

MINNESOTA • REVENUE

GAMBLING TAX Lottery Gaming Machines

May 4, 2004

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

Department of Revenue
Analysis of H.F. 2135 (Haas), 1st Engrossment

	<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)		
20% of Net Revenue from Gaming Machines	\$0	\$25,480	\$53,932	\$85,556
Appropriations to:				
Dept. of Education	\$0	(\$382)	(\$809)	(\$1,283)
Dept. of Human Services	\$0	(\$637)	(\$1,348)	(\$2,139)
Dept. of Employment and Economic Develop.	\$0	(\$382)	(\$809)	(\$1,283)
Housing Finance Agency	\$0	(\$382)	(\$809)	(\$1,283)
City and County	\$0	(\$765)	(\$1,618)	(\$2,568)
Transfer to General Fund	<u>\$0</u>	<u>(\$22,932)</u>	<u>(\$48,539)</u>	<u>(\$77,000)</u>
Gaming Facilities Proceeds Fund Net Impact	\$0	\$0	\$0	\$0
Transfer from Gaming Facilities Proceeds Fund	\$0	\$22,932	\$48,539	\$77,000
Transfer from MN State Lottery	<u>\$0</u>	<u>\$2,293</u>	<u>\$4,854</u>	<u>\$7,700</u>
General Fund Net Impact	\$0	\$25,225	\$53,393	\$84,700
Environmental Trust Fund	<u>\$0</u>	<u>\$1,529</u>	<u>\$3,236</u>	<u>\$5,133</u>
Total – All Funds	\$0	\$26,754	\$56,629	\$89,833

Effective the day following final enactment of the bill.

EXPLANATION OF THE BILL

Current Law: There is no authority for the Minnesota State Lottery to place gaming machines in a casino in the metropolitan area.

Proposed Law: The proposed law would allow the Minnesota State Lottery to place gaming machines in a casino in the metropolitan area that is owned or leased by one or more Minnesota tribal governments that enter into a location contract with the State Lottery. The contract would have no legal effect on the existing tribal-state gaming compact. In lieu of sales tax, 20 percent of the adjusted gross revenue (amounts wagered less prizes paid out) would be deposited in a newly created gaming facilities proceeds fund. The following are annually appropriated from the amounts deposited into the fund:

- 1.5% to the Department of Education,
- 2.5% to the Department of Human Services,
- 1.5% to the Department of Employment and Economic Development,
- 1.5% to the Housing Finance Agency,
- 3.0% to the city and county where the casino would be located, and
- 90.0% transferred to the general fund.

Sixty-five percent of the adjusted gross revenue would be paid to the tribal governments. Fifteen percent of the adjusted gross revenue would be retained by the Minnesota State Lottery for the cost of operations.

While the gaming machines would be operated and controlled by the State Lottery, the tribal governments would be responsible for non-gaming-machine expenses. In addition, as authorized by the director of the State Lottery, the tribal governments could operate a card club at the casino.

The law requires that best efforts be made to have 55 percent of casino employees at all levels be minorities and American Indians, and that 55 percent of vendor businesses supplying goods and services to the casino be owned by minorities and American Indians. Also the law requires that good faith efforts be made to contract with businesses owned by minorities and American Indians for the construction and repair of the facility.

REVENUE ANALYSIS DETAIL

- The estimates are based on information in the fiscal note prepared by the Minnesota State Lottery. Information from Jason N. Ader in the Bear Stearns 2002-03 North American Gaming Almanac was used as a reference. The reference lists daily levels of gaming machine net income by state (mostly for year 2001). Also, revenues at casinos in Midwestern urban areas were examined. It was believed that the information about Detroit would serve as the best model for this proposal. Machines in Detroit had net revenue of \$293 per machine per day.

REVENUE ANALYSIS DETAIL (Continued)

- It was assumed that January 1, 2005, would be the starting date for a temporary facility housing 2,000 machines. Since there would be a smaller number of available machines, the daily net income per machine was assumed to be \$350.
- It was assumed that a permanent facility housing 4,000 machines would start operating by June 1, 2006. The daily net income per machine was assumed to be \$293.
- 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%) of adjusted gross revenue would be deposited in the general fund.
- 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.

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

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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