

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1285-04
Bill No.: SB 430
Subject: Gambling; Higher Education Department
Type: Original
Date: February 12, 2007

Bill Summary: This proposal creates the Smart Start Scholarship program, removes the \$500 loss limit for Missouri's gambling boats and imposes an additional tax of 1% on adjusted gross receipts over \$30 million per casino.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Gaming Proceeds for Education*	\$0	\$0	\$0
Gaming Commission	\$0	\$2,667,060	\$2,667,060
Compulsive Gamblers	\$0	\$26,940	\$26,940
Smart Start Scholarship*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$2,694,000	\$2,694,000

* Income, Transfers - In, Transfers - Out and anticipated expenses net to zero

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE**	0	0	0

** Oversight assumes the Department of Higher Education will require additional FTE to implement this program; however, they failed to respond to our request for fiscal impact.

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$8,146,000 to \$13,842,808	\$8,146,000 to \$13,842,808

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Gaming Commission (GAM)** state this response only addresses the impact on adjusted gross revenues (AGR). There is also a moderate increase in admission fees to the Missouri Gaming Commission Fund.

Missouri's win per patron (WPP) for FY '06 was \$63.72 prior to any consideration of the impact of the repeal of the \$500 loss limit.

A comparable jurisdiction's WPP is found in the eastern Illinois (Alton and East St. Louis) riverboats. That WPP was calculated to be an average of \$80.40 for FY '06. This factor was used to derive Missouri's projected AGR base to determine the incremental increase in AGR over FY '06. (Adjusted patronage count X WPP = projected AGR base attributable to the repeal of the Missouri \$500 loss limit). The WPP figures for the two most comparable statewide jurisdictions of Illinois and Indiana are both above \$90.

A 5% growth factor was used to expand the patron volume. The 5% growth in patrons is the low end of the range of the average growth rate in Missouri's WPP since FY 2000. The range over the historical period since FY 2000 is 5% - 11%.

An initial expansion of 5% in the number of patrons was based on the historical average patron volume from FY 2000 through FY 2006. The patron count has leveled off to little or no growth in this current fiscal year. Consequently, no assumption has been made indicating more growth in patron volume because current patron/admission returns without the repeal of the loss limits are estimated currently at 0 - 1.5% per annum.

ASSUMPTION (continued)

The actual patron count for FY '06 was 24,643,820. That amount times the anticipated growth of 5% equals an increase of 1,232,191 patrons, resulting in a new total of estimated patrons of 25,876,011. The 25,876,011 times the derived East Illinois market of \$80.40 equals adjusted gross income (AGR) of \$2,080,431,284 versus Missouri's FY '06 of \$1,500,294,346. The difference between the new estimated AGR and Missouri's actual AGR is in an incremental difference of \$510 million. The \$510 million times the current state gaming tax of 18% provides new revenues of \$92 million in the first year of the repeal of the loss limits without the current estimated 3% growth anticipated in AGR for FY '07. If the 3% projected growth in AGR is accounted for the new amount is \$94.6 million.

Additional admission fees for GAM would be \$5.4 million

	FY 2008	FY 2009	FY 2010
AGR Base	\$1,665,925,271	\$1,715,903,029	\$1,767,380,120
Projected Missouri AGR	\$2,207,129,550	\$2,273,343,436	\$2,341,543,739
AGR Incremental Diff.	\$ 541,204,278	\$ 557,440,407	\$ 574,163,619
State Gaming Tax (18%)	\$ 97,416,770	\$ 100,339,273	\$ 100,339,273
Local Gaming Tax (2%)	\$ 10,824,086	\$ 11,148,808	\$ 11,148,808

New Section 313.823 - 1% Educational Allowance on all AGR in excess of \$30 million per boat (effective 7/1/2008 - 12 months of FY 2009)

AGR Base for 1% educational allowance	\$ 64,668,687	\$ 73,934,564
New revenue attributable to 1% allowance	\$ 646,687	\$ 739,346

Officials from the **Department of Elementary and Secondary Education (DESE)** state the following schedule shows transfers from the gaming proceeds for education fund to the school district bond fund and the classroom trust fund for fiscal years 2007 and 2008.

<u>From Gaming Proceeds for Ed.</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Increase</u>	<u>%</u>
To the school district bond fund	\$495,926	\$495,926	\$0	0.000
To the classroom trust fund	\$289,586,296	\$299,625,742	\$10,039,446	0.0347

Based on these amounts, the smart start scholarship fund will not receive a transfer in FY 2009 because the increase in the transfer to the classroom trust fund was less than 5%. However, the FY 2009 transfer cannot be computed until the percentage increase in the transfer to the classroom trust fund from FY 2008 to FY 2009 is determined. If that percentage increase is

ASSUMPTION (continued)

greater than 5%, then the smart start scholarship fund will receive a portion of the gaming proceeds for education; a portion that would have otherwise gone to the classroom trust fund.

As noted in section 160.534, for FY 2010 and for each fiscal year thereafter, the amount transferred from the gaming proceeds for education fund to the classroom trust fund shall be the amount transferred to the fund during the preceding fiscal year, adjusted by one half of the percent increase or decrease of the gaming proceeds for education fund from the preceding fiscal year. This section of statute will serve to limit the amount of funds transferred to the classroom trust fund, especially during times when the increase in gaming proceeds for education funds exceeds 5%.

The changes to section 313.805 will remove the loss limits for gambling excursions. Repeatedly, the annual reports of the Missouri Gaming Commission indicate "that the data unequivocally shows the loss limit renders Missouri casinos less competitive than casinos in neighboring jurisdictions. Furthermore, the loss limit results in less gaming tax revenue for education, fewer tourists and less admission fee revenue for veterans, the National Guard, college student loans and the early childhood development programs." Repealing the loss limits will likely have a significant positive impact on the gaming proceeds for education fund.

The proposed fund transfers as presented in section 160.534, when combined with the potential increase in gaming revenues wrought by repealing the loss limits for gambling excursions, will have a significant negative impact on the classroom trust fund. The effect will be to shift funds away from the classroom trust fund and toward the smart start scholarship fund. The impact will be millions and millions of dollars.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

ASSUMPTION (continued)

Officials from the **Office of the State Treasurer (STO)** state the wording of the proposal is “the state treasurer shall be custodian of the fund and shall approve disbursements from the fund in accordance with section 30.170 and 30.180 RSMo.” The STO states that their office only ensures the disbursements are made from a lawful appropriation and do not exceed the amount of the appropriation. The STO states that if the wording of the proposal is not changed, they will need an FTE (Accounting Specialist I (at \$39,324 annually) plus expenses to monitor these disbursements.

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, our win per patron in FY 2006 was \$63.72. Oversight assumes this proposal would increase the win per patron in Missouri to \$71.22 (\$63.37 + \$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 \$49,069,000 and an increase in the admission fee revenue of \$2,694,000. The corresponding local increase is estimated to be an increase in gaming tax of \$5,452,000 and an increase in admissions fee revenue of \$2,694,000 annually. The FY 2006 win per patron was \$57 in Iowa and \$91 in Indiana, while the calendar year 2005 in Illinois it was \$117, . For fiscal note purposes, **Oversight** will range the potential fiscal impact of this proposal from Oversight’s estimates to the Gaming Commission’s estimates.

Patron visits to Missouri Casinos in FY 2006	24,644,000
estimated increase in admission due to repeal (5%)	<u>1,232,200</u>
Revised patrons to Missouri Casinos	25,876,200
Estimated new WPP (\$63.72 + \$7.50)	<u>\$ 71.22</u>
Estimated new Adjusted Gross Receipts (AGR)	\$1,842,903,000
2006 Adjusted Gross Receipts	<u>\$1,570,296,000</u>
Increase to Missouri’s AGR from repeal of loss limits	\$ 272,607,000
Gaming Tax - State (18%)	\$ 49,069,000
Gaming Tax - Local (2%)	\$ 5,452,000

For FY 2006, there were 53,887,682 admissions (hitting at least a portion of a 2 hour ‘cruise’) from 24,644,000 patrons on Missouri casinos. Using this same ratio, the estimated additional 1,232,200 patrons to Missouri casinos as a result of the repeal of the loss limits, could equate to an additional 2,694,000 admissions ($53,887,682 / 24,644,000 \times 1,232,200$). Therefore, since the state as well as the home dock cities/counties receive \$1 per admission, this would increase admission fee revenue to each by \$2,694,000 annually.

ASSUMPTION (continued)

Regarding the increase in gaming tax from 20% to 21% for amounts over \$30 million, the amount of the increased tax is estimated to be;

Boat / Location	FY 2006 Adjusted Gross Receipts	Gross Receipts Over \$30 million	Additional 1 % tax
President / St. Louis	\$ 71,798,659	\$ 41,798,659	\$ 417,987
Ameristar / St. Charles	\$309,484,109	\$279,484,109	\$2,794,841
Argosy / Riverside	\$151,424,672	\$121,424,672	\$1,214,247
St. Jo Frontier / St. Joseph	\$ 32,824,543	\$ 2,824,543	\$ 28,245
Harrah's / NKC	\$201,746,959	\$171,746,959	\$1,717,470
Aztar / Caruthersville	\$ 28,450,084	\$ 0	\$ 0
Isle of Capri / KC	\$ 92,445,530	\$ 62,445,530	\$ 624,455
Ameristar / KC	\$259,908,271	\$229,908,271	\$2,299,083
Harrah's / MH	\$310,548,463	\$280,548,463	\$2,805,485
Isle of Capri / Boonville.	\$ 79,051,308	\$ 49,051,308	\$ 490,513
Mark Twain / LaGrange	<u>\$ 32,613,748</u>	\$ 2,613,748	<u>\$ 26,137</u>
Total	<u>\$1,570,296,346</u>		<u>\$12,418,463</u>

With the repeal of the loss limit, **Oversight** assumed a 12 percent increase in wins per patron (\$7.50 / \$63.72). Therefore, Oversight assumes an increase of \$13,908,680 (\$12,418,463 x 112%) in gaming tax revenues from this part of the proposal. Oversight will add this to the increase in gaming tax revenues expected from the repeal of the \$500 loss limit per excursion. This amount is quite different than the estimate provided by GAM (\$646,687 in FY 2009 and \$739,346 in FY 2010), therefore Oversight will not utilize GAM's estimate for this part of the proposal.

The **Department of Higher Education** did not respond to our request for fiscal impact.

Oversight will assume the Department of Higher Education (DHE) will spend all available funds in the newly created Smart Start Scholarship Fund on scholarships as well as their costs to administer the program. Since DHE did not respond to our request for fiscal impact, Oversight does not know the administrative cost estimate of administering this program, therefore, Oversight has combined administrative costs and scholarship grants as an expense to the Smart Start Scholarship Fund.

This proposal has an effective on July 1, 2008. Therefore, Oversight assume the will not be any impact from the proposal in FY 2008.

ASSUMPTION (continued)

New language in Section 160.534, RSMo, states that in FY 2009, all funds in excess of the sum of the amounts transferred from the gaming proceeds for education fund to the school district bond fund and the classroom trust fund (times 1.05%) shall be transferred to the new smart start scholarship fund. **Oversight** assumes normal annual growth of five percent will occur in the gaming proceeds for education fund, and therefore, all of the additional funding into the gaming proceeds for education fund resulting from the repeal of loss limits in FY 2009 will be transferred to the new smart start scholarship fund. For fiscal years 2010 and beyond, the increase in proceeds from the previous year will be split evenly between the classroom trust fund and the new smart start scholarship fund.

This proposal will increase Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GAMING PROCEEDS FOR EDUCATION FUND			
<u>Income</u> - Gaming Tax (18%) proceeds from repeal of \$500 loss limit	\$0	\$49,069,000 to \$100,339,273	\$49,069,000 to \$100,339,273
<u>Income</u> - Gaming Tax (1%) of Adjusted Gross Receipts over \$30 million	\$0	\$13,908,680	\$13,908,680
<u>Transfer Out</u> - Smart Start Scholarship Fund	\$0	(\$49,069,000 to \$100,339,273)	(\$49,069,000 to \$100,339,273)
<u>Transfer Out</u> - Smart Start Scholarship Fund - 1% tax on AGR over \$30 million	<u>\$0</u>	<u>(\$13,908,680)</u>	<u>(\$13,908,680)</u>
ESTIMATED NET EFFECT TO THE GAMING PROCEEDS FOR EDUCATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2008 (10 Mo.)	FY 2009	FY 2010
GAMING COMMISSION FUND			
<u>Income</u> - Increased admissions from repeal of \$500 loss limit	\$0	\$2,694,000	\$2,694,000
<u>Transfer Out</u> - 1 percent to the Compulsive Gamblers Fund	<u>\$0</u>	<u>(\$26,940)</u>	<u>(\$26,940)</u>
ESTIMATED NET EFFECT TO THE GAMING COMMISSION FUND	<u>\$0</u>	<u>(\$2,667,060)</u>	<u>(\$2,667,060)</u>
COMPULSIVE GAMBLERS FUND			
<u>Transfer In</u> - 1 percent of increase in admissions from repeal of loss limit	<u>\$0</u>	<u>\$26,940</u>	<u>\$26,940</u>
ESTIMATED NET EFFECT TO THE COMPULSIVE GAMBLERS FUND	<u>\$0</u>	<u>\$26,940</u>	<u>\$26,940</u>
SMART START SCHOLARSHIP FUND			
<u>Transfer In</u> - Dept. of Higher Education 1% of adjusted gross receipts over \$30 million for casinos (Section 313.823)	\$0	\$13,908,680	\$13,908,680
<u>Transfer In</u> - Dept. of Higher Education Repeal of loss limits	\$0	\$49,069,000 to \$100,339,273	\$49,069,000 to \$100,339,273
<u>Costs</u> - Department of Higher Education Administrative costs and scholarship grants	<u>\$0</u>	<u>(\$62,977,680 to \$114,247,953)</u>	<u>(\$62,977,680 to \$114,247,953)</u>
ESTIMATED NET EFFECT TO THE SMART START SCHOLARSHIP FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
HOME DOCK CITIES & COUNTIES			
<u>Income</u> - gaming tax from repeal of \$500 loss limit	\$0	\$5,452,000 to \$11,148,808	\$5,452,000 to \$11,148,808
<u>Income</u> - admission fee increase from repeal of \$500 loss limit	<u>\$0</u>	<u>\$2,694,000</u>	<u>\$2,694,000</u>
ESTIMATED NET EFFECT TO THE HOME DOCK CITIES & COUNTIES	<u>\$0</u>	<u>\$8,146,000 to \$13,842,808</u>	<u>\$8,146,000 to \$13,842,808</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal establishes the Smart Start Scholarship Program. The program will offer grants for educational expenses incurred while attending a qualifying institution for no more than two academic years to each person who attends a Missouri high school for three consecutive academic years immediately prior to being graduated from the institution, and who, within two calendar years from the date of graduation, applies for a grant under this act. The act defines a "qualifying institution" as:

1. an "approved public institution" or an "approved private institution", as such terms are currently defined in statute; or
2. a proprietary school certificated to operate in this state by the department of higher education; or
3. an educational institution located in Missouri deemed acceptable by the department under rules promulgated pursuant to the act.

Grant amounts shall be distributed to each qualifying student by the department, which shall annually establish a maximum grant amount based on the number of applicants and available

FISCAL DESCRIPTION

monies in the fund. The program shall be administered the Missouri department of higher education, which shall promulgate rules to establish a procedure for implementing the program.

This act also renders the following alterations to the state's gaming policy:

- Repeals the maximum loss limit of five hundred dollars per individual player per gambling excursion;
- Institutes a cap of thirteen licenses to operate excursion gambling boats in the state; and
- Imposes an education allowance of one percent on adjusted gross receipts in excess of thirty million dollars for gaming licensees.

The act directs the revenue derived from the loss limit repeal and the education allowance to the newly created Smart Start Scholarship Fund in order to fund the Smart Start Scholarship Program.

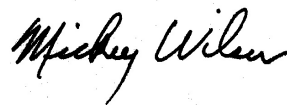
The proposal contains an effective date of July 1, 2008.

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 Gaming Commission
Office of the State Treasurer
Office of the Secretary of State
Department of Elementary and Secondary Education

NOT RESPONDING: Department of Higher Education



Mickey Wilson, CPA
Director
February 12, 2007