

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3805-02
Bill No.: SB 566
Subject: Gambling
Type: #Updated
Date: February 25, 2020

Updated to reflect revised responses from the Missouri State Highway Patrol (MHP) and Lottery Commission to:

1. Shift 15 MHP FTE from General Revenue to the Gaming Commission Fund;
2. Add 2 new MHP FTE to General Revenue; and
3. More accurately reflect flow of fiscal impact within Lottery funds

Bill Summary: This proposal establishes the Missouri Lottery Control Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
#General Revenue	(Less than \$105,069)	Less than \$43,983	Less than \$39,056	Less than \$56,020
#Total Estimated Net Effect on General Revenue	(Less than \$105,069)	Less than \$43,983	Less than \$39,056	Less than \$56,020

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 30 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Highway (0644)	Unknown	Unknown	Unknown	Unknown
#State Lottery (0682)	\$0	\$0	\$0	\$0
#Lottery Enterprise (0657)	\$0	\$0	\$0	\$0
#Lottery Proceeds (0291)	\$27,341,555	\$72,909,016	\$117,697,665	Could exceed \$117,697,665
Compulsive Gamblers (0249)	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
#Gaming Commission (0286)	(Could exceed \$2,881,153)	(Could exceed \$2,351,986)	(Could exceed \$2,378,155)	(Could exceed \$2,431,484)
Gaming Proceeds for Education (0285)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Criminal Records System (0671)	Unknown	Unknown	Unknown	Unknown
#Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$24,460,402	Up to \$70,557,030	Up to \$115,319,510	Up to \$115,266,181

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
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 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
#General Revenue	2 FTE	2 FTE	2 FTE	2 FTE
#Lottery Enterprise (0657)	25 FTE	25 FTE	25 FTE	25 FTE
#Gaming Commission (0286)	15 FTE	15 FTE	15 FTE	15 FTE
#Total Estimated Net Effect on FTE	42 FTE	42 FTE	42 FTE	42 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 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Local Government	Could be Less than \$5,644,444	Could be Less than \$11,288,889	Could be Less than \$16,933,333	Could be Less than \$16,933,333

FISCAL ANALYSIS

ASSUMPTION

313.360, 313.425, 313.427, 313.429, 313.431, 313.433, 313.434, 313.435, and 313.437 - Missouri Video Lottery Control Act

Officials from the **Missouri Lottery Commission (Commission)** assume the proposal will eliminate its current Pull-Tab program at fraternal organizations and reduce Keno sales by 31.3 percent. This reduction may negatively impact funding for education.

Section 313.429.1

The Commission shall implement a system of video lottery game terminals utilizing a licensing structure for processing license applications and issuing licenses to manufacturers, distributors, operators, handlers and retailers of video lottery, following specific requirements for eligibility.

- It is assumed four (4) additional administrative office support assistant positions at a salary of \$32,556 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. Renewal fees and penalties may also be assessed by the Commission.
- It is assumed revenues from initial application and provisional license fees will total \$2 million spread over a 4-year ramp-up period, which will be offset by the cost of background checks for operators, manufacturers, distributors, retailers and handlers of approximately \$80,000 per year (background checks are estimated to be \$45 per person, and each operator, manufacturer, distributor 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 \$80,000 per year, with approximately \$1.0 million in revenues assumed from the first year of renewal fees, ramping up to approximately \$4 million in year 4 and beyond.

ASSUMPTION (continued)

Section 313.429.3

The video lottery terminals must be connected to a centralized system that uses industry protocols approved by the Commission that allows the Commission to activate or deactivate a terminal from a remote location and capable of monitoring and auditing plays.

The Commission will need appropriation authority for the central system but there is no cost associated since the cost will be reimbursed by operators/retailers.

Section 313.429.6

Video lottery game terminals shall meet independent testing standards approved by the Commission and shall be inspected and approved by the Commission prior to being sold, leased or transferred.

Section 313.429.7-8

Operators must follow guidelines for plays and payouts, where terminals can be operated, number of terminals operated per establishment, responsible gambling and refrain from advertising. Retailers may participate in an advertising program that is promoted through and sponsored by the Lottery.

Section 313.429.9

Video lottery game terminals must be placed in a fully enclosed room that is continually monitored by video surveillance and where access to persons under 21 years of age is denied by a procedure approved by the Commission. Operators must post age requirement and problem gambling helpline and provide video surveillance in the immediate area of the video lottery terminals (VLT). Recorded video must be reviewed by video lottery game operators for compliance with law, rules and regulations and fines up to \$10,000 per occurrence may be assessed by the Commission for violations and for failing to review or report violations. Such fines shall be deposited in the compulsive gamblers fund.

Nine (9) Lottery Security Specialists at an annual salary of \$50,318 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, posting age requirement and the problem gambling helpline, and reviewing video surveillance and assessing fines for noncompliance. Five (5) additional Lottery Security Specialists at an annual salary of \$50,318 are needed to facilitate and document VLT investigations, review cases/video surveillance and recommend fines for noncompliance to the Commission. Video lottery game terminals must also meet independent testing standards approved by the Commission and must be inspected and approved by the Commission prior to being sold, leased or transferred.

ASSUMPTION (continued)

One (1) Gaming Public Information Coordinator is needed at an annual salary of \$39,453 to educate operators and retailers on problem gambling and manage the self-exclusion program.

One (1) Personnel Officer is needed at an annual salary of \$49,440 to assist with hiring and training FTE to administer the program.

Advertising, promotions and point-of-sales costs associated with the program are estimated to be \$1,500,000 per year.

Oversight notes provisions of 313.429.9 provide for administrative fines against a video lottery game operator or retailer that violates provisions of this subsection. These administrative fines may not exceed \$5,000 per occurrence. Oversight notes that violations resulting in fines could vary widely from year to year. Civil penalties collected per Article IX, Section 7 of the Missouri Constitution requires fines to be distributed to the school district where the violation occurred; therefore, Oversight will reflect a positive fiscal impact of \$0 to Unknown to local school districts on the fiscal note.

Section 313.429.10

Video lottery game operators shall pay the Commission 36% of the video lottery adjusted gross receipts, which, except for administrative expenses, is to be transferred to the lottery proceeds fund. The Commission must compensate the municipality where a licensed video lottery retailer maintains an establishment 4% of the 36% to cover administrative costs. Appropriation authority will be needed to remit the 4% compensation to the municipalities.

The Lottery assumes approximately \$5.6 million, \$11.3 million and \$16.9 million per year will be remitted to municipalities where video lottery establishments are located in 2021, 2022, and 2023, respectively, ramping up to \$22.6 million annually after year four.

ASSUMPTION (continued)

Oversight provides the following table to summarize LOT's revenues:

<u>State Revenue Impact</u>			
Provision	FY21	FY22	FY23
Initial Application Fee	\$408,083	\$489,700	\$489,700
Renewal Fee	\$0	\$962,975	\$962,975
*VLT Proceeds (32% AGR Tax)	\$50,800,000 -\$5,644,444 \$45,155,556	\$101,600,000 -\$11,288,889 \$90,311,111	\$152,400,000 -\$16,933,333 \$135,466,667
Total State Impact	\$51,208,083	\$103,052,675	\$153,852,675
<u>Local Revenue Impact</u>			
**Dock Cities/Counties (4% AGR Tax)	\$5,644,444	\$11,288,889	\$16,933,333

* 32% of the 36% AGR Tax

**4% of the 36% AGR Tax

Officials from the **Department of Elementary and Secondary Education (DESE)** state the potential amount of adjusted gross receipts resulting from video lottery cannot be estimated. Net proceeds transferred to the lottery proceeds fund shall be appropriated equally to public elementary and secondary education and public institutions of higher education with an emphasis on funding elementary and secondary education student transportation costs pursuant to §163.161 and public institutions of higher education.

Oversight will show 32% of gross receipts from video lottery terminals as income to the State Lottery Fund, and then will show a transfer to the Lottery Proceeds Fund to be appropriated equally to public elementary and secondary education and public institutions of higher education with an emphasis on funding elementary and secondary education student transportation costs.

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.

ASSUMPTION (continued)

Section 313.429.11

Officials from the **Missouri Lottery Commission** assume up to one percent (1%) of license fees deposited in the State Lottery Fund shall, subject to appropriation, be deposited into the credit of the Compulsive Gamblers Fund created under §313.842.

The Commission assumes three (3) Accounting Generalists I are needed at an annual salary of \$44,063 each to collect license fees, verify and collect the Lottery's share of video lottery adjusted gross receipts, and remit payments to municipalities.

One percent of license fees credited to the Compulsive Gamblers Fund is estimated to be \$4,000 in FY 2021 and \$15,000 in FY 2022 and FY 2023 and \$58,000 per year after a four-year ramp up period.

Officials from the **Department of Mental Health (DMH)** assume, subject to appropriation, up to one percent of license fees shall be deposited into the compulsive gamblers fund created under Section 313.842. Therefore, no State general revenue would be required for the below assumptions.

The Department of Mental Health (DMH) assumes this would increase the need for and utilization of compulsive gambling (CG) treatment. Based on the current number of consumers served, DMH estimates treatment for 354 additional consumers with an average cost of \$1,412 per treatment episode for a total treatment cost of \$499,848 in FY 21. Currently, DMH has twelve certified compulsive gambling treatment providers; this number would likely increase over time along with the need for additional compulsive gambling counselors. DMH estimates 25 new compulsive gambling counselors will be needed throughout the state, with initial cost for training new counselors estimated at \$160 per person for a total of \$4,000 in FY 21. DMH anticipates annual cost for advertising with public service announcements for help with compulsive gambling at \$166,400. Total cost to DMH would be estimated at \$558,540 in FY 21. For FY 22 and beyond the amount would be \$670,248 or more based upon the need for compulsive gambling services.

Oversight notes the balance of the Compulsive Gamblers Fund (0249) was \$90,138 on December 31, 2019 and \$17,168 on June 28, 2019. Therefore, Oversight assumes DMH will only be allowed to spend the anticipated income into the fund on mental health services. Therefore, Oversight will reflect DMH utilizing all of the proceeds into the fund as estimated by LOT.

ASSUMPTION (continued)

Section 313.429.12

Officials from the **Missouri Lottery Commission** assume the commission shall contract with a state law enforcement entity to assist in conducting investigations. Licensees suspected of violations shall be afforded an administrative hearing by the director.

The Commission assumes \$500,000 per year is the estimated cost to contract with state law enforcement. One (1) paralegal FTE at an annual salary of \$51,841 and one (1) hearings officer at an annual salary of \$41,212 are assumed to assist with additional legal work involved with administrative hearings and promulgating rules.

Oversight notes the provisions of the proposal provide that the Commission shall contract with state law enforcement to assist in conducting investigations into applicants. Oversight notes the MHP has estimated these costs to be \$2.3 million annually.

#Officials from the **Department of Public Safety - Missouri State Highway Patrol (MHP)** state the Video Lottery Terminal portion of the bill gives statutory authority for Lottery to contract with a state law enforcement agency. Section 313.429.12 states, "The commission shall contract with a state law enforcement entity to assist in conducting investigations into applicants for any video lottery game license and to investigate violations by any retail lottery game licensee of any of the provisions of sections 313.425 to 313.437 or state law regulating illegal gambling activities referred by the commission." If Lottery chose to enter into a memorandum of understanding (MOU) with MHP, there could be significant impact on the Gaming and Drug and Crime Control Divisions to include funding source, manpower, vehicles, and office space.

#The potential impact would depend upon how the Lottery Commission interprets "The commission shall contract with a state law enforcement entity **to assist in conducting investigations into applicants for any video lottery game license and to investigate violations by any retail lottery game license of any of the provisions of sections 313.425 to 313.437 or state law regulating illegal gambling activities referred by the commission.**" Depending on the final and approved version, the MHP Gaming Division anticipates approximately 15 new FTE would be necessary to perform our two primary functions; background investigations on vendors/operators and regulate the vast number of sites across the state. This would include 2 investigators in the Jefferson City office, 12 officers to oversee regulatory and criminal investigations in the field and 1 administrative support person to process related reports. The 12 field investigators would include 1 officer in six of the troops, and 2 officers in the most heavily populated 3 troops (A, C, and D).

ASSUMPTION (continued)

#Meanwhile, the Division of Drug and Crime Control is tasked with conducting investigations into "**illegal gambling activities referred by the commission**" the Division of Drug and Crime Control anticipates the need for approximately 2 new FTE to perform the function of conducting investigations into illegal gambling activities. This is based on factoring in the geographic size of the state, drive time, surveillance, investigation, evidence, and follow-up. If the Patrol were assigned 2 new Sergeants they would be assigned throughout the state.

#As currently written, it is MHP's belief that other administrative duties can be absorbed by the current division staff.

#The two sections that impact MHP in regards to the "Missouri Video Lottery Control Act" are sections 313.429.11 and 12. Number 11 is simply the funding mechanism which would ensure any potential MOU between MHP and Lottery Commission were paid by the state lottery funds. This would mirror the current arrangement of Gaming officers now being paid by the Gaming Industry per the current MOU. Section 313.429.12 is the authority which would allow an MOU between MHP and Lottery: "12. The commission shall contract with a state law enforcement entity to assist in conducting investigations into applicants for any video lottery game license and to investigate violations by any retail lottery game license of any of the provisions of sections 313.425 to 313.437 or state law regulating illegal gambling activities referred by the commission."

#In addition to the expense indicated for the 16 Sergeants that will be transferring from the Highway fund, it is assumed there will be some savings to the Highway fund as those 16 formerly Highway-funded Sergeants are ultimately replaced by 16 Highway-funded Probationary Troopers. While the exact dollar amount of that savings cannot be determined, due to the cost of promotions that will occur during the backfilling process, etc., there will likely be some amount of savings to the Highway fund.

#The Patrol inadvertently missed the fact that this legislation dealt with conducting investigations into illegal gambling activities referred by the commission, as well as issues related to legal gambling. As a result, 15 FTE are needed for the Gaming Division and 2 FTE are needed for DDCC, rather than the Patrol's original response.

#**Oversight** does not have any information contrary to that provided by MHP; therefore, Oversight will reflect MHP's impact for fiscal note purposes to GR and the Gaming Commission Fund.

Oversight states according the MHP's website, state and federal background checks will cost \$41.75 per applicant. Of this amount, the MHP retains the \$20 state fee plus a \$2 pass-thru fee for the federal check. Therefore, Oversight will present an unknown revenues to the Criminal Records Fund for background checks performed for this proposal.

ASSUMPTION (continued)

Section 313.429.13

Officials from the **Missouri Lottery Commission** assumes the Commission, under this section, shall have the power to investigate suspected violations by any video lottery license holder and refer violations to law enforcement and suspend or revoke the license of any lottery vendor or licensee that allows the use of any machine or device not authorized.

For the purpose of this proposed legislation, officials from the **Office of State Public Defender (SPD)** state they cannot assume that existing staff will provide effective representation for any new cases arising where indigent persons are charged with the proposed new crimes regarding video lottery games - new class D felonies. The Missouri State Public Defender System is currently providing legal representation in caseloads in excess of recognized standards.

While the number of new cases (or cases with increased penalties) may be too few or uncertain to request additional funding for this specific bill, the SPD will continue to request sufficient appropriations to provide effective representation in all cases where the right to counsel attaches.

Oversight notes over the last three fiscal years, the SPD has lapsed a total of \$153 of General Revenue appropriations (\$2 out of \$28.0 million in FY 2017; \$150 out of \$42.5 million in FY 2018; and \$1 out of \$46.0 million in FY 2019). Therefore, Oversight assumes the SPD is at maximum capacity, and the increase in workload resulting from this bill cannot be absorbed with SPD's current resources.

Adding one additional Assistant Public Defender 1 (APD) with a starting salary of \$47,000, will cost approximately \$74,500 per year in personal service and fringe benefit costs. One additional APD II (\$52,000 per year; eligible for consideration after 1 year of successful performance at APD I) will cost the state approximately \$81,000 per year in personal service and fringe benefit costs. When expense and equipment costs such as travel, training, furniture, equipment and supplies are included, Oversight assumes the cost for a new APD could approach \$100,000 per year.

Oversight assumes the SPD cannot absorb the additional caseload that may result from this proposal within their existing resources and, therefore, will reflect a potential additional cost of (Less than \$100,000) per year to the General Revenue Fund.

Officials from the **Department of Corrections (DOC)** state this legislation creates a new class D felony. Therefore, the DOC will use the standard D felony response to provide a fiscal estimate.

ASSUMPTION (continued)

For each new non-violent class D felony, the DOC estimates three people will be sentenced to prison and five to probation. The average sentence for a non-violent class D felony offense is 5 years, of which 2.8 years will be served in prison with 1.7 years to first release. The remaining 2.2 years will be on parole. Probation sentences will be 3 years.

The cumulative impact on the department is estimated to be 9 additional offenders in prison and 15 on field supervision by FY 2023.

	# to prison	Cost per year	Total Costs for prison	# to probation & parole	Cost per year	Total cost for probation and parole	Grand Total - Prison and Probation (includes a 2% inflation)
Year 1	3	(\$6,386)	(\$15,965)	5	absorbed	\$0	(\$15,965)
Year 2	6	(\$6,386)	(\$39,082)	10	absorbed	\$0	(\$39,082)
Year 3	9	(\$6,386)	(\$59,796)	15	absorbed	\$0	(\$59,796)
Year 4	9	(\$6,386)	(\$60,992)	18	absorbed	\$0	(\$60,992)
Year 5	9	(\$6,386)	(\$62,212)	21	absorbed	\$0	(\$62,212)
Year 6	9	(\$6,386)	(\$63,456)	21	absorbed	\$0	(\$63,456)
Year 7	9	(\$6,386)	(\$64,725)	21	absorbed	\$0	(\$64,725)
Year 8	9	(\$6,386)	(\$66,020)	21	absorbed	\$0	(\$66,020)
Year 9	9	(\$6,386)	(\$67,340)	21	absorbed	\$0	(\$67,340)
Year 10	9	(\$6,386)	(\$68,687)	21	absorbed	\$0	(\$68,687)

Oversight does not have any information contrary to that provided by DOC. Therefore, Oversight will reflect DOC's impact for fiscal note purposes.

Officials from the **Missouri Office of Prosecution Services (MOPS)** assume the proposal will have no measurable fiscal impact on MOPS. The creation of a new crime creates additional responsibilities for county prosecutors which may, in turn, result in additional costs, which are difficult to determine.

Oversight notes that any lottery vendor or licensee that violates the provisions of this subsection will be deemed guilty of a class D felony and fined up to \$10,000 per occurrence. Oversight assumes these fines will be deposited into the compulsive gamblers fund. Since the number of violations may vary, Oversight will range the revenue of these fines as \$0 (no fines are collected) to Unknown.

ASSUMPTION (continued)

Section 313.429.14

The Commission shall adopt rules for implementing video lottery.

Section 313.431.1

The Commission shall contract for a centralized communication system, make license applications available for manufacturers, distributors, operators, retailers and handlers, and promulgate rules within 120 days of the effective date.

In summary, the Missouri Lottery Commission assumes this proposal will require 25 new FTE at a cost of \$957,365 in FY 2021, \$1,160,320 in FY 2022 and \$1,171,923 in FY 2023 to provide for the implementation of the changes in this proposal.

The LOT estimates an additional 4,000 square feet is needed in the St. Louis region at a cost of \$21 per square foot rent, \$2.00 per square foot utilities, and \$1.50 per square foot janitorial, or \$98,000 per year.

The Lottery assumes 2,150 retailers will operate 12,375 terminals after a 4-year ramp up period. Additional proceeds to the Lottery and municipalities from video lottery sales are anticipated to be \$50.8 million in year one and grow to \$152.4 million in year three, offset by lost profits from Pull-Tabs and Keno of approximately \$14 to \$15 million per year. Pull-Tab sales at fraternal are assumed to be completely cannibalized by video lottery sales; Keno sales are expected to be cannibalized by 31.3%.

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 video lottery wagering in relation to other games of chance offered by the Missouri Lottery or at casinos. Therefore, for purposes of this fiscal note, Oversight will utilize the estimates provided by the Missouri Lottery Commission.

Bill as a Whole

Officials from the **Office of Administration - Budget and Planning** assume the proposal creates the Missouri Video Lottery Control Act. There are numerous fees and fines that will increase TSR and the 18(e) calculation. We defer to the Lottery for estimated amounts.

Fees include the following:

- Commission may “incur fees when accepting debit cards or other electronic payment methods”. (Section 313.360)

ASSUMPTION (continued)

- Application fees (Section 313.429.3(1)(a)-©)
 - Video lottery game manufacturers, video lottery game distributors, and video lottery game operators (up to \$15,000)
 - Video lottery game retailer establishments (up to \$500)
 - Video lottery game handlers (up to \$100)

- License Fee (Section 313.429.3(2)(a)-(d))
 - Video lottery game manufacturer, video game distributors, and video lottery game operators (\$5,000)
 - Video lottery game handlers (\$50)
 - Video lottery game retailer's establishment (\$500)
 - One percent of license fees are to be deposited into the Compulsive Gamblers Fund

- Video Lottery game terminal fee (Section 313.429.3(3))
 - \$200 annual fee for each machine placed in service

- Video lottery game lottery operators shall pay the Lottery Commission 32% of any unclaimed cash prize associated with unclaimed winning ticket within one hundred eighty days of issue. (Section 313.429.7(d))

- Failure to Review and Report (Section 313.429.9(1))
 - A video lottery game operator that fails to review such surveillance video and report any known violation of law may be subject to an administrative fine up to \$5,000
 - Any video lottery game retailer that fails to report any known violation of law, rules or regulations governing the conduct of video lottery games in conformance with established Commission procedures may be subject to an administrative fine up to \$5,000
 - A video lottery game operator or retailer is found to have knowingly committed a violation governing the conduct of video lottery games may be subject to an administrative fine up to \$5,000

- A percentage of adjusted gross receipts shall be deposited as follows (Section 313.429.10(1)):
 - 36% to the State Lottery Fund. Of this amount:
 - 4% is reimbursed to the city or county where the machine is located;
 - Any administrative expenses incurred by the Lottery Commission are deducted; and
 - The remainder is transferred to the Lottery Proceeds Fund.

ASSUMPTION (continued)

- The possession or use of any unauthorized video gaming terminal (Section 313.429.13)
 - Any lottery vendor or licensee that possesses or uses a video gaming terminal, machine, or device that is not authorized by the commission shall be deemed guilty of a class D felony and fined \$1,000 per occurrence, and such fines shall be deposited in the Compulsive Gamblers Fund.

These fees and fines may increase both TSR and 18(e) by an unknown amount.

Article IX, Section 7 of the Missouri Constitution requires that penalties, forfeitures and fines collected for violations of state law be distributed to the schools. To the extent any additional such revenues are deposited into the state treasury, TSR may increase.

Officials from the **Department of Public Safety - Missouri Gaming Commission (MGC)** state that as a new form of entertainment, it is assumed the video lottery terminals (VLTs) would be in direct competition with bingo and excursion gambling boats, resulting in a reduction in state taxes to education. It would also result in a reduction of state admission fees for Veteran's, National Guard, and Access Missouri programs, as well as reductions in casino taxes and admission fees paid 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 authorized video lottery terminals, specifically in Illinois. The extent that these reductions will be offset by new revenue general by VLTs is unknown but significant.

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).

Oversight will show a negative unknown impact to home dock cities of riverboat casinos due to reduced casino taxes and admission fees.

Officials from the **Joint Committee on Administrative Rules (JCAR)** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state 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 **City of Kansas City** state this legislation could have a positive fiscal impact on the City of Kansas City. If Kansas City did not prohibit video lottery games and collected four percent of video lottery game adjusted gross receipts as allowed by §313.429.

Officials from the **City of Springfield** state there is a positive fiscal impact to the City of Springfield. However, the impact is unquantifiable without knowing if the city will allow video lottery game terminals and the estimated gross receipts.

Oversight notes the impact for municipalities has been determined by LOT. Oversight will use LOT's impact for fiscal note purposes.

Oversight notes the **Department of Higher Education and Workforce Development**, the **Department of Public Safety - Alcohol and Tobacco Control**, the **Department of Revenue**, the **Department of Public Safety - Veterans' Commission**, the **Department of Social Services**, the **Department of Agriculture**, the **Department of Transportation**, the **Office of State Courts Administrator**, the **State Treasurer's Office**, the **St. Louis County Department of Justice Services**, the **Springfield Police Department**, and the **St. Louis County Police Department** have each stated the proposal would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

ASSUMPTION (continued)

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities, counties, and police and sheriff's departments were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

This proposal could increase Total State Revenue.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
#GENERAL REVENUE FUND				
<u>Transfer In-</u> from Lottery Enterprise Fund	\$416,667	\$512,500	\$525,313	\$551,906
<u>#Cost - MHP</u> (\$313.429)				
Personal Services	(\$132,640)	(\$160,760)	(\$162,367)	(\$165,631)
Fringe Benefits	(\$118,421)	(\$143,527)	(\$144,961)	(\$147,875)
Vehicle and Equipment	(\$125,314)	\$0	\$0	\$0
Weapons and Personal Equipment	(\$8,950)	\$0	\$0	\$0
Expenses - gas, cell phone, uniform allowance, vehicle maintenance	<u>(\$20,446)</u>	<u>(\$25,148)</u>	<u>(\$25,777)</u>	<u>(\$27,081)</u>
<u>#Total Cost - MHP</u>	<u>(\$405,771)</u>	<u>(\$329,435)</u>	<u>(\$333,105)</u>	<u>(\$340,587)</u>
<u>#FTE Change -</u> MHP	2 FTE	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
GENERAL REVENUE FUND (continued)				
<u>Cost - SPD</u> (\$313.429) Salaries, fringe benefits, and E&E	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
<u>Cost - DOC</u> (\$313.429) Increased incarceration costs	<u>(\$15,965)</u>	<u>(\$39,082)</u>	<u>(\$53,152)</u>	<u>(\$55,299)</u>
#ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(Less than \$105,069)</u>	<u>Less than \$43,983</u>	<u>Less than \$39,056</u>	<u>Less than \$56,020</u>
#Estimated Net FTE Change for the General Revenue Fund	2 FTE	2 FTE	2 FTE	2 FTE

FISCAL IMPACT -
State Government

FY 2021
 (10 Mo.)

FY 2022

FY 2023

Fully
 Implemented
 (FY 2025)

**HIGHWAY
 FUNDS (0644)**

Savings - MHP
 (§313.429)
 Replacing existing
 Sergeant(s) with
 probationary
 troopers (less
 expensive)

Unknown

Unknown

Unknown

Unknown

**ESTIMATED NET
 EFFECT ON
 HIGHWAY
 FUNDS**

Unknown

Unknown

Unknown

Unknown

Estimated Net FTE
 Change for the
 Highway Fund

0 FTE

0 FTE

0 FTE

0 FTE

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
#STATE LOTTERY FUND (0682)				
<u>Revenue - LOT</u>				Could exceed...
Initial Application Fees	\$408,083	\$489,700	\$489,700	\$489,700
Renewal Fees	\$0	\$962,975	\$962,975	\$962,975
VLT Proceeds (36% of AGR)	\$50,800,000	\$101,600,000	\$152,400,000	\$152,400,000
 <u>#Transfer Out - to Lottery Proceeds Fund</u>	 (\$27,341,555)	 (\$72,909,016)	 (\$117,697,665)	 (\$117,697,665)
 <u>#Transfer Out - to Lottery Enterprise Fund</u>	 (\$9,412,606)	 (\$15,400,659)	 (\$21,117,150)	 (\$21,117,150)
 <u>#Loss - LOT - Lost profits from Keno and Pull-Tab Sales from competition</u>	 (\$14,453,922)	 (\$14,743,000)	 (\$15,037,860)	 (\$15,037,860)
 #ESTIMATED NET EFFECT ON THE STATE LOTTERY FUND	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
#LOTTERY ENTERPRISE FUND (0657)				
				Could exceed...
<u>#Transfer In - State Lottery Fund</u>	\$9,412,606	\$15,400,659	\$21,117,150	\$21,117,150
<u>#Cost - LOT</u>				
Personal Service	(\$957,365)	(\$1,160,320)	(\$1,171,923)	(\$1,171,923)
Fringe Benefits	(\$557,941)	(\$673,342)	(\$677,196)	(\$677,196)
Equipment and Expense	(\$500,441)	(\$113,131)	(\$115,959)	(\$115,959)
Advertising, Promotions and Point-of-Sale Capital Improvements	(\$1,250,000)	(\$1,537,500)	(\$1,575,938)	(\$1,575,938)
	(\$81,667)	(\$100,450)	(\$102,961)	(\$102,961)
<u>#Total Cost - LOT</u>	<u>(\$3,347,414)</u>	<u>(\$3,584,743)</u>	<u>(\$3,643,977)</u>	<u>(\$3,643,977)</u>
<u>#FTE Change - LOT</u>	25 FTE	25 FTE	25 FTE	25 FTE
<u>Transfer Out - To municipalities 4% of AGR of video lottery game to municipalities to cover admin. costs (\$313.429.10)</u>	(\$5,644,444)	(\$11,288,889)	(\$16,933,333)	(Could exceed \$16,933,333)
<u>Transfer Out - to Compulsive Gamblers Fund (1% of fees collected \$313.429.11)</u>	(\$4,081)	(\$14,527)	(\$14,527)	(Could exceed \$14,527)

FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOTTERY ENTERPRISE FUND (0657) (continued)				
<u>#Transfer Out - to General Revenue Fund to Contract with State Law Enforcement</u>	<u>(\$416,667)</u>	<u>(\$512,500)</u>	<u>(\$525,313)</u>	<u>(\$525,313)</u>
#ESTIMATED NET EFFECT ON THE LOTTERY ENTERPRISE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>#Estimated Net FTE change to the Lottery Enterprise Fund</u>	25 FTE	25 FTE	25 FTE	25 FTE
#LOTTERY PROCEEDS FUND (0291)				
<u>#Transfer In - from State Lottery Fund</u>	<u>\$27,341,555</u>	<u>\$72,909,016</u>	<u>\$117,697,665</u>	<u>\$117,697,665</u>
#ESTIMATED NET EFFECT ON THE LOTTERY PROCEEDS FUND	<u>\$27,341,555</u>	<u>\$72,909,016</u>	<u>\$117,697,665</u>	<u>\$117,697,665</u>

FISCAL IMPACT -
State Government

FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
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**COMPULSIVE
 GAMBLERS
 FUND (0249)**

Revenue - LOT
 (§313.429.13) Fines
 imposed from
 violations of Lottery
 vendor/licensee - up
 to \$10,000 per
 occurrence

\$0 to Unknown	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
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Transfer In - from
 the State Lottery
 Fund (§313.429.11)

\$4,081	\$14,527	\$14,527	Could exceed \$14,527
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Cost - DMH -
 Administrative cost
 for treating
 additional
 consumers (assumed
 to be limited to
 proceeds into the
 fund from video
 lottery estimates)

<u>(\$4,081)</u>	<u>(\$14,527)</u>	<u>(\$14,527)</u>	<u>(Could exceed \$14,527)</u>
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**ESTIMATED NET
 EFFECT ON THE
 COMPULSIVE
 GAMBLERS
 FUND**

<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
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FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
GAMING COMMISSION FUND (0286)				
<u>#Cost - MHP</u> (\$313.429)				
Personal Services	(\$948,220)	(\$1,149,243)	(\$1,160,735)	(\$1,184,066)
Fringe Benefits	(\$846,571)	(\$1,026,044)	(\$1,036,304)	(\$1,057,134)
Vehicle and Equipment	(\$877,198)	\$0	\$0	\$0
Weapons and Personal Equipment	(\$62,650)	\$0	\$0	\$0
Computer Equipment	(\$829)	\$0	\$0	\$0
Office Equipment	(\$2,028)	\$0	\$0	\$0
Expenses - gas, cell phone, uniform allowance, vehicle maintenance	(\$143,657)	(\$176,699)	(\$181,116)	(\$190,284)
<u>#Total Cost - MHP</u>	<u>(\$2,881,153)</u>	<u>(\$2,351,986)</u>	<u>(\$2,378,155)</u>	<u>(\$2,431,484)</u>
<u>#FTE Change - MHP</u>	15 FTE	15 FTE	15 FTE	15 FTE
<u>Loss - MGC Loss of revenue resulting from video lottery competition</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>Unknown</u>
#ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND	<u>(Could exceed \$2,881,153)</u>	<u>(Could exceed \$2,351,986)</u>	<u>(Could exceed \$2,378,155)</u>	<u>(Could exceed \$2,431,484)</u>

FISCAL IMPACT -
State Government

FY 2021
 (10 Mo.)

FY 2022

FY 2023

Fully
 Implemented
 (FY 2025)

**GAMING
 PROCEEDS FOR
 EDUCATION
 FUND (0285)**

Loss - MGC Loss of
 revenue resulting
 from video lottery
 competition

(Unknown)

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET
 EFFECT ON THE
 GAMING
 PROCEEDS FOR
 EDUCATION
 FUND**

(Unknown)

(Unknown)

(Unknown)

(Unknown)

**CRIMINAL
 RECORDS
 SYSTEM FUND
 (0671)**

Revenue - MHP
 (§313.429)
 Background check
 fees

Unknown

Unknown

Unknown

Unknown

**ESTIMATED NET
 EFFECT ON THE
 CRIMINAL
 RECORDS
 SYSTEM FUND**

Unknown

Unknown

Unknown

Unknown

FISCAL IMPACT -
 Local Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOCAL POLITICAL SUBDIVISIONS				
<u>Income</u> - Cities and Counties compensation paid to municipalities or counties - 4% AGR	\$5,644,444	\$11,288,889	\$16,933,333	Could exceed \$16,933,333
<u>Income</u> - School districts (§313.429) Fines from violations	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Loss</u> - Home Dock Cities and Counties - loss of gaming revenue from video lottery competition	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>Could be Less than \$5,644,444</u>	<u>Could be Less than \$11,288,889</u>	<u>Could be Less than \$16,933,333</u>	<u>Could be Less than \$16,933,333</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 allows the Lottery Commission to incur fees when accepting debit cards or other electronic payment methods for the sale of lottery game plays. (Section 313.360)

MISSOURI VIDEO LOTTERY CONTROL ACT

This act establishes the Missouri Video Lottery Control Act.

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, distributors, 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 after December 31, 2025. (313.429.1 and .2)

Video lottery game terminals may be placed in fraternal organizations, veterans' organizations, truck stops, as defined in the act, and retail establishments licensed to sell liquor by the drink for on-premise consumption. (Section 313.427)

Video lottery game terminals shall be connected to a centralized computer system developed or procured by the Commission. No video lottery game terminal shall be placed in operation without first connecting to such centralized computer system.

The Commission may impose a non-refundable application fee, as described in the act. The initial license shall be for a period of one year. Thereafter, the license renewal period shall be four years with the applicable license renewal fee paid for each year such license is renewed, as described in the act. In addition to such license fees, video lottery game operators shall pay the Commission an annual license fee of \$200 for each video lottery game terminal placed in service. No license shall be issued to any person who has been convicted of a felony or crime involving illegal gambling. Sales agents shall register with the Commission and may not solicit or enter into any agreement with a retailer or retail establishment prior to such registration with the Commission. (Section 313.429.3 and .4)

Video lottery game operators shall pay winning tickets using a video lottery game ticket redemption terminal, which shall be located within the video lottery game retailer's establishment in direct proximity of where such video lottery games are offered. 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 180 days of issue.

FISCAL DESCRIPTION (continued)

Video lottery game operators and video lottery game retailers shall enter into a written agreement for the placement of video lottery game terminals. The agreement shall specify an equal division of adjusted gross receipts between the operator and retailer after adjustments for taxes and administrative fees are made. Video lottery game operators and video lottery game retailers are prohibited from offering anything of value other than the percentage of adjusted gross receipts for the placement of video lottery terminals. Persons violating such prohibition forfeit the right to operate video lottery game terminals for a one-year period. (Section 313.429.7)

The cost of video lottery game terminal credits shall be \$0.01, \$0.05, \$0.10, or \$0.25, and the maximum wager played per video lottery game shall not exceed \$5.00. No cash award for the maximum wager played on any individual lottery game shall exceed \$1,000.

Operators shall not operate more than ten terminals at any one fraternal organization, veterans organization, or truck-stop, and not more than five terminals in any one establishment licensed to sell liquor by the drink for on-premise consumption. (Section 313.429.8)

A person under the age of twenty-one shall not play video lottery games, and such video lottery game terminals shall be under the supervision of a person that is at least twenty-one years of age. Video lottery game terminals shall be placed in a fully enclosed room that is continually monitored by video surveillance and where access to persons under the age of twenty-one is prohibited. Recorded video surveillance shall be made available as reasonably and specifically requested by the Commission. An operator that fails to review such video and report any known violation of law may be subject to an administrative fine not to exceed \$5,000. Any operator or retailer found to have knowingly committed a violation of provisions governing the conduct of video lottery games may be subject to a fine of \$5,000, the suspension of such operator's retailer's license for up to thirty days, or, in the case of repeated violations, the revocation of such operator's or retailer's license for up to one year. (Section 313.429.9)

Video lottery game operators shall pay to the Commission thirty-six percent of the video lottery game adjusted gross receipts. The net proceeds of the sale of video lottery game tickets shall be appropriated equally to public elementary and secondary education and public institutions of higher education, with an emphasis on funding elementary and secondary education student transportation costs and public institutions of higher education workforce development 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 four percent of the video lottery game adjusted gross receipts.

FISCAL DESCRIPTION (continued)

The remainder of video lottery game adjusted gross receipts, after the cost of the centralized computer system and administrative costs are paid and apportioned, shall be retained by video lottery game operators and shall be split evenly between video lottery game operators and video lottery game retailers as provided under an agreement. (Section 313.429.10)

All revenues collected by the Commission from license renewal fees and any reimbursements associated with the enforcement of the act shall be appropriated for administrative expenses associated with supervising and enforcing the provisions of the act. (Section 313.429.11)

The Commission shall contract with a state law enforcement entity to assist in conducting investigations into applicants for licenses and to investigate violations of the provisions of the act. (Section 313.429.12)

The use or possession of any video gaming terminal, gambling machine, or device capable of simulating lottery games, games of chance, or gambling games, and that is not licensed by the Lottery Commission or Gaming Commission shall be punishable under the provisions of Chapter 572 relating to illegal gambling. Any lottery vendor or licensee violating such provisions shall be guilty of a Class D felony and fined up to \$10,000 per occurrence. The Commission shall suspend or revoke the license of any vendor or licensee that allows the use of any prohibited video gaming terminal. (Section 313.429.13)

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. (Section 313.433)

This act allows a municipality or county to adopt an ordinance within one hundred eighty days of the effective date of this act prohibiting video lottery game terminals within the municipality or county. (Section 313.435)

This legislation is not federally mandated, would not duplicate any other program and would require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Higher Education and Workplace Development
Department of Mental Health
Department of Corrections
Department of Revenue
Department of Public Safety
Department of Social Services
Joint Committee on Administrative Rules
Lottery Commission
Department of Agriculture
Department of Transportation
Missouri Office of Prosecution Services
Office of Administration - Budget and Planning
Office of State Courts Administrator
Office of Secretary of State
State Public Defender's Office
State Treasurer's Office
City of Kansas City
City of Springfield
Springfield Police Department
St. Louis County Police Department
St. Louis County Department of Justice Services



Julie Morff
Director
February 25, 2020



Ross Strope
Assistant Director
February 25, 2020