works of the General Fund. And frankly, that was a belief of much of the public when the Lottery was enacted.

Restoring the original intent of the 60/40 split between the ENRTF and "other" fund by eliminating the in-lieu-of-sales tax might be considered to further enhance the package. Early payment of the costs of the stadium would save millions. Dedication of the funds currently allocated is an alternative that holds the possibility of building a positive constituency beyond the singular Twins stadium issue.

MINNESOTA STATE LOTTERY

At June, 1997

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	Month of June 97	FY 1997 thru 6/97	INCEPTION TO DATE 4/90 - 6/97
INCOME										
Instant Sales	$67,825,593	$248,811,410	$205,906,353	$221,999,991	$204,216,902	$206,790,816	$269,291,063	$27,555,896	$272,486,589	$1,697,328,717
On-Line Sales	0	72,675,953	91,696,540	106,835,931	127,258,245	129,084,261	106,359,079	8,387,026	96,030,096	729,940,105
--Total Sales	**67,825,593**	**321,487,363**	**297,602,893**	**328,835,922**	**331,475,147**	**335,875,077**	**375,650,142**	**35,942,922**	**368,516,685**	**2,427,268,822**
In Lieu of Sales Tax	(4,069,578)	(19,289,242)	(19,344,186)	(21,374,335)	(21,545,886)	(21,831,883)	(24,417,263)	(2,336,296)	(23,953,615)	(155,825,988)
Gross Receipts	63,756,015	302,198,121	278,258,707	307,461,587	309,929,261	314,043,194	351,232,879	33,606,626	344,563,070	2,271,442,834
Other Income	721,948	1,381,107	1,189,548	1,069,273	1,202,443	1,666,091	3,283,889	(850,687)	3,322,494	13,836,793
--Gross Revenue	**$64,477,963**	**$303,579,228**	**$279,448,255**	**$308,530,860**	**$311,131,704**	**$315,709,285**	**$354,516,768**	**$32,755,939**	**347,885,564**	**$2,285,279,627**
EXPENSES:										
Compulsive Gambling	100,000	100,000	300,000	300,000	535,000	540,000	540,000	45,000	540,000	2,955,000
Operating Expenses	9,243,194	38,933,905	34,355,194	36,052,264	39,300,295	38,572,621	38,533,444	2,566,003	40,260,228	275,251,145
--Total Operating Expenses	9,343,194	39,033,905	34,655,194	36,352,264	39,835,295	39,112,621	39,073,444	2,611,003	40,800,228	278,206,145
% of Statutory Limit	14.49%	12.86%	12.40%	11.78%	12.80%	12.39%	11.02%	7.97%	11.73%	12.17%
Start Up Loan	8,297,193									8,297,193
Unclmd Przs Pble to St	0	0	0	0	0	1,355,277	2,556,178	1,420,995	4,398,638	8,310,093
Retailer Comm & Incent	3,388,000	18,236,198	17,533,322	18,160,627	19,673,485	18,235,373	19,904,003	1,799,544	19,047,156	134,178,164
Game Prizes	34,334,800	179,428,852	172,609,012	196,873,180	192,253,677	196,083,422	230,848,350	21,308,737	225,566,997	1,427,998,290
Compulsive Gambling Treatment	0	0	0	0	0	1,000,000	0	0	800,000	1,800,000
--Total Expenses	**55,363,187**	**236,698,955**	**224,797,528**	**251,386,071**	**251,762,457**	**255,786,693**	**292,381,975**	**27,140,279**	**290,613,026**	**1,858,789,885**
NET PROCEEDS	**$9,114,776**	**$66,880,273**	**$54,650,727**	**$57,144,789**	**$59,369,247**	**$59,922,592**	**$62,134,793**	**$5,615,660**	**$57,272,544**	**$426,489,741**
DISTRIBUTION										
Environmental Trust Fund:										
Net Proceeds	$3,645,910	$26,752,109	$21,860,291	$22,857,915	$23,747,699	$23,969,037	$24,853,917	$2,246,264	$22,909,018	$170,595,896
Unclaimed Prizes	0	0	0	0	0	542,111	1,022,471	568,398	1,759,455	3,324,037
TOTAL ENVIRONMENTAL AND NAT. RES. TRUST FUND	**3,645,910**	**26,752,109**	**21,860,291**	**22,857,915**	**23,747,699**	**24,511,148**	**25,876,388**	**2,814,662**	**24,668,473**	**173,919,933**
General Fund										
Net Proceeds		9,000,000	32,790,436	34,286,873	35,621,548	35,953,555	37,280,876	3,369,396	34,363,526	219,296,814
In-Lieu of Sales Tax	4,069,578	19,289,242	19,344,186	21,374,335	21,545,886	21,831,883	24,417,263	2,336,296	23,953,615	155,825,988
Unclaimed Prizes	-0-	-0-	-0-	-0-	-0-	813,166	1,533,707	852,597	2,639,183	4,986,056
Compulsive Gambling Programs	100,000	100,000	300,000	300,000	535,000	1,540,000	540,000	45,000	1,340,000	4,755,000
Enforcement Activities	0	0	150,000	150,000	150,000	150,000	150,000	12,500	150,000	900,000
TOTAL GENERAL FUND	**4,169,578**	**28,389,242**	**52,584,622**	**56,111,208**	**57,852,434**	**60,288,604**	**63,921,846**	**6,615,789**	**62,446,324**	**385,763,858**
Other Payments to State	5,639,866	31,128,164	0	0	0	0	0	0	0	36,768,030
GRAND TOTAL TO STATE	**$13,455,354**	**$86,269,515**	**$74,444,913**	**$78,969,123**	**$81,600,133**	**$84,799,752**	**$89,798,234**	**$9,430,451**	**$87,114,798**	**$596,451,821**

CAMBRIDGE BANK BONDS - REVENUE & EXPENDITURES

(Source: Department of Finance, 1998-99 Minnesota Biennial Budget-Fund Statements)

	Actual F.Y. 1996	Estimated F.Y. 1997	Estimated F.Y. 1998	Estimated F.Y. 1999
Resources				
Receipts:				
DHS-RTC Collections	$104,915	$69,400	$ 69,400	$ 69,400
Departmental Earnings	$121,755	$123,500	$125,140	$125,093
Lottery Receipts	$ 37,319	$ 36,000	$ 36,000	$ 36,000
Total Receipts	$258,887	$224,000	$225,340	$225,093
Revenue Refunds	($ 5,102)	($ 4,900)	($ 5,200)	($ 5,400)
Total Resources Available	**$258,887**	**$224,000**	**$225,340**	**$225,093**
Debt Service	$ 35,130	$ 62,612	$ 27,730	$ 28,952
Returned to General Fund	**$223,382**	**$161,388**	**$197,610**	**$225,093**

LOTTERY BUDGET ESTIMATE

The following is a summary of the official budget estimate of Lottery revenues for the next biennium*:

Source of Revenue	**Dedicated**	**FY98**	**FY99**
In-Lieu-of-Sales Tax	Not dedicated	$23.5 million	$23.5 million
Unclaimed Prizes	Not dedicated	$2.5 million	$2.5 million
Unclaimed prizes	ETF	$1.7 million	$1.7 million
Net Proceeds	Debt Service Fund (Cambridge Bank)	$31.9 million	$31.9 million
Net Proceeds	ETF	$21.3 million	$21.3 million

*Actuals may exceed estimates; see Attachment 1.

Source: Minnesota State Lottery, 7/97.

FUNDING OPTIONS CHECKLIST

	Annual Revenue	One time revenues	
Ticket Tax -- $1` per ticket	$ 2,754,000		
Diversion: Current Ticket Sales Tax	$ 1,000,000		
Tobacco Tax -- 1 cent per pack	$ 3,400,000		
Tobacco Tax -- 10 cents per pack	**$ 34,000,000**		
Rental Car Tax	Depends on Rate		
metrowide 0.5% sales tax	**$ 130,000,000**		
Restaurant Food 3% Metro	**$ 59,300,000**		
Restaurant Food 3% Mpls	$ 13,400,000		
On-sale Liquor 3% metro	$ 13,100,000		
On-sale liquor 3% mpls	$ 3,500,000		
Lodging 3% metro	$ 12,200,000		
Lodging 3% mpls	$ 3,800,000		
Surcharge On Player Salaries	$ 2,000,000		
Broadcast Rights Taxes	Depends on Rate		
Tax Increment Financing	OPEN		
Tax On Sports Merchandise	$ 400,000		
Dedicating Player Income Taxes	$ 3,000,000		
Sales Tax On Newspapers	$ 2,000,000		
Area Taxing District	$ 3,000,000		
Cash: Sale of Met Stadium Site		$ 28,000,000	
Direct Owner Cash Contribution	OPEN		
Direct State Cash Contribution	OPEN		
Gift of Land/Site Prep		$ 50,000,000	
Dedicated Lottery Game	$ 2,000,000		
Video Lottery Slots	**$ 25,000,000**		
Club Seats	$ 2,430,000		
Naming Rights	$ 2,000,000		
Concessions	$ 1,000,000		
Pouring Rights	$ 375,000		
Advertising at Stadium	$ 2,500,000		
Personal Seat Licenses	$ 1,250,000		
Private Suites	$ 3,000,000		
Parking Tax	$ 940,000		
Favorable Lease Arrangements	OPEN		
House Tax Luxury Suites	$ 4,375,000		
Higher Sales Tax On Stadium	$ 2,125,000		
Taxes on Non-Twins Events	$ 450,000		
THESE NUMBERS REPRESENT A WORK IN PROGRESS			
MORE ACCURATE NUMBERS WILL BE PUBLISHED AS THEY BECOME AVAILABLE			

Source: Senate Counsel & Research in "Overview of Stadium Policy Issues," 7/97

KENO REVENUE ESTIMATE

Estimated Sales	$150,000,000
Prizes (55%)	($82,500,000)
Expenses (15%)	($22,500,000)
Retailer Commission (5%)	($7,500,000)
Net Proceeds	$37,500,000
Trust Fund	$15,000,000
General Fund	$22,500,000

Source: Minnesota State Lottery, 5/97

LOTTERY ESTIMATE FOR HF 1405
3/95

Narrative

Revenues to be gained from video lottery are a function of five items:

1) Number of establishments offering video lottery

- Most states limit video lottery to on-sale liquor establishments.
    - There are currently about 3,500 "licensed establishments" in Minnesota and an additional 500 "clubs" with liquor licenses..

    - There are about 3,100 locations for pulltab sales in the state. Virtually all of these are licensed establishments.

    - An unknown number of establishments are licensed by local governments to sell "non-intoxicating malt beverage."

- The bill makes provision for a local government to exclude video lottery from their jurisdiction. It is impossible to predict how many local governments will do so, or the number of establishments and terminals involved.

This analysis presumes that 3,400 establishments will offer video lottery. This represents approximately 80 percent of eligible establishments (licensed establishments and clubs) plus 200 "non-intoxicating malt beverage" establishments, a figure consistent with the experience in South Dakota and Louisiana.

2) Number of video lottery terminals per establishment

- The bill calls for a maximum of ten terminals per establishment.

- South Dakota currently permits up to 10 terminals per establishment, Oregon up to five. Louisiana permits up to three terminals at licensed establishments and up to 50 at truck stops.

- In South Dakota the actual number of terminals per establishment is fractionally over five, while in Oregon it is fractionally under five. This analysis is based on an assumption of five terminals per establishment, recognizing that this assumption is more likely to be low than high.

3) Net revenue per terminal

- Net revenue is the difference between the money wagered and the prizes paid out.

- The bill specifies that payouts range between the minimum required for lottery tickets (60%) and 95%.

- Net revenue per terminal tends to go down as the number of terminals goes up.

Three states can potentially be used as models to help determine the potential revenue from video lottery in Minnesota: Louisiana, Oregon, and South Dakota. Each model has its own strengths and weaknesses.

Louisiana presents itself as an attractive model in that the state's population is about the same size as Minnesota's, is heavily concentrated in one major metropolitan area, and has some similarities in its present gaming environment. While Louisiana has nothing approaching Minnesota's 17 tribal casinos, it does have riverboat gambling with at least 10,000 slot machines currently in operation. However, no Minnesota proposal allows machines to be placed at truck stops (as does Louisiana) and most proposals allow more than three terminals per establishment.

Oregon has been in operation longer than Louisiana and has a demographic profile that more closely resembles Minnesota than does either Louisiana or South Dakota. In addition, most proposals active in Minnesota more closely resemble Oregon's legislation than that of either Louisiana or South Dakota. While Oregon does not permit riverboat gambling and does not have large numbers of machines at tribal casinos it does permit fast-draw keno in bars, providing some added competition in the gaming environment. However, Oregon's revenue per terminal figures may be artificially high, as extremely stringent licensing requirements have kept the number of establishments offering video lottery well below that originally expected in Oregon and what is likely in Minnesota. (Currently only 38 percent of Oregon establishments offer video lottery.)

South Dakota has been in operation longer than either of the other two states. It is also a much smaller state than Oregon or Louisiana and has a greater percentage of its establishments in unpopulated rural areas than would likely occur in Minnesota. South Dakota also has tribal casinos and casinos in Deadwood. These are not, however, as close to major population centers as are some of the casinos in Minnesota.

In comparing the three situations it is obvious that none is a perfect match for Minnesota. This analysis is therefore based on both the Louisiana and Oregon experiences: Louisiana for its similar gaming climate and Oregon for its similar population density and demographic profile. Oregon, however, must be adjusted for its low market penetration. Its net revenue per terminal ($40,300 per year) is therefore discounted by 20 percent, producing an estimate of $32,240. If we average this result with the Louisiana figure of $30,784, the resulting estimate of net revenue per terminal per year is $31,512.

4) Distribution of net revenue

- The bill distributes net revenue to the state, to establishment owners, and to non-profit organizations currently offering lawful gambling.

- The bill provides for a 25% share of net revenue to establishment owners. An additional 10% is earmarked for organizations licensed to conduct lawful gambling in establishments where both lawful gambling and video lottery take place. Currently 3,100 establishments have lawful gambling permits. (A handful of these are bingo or raffle only.) It seems reasonable to assume that 90% of premises with lawful gambling will offer video lottery, making the distribution approximately 2,800 establishments with both video lottery and lawful gambling and 600 with video lottery only.

- Of the amount remaining, up to 30 percent of net revenue in fiscal years 1996 and 1997 and 25 percent thereafter may be credited to the lottery operations account for operating costs. This analysis assumes that the maximum allowed will be spent, though the actual amount is likely to be less.

- After deduction for operating expense, the remaining share is divided among different state funds. 40 percent is dedicated to the Environment and Natural Resources Trust Fund, 1 percent is dedicated to a new compulsive gambling crime victims fund, and 1 percent to the compulsive gambling program fund. The remaining 58 percent is allocated to the general fund in fiscal years 1996 and 1997 for general education enhancement purposes and to a new education trust fund thereafter.

5) Change in existing sources of revenue

- Video lottery will have an adverse effect on the sales of existing lottery products. South Dakota experienced a 37 percent decline in the sales of instant lottery games following the introduction of video lottery. This figure is thus used for this analysis.

- The state will also lose tax revenues from lawful gambling with the introduction of video lottery. The Department of Revenue has assumed that tax revenues from pulltab sales will decline by 15 percent with the enactment of video lottery, but there is no hard data to support this assumption; the lawful gambling industry believes the loss would be much higher. However, for lack of better figures, the 15% estimate will be used.

6) Startup Time

It will take approximately eight months from the effective date of the bill until the first terminals are installed. The expected number of terminals is also unlikely to be reached for some time following enactment. This analysis presumes a June 1, 1995 effective date, making the first installation approximately February 1. It further assumes that for the first 12 months of operation revenues will average half their ultimate level.

Calculations:

$31,512 net annual revenue per terminal x 5 terminals per establishment x 3,400 establishments = **$535,704,000 net terminal income.**

Establishment share: $535,704,000 x 25% = $133,926,000

Licensed organizations: $31,512 net annual revenue per terminal x 5 terminals per establishments x 2,800 establishments x 10% share = $44,117,000.

Lottery operations: $535,704,000 x 25% (FY98 and beyond) = $133,926,000

Remaining state share: $223,735,000

Environment and Natural Resources: $89,494,000 - $3,342,000 (reduced lottery proceeds) = $86,152,000

Compulsive Gambling Crime Victims: $2,237,000

Compulsive Gambling Fund: $2,237,000

General/Education Fund: $129,766,000 - $4,025,000 (reduced lawful gambling tax revenue) - $8,182,000 (reduced lottery proceeds) = $117,559,000

(In FY96 and FY97 the General Fund is both increased from video lottery proceeds and decreased from reduced lawful gambling tax revenue and reduced lottery proceeds. In FY98 and beyond the new Education Trust Fund is increased by $129,766,000 in annual video lottery proceeds while the General Fund is decreased by $12,207,000 in reduced lawful gambling tax revenue and lottery proceeds.)

Environment and Natural Resources Trust Fund

The Environment and Natural Resources Trust Fund is affected by both added contributions from video lottery and the interest earned on these contributions. This fiscal note is based on an assumed 4.5% annual interest rate and assumes annual compounding and no short-term earnings. The actual interest earnings, therefore, will probably be slightly greater than those presented here. The Fund is broken into two components: the corpus (fund 57) and the amount available for expenditure (fund 03). For fiscal year 1996 25% of lottery contributions are available for expenditure. After fiscal year 1996 all contributions go to the corpus; the impact on fund 03 is from increased interest earnings alone.

Effect on Local Governments

The bill allows cities or counties to vary the fee for liquor licenses (both intoxicating and 3.2 percent malt liquor) for establishments offering video lottery.

GAMING MACHINES AND BLACKJACK AT CANTERBURY PARK

	FY98	FY99	FY00	FY01
750 machines @ $35,000/year (1/2 year)	$13,125,000			
1,000 machines @ $34,000/year		$34,000,000		
1,500 machines @ $32,000/year			$48,000,000	
2,000 machines @ $30,000/year				$60,000,000
Less 15% Track	($1,968,750)	($5,100,000)	($7,200,000)	($9,000,000)
Less 5% Purses	($656,250)	($1,700,000)	($2,400,000)	($3,000,000)
Less 15% to Lottery for Operations	($1,968,750)	($5,100,000)	($7,200,000)	($9,000,000)
Net Proceeds	$8,531,250	$22,100,000	$31,200,000	$39,000,000
40% Env. & Nat. Res. Trust Fund	$3,412,500	$8,840,000	$12,480,000	$15,600,000
Net Available for Stadium from Gaming Machines	**$5,118,750**	**$13,260,000**	**$18,720,000**	**$23,400,000**
Operation of 20 Blackjack tables	$1,000,000			
Operation of 30 Blackjack tables		$3,000,000		
Operation of 40 Blackjack tables			$4,000,000	
Operation of 50 Blackjack tables				$5,000,000
Less 50% Track-Operating	($500,000)	($1,500,000)	($2,000,000)	($2,500,000)
Less 5% Purses	($50,000)	($150,000)	($200,000)	($250,000)
Net Available for Stadium from Blackjack Tables	**$450,000**	**$1,350,000**	**$1,800,000**	**$2,250,000**
TOTAL AVAILABLE FOR STADIUM	**$5,568,750**	**$14,610,000**	**$20,520,000**	**$25,650,000**
Available for Stadium through FY00			**$40,698,750**	
Available for Stadium through 12/00				**$53,523,750**

Revenue based on assumption that there would be no limit as to the number of gaming machines; that gaming machines would have a coin drop feature; that nickel gaming machines would be permitted; that reel slot machines would be permitted; that blackjack would be permitted; and that blackjack would derive $100,000 in gross income per table per year.

Source: Minnesota State Lottery, 5/97

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Estimate of Potential Revenues from a Met Center Casino

Prepared by the Minnesota State Lottery, 4/29/97

I. Based on estimated player visits and wagers

Assumptions: $50 income per visit
5 visits per metro area adult per year
2,000,000 adults within 50 miles of location

Calculations: $50 per visit x 5 visits/adult x 2,000,000 adults = $500,000,000
- 45% overhead = $275,000,000 net profit
40% Env.& Natural Resources Trust Fund = $110,000,000
60% Remainder: **$165,000,000 per year**

II. Based on net terminal income (NTI)

Scenarios: NTI of (a) $150/day, (b) $275/day (c) $300/day
Number of terminals = (a) 1000, (b) 2000, (c) 3000

Total Income

	1,000 terminals	2,000 terminals	3,000 terminals
$150/day	$54,750,000	$109,500,000	$164,340,000
$275/day	$100,375,000	$200,750,000	$301,125,000
$300/day	$109,500,000	$219,000,000	$328,500,000

Net After Expenses

		1,000 terminals	2,000 terminals	3,000 terminals
$150/day	**ENRTF**	$12,045,000	$24,090,000	$36,155,000
	Other	$18,068,000	$36,135,000	$54,232,000
$275/day	**ENRTF**	$22,083,000	$44,165,000	$66,248,000
	Other	$33,124,000	$66,248,000	$99,371,000
$300/day	**ENRTF**	$24,090,000	$48,180,000	$72,270,000
	Other	$36,135,000	$72,270,000	$108,405,000