

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4671-05
Bill No.: SCS for SB 767
Subject: Lotteries
Type: Original
Date: February 21, 2018

Bill Summary: This proposal creates the Missouri Video Lottery Control Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Lottery Proceeds Fund*	\$0	\$0	\$0
Gaming Commission Fund	(Unknown)	(Unknown)	(Unknown)
Gaming Proceeds for Education Fund	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
Veterans Commission Capital Improvements Trust Fund	\$0 or Unknown	Could exceed \$1,382,950	Could exceed \$2,765,900
Colleges and Universities	\$38,420,852	\$71,999,317	\$63,012,673
Total Estimated Net Effect on <u>Other</u> State Funds	Less than \$38,420,852	Less than \$73,382,267	Less than \$65,778,573

* Revenues and Cost Net to Zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Lottery Proceeds Fund	13 FTE	13 FTE	13 FTE
Total Estimated Net Effect on FTE	13 FTE	13 FTE	13 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	Less than \$5,625,000	Less than \$21,670,169	Less than \$79,887,673

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Missouri Lottery Commission (Commission)** assume this proposal would have a positive fiscal impact to their organization based on the following information:

313.429 – 1. The commission must implement a system of Video Lottery Game Terminals (VLT) utilizing a licensing structure for processing license applications and issuing licenses to manufacturers, operators, handlers and retailers of video lottery.

- It is assumed two additional Administrative Office Support Assistant (AOSA) positions at a salary of \$31,608 each will be needed to process applications and renewals, which includes completing background checks on owners and handlers and determining eligibility.
- The commission may impose initial application fees and provisional license fees that will cover initial background checks. Renewal fees and penalties may also be assessed by the Commission. Beginning January 1, 2020, license fees are to be distributed to the Veterans Commission Capital Improvements trust at a proportion of 80%
- It is assumed revenues from initial application and provisional license fees will total \$7.8 million spread over a 4 year ramp up period, which will be offset by the cost of background checks for operators, manufacturers, retailers and handlers of approximately \$130,000 per year (background checks are estimated to be \$45 per person, and each operator, manufacturer and retailer is assumed to have at least two owners requiring a check, with each handler requiring one check).
- Cost of background checks beyond the fiscal note period will continue at approximately \$120,000 per year, with approximately \$1.5 million in revenues assumed from the first year of renewal fees ramping up to approximately \$6 million in year 4 and beyond.

313.429 - 5, 7, 8, 9. The Commission will procure and provide a centralized communication system, the cost of which will be reimbursed by operators/retailers (i.e. appropriation authority will be needed but the fiscal impact of the centralized communication system will be zero).

- Six Lottery Security Specialists at an annual salary of \$48,852 each are needed to ensure the centralized system uses industry protocols, to activate or deactivate terminals, to monitor and audit plays, and ensure operators are following requirements for plays and payouts, where terminals can be operated, number of terminals operated per

ASSUMPTION (continued)

establishment, advertising, posting age requirement and the problem gambling helpline, and reviewing video surveillance and assessing fines for noncompliance.

- Two additional Lottery Security Specialists at an annual salary of \$48,852 are needed to facilitate and document VLT investigations, review cases/video surveillance and recommend fines for noncompliance to the Commission.

313.429 – 9, 10. Two Accounting Generalists I are needed at an annual salary of \$42,780 each to collect license fees, verify and collect Lottery's share of video lottery adjusted gross receipts, and remit payments to municipalities and the veterans commission capital improvements trust fund.

Fringe benefits for the thirteen additional FTE are estimated to be \$170,000 per year. Equipment and vehicle cost for the new FTE is estimated to be \$160,000. Annual office supplies, fuel and ongoing IT cost for the new FTE is estimated to be \$20,000 per year.

The Lottery assumes 3,875 retailers will operate 19,375 terminals after a 4-year ramp up period. Additional proceeds to the state from video lottery sales are anticipated to be \$45 million in year one and grow to \$135 million in year three, offset by lost profits from Pull-Tabs and Keno of approximately \$7 to \$9 million per year. Pull-Tab sales at Fraternal organizations are assumed to be completely cannibalized by video lottery sales; along with Keno sales are expected to be cannibalized by 31.3%.

Net effect of the above impacts on the Lottery Proceeds Fund is anticipated to be a positive \$38 million in FY 2019, \$82 million in FY 2020 and \$126 million in FY 2021 with additional appropriations to Higher Education and Department of Elementary and Secondary Education, respectively, of \$38 million in FY 2019, \$61 million and \$21 million in FY 2020, and \$63 million and \$63 million in FY 2021.

The Lottery assumes approximately \$1.4 million will be remitted to the veterans commission capital improvements trust fund in 2020, and \$2.8 million in 2021, ramping up to \$4.8 million after year four, and approximately \$5.6 million, \$11.2 million and \$16.9 million per year will be remitted to municipalities where video lottery establishments are located in 2019, 2020 and 2021, respectively, ramping up to \$22.6 million annually after year four.

Officials from the **Office of Administration - Budget and Planning** defer to the Missouri Lottery Commission for fiscal impact and also note this proposal has numerous fees that will increase TSR and the 18(e) calculation.

ASSUMPTION (continued)

Officials at the **Department of Public Safety - Gaming Commission** state as a new form of entertainment, it is assumed the video lottery terminals would be in direct competition with state sanctioned gaming resulting in a reduction in state taxes to education from riverboat casinos and bingo halls. It would also result in a reduction of state admission fees for Veteran's, National Guard, and Access Missouri programs, and casino taxes and admission fees to local government in home dock cities. The extent of the reduction in revenue in both state and local taxes from riverboat gaming casinos and charitable bingo is unknown but significant, as has been the case in other states which have video lottery terminals.

As noted in the proposed legislation Section 313.852, implementation of sports betting in Missouri is contingent on a favorable United States Supreme Court decision which would allow states to begin accepting wagers. Based on the language in the bill, there are a number of variables that make it difficult to project revenues or resources/expenses that the Missouri Gaming Commission would need to regulate this new law.

Oversight assumes the implementation of video lottery in Missouri may have a negative impact on the utilization of Missouri's casinos (patrons may choose to play video lottery instead of visiting a Missouri casino). Therefore, Oversight will reflect an unknown amount of loss to the Gaming Commission Fund (0286) and the Gaming Proceeds for Education Fund (0285). Oversight will also reflect a \$0 or Unknown amount of income from wagering on sporting events in Section 313.852.

Officials at the **Department of Higher Education** assume Section 131.429.9(1) provides that 36% of the video lottery game adjusted gross receipts be transferred to the lottery proceeds fund. This section also provides that the first \$100 million in the fund will be appropriated to public higher education institutions.

Officials from the **Department of Elementary and Secondary Education** state the potential amount of adjusted gross receipts resulting from video lottery is unknown. To the extent those net proceeds exceed \$100 million, the remaining proceeds shall be evenly appropriated between public elementary and secondary education and public institutions of higher education.

Officials from the **Joint Committee on Administrative Rules** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State, Department of Public Safety - Missouri Veterans Commission** and the **Department of Revenue** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight will show a negative unknown impact to home dock cities of riverboat casinos due to reduced casino taxes and admission fees.

Oversight will show 4% of gross receipts from video lottery terminals as income to municipalities or counties where a licensed video lottery game retailer maintains an established license for the operation of video lottery game terminals.

Oversight assumes the legislation requires the first \$100 million in proceeds be appropriated to public institutions of higher education, the remaining proceeds to be evenly appropriated to public elementary and secondary education and public institutions of higher education.

This proposal could increase Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOTTERY PROCEEDS FUND			
<u>Revenue - LOT</u>			
20% Initial application fees - LOT	\$1,617,729	\$1,164,765	\$388,255
80% Initial application fees - VET	\$0	\$776,510	\$1,553,020
20% Renewal Fees - LOT	\$0	\$909,660	\$303,220
80% Renewal Fees - VET	\$0	\$606,440	\$1,212,880
VL Proceeds (36% of AGR)	<u>\$50,625,000</u>	<u>\$101,250,000</u>	<u>\$151,875,000</u>
<u>Total Revenue - LOT</u>	\$52,242,729	\$104,707,375	\$155,332,375
<u>Cost - LOT</u>			
Personal Service	(\$476,000)	(\$576,912)	(\$582,681)
Fringe Benefits	(\$141,372)	(\$171,343)	(\$173,056)
Equipment and Expense	<u>(\$280,838)</u>	<u>(\$148,284)</u>	<u>(\$151,992)</u>
<u>Total Costs - LOT</u>	<u>(\$898,210)</u>	<u>(\$896,539)</u>	<u>(\$907,729)</u>
FTE Change - LOT	13 FTE	13 FTE	13 FTE
4% of AGR of video lottery game to municipalities to cover admin. costs	(\$5,625,000)	(\$11,250,000)	(\$16,875,000)
<u>Transfer Out - To Colleges and Universities - first \$100 million of AGR</u>	(\$38,420,852)	(\$71,999,317)	(\$63,012,673)
<u>Transfer Out - to Local School Districts remaining AGR (after \$100 million, split evenly with Higher Education)</u>	\$0	(\$10,420,169)	(\$63,012,673)
<u>Transfer Out - To VCCITF Initial Application and Renewal Fees</u>	\$0	(\$1,382,950)	(\$2,765,900)
<u>Loss - LOT - Loss profit from Keno and Pull-Tab Sales from competition</u>	<u>(\$7,298,667)</u>	<u>(\$8,758,400)</u>	<u>(\$8,758,400)</u>
ESTIMATED NET EFFECT TO THE LOTTERY PROCEEDS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net Effect to the Lottery Proceeds Fund	13 FTE	13 FTE	13 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
GAMING COMMISSION FUND			
<u>Revenue</u> -§313.852 Sporting Events 2% Fee	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Loss of Revenue</u> Resulting from video lottery competition	(Unknown)	(Unknown)	(Unknown)
<u>Transfer Out</u> - to VCCITF §313.852	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
 GAMING PROCEEDS FOR EDUCATION FUND			
<u>Revenue</u> -§313.852 Sporting Events 12% Fee	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Loss of Revenue</u> Resulting from video lottery competition	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE GAMING PROCEEDS FOR EDUCATION FUND	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
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**VETERANS COMMISSION
 CAPITAL IMPROVEMENTS
 TRUST FUND**

<u>Transfer In</u> - From Lottery Proceeds Fund	\$0	\$1,382,950	\$2,765,900
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<u>Transfer In</u> - From Gaming Commission Fund §313.852 Sporting Events 2% Fee	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
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ESTIMATED NET EFFECT ON THE VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND	<u>\$0 or Unknown</u>	<u>Could exceed \$1,382,950</u>	<u>Could exceed \$2,765,900</u>
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COLLEGES AND UNIVERSITIES

<u>Revenue</u> - First \$100 million of 36% adjusted gross receipts then split evenly between Higher Ed and Elementary	<u>\$38,420,852</u>	<u>\$71,999,317</u>	<u>\$63,012,673</u>
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ESTIMATED NET EFFECT TO COLLEGES AND UNIVERSITIES	<u>\$38,420,852</u>	<u>\$71,999,317</u>	<u>\$63,012,673</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL POLITICAL SUBDIVISIONS			
<u>Income</u> - Local School Districts after first \$100 million to higher education	\$0	\$10,420,169	\$63,012,673
<u>Income</u> - Cities and Counties compensation paid to municipalities or counties - 4% AGR	\$5,625,000	\$11,250,000	\$16,875,000
<u>Loss</u> - Home Dock Cities and Counties - loss of gaming revenue from video lottery competition	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>Less than</u> <u>\$5,625,000</u>	<u>Less than</u> <u>\$21,670,169</u>	<u>Less than</u> <u>\$79,887,673</u>

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses could be expected as a result of this proposal from potential commission earned on Video Lottery Terminals located at their establishments.

FISCAL DESCRIPTION

This act establishes the Missouri Video Lottery Control Act.

This act allows the State Lottery Commission to implement a system of video lottery game terminals and to issue licenses to video lottery game manufacturers, operators, handlers, and retailers, as defined in the act. The Commission shall not allow a single vendor or licensee to be responsible for implementing the program, nor shall it allow a single vendor or licensee to control or operate more than twenty-five percent of video lottery game terminals in the state.

The Commission may impose a non-refundable application fee, as described in the act. Manufacturers, operators, handlers, and retailers shall be required to annually remit a license fee, and licensees shall be required to renew licenses every two years. The Commission shall issue provisional licenses as described in the act.

Video lottery game terminals shall be independently tested, capable of randomly generating the outcome of games, and be able to print tickets.

FISCAL DESCRIPTION (continued)

No licensed video lottery operator shall offer a single game play exceeding two dollars or offer a pay-out for a single game-winning play in excess of five hundred dollars. To combat problem gambling, video lottery game operators shall provide a pre-commitment system that allows players to set daily and aggregate bet limits and to self-exclude themselves from play. Operators shall not operate more than five terminals at one retail establishment, except fraternal or veterans organizations may operate up to ten terminals.

Video lottery game operators are prohibited from offering anything of value other than the percentage of adjusted gross receipts to a video lottery game retailer for the placement of video lottery terminals. Persons violating such prohibition are subject to the loss or prohibition of his or her video lottery game operator's license.

Video lottery game operators shall pay to the Commission thirty-two percent of any unclaimed cash prizes associated with winning tickets that have not been redeemed within one year of issue.

Video lottery game operators shall pay to the Commission thirty-six percent of the video lottery game adjusted gross receipts. The first \$100 million of such adjusted gross receipts shall be appropriated for public institutions of higher education. The remaining adjusted gross receipts shall be appropriated evenly between public elementary and secondary education and public institutions of higher education. The Commission shall compensate the administrative costs of the city or county in which a video lottery retailer maintains an establishment in an amount equal to four percent of the video lottery game adjusted gross receipts. Sixty-four percent of video lottery game adjusted gross receipts shall be retained by video lottery game operators and shall be split between video lottery game operators and video lottery game retailers as provided under an agreement.

All revenues collected by the Commission from license renewal fees and any reimbursements associated with the enforcement of the act shall be distributed as described in the act.

Participation in the state lottery under this act shall not be construed to be a lottery or gift enterprise in violation of Article III, Section 39 of the Constitution of Missouri, and shall not constitute a valid reason for the denial or revocation of a permit to sell liquor.

This act allows a municipality or county to adopt an ordinance within ninety days of the effective date of this act prohibiting video lottery game terminals within the municipality or county.

This act is substantially similar to SB 452 (2017) and is similar to HB 990 (2017).

FISCAL DESCRIPTION (continued)

This act also authorizes wagering on the outcome of sporting events in the event federal law is enacted or repealed or a federal court decision is filed that affirms the authority of a state to regulate wagering on sporting events.

Gross receipts received from wagers on sporting events shall be taxed at a rate of twelve percent, and shall be collected and distributed as established in current law for excursion gambling boats.


An additional administrative fee of two percent of gross receipts shall be remitted and deposited in the Gaming Commission Fund. One hundred percent of such administrative fee shall be transferred to the Veterans' Commission Capital Improvement Trust Fund. (Section 313.852)

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

SOURCES OF INFORMATION

Missouri Lottery Commission
Department of Revenue
Department of Public Safety
 Missouri Veterans Commission
 Missouri Gaming Commission
Department of Higher Education
Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration - Budget and Planning
Department of Elementary and Secondary Education

Ross Strobe



Acting Director
February 21, 2018