

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1092-01
Bill No.: SB 195
Subject: Gambling; Lotteries
Type: Original
Date: February 13, 2019

Bill Summary: This proposal allows sports wagering and sports lottery games.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Gaming Commission Fund (0286)	(\$250,217)	(\$242,130)	(\$242,130)
Gaming Proceeds for Education Fund (0285)	\$6,482,738 to \$63,863,100	\$6,482,738 to \$63,863,100	\$6,482,738 to \$63,863,100
Lottery Proceeds Fund (0291)	\$41,912,625	\$83,886,322	\$83,885,486
Total Estimated Net Effect on <u>Other</u> State Funds	\$48,145,146 to \$105,525,508	\$90,126,930 to \$147,507,292	\$90,126,930 to \$147,507,292

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Gaming Commission Fund (0286)	2 FTE	2 FTE	2 FTE
Lottery Proceeds Fund (0291)	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 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 2020	FY 2021	FY 2022
Local Government	\$720,304 to \$7,095,900	\$720,304 to \$7,095,900	\$720,304 to \$7,095,900

FISCAL ANALYSIS

ASSUMPTION

Section 313.800

Officials from the **Missouri Gaming Commission (MGC)** assume this proposal repeals the prohibition on gambling on sporting events on an excursion gambling boat.

Deleting the exclusion of sports wagering from the definition of "gambling games" in section 313.800.1(13), RSMo., without providing specific guidelines for allowing and regulating sports wagering sets the tax for allowing sports wagering at the 21% as stated in 313.822 and gives the home dock city 10% of the AGR collected.

MGC estimates this proposal would increase total state revenue by approximately \$7.2 million annually. MGC bases those estimates off of comparison to Mississippi's Sports Betting experience for the past 4 months, Rubin Brown and an Oxford Study. Based on MGC calculations (Oxford and Ruben Brown study), adjusted gross receipts under this proposal could be approximately \$34 million. At a tax rate of 21%, revenues generated from the tax could be approximately \$7.2 million (distributed 90/10 between the state and local governments).

MGC states they annualized the state of Mississippi's Total Revenue from sports betting by taking their total revenue in September through December of 2018 dividing by four and multiplied by 12 ($(\$14,530,610.51/4) \times 12 = \$43,591,831.53$). We then determined their sports betting revenue was 2% of their total gaming revenue. This was calculated by taking $\$43,591,831.53$ and dividing by $\$2,120,060,000$ ($\$43,591,831.53/\$2,120,060,000 = .02$ or 2%). We then could assume Missouri's sports betting revenue would also be 2% of our total gaming revenue of $\$1,715,010,000$ ($\$1,715,010,000 \times 2\% = \$34,300,200$). MGC based their estimated revenue from this bill off of an anticipated Adjusted Gross Receipts of \$34.3 million.

Oversight notes that estimates used to calculate revenue for this proposal differs greatly from a similar proposal from last year (SB 1013) (assumed AGR of \$141.6 million in 2018 versus \$34.3 million in 2019).

Section 313.230

Officials from the **Missouri Lottery Commission** assume the proposal allows lottery games based on the outcome of sporting events. If the Lottery begins offering lottery games based on the outcome of sporting events, sales are estimated to be \$646 million in FY 2020 and \$1.3 billion in FY 2021 and 2022. Wagers and revenue estimates are based on the forecast of revenues from Global Market Advisors (Nov 2017) and assume a 6.5% hold which is on par with the

ASSUMPTION (continued)

Nevada market.

Distribution assumed spread across current Lottery Keno retailers (1,022 locations) and through mobile. Estimates would be higher if distribution assumed across all 4,600 Lottery retailers.

It is assumed the commission will need 1 Sports Wagering Project Manager at a cost of \$65,000 annually. It is also assumed there will be a 2.5% expense of \$16,150,000 in FY 2020 and \$32,300,000 in FY 2021 and FY 22 on all sales of sports lottery games for sports betting platform, player account management and sportsbook operations. Prizes and retailer commissions will be paid out of the proceeds for Lottery sports games.

Net proceeds to education are estimated to be \$42 million the first partial year (FY 2020), \$84 million the first full year (FY 2021), and \$84 million the second full year (FY 2022).

Officials from the **Department of Revenue (DOR)** assume this section is updated to remove the prohibition of lottery games based in any form on the outcome of sporting events.

Methodology

The Department used the May 2017 Oxford Economics study, "Economic Impact of Legalized Sports Betting" to determine this proposed legislation's fiscal impact. The Department assumes this scenario will be "convenient" due to the availability of businesses in the State of Missouri that sell lottery. Per the Oxford Study, the range for gross receipts in the convenient section is \$4.8 - \$6.7 billion, and the estimated profit (adjusted gross receipts) is \$337.9 - \$394.6 million.

The Department assumes that the State of Missouri will see the total amount of profit to increase TSR. There also would be income tax collected (5.4%) on all winnings. The Department estimates this may increase TSR by an estimated \$240.3 - \$343.1 million.

The total TSR impact would be an estimated \$578.2 - \$737.7 million.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal will increase TSR to the extent that this proposal generates additional tax revenues resulting from sports wagering and additional revenues resulting from lottery games based on the outcome of sporting events.

This proposal will impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

B&P defers to the Missouri Gaming Commission and the Missouri Lottery Commission for specific impacts.

Oversight also notes that the Missouri Gaming Commission, Office of Administration - Budget and Planning and Department of Revenue have stated the proposal will have a direct fiscal impact on total state revenue. Oversight does not currently have the resources or ability to produce an independent estimate. Therefore, Oversight will reflect the revenues listed below as estimated by MGC:

Provision	<u>State Impact - Estimated by MGC</u>				
	FY20	FY21	FY22	FY23	FY24
	<u>State Impact</u>				
AGR tax (90%)*	\$6,482,738	\$6,482,738	\$6,482,738	\$6,482,738	\$6,482,738
	<u>Local Impact</u>				
Dock* Cities/Counties (10% AGR tax)	\$720,304	\$720,304	\$720,304	\$720,304	\$720,304

*\$34,300,200 AGR

Oversight currently does not have the data or resources available to produce independent revenue projections, including an Economist to estimate the elasticity of demand for sports wagering in relation to other games of chance offered at casinos or the Missouri Lottery. Therefore, for purposes of this fiscal note, Oversight will range the anticipated revenue from Sports Betting Adjusted Gross Receipts from the MGC estimates to the “low” estimates of DOR.

	MGC	DOR (low)	DOR (high)
Sports Betting Adjusted Gross Receipts	\$34,300,200	\$337,900,000	\$394,600,000
21% tax on AGR (state portion - 90%)	\$6,482,738	\$63,863,100*	\$74,579,400*
21% tax on AGR (local portion - 10%)	\$720,304	\$7,095,900*	\$8,286,600*
5.4% income tax on	-	\$578,200,000	\$737,700,000

* calculated by Oversight based upon DOR’s Adjusted Gross Receipts estimates

ASSUMPTION (continued)

Officials from the **Department of Public Safety - Missouri Gaming Commission (MGC)** state that the fees collected in the Gaming Fund (fund number 0286) for sports wagering based on the language in this Senate Bill are not sufficient to cover the expenditures of this proposal.

The Missouri Gaming Commission will be able to use two current allocated vacant FTE positions to fill the FTE this proposal will require. (Information Technology Specialist II (\$71,726/annually) and a Public Safety Manager Band 1 (\$65,976/ annually). It is estimated that the fees would cover the initial investigative expenses but not cover the on-going costs to MGC relating to interactive sports wagering platform approval, testing devices, adopting rules, and regulating sports wagering operators. As a result, the MGC need to request an additional \$50,040.87 in spending authority the first year and \$41,954.37 thereafter.

Oversight assumes an annual direct fiscal impact of \$137,702 plus fringes and notes MGC has stated they are reallocating \$87,661 and 2 FTE of excess existing appropriation authority and are only requesting \$50,041 for this program in the FY 2020 budget.

Oversight assumes the could be an unknown positive impact to the General Revenue Fund for income tax paid on reported net gambling winnings. Oversight assumes taxpayers are allowed to offset their gambling winnings with losses (if they itemize their deductions) and that not all winnings are reported as income. However, Oversight assumes this to be an indirect impact and will not reflect it in the fiscal note.

FISCAL DESCRIPTION

This act repeals the prohibition on the State Lottery Commission conducting a lottery game based on the outcome of sporting events. (Section 313.230)

This act also repeals the prohibition on gambling on sporting events on an excursion gambling boat.

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 Public Safety
Missouri Gaming Commission
Office of Administration
Budget and Planning



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February 13, 2019

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Assistant Director
February 13, 2019