

MINNESOTA • REVENUE

Gambling Tax Racetrack Gaming Machines

May 6, 2003

	Yes	No
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings		

Department of Revenue

Analysis of H.F. 646 (Buesgens), 4th Engrossment of House Bill – Tax Provisions Only

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Revenue from Gaming Machines *	\$29,915	\$79,773	\$57,950	\$59,109
Appropriation to:				
Dept. of Human Services (2.5%)	(\$1,305)	(\$3,481)	(\$4,351)	(\$4,438)
Dept. of Corrections (1.0%)	(\$522)	(\$1,392)	(\$1,740)	(\$1,775)
District Courts (1.0%)	(\$522)	(\$1,392)	(\$1,740)	(\$1,775)
Board of Public Defense (0.5%)	(\$261)	(\$696)	(\$870)	(\$887)
General Fund Net Impact	\$27,305	\$72,812	\$49,249	\$50,234
Environmental Trust Fund	<u>\$626</u>	<u>\$1,670</u>	<u>\$2,088</u>	<u>\$2,130</u>
Total – All Funds	\$27,931	\$74,482	\$51,337	\$52,364

* 57.3% for FY 2004 and FY 2005, 33.3% for FY 2006 and FY 2007, and 41.8% thereafter.

Effective the day following final enactment of the bill.

EXPLANATION OF THE BILL

Current Law: Under current Minnesota law, gaming machines are not allowed at Canterbury Park racetrack.

Proposed Law: The proposed law would allow the Minnesota State Lottery to place gaming machines at Canterbury Park racetrack. In lieu of sales tax, the state general fund would receive a percentage of the adjusted gross revenue (amounts wagered less prizes paid out). **As amended**, the percentage would change over time as follows: 55.5% for fiscal years 2004 and 2005, 31.5% for fiscal years 2006 and 2007, and 40% thereafter.

Proposed Law (Cont.)

As amended, the following are annually appropriated from the amounts deposited in the general fund:

- 2.5% of the adjusted gross revenue to the Department of Human Services,
- 1.0% of the adjusted gross revenue to the Department of Corrections,
- 1.0% of the adjusted gross revenue to the district courts, and
- 0.5% of the adjusted gross revenue to the Board of Public Defense.

As amended, a contract authorized by the proposed law would not take effect if each Indian tribe that has signed a tribal-state compact agrees in writing to: (1) contribute to the Department of Human Services compulsive gambling treatment program; (2) not increase the number of video games of chance above the number the tribe was operating on January 1, 2003; (3) provide the State Auditor with annual information on tribal gaming gross receipts and agree to audits by the State Auditor; and (4) contribute at least 6 percent of gross receipts to the state general fund.

REVENUE ANALYSIS DETAIL

- The estimates are based on information in the fiscal note prepared by the Minnesota State Lottery. The starting point for their analysis was a report received from the Innovation Group for Canterbury Park. Their estimates of adjusted gross revenues are \$52,207,000 for fiscal year 2004, \$139,220,000 for fiscal year 2005, \$174,025,000 for fiscal year 2006, and \$177,506,000 for fiscal year 2007.
- For fiscal years 2004 and 2005, the state general fund receives 55.5% of the adjusted gross revenue. For fiscal years 2006 and 2007 the percentage is 31.5%. Thereafter the percentage is 40%. In addition, the state receives 60% of the unused proceeds that are earmarked for the Minnesota State Lottery for operational expenses. Since the lottery estimates operational expense at 12% of adjusted gross revenue, the unused portion is 15% less 12% or 3%. Therefore an additional 1.8% (60% of 3%) for a total of 57.3% of adjusted gross revenue would be deposited in the general fund for fiscal years 2004 and 2005. The percentage for fiscal years 2006 and 2007 would be 33.3% and the percentage for later years would be 41.8%.
- Forty percent of the unused proceeds that are earmarked for the Minnesota State Lottery for operational expenses go to the Environmental Trust Fund. Therefore the fund receives 1.2% (40% of 3%) of adjusted gross revenue.
- The analysis is based on the assumption that gaming machines will be placed at Canterbury Park racetrack.

Number of Entities Affected: One entity, the Minnesota State Lottery.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>