

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1245-02
Bill No.: SB 222
Subject: Gambling
Type: Original
Date: February 8, 2019

Bill Summary: This proposal authorizes sports wagering.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Gaming Commission Fund (0286)	(\$70,217)	(\$217,130)	(\$217,130)	(\$217,130)
Gaming Proceeds for Education Fund (0285)	\$3,542,253 to \$11,340,000	\$3,542,253 to \$11,340,000	\$3,542,253 to \$11,340,000	\$3,542,253 to \$11,340,000
Sports Wagering Fund	\$0	\$65,000	\$65,000	\$195,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$3,472,036 to \$11,269,783	\$3,390,123 to \$11,187,870	\$3,390,123 to \$11,187,870	\$3,520,123 to \$11,317,870

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Gaming Commission Fund (0286)	2 FTE	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 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 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Local Government	\$393,595 to \$1,260,000	\$393,595 to \$1,260,000	\$393,595 to \$1,260,000	\$393,595 to \$1,260,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Gaming Commission** estimate this proposal would increase total state revenue by approximately \$3.6 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 \$58 million. At a tax rate of 6.25%, revenues generated from the tax could be approximately \$3.9 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 $\$1,715,010,000$ ($\$1,715,010,000 \times 2\% = \$34,300,200$). We assumed the sports betting revenue would be 70% more if the law would allow mobile wagers to be placed ($\$34,300,200 \times 170\% = \$58,310,340$). MGC based their estimated revenue from this bill off of an anticipated Adjusted Gross Receipts of \$58.3 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 \$58.3 million in 2019).

Officials from the **Missouri Gaming Commission (MGC)** state that the bill allows for a application fee (\$10,000), an initial application fee for interactive sports wagering platform license (\$10,000) and annual renewal fee for interactive sports wagering platform license (\$5,000) but the proposed legislation does not state where those moneys are to be deposited.

For fiscal note purposes, **Oversight** will reflect a revenue generated from these fees into the Gaming Commission Fund to stay consistent with how funds are appropriated in Chapter 313.

Oversight assumes the all other fees, Certificate Holder Administration Fee (\$5,000) and Certificate Holder Reinvestigation Fee (\$10,000 in the 5th year) will all be deposited into the Sports Wagering Fund.

ASSUMPTION (continued)

According to the **Missouri Gaming Commission (MGC)**, there are five parent companies, referred to as Class A Licensees, that own casinos in Missouri. Each Class A Licensee owns between one and five of the 13 Missouri casinos. Each casino will be the holder of a Certificate of Authority. MGC anticipates each Class A Licensee will select at least one Sports Wagering Platform Licensee to operate their sports wagering activities in the casinos that they own. Therefore, MGC anticipates issuing five Sports Wagering Platform Licenses. (Based on experience in other states, it is possible that each Class A Licensee may contract with up to four different Sports Wagering Platform Licensees, which would then increase the amount of license fees received accordingly.)

Since the number of casinos applying is unknown, **Oversight** will use the Missouri Gaming Commissions estimated number Sports Wagering Platform Licenses (5) and estimated number of licensed applicants and certificate holders of (13), but it should be noted that the number of applicants (and therefore revenues generated) could be different.

Oversight will reflect the revenue generated from the Certificate Holder Reinvestigation Fee starting in FY 24.

Officials from the **Office of Administration - Budget and Planning** assume this proposal will increase TSR by imposing fees related to the regulation of legal sports betting and levying an adjusted gross receipts tax on sport event wagers.

Oversight also notes that the Missouri Gaming Commission and the Office of Administration - Budget and Planning has 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:

ASSUMPTION (continued)

Provision	State Impact - Estimated by MGC					
	FY20	FY21	FY22	FY23	FY24	FY25
Initial License Fee	\$130,000	\$0	\$0	\$0	\$0	\$0
Certificate Holder Admin Fee	\$0	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000
Certificate Holder Reinvestigation Fee	\$0	\$0	\$0	\$0	\$130,000	\$130,000
Interactive Sports Wagering Platform Initial License Fee	\$50,000	\$0	\$0	\$0	\$0	\$0
Interactive Sports Wagering Platform Initial Renewal Fee	\$0	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
AGR tax (90%)*	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353
Total State Impact	\$3,722,353	\$3,632,353	\$3,632,353	\$3,632,353	\$3,762,353	\$3,762,353
<u>Local Impact</u>						
Dock* Cities/Counties (10% AGR tax)	\$393,595	\$393,595	\$393,595	\$393,595	\$393,595	\$393,595

*6.25% of \$58,310,340 AGR

Fund	Total State Impact by Fund - Estimated by MGC					
	FY20	FY21	FY22	FY23	FY24	FY25
GR Gaming Commission Fund	\$0	\$0	\$0	\$0	\$0	\$0
Gaming Proceeds for Education Fund	\$180,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Sports Wagering Fund	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353	\$3,542,353
Sports Wagering Fund	\$0	\$65,000	\$65,000	\$65,000	\$195,000	\$195,000
Total State Impact	\$3,722,353	\$3,632,353	\$3,632,353	\$3,632,353	\$3,762,353	\$3,762,353

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume the following:

Section 313.1006

This proposed section states that sports wagering shall not be conducted except by an excursion gambling board licensed under this chapter.

In addition, this proposed section states the necessary actions of a licensed applicant who wishes to offer sports wagering under Sections 313.1000 to 313.1020 which includes submitting an application and paying an initial application fee of ten thousand dollars.

Section 313.1008

This proposed section states that the commission shall test new sports wagering devices and new forms, variations, or composites of sports wagering under the terms and conditions that the commission considers appropriate prior to authorizing a certificate holder to offer a new sports wagering device or a new form, variation, or composite of sports wagering.

Section 313.1010

An interactive sports wagering platform provider may offer sports wagering on behalf of a certificate holder only if the interactive sports wagering platform holds an interactive sports wagering platform license issued by the commission.

After making an announcement under Section 313.1006, the commission may begin accepting applications for an interactive sports wagering platform license from any provider that wishes to offer an interactive sports wagering platform to a certificate holder. The commission shall prescribe the form of the application.

Also, this proposed section states what an applicant for an interactive sports wagering platform license shall do.

Section 313.1020

This proposed section states that a wagering tax of six and one fourth percent is imposed on the adjusted gross receipts received from sports wagering conducted by a certificate holder under Sections 313.1000 to 313.1020. If a third party is contracted with to conduct sports wagering at a certificate holders' licensed facility, the third party contractor shall fulfill the certificate holder's duties under this section.

ASSUMPTION (continued)

This proposed section states that the revenues received from the tax imposed under subsection 1 of this section shall be deposited in the state treasury to the credit of the Gaming Proceeds for Education Fund, and shall be distributed as provided under Section 313.822.

This proposed section states that a certificate holder shall pay to the commission an annual administrative fee of five thousand dollars. The fee imposed shall be due one year after the date on which the certificate holder commences sporting wagering operations under Sections 313.1000 to 313.1020, and on each annual anniversary date thereafter. The commission shall deposit the administrative fees received under this subsection in the sports wagering fund established under subsection 6 of section 313.1020.

In addition to the annual administrative fee required under this subsection, a certificate holder shall pay to the commission a fee of ten thousand dollars to cover the costs of a full reinvestigation of a certificate holder in the fifth year after the date on which the certificate holder commences sports wagering operations under Sections 313.1000 to 313.1020 and on each fifth year thereafter. The commission shall deposit the fees received under this subdivision in the sports wagering fund established under subsection 6 of section 313.1020.

This proposed section states that there is hereby established the "Sports Wagering Fund", to be administered by the commission. The fund shall consist of the fees deposited under subsection 5 of section 313.1020. The state treasurer shall invest the moneys in the fund not currently needed to meet the obligations of the fund in the same manner as other funds are invested. Any interest and moneys earned on such investments shall be credited to the fund. Notwithstanding the provisions of Section 33.080 to the contrary, the moneys remaining in the fund at the end of the biennium shall not revert to the credit of the general revenue fund. Moneys in the fund shall be used by the commission to pay the costs incurred to administered Sections 313.1000 to 313.1020.

Methodology

Using the Oxford Economics report titled "Economic Impact of Legalized Sports Betting," the Department believes TSR will increase an estimated \$11.3-14.2 million. This report breaks out the possible revenue impacts into three categories. They are Limited Availability, Moderate Availability, and Convenient Availability. For the purpose of this fiscal note response, the Department utilized the Moderate Availability, due to the proposed legislation allowing sports wagering to occur in any of our casinos, and online. If online would have not been permitted, the Department would have used the Limited Availability number, and if it were to be treated like the lottery, Convenient Availability would have been used.

ASSUMPTION (continued)

\$202,200,000 - \$253,300,000 (Moderate Availability AGR Estimate per Oxford report)

\$12,600,000 - \$15,800,000 (6.25% tax imposed on AGR)

Breakout of the 6.25% per Section 313.822 RSMo.

\$12,600,000 - \$15,800,000 (6.25% tax imposed on AGR)

10% to Dock Cities (Local) - \$1,260,000 - \$1,580,000

90% to Gaming Proceeds for Education Fund - \$11,340,000 - \$14,220,000

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 MGC estimates to the “low” estimates of DOR.

	MGC	DOR (low)	DOR (high)
Sports Betting Adjusted Gross Receipts	\$58,310,340	\$202,200,000	\$253,300,000
6.25% tax on AGR (state portion - 90%)	\$3,542,353	\$11,340,000	\$14,220,000
6.25% tax on AGR (local portion - 10%)	\$393,595	\$1,260,000	\$1,580,000

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.

MGC estimates a cost of approximately \$705,000 (2.5% of MGC existing budget) each year. This cost is the average hours and expenses (current background investigators, financial investigators, compliance auditors and tax auditors) the MGC staff would spend on licencing and regulating sports wagering. MGC would need a revenue source to cover this allotment.

MGC notes that if more revenue is not collected for the purpose of sports wagering the admission fees collected from the riverboat casinos will be used to cover MGC's expenditures related to sports wagering and as a result the transfer to the Veteran's Commission Capital Improvement funds will be less.

ASSUMPTION (continued)

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.

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 SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

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 require additional resources.

Officials from the **Office of the State Treasurer** assume the proposal will have no fiscal impact on their organization.

Oversight notes that the Office of the State Treasurer has stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for that office.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
GAMING COMMISSION FUND				
<u>Revenue</u>				
Initial License Fee §313.1006.1(2)	\$130,000	\$0	\$0	\$0
Interactive Sports Wagering Platform License Fee §313.1010(2)	\$50,000	\$0	\$0	\$0
Interactive Sports Wagering Platform Renewal Fee §313.1010.3	<u>\$0</u>	<u>\$25,000</u>	<u>\$25,000</u>	<u>\$25,000</u>
<u>Total Revenue</u>	<u>\$180,000</u>	<u>\$25,000</u>	<u>\$25,000</u>	<u>\$25,000</u>
<u>Cost - MGC</u>				
Salaries	(\$137,702)	(\$137,702)	(\$137,702)	(\$137,702)
Fringe Benefits	(\$62,474)	(\$62,474)	(\$62,474)	(\$62,474)
Equipment and Expense	<u>(\$50,041)</u>	<u>(\$41,954)</u>	<u>(\$41,954)</u>	<u>(\$41,954)</u>
<u>Total Cost - MGC</u>	<u>(\$250,217)</u>	<u>(\$242,130)</u>	<u>(\$242,130)</u>	<u>(\$242,130)</u>
FTE Change - MGC	2 FTE	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT TO THE GAMING COMMISSION FUND	<u>(\$70,217)</u>	<u>(\$217,130)</u>	<u>(\$217,130)</u>	<u>(\$217,130)</u>
Estimated Net FTE Change to the Gaming Commission Fund	2 FTE	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
GAMING PROCEEDS FOR EDUCATION FUND				
Revenue 90% of the 6.25% Wagering Tax §313.1020.1	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>
ESTIMATED NET EFFECT TO THE GAMING PROCEEDS FOR EDUCATION FUND	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>	\$3,542,253 to <u>\$11,340,000</u>
SPORTS WAGERING FUND				
<u>Revenue</u>				
Certificate Holder Admin Fee §313.1018.5	\$0	\$65,000	\$65,000	\$65,000
Certificate Holder Reinvestigation Fee §313.1018.5(2)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$130,000</u>
<u>Total Revenue</u>	<u>\$0</u>	<u>\$65,000</u>	<u>\$65,000</u>	<u>\$195,000</u>
ESTIMATED NET EFFECT TO THE SPORTS WAGERING FUND	<u>\$0</u>	<u>\$65,000</u>	<u>\$65,000</u>	<u>\$195,000</u>

<u>FISCAL IMPACT -</u> <u>Local Government</u>	<u>FY 2020</u> <u>(10 Mo.)</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>Fully</u> <u>Implemented</u> <u>(FY 2024)</u>
LOCAL HOME DOCKS				
Revenue - Home Dock City or County 10% of the 6.25%				
Wagering Tax §313.1020.1	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>
ESTIMATED NET EFFECT TO THE LOCAL HOME DOCKS	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>	<u>\$393,595 to</u> <u>\$1,260,000</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act authorizes sports wagering, and modifies the definition of "gambling game" to include sports wagering.

Sports wagering shall only be authorized to be conducted on an excursion gambling boat or over the internet to persons physically located in this state. Such licensed facilities shall apply to the Missouri Gaming Commission for authorization to conduct sports wagering, and shall pay an application fee of \$10,000. If granted a certificate of authority, a certificate holder shall be authorized to conduct sports wagering in a licensed facility or through an interactive sports wagering platform, as defined in the act. (Section 313.1006)

Certificate holders shall designate an area within the licensed facility for conducting sports wagering. (Section 313.1008)

Certificate holders shall ensure that the certificate holder's surveillance system covers all areas in which sports wagering is conducted, allow the Commission to be present through gaming agents during the hours sports wagering is conducted, ensure that individuals under the age of 21 are not

FISCAL DESCRIPTION (continued)

making sports wagers, provide certain information to sports wagering patrons, and post a sign indicating the minimum and maximum amounts that may be wagered. (Section 313.1004)

Subject to the approval of the Commission, a certificate holder may contract with a third party to conduct sports wagering at the certificate holder's licensed facility. (Section 313.1008)

An interactive sports wagering platform, as defined in the act, may apply to the Commission for authority to offer sports wagering on behalf of a certificate holder. Such interactive sports wagering platform shall submit an application fee of \$10,000. Each year after licensure, an interactive sports wagering platform shall submit an annual license renewal fee of \$5,000. (Section 313.1010)

The Commission shall promulgate rules for a sports wagering self-exclusion program, as described in the act. The Commission shall also promulgate rules to ensure that advertisements for sports wagering do not target minors or other persons who are ineligible to place wagers, problem gamblers, or other vulnerable persons. (Section 313.1012)

The Commission shall conduct background checks on individuals seeking licenses under the act. Such background checks shall include a search for criminal history and any charges or convictions involving corruption or manipulation of sporting events.

The Commission and certificate holders shall cooperate with investigations conducted by law enforcement agencies. (Section 313.1014)

A certificate holder shall maintain records of all bets and wagers placed through an interactive sports wagering platform, and all bets and wagers placed in person that exceed \$10,000 in a 24-hour period, including personally identifiable information of the bettor, the amount and type of bet, the time the bet was placed, the location of the bet, the outcome of the bet, and records of abnormal betting activity for at least three years after the sporting event occurs. (Section 313.1016)

A tax is imposed at a rate of 6.75% on the adjusted gross receipts received from sports wagering conducted by a certificate holder. Such tax shall be remitted by the last business day of each month. Revenues received from the tax shall be deposited in the Gaming Proceeds for Education Fund.

A certificate holder shall also pay to the Commission an annual administrative fee of \$5,000. In addition to such administrative fee, a certificate holder shall pay to the Commission a fee of

FISCAL DESCRIPTION (continued)

\$10,000 every five years for a reinvestigation of the certificate holder. Such fees shall be deposited in the Sports Wagering Fund, which is created by the act, and shall be used to pay the costs incurred by the Commission to administer the provisions of the act. (Section 313.1020)

All sports wagers placed under this act shall be deemed to be initiated, received, and otherwise made on the property of an excursion gambling boat in this state. The intermediate routing of electronic data shall not determine the location or locations in which such wager is initiated, received, or otherwise made. (Section 313.1022)

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
Department of Revenue
Office of the State Treasurer
Office of the Secretary of State



Kyle Rieman
Director
February 8, 2019

Ross Strope
Assistant Director
February 8, 2019