COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1099-02
Bill No.: SB 276
Subject: Education, Elementary and Secondary; Gambling; Economic Development Department; State Treasurer; Higher Education.
Type: Original
Date: February 25, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	($16,284,583)	($39,083,000)	($58,624,500)
Total Estimated Net Effect on General Revenue Fund	**($16,284,583)**	**($39,083,000)**	**($58,624,500)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State School Moneys	$0	$0	$0
Gaming Proceeds for Education	$0	$0	$0
Gaming Commission	$2,035,000 to $5,755,000	$2,443,000 to $6,906,000	$2,443,000 to $6,906,000
Educational Job Retraining Program	$52,015,583 to $67,766,583	$81,960,000 to $100,861,000	$101,501,500 to $120,402,500
Total Estimated Net Effect on Other State Funds	**$54,050,583 TO $73,521,583**	**$84,403,000 TO $107,767,000**	**$103,944,500 TO $127,308,500**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$6,055,000 to $11,475,000**	**$7,207,000 to $13,770,000**	**$7,207,000 to $13,770,000**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasure**r assumes this proposal would not fiscally impact their agency.

Officials from the **Department of Higher Education** assume that Section 313.905 indicates potential funding for the Missouri College Guarantee program and the Missouri Academic Scholarship program in FY 2009. The amount of funding that may be available through this provision in FY 2009 for these programs is unknown.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Missouri Gaming Commission, the Department of Elementary and Secondary Education, the Department of Higher Education and the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates they could require approximately 48 new pages of regulations in the Code of State Regulations at a cost of $27.00 per

ASSUMPTION (continued)

page, and 72 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $2,952, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the bill changes the use of any gaming proceeds for education exceeding the FY03 funding level. The amounts transferred from the Gaming Proceeds for Education Fund in FY 2003 are:

School District Bond Fund	$ 2,271,458
State School Moneys Fund	$205,520,542
TOTAL	$207,792,000
State School Moneys Fund Contingency	$ 41,710,000
Total Estimated FY 2003 Amount if Contingency	$249,502,000

DESE states that transfers from the Gaming Proceeds for Education Fund would continue to be made for the foundation formula and the School District Bond Fund in the estimated amount of $249,502,000 for years FY 2004 through FY 2008. Any money in the fund greater than the estimated $249,502,000 would be transferred to the Educational Job Retraining Program Fund. The Department of Economic Development (DED) would implement this job retraining program. Therefore, the growth in money in this fund would no longer be for K-12 education but rather adult job retraining and administered by DED. After FY 2008, any money in the fund greater than the estimated $249,502,000 would be transferred to:

a. The Missouri College Guarantee Fund,
b. The Higher Education Academic Scholarship program, or
c. Providing state aid to school districts pursuant to the foundation program pursuant to Section 163.031, RSMo. (State School Moneys Fund)

ASSUMPTION (continued)

DESE states that an increased cost to the state cannot be determined. Without this bill, any additional money in the Gaming Proceeds for Education Fund would be available for the school foundation formula. If this money is not available for the formula, other state money will be needed for the formula. Therefore, DESE estimates an unknown cost to the General Revenue Fund and the State School Moneys Fund.

DESE states the repeal of the $500 loss limit will likely lead to increased gaming proceeds, which would be transferred to the Educational Job Retraining Program, but defers to the Missouri Gaming Commission regarding the amount.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposed legislation repeals the loss limit for players on excursion gambling boats. It also establishes the Educational Job Retraining Program Fund from gaming revenue for education over the amount transferred in FY 2003. Also, beginning in FY 2009, it provides the potential for additional funding for the Missouri College Guarantee Fund and the Academic Scholarship Fund (Bright Flight).

BAP assumes that removing the loss limit will result in an additional $51.5 million in state revenue in FY 2004 (assumes August 28, 2003 effective date).

For Fiscal Year 2004 through 2008, gaming revenue in excess of the amount transferred to the School District Bond Fund and State School Moneys Fund in FY 2003 will be transferred to the Educational Job Retraining Program Fund. Gaming Proceeds for Education grows approximately 2% each year. Based on the FY 2004 estimate, over $1.9 million would be transferred to the Educational Job Retraining Program Fund. Any amount directed to the Educational Job Retraining Program Fund reduces the amount that would be available to fund the foundation formula.

Projected FY 2004 Gaming Proceeds for Education	$231,830,00
FY 2003 Gaming Proceeds for Education transfer	($227,628,542)
FY 2003 School District Bond Fund transfer	($ 2,271,458)
FY 2004 Educational Job Retraining Program Fund	$ 1,930,000

BAP states that in Fiscal Year 2009, all the gaming proceeds over the amount transferred in FY 2003 to the School District Bond Fund would be transferred to the Missouri College Guarantee Fund, the Higher Education Academic Scholarship Fund, or used to fund the foundation formula. Depending on how the funds were apportioned, this could be in a significant decrease in foundation formula funding.

ASSUMPTION (continued)

Officials from the **Department of Economic Development - Division of Workforce Development (DWD)** state this proposal would be an additional program for the Division and would entail tracking and processing of retraining claims filed in local career centers.

DWD assumes the need for one Work Force Development Specialist II (at $33,276 annually) to be directly responsible for administration and oversight of the program; one Accountant I (at $30,204 annually) to provide fiscal support; both for payments, and reporting; and one Computer Info Tech II (at $40,716 annually) to run programs needed to submit information for reporting data and statistical information. DWD states that it is unknown at this time how many dollars will be input into this program. Data for new FTEs will involve payments for retraining in excess of $500,000.

DWD assumes the proposal will result in additional costs of $148,436 in FY 2004 and roughly $180,000 per year thereafter from the Educational Job Retraining Program Fund.

Officials from the **Missouri Gaming Commission (GAM)** state that an increase in gaming taxes and admission fees stem from the assumption that removing the loss limit will increase gaming revenue and customer visits to Missouri casinos. GAM believes that gaming revenue and customer visits will increase due to following three factors:

1. Removing the loss limit will eliminate the need for boarding cards, which track the loss limit. GAM estimates that by eliminating the boarding card requirement, customer volume will increase by about 12%. Based on an average win per customer of $60, gaming revenue will increase approximately $172 million.

2. Removing the loss limit will increase efficiency at the front gate, table games and slot machines. Currently, when a customer arrives at the casino, they must stop at ticketing to obtain a boarding card, which monitors the loss limit. In addition, each time a customer buys in at a table, play stops while the loss limit controls are initiated (swiping the card to check buy-in status). Likewise, at the slot machines play is often interrupted due to loss limit controls. All these factors combine to reduce gaming revenue and drive customers to other more convenient gaming markets. GAM estimates that by eliminating the inefficiencies caused by the loss limit controls, gaming revenue will increase by 2.8% or approximately $35 million.

3. Finally, removing the loss limit will attract high-end customers to Missouri casinos. These are gamers who typically buy-in well above the $500 level. Removing the loss limit would make

<u>ASSUMPTION</u> (continued)

Missouri a potential destination market for the out of town high-end customers. GAM estimate that an additional 339,000 high-end customers will visit Missouri casinos at an average win per customer of $400, thus increasing gaming revenue by about $136 million.

In summary, GAM assumes that removing the $500 loss limit will result in additional gaming taxes of roughly $68,600,000 ((172 million + 35 million + 136 million) x 20% tax rate) as well as an increase in admission fees of roughly $13,812,000. The breakout of GAM's estimate of increased taxes and fees between the state and the home dock cities and counties follows;

	FY 2004	FY 2005	FY 2006
State Revenue			
Gaming Taxes for Education	$51,482,000	$61,778,000	$61,778,000
Admission Fees to MGC Fund	$ 5,755,000	$ 6,906,000	$ 6,906,000
Total	**$57,237,000**	**$68,684,000**	**$68,684,000**
Home Dock Revenue			
Gaming Taxes	$ 5,720,000	$ 6,864,000	$ 6,864,000
Admission Fees	$ 5,755,000	$ 6,906,000	$ 6,906,000
Total	**$11,475,000**	**$13,770,000**	**$13,770,000**

GAM states the estimated impact on the repeal of the $500 loss limit was revised down in the Summer of 2002 to the estimates above.

Oversight reviewed the effect of the repeal of loss limits on the state of Iowa and found that Iowa's win per patron increased by approximately $7.50 when its loss limit was repealed. According to the Gaming Commission, the Adjusted Gross Receipts (AGR) per patron, or win per patron in FY 2002 was $53.71. Oversight assumes this proposal would increase the win per patron in Missouri to
$61.21 ($53.71 + $7.50). Assuming a 5% increase in the number of admissions, Oversight estimates the state impact would be an increase in the gaming tax of $42,877,000 and an increase in the admission fee revenue of $2,443,000. The corresponding local increase is estimated to be an increase in gaming tax of $4,764,000 and an increase in admissions fee revenue of $2,443,000 annually. The FY 2002 win per patron in Iowa was $49.04 while in calendar 2001 in Illinois it was $94.85. For fiscal note purposes, **Oversight** will range the potential fiscal impact of this proposal from Oversight's estimates to the Gaming Commission's estimates.

ASSUMPTION (continued)

Oversight assumes that an amount of additional General Revenue funding will be required to replace the normal growth in the Gaming Proceeds for Education Fund that would ususally go to the State School Moneys Fund. The proceeds that normally go from the Gaming Proceeds for Education Fund to the State School Moneys Fund and the School District Bond Fund will be retained at the FY 2003 level. Therefore, no additional revenue in future years from normal inflation or growth will go towards these funds from the Gaming Proceeds for Education Fund. Oversight assumes that this additional growth will be replaced by the General Revenue Fund. Oversight has reviewed the actual proceeds received into the Gaming Proceeds for Education Fund for the last three fiscal years as well as the projection for FY 2003, and the growth rate has been roughly 8.5 percent per year. Taking 8.5 percent of the projected transfer out of the Gaming Proceeds for Education Fund to the two school funds ($229,900,000) for FY 2003, Oversight will assume that the normal growth per year would be roughly $19,541,500 ($229,900,000 x 8.5%). Therefore, Oversight will show this as an additional amount received into the new Education Job Retraining Program Fund and an offsetting loss to General Revenue to keep the two school funds receiving the normal annual growth. This amount is compounded each year, so for FY 2005, the loss is estimated to be $39,083,000 ($19,541,500 + $19,541,500) and so on. For FY 2004, Oversight assumes 10 months, or $16,284,583 ($19,541,500 / 12 x 10) of impact.

Beginning in FY 2009, the funds transferred from the Gaming Proceeds for Education Fund in excess of FY 2003 levels will be transferred to the Missouri College Guarantee Fund, the Higher Education Academic Scholarship Program, or to school districts based upon the foundation formula. **Oversight** assumes this part of the proposal is beyond the scope of the fiscal note.

Oversight assumes DWD will utilize all of these proceeds on additional FTE and other costs to administer the program, training, tuition assistance and other expenses from the new program.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Transfer Out - to the State School Moneys Fund	($16,284,583)	($39,083,000)	($58,624,500)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($16,284,583)**	**($39,083,000)**	**($58,624,500)**
STATE SCHOOL MONEYS FUND			
Transfer In - from General Revenue	$16,284,583	$39,083,000	$58,624,500

Loss - Growth goes to new Educational Job Retraining Program Fund	($16,284,583)	($39,083,000)	($58,624,500)
ESTIMATED NET EFFECT TO THE STATE SCHOOL MONEYS FUND	**$0**	**$0**	**$0**

GAMING PROCEEDS FOR EDUCATION FUND

Income - Normal growth of gaming proceeds	$16,284,583	$39,083,000	$58,624,500
Income - Gaming tax proceeds from repeal of $500 loss limit	$35,731,000 to $51,482,000	$42,877,000 to $61,778,000	$42,877,000 to $61,778,000
Transfer Out - to Educational Job Retraining Program Fund	($16,284,583)	($39,083,000)	($58,624,500)
Transfer Out - to Educational Job Retraining Program Fund	($35,731,000 to $51,482,000)	($42,877,000 to $61,778,000)	($42,877,000 to $61,778,000)
ESTIMATED NET EFFECT TO THE GAMING PROCEEDS FOR EDUCATION FUND	**$0**	**$0**	**$0**

GAMING COMMISSION FUND

Income - Increased admissions from repeal of the $500 loss limit	$2,035,000 to $5,755,000	$2,443,000 to $6,906,000	$2,443,000 to $6,906,000
ESTIMATED NET EFFECT TO THE GAMING COMMISSION FUND	**$2,035,000 to $5,755,000**	**$2,443,000 to $6,906,000**	**$2,443,000 to $6,906,000**

RAS:LR:OD (12/02)

EDUCATIONAL JOB RETRAINING PROGRAM FUND			
Transfer In - from Gaming Proceeds for Education Fund for normal growth	$16,284,583	$39,083,000	$58,624,500
Transfer In - from the Gaming Proceeds for Education Fund for loss limit repeal	$35,731,000 to $51,482,000	$42,877,000 to $61,778,000	$42,877,000 to $61,778,000
ESTIMATED NET EFFECT TO THE EDUCATIONAL JOB RETRAINING PROGRAM FUND	**$52,015,583 to $67,766,583**	**$81,960,000 to $100,861,000**	**$101,501,500 to $120,402,500**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
HOME DOCK CITIES AND COUNTIES			
Income - gaming tax from repeal of $500 loss limit	$3,970,000 to $5,720,000	$4,764,000 to $6,864,000	$4,764,000 to $6,864,000
Income - admission fee increase from repeal of $500 loss limit.	$2,035,000 to $5,755,000	$2,443,000 to $6,906,000	$2,443,000 to $6,906,000
ESTIMATED NET EFFECT TO HOME DOCK CITIES AND COUNTIES	**$6,005,000 to $11,475,000**	**$7,207,000 to $13,770,000**	**$7,207,000 to $13,770,000**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal repeals the $500 gaming loss limit contained in Section 313.805, RSMo.

RAS:LR:OD (12/02)

Further, this proposal directs any increase in the Gaming Proceeds for Education Fund during fiscal years 2004 through 2008 to the Educational Job Retraining Fund, established by this proposal within the State Treasury. The Educational Job Retraining Fund will be administered by the Department of Economic Development and will provide educational job training and tuition assistance for unemployed or underemployed Missouri residents who were employed in this state on a full-time basis for a minimum of three consecutive years immediately prior to losing their jobs due to job elimination during adverse economic conditions.

Beginning in fiscal year 2009 and for each fiscal year thereafter, any increase (from base fiscal year 2003) in the Gaming Proceeds for Education Fund shall be transferred to: the Missouri College Guarantee Fund; the Higher Education Academic Scholarship Program; and school districts pursuant to the Foundation Formula.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

<u>SOURCES OF INFORMATION</u>

Missouri Gaming Commission
Office of Administration - Budget and Planning
Department of Elementary and Secondary Education
Office of the State Treasurer
Department of Economic Development - Division of Workforce Development
Office of the Secretary of State
Department of Higher Education

RAS:LR:OD (12/02)

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