

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4994-02
Bill No.: SB 936
Subject: Gambling
Type: Original
Date: March 10, 2020

Bill Summary: This proposal establishes the Missouri Video 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	\$7,497	\$182,398	\$191,525	\$210,602
Total Estimated Net Effect on General Revenue	\$7,497	\$182,398	\$191,525	\$210,602

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 26 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)	\$60,010,597	\$138,013,633	\$214,267,679	Could exceed \$214,267,679
Compulsive Gamblers (0249)	\$0	\$0	\$0	\$0
Gaming Commission (0286)	(Could exceed \$2,881,13)	(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 \$57,129,444	Up to \$135,661,647	Up to \$211,889,524	Up to \$211,836,195

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 \$9,572,222	Could be Less than \$19,166,667	Could be Less than \$28,744,444	Could be Less than \$28,744,444

FISCAL ANALYSIS

ASSUMPTION

§§313.360, 313.425, 313.427, 313.429, 313.431, 313.433, 313.435 - 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 \$8.3 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 \$130,000 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 \$130,000 per year, with approximately \$1.5 million in revenues assumed from the first year of renewal fees, ramping up to approximately \$6.1 million in year 4 and beyond.

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.

ASSUMPTION (continued)

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, and responsible gambling.

Section 313.429.9

Video lottery game terminals shall not be visible from areas normally occupied by minors and shall be placed within the unobstructed line of sight of the sales counter or in an enclosed or partially enclosed area monitored by video surveillance. Operators must post age requirement and problem gambling helpline and provide video surveillance in the immediate area of the video lottery terminals. Recorded video must be reviewed by video lottery game operators for compliance with law, rules and regulations and fines may be assessed by the commission for violations and for failing to review or report violations.

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.

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.

ASSUMPTION (continued)

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. Additionally, 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 or 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. 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 \$9.6 million, \$19.2 million and \$28.7 million per year will be remitted to municipalities where video lottery establishments are located in 2021, 2022, and 2023, respectively, ramping up to \$38.3 million annually after year four.

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

State Revenue Impact			
Provision	FY21	FY22	FY23
Initial Application and Provisional License Fees	\$1,732,313	\$2,078,775	\$2,078,775
Renewal Fee	\$0	\$1,528,600	\$1,528,600
*VLT Proceeds (32% AGR Tax)	\$86,150,000 -\$9,572,222 \$76,577,778	\$172,500,000 -\$19,166,667 \$153,333,333	\$258,700,000 -\$28,744,444 \$229,955,556
Total State Impact	\$87,882,313	\$176,107,375	\$262,307,375
Local Revenue Impact			
**Dock Cities/Counties (4% AGR Tax)	\$9,572,222	\$19,166,667	\$28,744,444

* 32% of the 36% AGR Tax

**4% of the 36% AGR Tax

ASSUMPTION (continued)

Oversight contacted the Lottery Commission regarding the increase in VLT Proceeds (AGR) to state and local municipalities as opposed to SB 566. The **Lottery Commission** stated SB 936 allows fraternal and veterans' organizations, truck stops, bars, taverns or restaurants plus any establishment that sells liquor including convenience stores, liquor stores and grocery stores to become a licensed video lottery game retailer. SB 566 allows fraternal and veterans' organizations, truck stops and any entity that has a liquor by-the-drink license; however, SB 566 does not include convenience stores, liquor stores, or grocery stores to become a licensed video lottery game retailer, hence the higher adjusted gross receipts estimate.

Oversight notes by allowing convenience stores, liquor stores and grocery stores to be included as a licensed establishment increases the number of retailers from approximately 2,150 to 3,875.

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 by DESE. Net proceeds transferred to the lottery proceeds fund shall be appropriated to public elementary and secondary education and public institutions of higher education with an emphasis on programs to promote science, technology, engineering and mathematics (STEM) and programs to promote workforce development.

Oversight notes the DHEWD stated this proposal would have no impact, however, Oversight will show 36% of adjusted 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 science, technology, engineering, and mathematics (STEM) and workforce development programs.

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 establishment for the operation of video lottery game terminals.

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.

ASSUMPTION (continued)

One percent of license fees credited to the Compulsive Gamblers Fund is estimated to be \$17,000 in FY 2021 and \$36,000 in FY 2022 and FY 2023 and \$109,000 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 and reimbursements deposited into the State lottery fund may be deposited to the compulsive gamblers fund created under Section 313.842.

The DMH assumes the increase in gambling opportunities will increase the number of individuals who voluntarily seek treatment for a gambling problem. However, the bill does not mandate that any individual receive treatment and treatment will remain voluntary. Therefore, DMH assumes that expenditures cannot exceed the balance of the Compulsive Gamblers fund and no State General Revenue beyond that balance will be expended.

In FY19, DMH served approximately 118 consumers through compulsive gambling (CG) treatment services with an average cost of \$1,030 per consumer for a total of \$121,540.

If the number of consumers served triples, DMH estimates treatment for 354 consumers with an average cost of \$1,030 per treatment episode for a total treatment cost of \$364,620. Total cost to DMH would be estimated at \$445,850 in FY 21. For FY 22 and beyond, the amount would be \$535,020 or more based upon the need for compulsive gambling services. Currently, DMH has twelve certified compulsive gambling treatment providers; this number would likely need to 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. If additional advertising is needed, DMH anticipates annual cost for advertising with public service announcements for help with compulsive gambling at \$166,400.

Oversight notes the balance of the Compulsive Gamblers Fund (0249) was \$82,720 on December 31, 2019 and \$6,832 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.

Section 313.429.12

Officials from the **Missouri Lottery Commission** state 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.

ASSUMPTION (continued)

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 **may** 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. For fiscal note purposes, Oversight assumes the Commission will contract with a state law enforcement entity.

Officials from the **Department of Public Safety - Missouri State Highway Patrol (MHP)** state the bill gives statutory authority for the Missouri 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 license of any of the provisions of sections 313.425 to 313.437 or state law regulating illegal gambling activities referred by the commission." If the Missouri Lottery chooses 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 section 313.429.12. Depending on the final and approved version, the Gaming Division anticipates fifteen (15) FTE would be necessary to perform two primary functions; background investigations on vendors/operators and to 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 twelve (12) field investigators would include one (1) officer in 6 of the troops and 2 officers in the most heavily populated 3 troops (A, C, and D).

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 two (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 our belief that other administrative duties can be absorbed by the current division staff.

ASSUMPTION (continued)

The two sections that impact MHP in regard to the "Missouri Video Lottery Control Act" are sections 313.429.11 and 313.429.12. Section 313.429.11 is simply the funding mechanism which would ensure any potential MOU between MHP and Lottery Commission were paid by State Lottery Funds. Utilizing State Lottery Funds 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 Commission.

In addition to the expense indicated for the sixteen (16) Sergeants that will be transferring from the Highway fund, it is assumed there will be some savings to the Highway fund as those sixteen (16) formerly Highway-funded Sergeants are ultimately replaced by sixteen (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.

Oversight does not have any information contrary to that provided by MHP. Therefore, Oversight will reflect MHP's impact for fiscal note purposes to the General Revenue and Gaming Funds.

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.

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.

Section 313.429.14

The Commission shall adopt rules for implementing video lottery.

Section 313.431.1

The Commission shall issue a request for proposal 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.

ASSUMPTION (continued)

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 3,875 retailers will operate 21,00 terminals after a 4-year ramp up period. Additional proceeds to the Lottery and municipalities from video lottery sales are anticipated to be \$86.2 million in year one and grow to \$258.7 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 (B&P)** state 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)

- Application fees (Section 313.429.3(1)(a)-(c))
 - Video lottery game manufacturers, video lottery game distributors, and video lottery game operators (up to \$50,000)
 - Video lottery game retailer establishments (up to \$500)
 - Video lottery game handlers (up to \$100)

ASSUMPTION (continued)

- 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)

- 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 after one year. (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.

- Provisional licensure fee (to be retained by the Lottery Commission) (Section 313.431.5(1)-(4))
 - Video lottery game manufacturer and video game distributors (\$5,000)
 - Video lottery game operator (\$5,000)
 - Video lottery game retailer's establishment (\$500)
 - Video lottery game handler (\$100)

ASSUMPTION (continued)

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).

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.

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.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

Officials from the **University of Missouri (MU)** state this bill could result in additional revenue to the University of an undetermined amount to be used for STEM and workforce development efforts.

Oversight notes net proceeds transferred to the lottery proceeds fund shall be appropriated to public elementary and secondary education and public institutions of higher education with an emphasis on programs to promote science, technology, engineering and mathematics (STEM) and programs to promote workforce development.

Oversight notes the **Department of Higher Education and Workplace Development**, the **Department of Revenue**, and the **Department of Public Safety - (Alcohol and Tobacco Control and Veterans' Commission)** 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.

This proposal could increase Total State Revenue.

FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
GENERAL REVENUE FUND				
<u>Transfer In</u> - from Lottery Enterprise Fund p. 8	\$416,667	\$512,500	\$525,313	\$551,906
<u>Cost</u> - MHP (\$313.004) Enforcement of illegal gaming machines p. 9				
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>(\$23,845)</u>	<u>(\$25,815)</u>	<u>(\$26,460)</u>	<u>(\$27,798)</u>
<u>Total Cost - MHP</u>	<u>(\$409,170)</u>	<u>(\$330,102)</u>	<u>(\$333,788)</u>	<u>(\$341,304)</u>
FTE Change - MHP	2 FTE	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$7,497</u>	<u>\$182,398</u>	<u>\$191,525</u>	<u>\$210,602</u>
Estimated Net FTE Change for the General Revenue Fund	2 FTE	2 FTE	2 FTE	2 FTE

FISCAL IMPACT -
State Government

Fully
 Implemented
 (FY 2025)

FY 2021
 (10 Mo.)

FY 2022

FY 2023

**HIGHWAY
 FUNDS (0644)**

Savings - MHP
 (§313.429)
 Replacing existing
 Sergeant(s) with
 probationary
 troopers (less
 expensive) p. 9

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 -</u> <u>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	\$1,732,313	\$2,078,775	\$2,078,775	\$2,078,775
Renewal Fees	\$0	\$1,528,600	\$1,528,600	\$1,528,600
VLT Proceeds (36% of AGR)	\$86,150,000	\$172,500,000	\$258,700,000	\$258,700,000
 <u>Transfer Out - to Lottery Proceeds Fund</u>	 (\$60,010,597)	 (\$138,013,633)	 (\$214,267,679)	 (\$214,267,679)
 <u>Transfer Out - to Lottery Enterprise Fund</u>	 (\$13,417,794)	 (\$23,350,742)	 (\$33,001,836)	 (\$33,001,836)
 <u>Loss - LOT - Lost profits from Keno and Pull-Tab Sales from competition</u>	 <u>(\$14,453,922)</u>	 <u>(\$14,743,000)</u>	 <u>(\$15,037,860)</u>	 <u>(\$15,037,860)</u>
 ESTIMATED NET EFFECT ON THE STATE LOTTERY FUND	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOTTERY ENTERPRISE FUND (0657)				
				Could exceed...
<u>Transfer In</u> - State Lottery Fund	\$13,417,794	\$23,350,742	\$33,001,836	\$33,001,836
<u>Cost</u> - LOT p. 10				
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	(\$564,609)	(\$163,890)	(\$167,987)	(\$167,987)
Advertising, Promotions and Point-of-Sale	(\$1,250,000)	(\$1,537,500)	(\$1,575,938)	(\$1,575,938)
Capital Improvements	(\$81,667)	(\$100,450)	(\$102,961)	(\$102,961)
<u>Total Cost</u> - LOT	<u>(\$3,411,582)</u>	<u>(\$3,635,502)</u>	<u>(\$3,696,005)</u>	<u>(\$3,696,005)</u>
FTE Change - LOT	25 FTE	25 FTE	25 FTE	25 FTE
<u>Transfer Out</u> - To municipalities 4% of AGR of video lottery game to municipalities to cover admin. costs (§313.429.10)	(\$9,572,222)	(\$19,166,667)	(\$28,744,444)	(Could exceed \$28,744,444)
<u>Transfer Out</u> - to Compulsive Gamblers Fund (1% of fees collected §313.429.11)	(\$17,323)	(\$36,074)	(\$36,074)	(Could exceed \$36,074)

FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
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**LOTTERY
 ENTERPRISE
 FUND (0657)**
 (continued)

Transfer Out - to
 General Revenue
 Fund to Contract
 with State Law
 Enforcement p. 8

	<u>(\$416,667)</u>	<u>(\$512,500)</u>	<u>(\$525,313)</u>	<u>(\$525,313)</u>
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**ESTIMATED NET
 EFFECT ON THE
 LOTTERY
 ENTERPRISE
 FUND**

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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Estimated Net FTE
 change to the Lottery
 Enterprise Fund

	25 FTE	25 FTE	25 FTE	25 FTE
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**LOTTERY
 PROCEEDS FUND
 (0291)**

Transfer In - from
 State Lottery Fund

	<u>\$60,010,597</u>	<u>\$138,013,633</u>	<u>\$214,267,679</u>	<u>Could exceed</u> <u>\$214,267,679</u>
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**ESTIMATED NET
 EFFECT ON THE
 LOTTERY
 PROCEEDS FUND**

	<u>\$60,010,597</u>	<u>\$138,013,633</u>	<u>\$214,267,679</u>	<u>Could exceed</u> <u>\$214,267,679</u>
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<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
COMPULSIVE GAMBLERS FUND (0249)				
<u>Transfer In</u> - from the State Lottery Fund (\$313.429.11)	\$17,323	\$36,074	\$36,074	Could exceed \$36,074
<u>Cost</u> - DMH - Administrative cost for treating additional consumers (assumed to be limited to proceeds into the fund from video lottery estimates)	<u>(\$17,323)</u>	<u>(\$36,074)</u>	<u>(\$36,074)</u>	<u>(Could exceed \$36,074)</u>
ESTIMATED NET EFFECT ON THE COMPULSIVE GAMBLERS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT -
State Government

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
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**GAMING
 COMMISSION
 FUND (0286)**

Cost - MHP

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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>
FTE Change - MHP	15 FTE	15 FTE	15 FTE	15 FTE

Loss - MGC Loss of
 revenue resulting
 from video lottery
 competition

	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>Unknown</u>
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**ESTIMATED NET
 EFFECT ON THE
 GAMING
 COMMISSION
 FUND**

	<u><u>(Could exceed \$2,881,153)</u></u>	<u><u>(Could exceed \$2,351,986)</u></u>	<u><u>(Could exceed \$2,378,155)</u></u>	<u><u>(Could exceed \$2,431,484)</u></u>
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Estimated Net FTE
 Change for the
 Gaming
 Commission Fund

	15 FTE	15 FTE	15 FTE	15 FTE
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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 p. 12

(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

<u>FISCAL IMPACT -</u> <u>Local Government</u>	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	\$9,572,222	\$19,166,667	\$28,744,444	Could exceed \$28,744,444
<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	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>Could be Less than \$9,572,222</u>	<u>Could be Less than \$19,166,667</u>	<u>Could be Less than \$28,744,444</u>	<u>Could be Less than \$28,744,444</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 State Lottery Commission to implement a system of video lottery game terminals and to issue licenses to video lottery game manufacturers, distributors, operators,

FISCAL DESCRIPTION (continued)

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. (Sections 313.429.1 and .2)

Video lottery game terminals may be placed in fraternal organizations, veterans' organizations, and truck stops, convenience stores, bars and restaurants, liquor stores, and grocery stores, as defined in the act. (Section 313.427(3))

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. Manufacturers, operators, distributors, handlers, and retailers shall be required to annually remit a license fee. The Commission shall issue provisional licenses as described in the act. (Sections 313.429.3 and 313.431)

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 one year of issue.

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 a division of adjusted gross receipts between the operator and retailer after adjustments for taxes and administrative fees are made. Video lottery game operators are prohibited from offering, promising, or tendering any property or advantage to influence a video lottery game retailer for the placement of video lottery terminals. Persons violating such prohibition are subject to the suspension or revocation of his or her video lottery game operator's license. (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 five terminals at one retail establishment, except fraternal organizations, veterans organizations, and truck stops may operate up to ten terminals. (Section 313.429.8)

FISCAL DESCRIPTION (continued)

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. 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 or 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 to public elementary and secondary education and public institutions of higher education, with an emphasis on science, technology, engineering, and mathematics (STEM) and 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.

Sixty-four percent of video lottery game adjusted gross receipts shall be retained by video lottery game operators, a portion of which shall be utilized to pay for the cost of the centralized computer system. The remainder shall be divided 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 may 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 lottery game terminal that is not licensed by the Lottery Commission shall be punishable under the provisions of Chapter 572 relating to illegal gambling. (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)

FISCAL DESCRIPTION (continued)

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

LOTTERY COMMISSION

This act allows the Lottery Commission to incur fees when accepting debit cards or other electronic payment methods, except credit cards, for the sale of lottery game plays. (Section 313.360)

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 Elementary and Secondary Education
Department of Higher Education
Department of Mental Health
Department of Revenue
Department of Public Safety
Joint Committee on Administrative Rules
Lottery Commission
Office of Administration - Budget and Planning
Office of Secretary of State



Julie Morff
Director
March 10, 2020



Ross Strobe
Assistant Director
March 10, 2020