

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1912-03
Bill No.: SB 452
Subject: Lotteries
Type: Original
Date: February 28, 2017

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Lottery Proceeds	\$18,599,666	\$65,835,648	\$89,994,164
Gaming Commission	(Unknown)	(Unknown)	(Unknown)
Gaming Proceeds for Education	(Unknown)	(Unknown)	(Unknown)
Veterans Commission Capital Improvements Trust	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	Less than \$18,599,666	Less than \$65,835,648	Less than \$89,994,164

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Lottery Proceeds Fund	9 FTE	9 FTE	9 FTE
Total Estimated Net Effect on FTE	9 FTE	9 FTE	9 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 2018	FY 2019	FY 2020
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

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; however, all renewal fees are to be distributed to the Veterans Commission Capital Improvements Trust.
- It is assumed revenues from initial application and provisional license fees will total \$1.5 million to \$1.8 million per year in years one through three, which will be offset by the cost of background checks for operators, manufacturers, retailers and handlers of approximately \$110,000 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 \$100,000 per year, with little to no fee revenue to offset these costs since renewal revenue will go to the veterans commission capital improvements trust.

313.429 – 5, 7, 8. The operation and maintenance cost of the centralized communication system is estimated to be 3.33% of video lottery proceeds to the state each year, or approximately \$832,000 in the first year and increasing to \$3 to \$4 million at full implementation. A Request for Proposal (RFP) will be issued to procure the supply and operation of the system.

ASSUMPTION (continued)

- Five 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 establishment, advertising, and posting age requirement and the problem gambling helpline.

313.429 – 9, 10. Two Accounting Generalist 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.

Additional costs related to the implementation of this proposal would be fringe benefits for the nine additional FTEs are estimated to be \$170,000 - \$210,000 per year. Equipment cost for the new FTEs is estimated to be \$19,503. Annual office supplies cost for the new FTEs is estimated to be \$3,000 per year.

The Lottery assumes 3,000 retailers will operate 15,000 terminals after a 4-year ramp up period. Additional proceeds to the state from video lottery sales are anticipated to be \$25 million in year one and grow to \$100 million in year three, offset by lost profits from Pull-Tabs and Keno of approximately \$7 to \$8 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%.

Officials at the **Department of Public Safety - Missouri Veterans Commission (MVC)** assume this proposal would have an unknown fiscal impact which cannot be determined because MVC does not know the number of players and sites, in addition legislation does not state the amount of the renewal license fee. Therefore, MVC defers to Department of Revenue and Missouri Lottery Commission for fiscal impact.

Officials at the **Department of Higher Education** assume this proposal will have a positive impact on their organization and their state aid programs which cannot be determined at this time.

For simplicity, **Oversight** will not show a fiscal impact to higher education or elementary and secondary education funds. However, certain revenue from the Lottery Proceeds Fund flows through to the Education Fund .

Also, **Oversight** did not receive a response from the Missouri Gaming Commission; however, 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).

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules and Department of Revenue** assume this proposal would not have a fiscal impact on their organization.

This proposal could increase Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
LOTTERY PROCEEDS FUND			
<u>Revenue - VLTs</u>			
Initial application and provisional license fees	\$1,511,479	\$1,813,775	\$1,813,775
Renewal Fee	Unknown	Unknown	Unknown
VLT Proceeds to State	<u>\$25,000,000</u>	<u>\$75,000,000</u>	<u>\$100,000,000</u>
Total Revenue	\$26,511,479	\$76,813,775	\$101,813,775
<u>Loss of Revenue - lost profit from Keno and Pull-Tab Sales</u>			
	(\$6,465,333)	(\$7,758,400)	(\$7,758,400)
Transfer to Veteran's Commission Fund	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Net Revenue - VLTs	<u>\$20,046,146</u>	<u>\$69,055,375</u>	<u>\$94,055,375</u>
<u>Costs - Operation of VLTs</u>			
AOSA - 2	(\$52,680)	(\$63,848)	(\$64,487)
Accounting Generalist I - 2	(\$71,300)	(\$86,416)	(\$87,280)
Lottery Security Specialist - 5	(\$203,550)	(\$246,703)	(\$249,170)
Fringe Benefits - 9 FTEs	(\$171,429)	(\$207,772)	(\$209,850)
Equipment	(\$19,503)	\$0	\$0
Office Supplies	(\$2,790)	(\$3,432)	(\$3,517)
Operation and Maintenance VLTs			
Centralized Communication System	(\$832,500)	(\$2,497,500)	(\$3,330,000)
Background checks - Initial and annual renewal of licenses	<u>(\$92,728)</u>	<u>(\$114,056)</u>	<u>(\$116,907)</u>
Total Costs	<u>(\$1,446,480)</u>	<u>(\$3,219,727)</u>	<u>(\$4,061,211)</u>
FTE Change - Lottery Proceeds Fund	9 FTE	9 FTE	9 FTE
ESTIMATED NET EFFECT ON THE LOTTERY PROCEEDS FUND	<u>\$18,599,666</u>	<u>\$65,835,648</u>	<u>\$89,994,164</u>
Net FTE Change - Lottery Proceeds Fund	9 FTE	9 FTE	9 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
GAMING COMMISSION FUND			
<u>Loss of Revenue</u> - resulting from video lottery	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
GAMING PROCEEDS FOR EDUCATION FUND			
<u>Loss of Revenue</u> - resulting from video lottery	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GAMING PROCEEDS FOR EDUCATION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND			
<u>Income</u> - Transfer from Lottery Proceeds Fund for renewal fees	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
HOME DOCK CITIES AND COUNTIES			
<u>Loss of Revenue</u> - resulting from video lottery	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON HOME DOCK CITIES AND COUNTIES	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</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 requires 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. All fees collected by the Commission for license renewals shall be distributed to the Missouri Veterans Commission. 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.

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. 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.

FISCAL DESCRIPTION (continued)

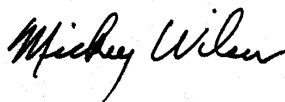
Video lottery game operators shall pay to the Commission thirty-five percent of the video lottery game adjusted gross receipts to be appropriated solely for public institutions of higher education. The Commission shall compensate the administrative costs of the city or county in which a video lottery retailer maintains an establishment in an amount equal to five percent of the video lottery game adjusted gross receipts. Sixty-five 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 license renewal fees collected by the Commission shall be distributed to the Veterans Commission Capital Improvement Trust Fund.

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 Higher Education
Joint Committee on Administrative Rules
Department of Revenue
Department of Public Safety - Missouri Veterans Commission



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