

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5525-02
Bill No.: HCS for HB 1941
Subject: Gambling; Athletics
Type: Original
Date: March 16, 2016

Bill Summary: This proposal requires fantasy contest operators to register with the state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$37,300)	Less than \$6,363	Less than \$5,299
Total Estimated Net Effect on General Revenue	(\$37,300)	Less than \$6,363	Less than \$5,299

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assume this proposal will have a negative fiscal impact on their organization.

Based upon a white paper created by the Massachusetts Gaming Commission, there are at least twenty fantasy contest operators that would be required to register with the department, generating \$100,000 in fee revenue annually (20 operators X \$5,000 registration fee). There could be additional operators that would be required to be registered, as a member search on the Fantasy Sports Trade Association website generated over 300 results. However, it is unknown how many additional operators would be required to register. Fantasy contest operators would pay the entire registration fee or renewal fee of \$5,000 each year and may be reimbursed for fees in excess of ten percent of entry fees collected in a given year. It is unknown how much would be reimbursed to the vendors. Refunds may need to wait until the following budget year as the department will have a very limited amount of general revenue appropriation available.

The department would need one Accounting Specialist I/II FTE and one Senior Office Support Assistant FTE to register the fantasy contest operators, review participation, and receive and analyze operator independent audits, as well as monitor operators for violations of the provisions of this legislation and impose penalties if needed. In addition, OA-ITSD would need to develop a basic registration/tracking database at an estimated cost of \$32,967. Ongoing yearly maintenance costs would be approximately \$6,758 in FY18 and \$6,927 in FY19.

Oversight will show a positive fiscal impact to General Revenue of unknown to \$100,000 for revenue generated by the required registration fees and annual fees to be paid by fantasy contests operators. This will be offset by a negative fiscal impact of unknown to \$100,000 for costs related to the potential refunds that could be paid to Fantasy Sports operators as outlined in §313.870.2 of this proposal.

§313.870.2 states, a fantasy contest operator offering fantasy contests with an entry fee in this state shall register with the department of insurance, financial institutions and professional registration. The initial registration fee is five thousand dollars and the annual renewal is five thousand dollars, except that the fantasy contest operator's registration fee or annual renewal fee shall not exceed ten percent of the amount of entry fees collected by the fantasy contest operator from the operation of fantasy contests in this state less the amount of cash prizes or cash prize equivalents paid to fantasy contest participants. In the event the fantasy contest operator's

ASSUMPTION (continued)

registration fee or annual renewal does exceed such percentage, the fantasy contest operator may apply to the department for a refund in the amount of overpayment at the conclusion of the registration period as determined by DIFP.

Officials at the **Lottery Commission (LOT)** assume this proposal will have an unknown negative fiscal impact on their organization.

The proposal legalizes fantasy sports betting which competes with the sale of Lottery products. Lottery proceeds net of prizes and administrative expenses are currently appropriated solely for public institutions of elementary, secondary and higher education. Individuals who might otherwise play the Missouri Lottery but choose to play fantasy sports instead divert Lottery proceeds funding away from elementary, secondary and higher education. The resulting shortfall in elementary, secondary and higher education funding would have to be absorbed with General Revenue funding, negatively impacting Total State Revenue.

Officials at the **Department of Public Safety - Gaming Commission (GAM)** assume this proposal will have an unknown negative fiscal impact on their organization.

As a new form of entertainment, it is assumed that fantasy contests would be in direct competition with state sanctioned gaming resulting in a potential reduction in revenue. The fiscal impact to regulate is unknown because it is unclear which governmental agency if any would have regulatory authority for this activity.

Oversight will not show a fiscal impact to General Revenue for LOT or GAM because fantasy sports (DraftKings, FanDuel, etc.) are currently legal in Missouri and this bill codifies the current status in addition to requiring fantasy sports operators to register with DIFP.

Officials at the **Office of State Courts Administrator, Attorney General's Office, State Public Defender's Office** and **Office of Prosecution Services** each assume this proposal will not have a fiscal impact on their respective organizations.

For simplicity, **Oversight** will utilize DIFP's estimate of 20 companies that will register in Missouri and generate \$100,000 (\$5,000 each) in fees into the General Revenue Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue</u> - DIFP - registration fees (\$5,000 each for assumed 20 operators)	\$100,000	\$100,000	\$100,000
<u>Costs</u> - DIFP - refunds - Fantasy Contests Operators	\$0	(Unknown)	(Unknown)
<u>Costs</u> - DIFP			
Personnel (2 FTE)	(\$55,170)	(\$66,866)	(\$67,535)
Fringe Benefits	(\$31,892)	(\$18,268)	(\$18,451)
Expense and Equipment	(\$17,271)	(\$1,745)	(\$1,788)
ITSD - Registration/Tracking Database	<u>(\$32,967)</u>	<u>(\$6,758)</u>	<u>(\$6,927)</u>
<u>Total Costs</u>	<u>(\$137,300)</u>	<u>(\$93,637)</u>	<u>(\$94,701)</u>
FTE Change - DIFP	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$37,300)</u>	Less than <u>\$6,363</u>	Less than <u>\$5,299</u>
Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses could be expected as a result of this proposal for Fantasy Sports Contest operators.

FISCAL DESCRIPTION

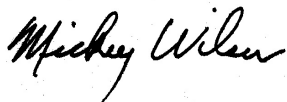
This bill exempts certain fantasy sports contests, which may have entry fees and prizes, from gaming laws if they are based on statistical aggregates of player performance across different games and not upon individual game scores or individual player performance.

The bill also requires operators offering fantasy contests with an entry fee to register with the Department of Insurance, Financial Institutions and Profession Registration. The bill also requires safeguards to prevent individuals who would have an unfair advantage from participating in fantasy contests, such as employees or individuals who participate in or officiate the sporting event.

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

Department of Insurance, Financial Institutions, and Professional Registration
Department of Public Safety - Gaming Commission
Lottery Commission
Office of State Courts Administrator
Attorney General's Office
State Public Defender's Office
Office of Prosecution Services



Mickey Wilson, CPA
Director
March 16, 2016

Ross Strobe
Assistant Director
March 16, 2016