

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4671-02  
Bill No.: SB 767  
Subject: Lotteries  
Type: Original  
Date: January 24, 2018

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

**FISCAL SUMMARY**

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

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Lottery Proceeds Fund*	\$0	\$0	\$0
Gaming Commission Fund	(Unknown)	(Unknown)	(Unknown)
Gaming Proceeds for Education Fund	(Unknown)	(Unknown)	(Unknown)
Veterans Commission Capital Improvements Trust Fund	\$0	<u>\$3,638,640</u>	<u>\$1,212,880</u>
Colleges and Universities	\$32,820,842	\$67,179,158	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>Less than \$32,820,842</b>	<b>Less than \$70,817,798</b>	<b>Less than \$1,212,880</b>

\* Revenues and Cost Net to Zero.

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

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

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Local Government</b>	<b>Less than \$5,600,000</b>	<b>Less than \$11,200,000</b>	<b>Less than \$122,267,704</b>

## 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; however, all renewal 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 \$1.6 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 \$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 \$900,000 in revenues assumed from the first year of renewal fees and \$300,000 per year thereafter when 80% of renewal fees and penalties are distributed to the Veterans Commission Capital Improvements Trust Fund.

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.

Additional costs related to the implementation of this proposal would be 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 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, \$83 million in FY 2020 and \$127 million in FY 2021.

The Lottery assumes approximately \$600,000 per year will be remitted to the veterans commission capital improvements trust fund beginning in 2021, 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.

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.

**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).

Officials at the **Department of Higher Education** assumes 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 appropriated for public elementary and secondary education (with the first ten million dollars thereof appropriated for virtual elementary and secondary education course access programs).

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS 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)

**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.

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 **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.

**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 appropriated to public elementary and secondary education with the first \$10 million of those remaining funds to be appropriated to virtual elementary and secondary education course access programs.

**This proposal could increase Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>LOTTERY PROCEEDS FUND</b>			
<u>Revenue</u> - LOT - Initial application and provisional license fees			
	\$1,617,729	\$1,941,275	\$1,813,775
20% Renewal Fees - LOT	\$0	\$909,660	\$303,220
80% Renewal Fees - VET	\$0	\$3,638,640	\$1,212,880
VLT Proceeds (36% of AGR)	<u>\$45,000,000</u>	<u>\$90,000,000</u>	<u>\$135,000,000</u>
<u>Total Revenue</u> - LOT	<u>\$46,617,729</u>	<u>\$96,489,575</u>	<u>\$138,329,875</u>
<u>Cost</u> - LOT			
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</u> - LOT	<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	(\$5,600,000)	(\$11,200,000)	(\$16,900,000)
<u>Transfer Out</u> - To Colleges and Universities - first \$100 million of AGR	(\$32,820,842)	(\$67,179,158)	\$0
Virtual Elementary and Secondary Education Program - After first 100 million to higher education - the next \$10 million to virtual schools	\$0	(\$4,816,838)	(\$5,183,162)
Local School Districts - remaining AGR (after \$100 million to higher education and \$10 million to virtual schools)	<u>\$0</u>	<u>\$0</u>	<u>(\$105,367,704)</u>
<u>Loss</u> - LOT - Loss profit from Keno and Pull-Tab Sales from competition	(\$7,298,667)	(\$8,758,400)	(\$8,758,400)
<u>Transfer Out</u> - To VCCITF Renewal Fees	<u>\$0</u>	<u>(\$3,638,640)</u>	<u>(\$1,212,880)</u>
<b>ESTIMATED NET EFFECT TO THE LOTTERY PROCEEDS FUND</b>			
Estimated Net Effect to the Lottery Proceeds Fund	<u>\$0</u> 13 FTE	<u>\$0</u> 13 FTE	<u>\$0</u> 13 FTE



<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>GAMING COMMISSION FUND</b>			
<u>Loss of Revenue</u>			
Resulting from video lottery competition	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
 <b>GAMING PROCEEDS FOR EDUCATION FUND</b>			
<u>Loss of Revenue</u>			
Resulting from video lottery competition	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON THE GAMING PROCEEDS FOR EDUCATION FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
 <b>VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND</b>			
<u>Transfer In - From Lottery Proceeds Fund</u> Renewal Fees (80%)	<u>\$0</u>	<u>\$3,638,640</u>	<u>\$1,212,880</u>
<b>ESTIMATED NET EFFECT ON THE VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND</b>	<b><u>\$0</u></b>	<b><u>\$3,638,640</u></b>	<b><u>\$1,212,880</u></b>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>COLLEGES AND UNIVERSITIES</b>			
<u>Revenue</u> - First \$100 million of 36% adjusted gross receipts	<u>\$32,820,842</u>	<u>\$67,179,158</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT TO COLLEGES AND UNIVERSITIES</b>	<b><u>\$32,820,842</u></b>	<b><u>\$67,179,158</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Income</u> - Local School Districts after first \$100 million to higher education and \$10 million to virtual schools	\$0	\$0	\$105,367,704
<u>Income</u> - Cities and Counties compensation paid to municipalities or counties - 4% AGR	\$5,600,000	\$11,200,000	\$16,900,000
<u>Loss</u> - Home Dock Cities and Counties - loss of gaming revenue from video lottery competition	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>Less than</u> <u>\$5,600,000</u></b>	<b><u>Less than</u> <u>\$11,200,000</u></b>	<b><u>Less than</u> <u>\$122,267,704</u></b>

### 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 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.

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 next \$10 million of such adjusted gross receipts shall be appropriated for virtual elementary and secondary education. The

FISCAL DESCRIPTION (continued)

remaining adjusted gross receipts shall be appropriated for public elementary and secondary education, with the first \$10 million of such adjusted gross receipts appropriated for virtual elementary and secondary education course access programs. 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-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, administrative fines, 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 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  
January 24, 2018