

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5803-01
Bill No.: SB 886
Subject: Gambling
Type: Original
Date: January 26, 2018

Bill Summary: This proposal modifies provisions relating to fantasy sports contest.

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Gaming Commission Fund	(Could exceed \$174,655)	(Could exceed \$174,993)	(Could exceed \$176,303)
Gaming Proceeds for Education Fund	(Could exceed \$329,032)	(Could exceed \$329,032)	(Could exceed \$329,032)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$503,687)	(Could exceed \$504,025)	(Could exceed \$505,335)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

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
Gaming Commission	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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Public Safety - Missouri Gaming Commission (MGC)** assume this proposal would have a negative fiscal impact on their organization based on the following information.

§313.935.3(1)

GAM received \$23,446 from the 6 companies that applied for a license in 2016. Based on the reported net revenue of those applicants, 2 of those applicants would pay \$5,000 each (annual renewal fee) and the rest would be exempt from paying a renewal fee, resulting in a \$13,446 reduction in revenue for the Gaming Commission Fund (0286).

§313.935.3(2)

Based on the annual operation fee reports received on January 15, 2017, the applicants reported net revenue of \$1,989,727 for the period of August 28th 2016 to December 31st 2016. Based on those filings and other information gathered from the applicants we project total net revenues for the calendar year 2017 to be \$5,982,428. The annual operating fee based on that amount at 11.5% would be \$687,979, and at 6% would be \$358,947, which would result in a loss of revenue for the Gaming Proceeds for Education Fund (0285) of \$329,032.

Based on the application fees listed in the proposed legislation, MGC assumes it would collect zero fees due to the verbiage "ten percent of the applicant's net revenue from the previous calendar year". The applicant will not have operated in the state prior to the application, so the net revenue would be zero. Based on the proposed language, MGC would only collect for the cost of the investigation up to ten thousand dollars. The collection of these fees would be deposited in the state treasury to the credit of the Gaming Commission Fund (0286) to be administered pursuant to the provisions of section 313.835.

§313.940.2

Allows the commission to perform an audit on small licensed operators but at the commission's expense, unless the audits uncovers evidence of any violation of sections 313.900 to 313.955.

ASSUMPTION (continued)

MGC assumes it will be necessary to have 2 new full-time positions for regulatory monitoring, tracking, and auditing of fantasy contest activity in Missouri totaling approximately \$155,469 annually for salary and fringe benefits. The positions necessary would be an Investigator II at \$48,852 and an Auditor II at \$51,036 annually.

This proposal could decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GAMING COMMISSION FUND			
<u>Cost - DPS-MGC §313.940.2</u>			
Personal Service	(\$83,240)	(\$100,887)	(\$101,896)
Fringe Benefits	(\$41,969)	(\$50,660)	(\$50,961)
Equipment and Expense	<u>(\$36,000)</u>	<u>(\$10,000)</u>	<u>(\$10,000)</u>
<u>Total Cost - DPS-MGC</u>	<u>(\$161,209)</u>	<u>(\$161,547)</u>	<u>(\$162,857)</u>
FTE Change - DPS-MGC	2 FTE	2 FTE	2 FTE
 <u>Loss - §313.935.3(1)</u>	 (Could exceed	 (Could exceed	 (Could exceed
Change in Licensing Fees Calculations	<u>\$13,446)</u>	<u>\$13,446)</u>	<u>\$13,446)</u>
 ESTIMATED NET EFFECT ON GAMING COMMISSION FUND	 (Could exceed <u>\$174,655)</u>	 (Could exceed <u>\$174,993)</u>	 (Could exceed <u>\$176,303)</u>
 Estimated Net FTE Change on the Gaming Commission Fund	 2 FTE	 2 FTE	 2 FTE
 GAMING PROCEEDS FOR EDUCATION FUND			
 <u>Loss - §313.935.3(2)</u>	 (Could exceed	 (Could exceed	 (Could exceed
Annual Operation Fee - Reduced from 11.5 % to 6.0% of Gross Receipts	<u>\$329,032)</u>	<u>\$329,032)</u>	<u>\$329,032)</u>
 ESTIMATED NET EFFECT ON GAMING PROCEEDS FOR EDUCATION FUND	 (Could exceed <u>\$329,032)</u>	 (Could exceed <u>\$329,032)</u>	 (Could exceed <u>\$329,032)</u>

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2019</u> <u>(10 Mo.)</u>	<u>FY 2020</u>	<u>FY 2021</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposal modifies the definitions of "fantasy sports contest" and "fantasy sports contest operator." Currently, a fantasy sport contest operator is required to maintain a reserve in the form of cash or cash equivalents in the amount of the deposits made to the accounts of fantasy sports contest players. This proposal specifies that the reserve can be in the form of cash, cash equivalents, payment processor reserves, payment processor receivables, an escrow account, or a combination thereof, in the amount that shall equal or exceed the total balances of the fantasy contest players' accounts.

This proposal changes the requirement that any prize won by a registered player from a contest be deposited into the player's account within 48 hours of winning, to also allow a prize to be mailed within five business days. However, when the licensed operator believes in good faith that the registered player engaged in either fraudulent conduct or other conduct that would put the licensed operator in violation of the law, the operator may delay the deposit for up to 15 days to investigate. If the operator finds that such conduct did occur, the operator can refuse payment but the player has up to 30 days to bring the issue before the Gaming Commission. Once the Gaming Commission has issued a decision, the licensed operator and the registered player have up to 30 days to appeal that decision to the Administrative Hearing Commission.

This proposal reduces the annual license renewal fee from \$10,000 to a lower amount based upon the net revenue of the operator from the previous calendar year. An operator that made \$250,000 or less would not be required to pay an annual license renewal fee. The bill also reduces the annual operation fee from 11.5% of the operator's net revenue from the previous calendar year to 6%.

The proposal removes the date the operation fee is due and instead of an automatic suspension of the license of an operator who fails to apply for a license renewal or pay the annual operation fee by that date, allows the commission to suspend the license or deny the pending license application at its discretion.

FISCAL DESCRIPTION (continued)

This proposal also limits the amount of money the applicant is required to remit to the commission for the cost of its investigation into the operator's employees, officers, directors, trustees, and principal salaried executive staff officers to \$10,000 from \$50,000.

The proposal creates an exception to the audit requirement for operators with a net revenue of \$250,000 or less in a calendar year. However, the commission can perform an audit on such operators at its own expense. If an audit uncovers evidence of a violation then the operator would have to pay the cost of the audit.


This proposal reduces the administrative penalty from not more than \$10,000 to not more than \$1,000 per violation, and from not more than \$100,000 to not more than \$10,000 for violations arising out of the same transaction or occurrence.

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 Public Safety
Missouri Gaming Commission

Ross Strope



Acting Director
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