

## Research Department

Patrick J. McCormack, Director

600 State Office Building  
St. Paul, Minnesota 55155-1298  
651-296-6753 [FAX 651-296-9887]  
[www.house.mn/hrd/hrd.htm](http://www.house.mn/hrd/hrd.htm)



# Minnesota House of Representatives

February 18, 2010

TO: Interested Parties

RE: Estimates from Gambling Expansion

This memo was requested by several members. The memo explains the difference between discussion estimates and fiscal notes. The memo then uses a set of assumptions chosen by the Illinois Commission on Government Forecasting and Accountability to estimate revenues for proposed gambling expansion in that state, to make estimates for discussion purposes only for Minnesota.

### **Estimates vs. Fiscal Notes**

Estimates are not the same as fiscal notes. An estimate is an educated guess that can be done by anyone; a fiscal note is a formal document prepared by state agencies, at the request of legislators under Minnesota Statutes Section 3.98. Proposals for gambling expansion often use estimates as tools to enhance discussion and understanding of the impact of the proposals. Fiscal notes come later in the process, rely on the actual language of bills, and are the basis that the legislature must use to process bills affecting the state budget. At this time, no fiscal notes have been prepared for the gambling bills before the legislature.

### **The Illinois Method: Slots in Bars**

In Illinois, the Commission on Government Forecasting and Accountability is a bipartisan legislative commission charged with estimating budget impacts. In December of 2009, they examined proposals to expand video gaming at slots, and at racinos. Their assumptions might be useful to examine in light of Minnesota proposals.

In Illinois, the estimate was that between 60 and 85 percent of bars would want slot machines, with 5 slot machines per bar allowed. In Minnesota, with 3,200 licensed establishments, this would mean that between 1,920 and 2,720 establishments would want machines. This would yield a total of between 9,600 and 13,600 slot machines in the state. Past estimates have assumed that all 3,200 establishments would want machines; this may be unreasonable, as some bars do not have adequate space, some have business models that would not accommodate gambling, and some are located in political subdivisions that might opt out of gambling, if given that opportunity.

The Illinois Commission used an average net revenue, or profit after payment of prizes, per machine of \$70 to \$90. This was based on figures from Montana, Rhode Island, South Dakota, New York, and Delaware. These figures, when used for discussion purposes, create a range of possible revenues from a Minnesota expansion. Past Minnesota estimates have used a figure of \$190 per machine per day, based on the Oregon experience.

**Minnesota Estimated Net Revenues**

Number of Venues	\$70 per day net revenue	\$90 per day net revenue
1,920 with 5 machines each for total machines of 9,600	\$245.3 million	\$315.4 million net revenue
2,720 with 5 machines each for total machines of 13,600	\$347.5 million	\$446.8 million

Using the Illinois assumptions, the estimated revenue from slots in bars in Minnesota would be between \$245.3 million and \$446.8 million per year.

In the past, revenue estimates for Minnesota have been based upon the experience of the Oregon Lottery. These estimates assume 100% market penetration and \$190 per day per machine net revenue, generating annual revenue of as much as \$1.1 or \$1.2 billion. This memo does not attempt to dispute those estimates; instead, the goal is to illustrate a range of possible revenue from different assumptions about gambling expansion.

Here is a past estimate:

3,200 bars with 5 machines each for total machines of 16,000	\$69,500 per machine per year revenue, or \$190 per day net revenue	\$1.1 billion net revenue
--	---	---------------------------

A consulting firm, Arduin, Laffer & Moore, hired to analyze slot revenues in Illinois, used a slightly higher figure than that eventually chosen by the Illinois Commission: \$45,000 per machine per year, or \$123 per machine per day. Using this estimate, slots in Minnesota would raise between \$432 million and \$585 million. However, this higher estimate is an average of disparate state experiences. One reason to expect that Minnesota might come in on the lower end is the existence of competition in Minnesota from tribal casinos.

**Racino Revenues: The Illinois Method**

The Illinois Commission also estimated potential revenues from racinos. This estimate was for racinos in large urban areas such as Chicago, with an estimated \$300 per day per machine revenue, and in rural areas, with an estimated \$250 per machine per day revenue.

In Minnesota, there are two licensed tracks, both reasonably close to the metro area. Neither is likely to generate the amount of per machine per day revenue of a Chicago track, but racinos proximate to the Twin Cities will likely generate more revenue than a rural Illinois track. Using

both Illinois revenue estimates as the high and low, the following estimate can be made of the range of possible annual revenue in Minnesota:

Number of Machines	\$250 per day per machine	\$300 per day per machine
800 each, at two tracks, for 1,600 total	\$146 million per year	\$175.2 million per year
1,500 each, at two tracks, for 3,000 total	\$273.75 million per year	\$328.5 million

These assumptions would generate an estimate of a range of total net revenues between \$146 million to \$328.5 million. However, the Prairie Meadows Racetrack & Casino, near Des Moines, had total adjusted gross receipts of \$193 million in 2008, which is an indication that some racinos are smaller than that envisioned above, and therefore generate less revenue.

### **Other Factors**

There are other factors to consider. The first is disposition of net revenues. Taxes are set at 30 percent in Illinois, meaning that the take to the public is only 30 percent of net revenues. The remainder is profits used by the bars, or by the racinos. Therefore, the take to the general fund is a percentage, set by the tax rate, of the total net revenues.

Second, the Illinois study attempted to estimate the secondary effect of these new forms of gambling on other forms of gambling, and the revenues to the state that those forms generate. The Illinois study estimated that existing gambling operations would lose 75 cents for every dollar spent on new forms of gambling. In Minnesota, for example, lawful gambling generates revenues of over \$35 million per year from a variety of taxes. If lawful gambling were impacted, revenues to the state would fall. This would be true, even if some of the net profits from the new forms of gambling went to lawful gambling organizations. This memo does not attempt to estimate offsets for these new gambling options.

Third, there is at least a reasonable chance that litigation would ensue from some approaches to legalization. It is possible that the State could lose in such litigation, and it is probable that some delay would occur before new gambling could get underway. This last consideration is more of a factor when timing of revenues is crucial to a spending plan based on the new gambling.

### **Discussion**

It is clear that an expansion of slots, or the establishment of racinos, would generate new net revenues for gambling operators, bars, and/or racetracks. The state would also profit from taxes on this gambling revenue. Because each state is slightly different in culture, competition, and demographic factors, it is impossible for a discussion estimate to be perfect.

This memorandum attempted to use the Illinois method of estimating net revenues, and has generated a range for net revenues for each form of gambling. The general fund capture of these net revenues would depend on the state tax rate that would be adopted. In Illinois, the rate used in estimates for slots in bars was 30 percent.

Using the Illinois rate of thirty percent, at the low end of the range, slots in bars would generate state taxes of about \$82 million per year; at the upper end about \$135 million per year would be generated, before applying any offsets for reductions in other gambling revenues. For racinos, estimated state tax revenues of between \$44 million and \$98 million, could be generated.

These estimates are for discussion purposes. They are based upon the assumptions used by the state of Illinois. It is possible that other estimates will come forth, using other equally reasonable assumptions. None of these discussion estimates are fiscal notes. Many are not drawn against any one particular piece of legislation. Estimates of the revenue impact of gambling legislation for budgetary purposes must come from fiscal notes prepared at the request of the legislature under Minnesota Statutes Section 3.98.

PJM\ct