

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3531S.02I
Bill No.: SB 642
Subject: Gambling; Lotteries
Type: Original
Date: March 8, 2022

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	(\$1,187,796)	(\$885,827)	(\$944,000)
Total Estimated Net Effect on General Revenue	(\$1,187,796)	(\$885,827)	(\$944,000)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Highway Fund	Unknown	Unknown	Unknown
State Lottery Fund (0682)*	\$0	\$0	\$0
Lottery Enterprise Fund(0657)*	\$0	\$0	\$0
Lottery Proceeds Fund (0291)**	\$64,688,487	\$190,786,562	\$239,655,558
Compulsive Gamblers Fund (0249)	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Gaming Commission Fund (0286)	(Unknown)	(Unknown)	(Unknown)
Gaming Proceeds for Education Fund (0285)	(Unknown)	(Unknown)	(Unknown)
Criminal Records System Fund (0671)	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	Up to \$64,688,487	Up to \$190,786,562	Up to \$239,655,558

*Estimated Revenues and Cost Net to \$0

** Oversight notes, according to the Missouri Lottery Commission, revenue from the implementing of video lottery game terminals will significantly ramp up after the fourth year of implementation. For fiscal note purposes, Oversight will only reflect revenue generated for FY 23 - FY25.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	5 FTE	5 FTE	5 FTE
Lottery Enterprise Fund	43 FTE	43 FTE	43 FTE
Total Estimated Net Effect on FTE	48 FTE	48 FTE	48 FTE

- ☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☒ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	Could be Less than \$5,703,125	Could be Less than \$11,406,250	Could be Less than \$17,109,375

FISCAL ANALYSIS

ASSUMPTION

Sections 313.230, 213.255, 313.425, 313.427, 313.431, 313.433, 313.434, 313.435, and 313.437-Missouri Video Lottery Control Act

Section 313.230

Officials from the **Missouri Lottery Commission (Commission/LOT)** state this proposal removes the prohibition on lottery games based on the outcome of sporting events and allows for electronic lottery game plays and electronically generated tickets or shares. If the Lottery begins offering parlay lottery games based on the outcome of sporting events and electronic game plays, proceeds to education are estimated to be a positive \$27.9 million to unknown the first partial

year (FY 2023); a positive \$114.1 million to unknown the first full year (FY 2024); and a positive \$116.4 million to unknown the second full year (FY 2025).

These amounts are net of one lottery marketing and promotions manager at a salary of \$59,405 and related fringes/E&E to manage the sports wagering program; a sports betting platform, player account management and sportsbook operation estimated at 2.5% of lottery sports wagers; prizes for lottery sports games estimated at 85% of lottery sports wagers; and retailer commissions for lottery sports games estimated at 6% of lottery sports wagers.

Sports wagers and revenue estimates are based on the forecast of revenues from Global Market Advisors (Nov 2017) and assume a 6.5% hold which is on par with the Nevada market. Distribution is assumed across the total Lottery retail network and through mobile.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the estimated revenue generated by this section, provided by the Lottery Commission, of \$430,400,000 in FY 2023, \$1,756,700,000 in FY 2024 and \$1,792,600,000 in FY 2025 for the sale of parlay sports lottery games to the State Lottery Fund. Oversight will also reflect an unknown positive fiscal impact for the sale of electronically generated tickets or shares to the State Lottery Fund.

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 FTE lead administrative support assistant positions at a salary of \$34,665 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 that will cover initial background checks. Renewal fees and penalties may also be assessed by the Commission.
- It is assumed revenues from initial application fees will total \$2.7 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 \$63,000 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 \$63,000 per year, with approximately \$1.0 million in revenues assumed from the first year of renewal fees, ramping up to approximately \$4.1 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 LOT assumes their department 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.

Recorded video must be reviewed by video lottery game operators for compliance with law, rules and regulations and fines up to \$5,000 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 \$55,215 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 \$55,215 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) responsible Gaming Public Information Coordinator is needed at an annual salary of \$49,129 to educate operators and retailers on problem gambling and manage the self-exclusion program.

One (1) Human Resources Specialist is needed at an annual salary of \$58,018 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

Officials from the **Missouri Lottery Commission (Commission/LOT)** assume that this section of the proposal states 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 Commission assumes (3) three senior accounts assistants are needed at an annual salary of \$36,723 each to collect license fees, verify and collect Lottery's share of video lottery adjusted gross receipts, and remit payments to municipalities.

The Lottery assumes approximately \$5.7 million, \$11.4 million and \$17.1 million per year will be remitted to municipalities where video lottery establishments are located in 2023, 2024, and 2025, respectively, ramping up to \$22.8 million annually after year four.

Oversight notes, according to the Missouri Lottery Commission, revenue from the implementing of video lottery game terminals will significantly ramp up after the fourth year of implementation. For fiscal note purposes, Oversight will only reflect revenue generated for FY 23-25.

The Lottery assumes 2,500 retailers will operate 12,500 terminals after a 4-year ramp up period. Additional proceeds to the Lottery and municipalities from video lottery sales are anticipated to be \$51.3 million in year one and grow to \$154 million in year three, offset by lost profits from Pull-Tabs and Keno of approximately \$8.6 million per year. Pull-Tab sales at fraternal are

assumed to be completely eliminated by video lottery sales; Keno sales are expected to be reduced by 31.3%.

The Lottery estimates a loss of revenue of \$2,160,366 in FY 2023, \$8,641,463 in FY 2024 and \$8,641,463 in FY 2025 as a result potential elimination of current Pull-Tab programs at fraternal organizations and reduction in Keno sales.

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. **Oversight** provides the following table to summarize the Lottery Commissions revenues from this section (Section 313.429.10) and from Section 313.230 mentioned on page 3.

Provision	FY23	FY24	FY25
Initial Application Fee	\$683,200	\$683,200	\$683,200
Renewal Fee	\$0	\$0	\$1,012,975
*VLT Proceeds (32% AGR Tax)	\$45,625,000	\$91,250,000	\$136,875,000
Sale of Parlay Sports Lottery games	\$430,400,000	\$1,756,700,000	\$1,792,600,000
Sale of Electronically generated tickets or shares	Unknown	Unknown	Unknown
Total State Impact	Greater than \$476,708,200	Greater than \$1,848,633,200	Greater than \$1,931,171,175
<u>Local Revenue Impact</u>			
**Dock Cities/Counties (4% AGR Tax)	\$5,703,125	\$11,406,250	\$17,109,375

* 32% of the 36% AGR Tax

**4% of the 36% AGR Tax

Officials from the **Department of Elementary and Secondary Education (DESE)** state the DESE cannot estimate potential amount of adjusted gross receipts resulting from video lottery.

Oversight will show 32% of gross receipts from video lottery terminals plus revenue generated from sale of parlay sports lottery games 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. Combined revenue after expenses will total \$64,688,487 in FY 2023, \$190,786,562 in FY 2024 and \$239,655,558 in FY 2025.

Oversight will show 4% of gross receipts 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.

Section 313.429.11

Officials from the **Missouri Lottery Commission (Commission/LOT)** assume, subject to appropriation, up to one percent of such license fees deposited to the credit of the state lottery fund shall be deposited to the credit of the compulsive gamblers fund created under section 313.842.

One percent of license fees credited to the Compulsive Gamblers Fund is estimated to be \$6,832 in FY 2023 and 2024 and \$16,962 in FY 2025.

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.

The Department of Mental Health (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 FY21, DMH served approximately 71 consumers through compulsive gambling (CG) treatment services with an average cost of \$1,230 per consumer for a total of \$87,330.

If the number of consumers served triples, DMH estimates treatment for 213 consumers with an average cost of \$1,230 per treatment episode for a total treatment cost of \$261,990. Currently, DMH has eleven 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 23. If additional advertising is needed, 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 \$360,325 in FY 23. For FY 24 and beyond, the amount would be \$432,390 or more based upon the need for compulsive gambling services.

Oversight notes the balance of the Compulsive Gamblers Fund (0249) was \$60,543 on December 31, 2021 and \$109,844 on June 30, 2021. 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 (Commission/LOT)** assume the Commission shall contract with a state law enforcement entity or the Missouri gaming commission to assist in conducting investigations. Upon a finding that a licensee committed a violation the director may impose an administrative fine not to exceed \$5,000, suspend the applicable license for up to 30 days or revoke the license for one year.

Oversight notes provisions of 313.429.12 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 313.429.13

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.

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 8 additional offenders in prison and 22 on field supervision by FY 2027.

Non-violent D felony:

	# 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 2% inflation)
Year 1	3	(\$8,255)	(\$20,638)	5	absorbed	\$0	(\$20,638)
Year 2	6	(\$8,255)	(\$50,521)	10	absorbed	\$0	(\$50,521)
Year 3	8	(\$8,255)	(\$68,708)	16	absorbed	\$0	(\$68,708)
Year 4	8	(\$8,255)	(\$70,082)	19	absorbed	\$0	(\$70,082)
Year 5	8	(\$8,255)	(\$71,484)	22	absorbed	\$0	(\$71,484)
Year 6	8	(\$8,255)	(\$72,913)	22	absorbed	\$0	(\$72,913)
Year 7	8	(\$8,255)	(\$74,372)	22	absorbed	\$0	(\$74,372)
Year 8	8	(\$8,255)	(\$75,859)	22	absorbed	\$0	(\$75,859)
Year 9	8	(\$8,255)	(\$77,376)	22	absorbed	\$0	(\$77,376)
Year 10	8	(\$8,255)	(\$78,924)	22	absorbed	\$0	(\$78,924)

Oversight does not have any information contrary to that provided by DOC. Therefore, Oversight will reflect DOC's estimated 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.

Section 313.429.14

LOT states this section of the proposal allows the Commission to adopt rules for implementing video lottery. The Commission assumes \$500,000 per year is the estimated cost to contract with state law enforcement. One paralegal FTE at an annual salary of \$54,161 and one associate hearings/appeals referee at an annual salary of \$55,786 are assumed to assist with additional legal work involved with promulgating rules and handling administrative hearings.

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 313.435 or state law regulating illegal gambling activities referred by the commission."

MHP assumes the Lottery will choose to enter into a memorandum of understanding (MOU) with the MSHP, and there would be significant impact on the Gaming Division 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." Currently, the Missouri State Highway Patrol Division of Drug and Crime Control is responsible for conducting investigations related to criminal offenses, and the Gaming Division is responsible for conducting investigations into license applications and regulatory violations on licensed gambling properties throughout the state. As written the Gaming Division anticipates approximately 17 new FTE would be necessary to perform MHP's two primary functions; background investigations on vendors/operators and regulate the vast number of sites across the state. This would include two (2) investigators in the Jefferson City office, two (2) Master Sergeants to supervise the unit split in half geographically, twelve (12) officers to oversee regulatory and criminal investigations in the field and one (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).

As currently written, MHP believes that other administrative duties can be absorbed by the current division staff.

For comparison, the Gaming Division, in its current format, has 122 FTE to cover every operating hour and administrative function of the 13 casinos in the state. This bill could potentially increase the locations to hundreds of locations in every county of the state.

Meanwhile, DDCC is tasked with conducting investigations into **"illegal gambling activities referred by the commission"** DDCC anticipates the need for approximately 5 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. The funding for the illegal gambling duties assigned to the 5 FTE would be from the General Revenue fund.

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.

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 Lottery Enterprise Fund. Oversight will also show an unknown savings to the Highway Fund.

Oversight states according the MHP's website, state and federal background checks will cost \$43.75 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 313.431.1

The Commission states that this section of the proposal allows for the Commission to contract for a centralized communication system, make license applications available for manufacturers, distributors, operators, retailers and handlers, and promulgate rules within 180 days of the effective date.

In summary, the Missouri Lottery Commission assumes this proposal will require 26 new FTE at a cost of \$14,389,521 in FY 2023, \$47,770,403 in FY 2024 and \$48,727,660 in FY 2025 to provide for the implementation of the changes in this proposal.

Net effect of the above impacts on the Lottery Proceeds Fund is anticipated to be a positive \$68.1 million to unknown in FY 2023, positive \$193.1 million to unknown in FY 2024 and positive \$242 million to unknown in FY 2025.

Bill as a whole

In response to a similar proposal from last year (SB 10), officials from the **Office of Administration - Budget and Planning** assumed the proposal creates the Missouri Video Lottery Control Act. There are numerous fees and fines that will increase TSR and the 18(e) calculation. B&P defers to the Lottery for estimated amounts. Fees include the following:

- Application fees (Section 313.429.3(1)(a)-(c))
 - 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)-(c) & Section 313.429.11)
 - Video lottery game manufacturer, video lottery 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 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.
- 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.

Additionally, this language includes changes to Section 313.230, RSMo, which allow for player activated terminals to be used to conduct lottery games, offer electronic lottery game plays on

approved devices, and print and dispense lottery tickets. The language also removes a prohibition that no lottery games shall be based on the outcome of sporting events. To the extent that these changes result in increased lottery game revenue, TSR will 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 generated 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.

SEQ CHAPTER \h \r 1SEQ CHAPTER \h \r 1Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** notes 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 its 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.

In response to a similar proposal from last year (SB 10), officials from the **Missouri Office of Prosecution Services** assumed the proposal will have no fiscal impact on their organization.

Officials from the **Attorney General's Office, Department of Higher Education and Workforce Development, the Department of Revenue, the Department of Public Safety - Division of Alcohol and Tobacco Control and Veterans Commission, the Department of Social Service, the Missouri Department of Agriculture, the Missouri Department of Transportation, the Office of the State Public Defender, the Office of the State Treasurer and the Office of the State Courts Administrator** each assume the proposal will have no 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.

Officials from the **City of Kansas City** state this legislation could have a positive fiscal impact on the City of Kansas City, Missouri in an indeterminate amount.

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.

SEQ CHAPTER \h \r 1

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

Officials from the **Phelps County Sherriff, the Kansas City Police Department and the St. Louis County Police Department** each assume the proposal will have no 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.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other Sheriffs, Police Departments, Cities and Counties were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

This proposal could increase Total State Revenue.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
Costs - DOC Increased incarceration costs (\$313.429.13) p. 9 & 10	(\$20,638)	(\$50,521)	(\$68,708)
Costs - MHP (\$313.429.14) p. 11&12			
Personal Services	(\$338,400)	(\$410,141)	(\$414,242)
Fringe Benefits	(\$302,124)	(\$336,174)	(\$369,835)
Equipment and Expense	(\$526,634)	(\$88,991)	(\$91,215)
<u>Total Costs - MHP</u>	<u>(\$1,167,158)</u>	<u>(\$835,306)</u>	<u>(\$875,292)</u>
FTE Change - MHP	5 FTE	5 FTE	5 FTE
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(\$1,187,796)</u>	<u>(\$885,827)</u>	<u>(\$944,000)</u>
Estimated Net FTE Change to the General Revenue Fund	5 FTE	5 FTE	5 FTE
HIGHWAY FUND			
Savings – MHP Replacing Sergeants with Probationary Troopers (\$313.429.14) p. 11&12	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
STATE LOTTERY FUND (0682)			

<u>Revenue</u> - LOT			
Initial Application Fees	\$683,200	\$683,200	\$683,200
Renewal Fees	\$0	\$0	\$1,012,975
VLT Proceeds (36% of AGR) (§313.429.10) p.6-8	\$51,328,125	\$102,656,250	\$153,984,375
Sale of parlay sports lottery games (§313.230) p.3	\$430,400,000	\$1,756,700,000	\$1,179,260,000
Sale of electronically generated tickets or shares (§313.230) p.3	Unknown	Unknown	Unknown
<u>Total Revenue</u> - LOT	<u>Greater than \$482,411,325</u>	<u>Greater than 1,860,039,450</u>	<u>Greater than 1,948,280,550</u>
<u>Cost</u> - LOT prizes for lottery sports games (§313.230) p.3	(\$365,840,000)	(\$1,493,195,000)	(\$1,523,710,000)
<u>Cost</u> - LOT Retailer commissions for Lottery sports games (§313.230) p.3	(\$25,824,000)	(\$105,402,000)	(\$107,556,000)
<u>Loss</u> – LOT Lost profits from Keno and Pull-Tab Sales from competition p. 7	(\$2,160,366)	(\$8,641,463)	(\$8,641,463)
<u>Transfer Out</u> - to Lottery Proceeds Fund to be appropriated to DESE (32% of AGR) (§313.429.10) p.6-8	(\$64,688,487)	(\$190,786,562)	(\$239,655,558)
<u>Transfer Out</u> - to Lottery Enterprise Fund	<u>(\$23,898,472)</u>	<u>(\$62,014,425)</u>	<u>(\$68,717,529)</u>
ESTIMATED NET EFFECT ON THE STATE LOTTERY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
LOTTERY ENTERPRISE FUND (0657)			

<u>Transfer In</u> – from State Lottery Fund	<u>\$23,898,472</u>	<u>\$62,014,425</u>	<u>\$68,717,529</u>
<u>Cost - LOT</u>			
Personal Service	(\$1,081,973)	(\$1,311,346)	(\$1,324,459)
Fringe Benefits	(\$665,669)	(\$803,519)	(\$808,284)
Advertising, Promotions and Point-of-Sale	(\$1,250,000)	(\$1,537,500)	(\$1,575,938)
Capital Improvements	(\$81,667)	(\$100,450)	(\$102,961)
Sports betting platform, player account management, sportsbook operations	(\$10,760,000)	(\$43,917,500)	(\$44,815,000)
Other Cost	(\$550,212)	(\$100,088)	(\$101,018)
<u>Total Costs - LOT</u>	<u>(\$14,389,521)</u>	<u>(\$47,770,403)</u>	<u>(\$48,727,660)</u>
FTE Change – LOT	26 FTE	26 FTE	26 FTE
<u>Costs - MHP</u> (\$313.429.14) p. 11&12			
Personal Services	(\$1,114,944)	(\$1,344,835)	(\$1,358,284)
Fringe Benefits	(\$995,422)	(\$1,200,669)	(\$1,212,676)
Equipment and Expense	(\$1,688,628)	(\$285,436)	(\$292,572)
<u>Total Costs - MHP</u>	<u>(\$3,798,994)</u>	<u>(\$2,830,940)</u>	<u>(\$2,863,532)</u>
FTE Change - MHP	17 FTE	17 FTE	17 FTE
<u>Transfer Out - To municipalities</u> 4% of AGR of video lottery game to municipalities to cover admin. costs (\$313.429.10) p.6-8	(\$5,703,125)	(\$11,406,250)	(\$17,109,375)
<u>Transfer Out - to Compulsive Gamblers Fund</u> (1% of fees collected \$313.429.11) p. 8-9	(\$6,832)	(\$6,832)	(\$16,962)
ESTIMATED NET EFFECT ON LOTTERY	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

ENTERPRISE FUND (0657)			
Estimated Net FTE change to the Lottery Enterprise Fund	43 FTE	43 FTE	43 FTE
LOTTERY PROCEEDS FUND (0291)			
Transfer In - from State Lottery Fund to be appropriated equally to DESE and DHEWD (\$313.429.10) p.6-8	<u>\$64,688,487</u>	<u>\$190,786,562</u>	<u>\$239,655,558</u>
ESTIMATED NET EFFECT ON THE LOTTERY PROCEEDS FUND	<u>\$64,688,487</u>	<u>\$190,786,562</u>	<u>\$239,655,558</u>
COMPULSIVE GAMBLERS FUND (0249)			
Revenue - LOT Fines imposed from violations of Lottery vendor/licensee - up to \$10,000 per occurrence (\$313.429.13) p. 9-10	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Transfer In - from the State Lottery Fund (\$313.429.11) p. 8-9	\$6,832	\$6,832	\$16,962
Cost - DMH Administrative cost for treating additional consumers (assumed to be limited to proceeds	<u>(\$6,832)</u>	<u>(\$6,832)</u>	<u>(\$16,962)</u>

into the fund from video lottery estimates) §313.429.11) p. 8-9			
ESTIMATED NET EFFECT ON THE COMPULSIVE GAMBLERS FUND	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
GAMING COMMISSION FUND (0286)			
<u>Loss</u> - MGC Loss of revenue resulting from video lottery competition p. 14	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
GAMING PROCEEDS FOR EDUCATION FUND (0285)			
<u>Loss</u> - MGC Loss of revenue resulting from video lottery competition p. 14	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE GAMING PROCEEDS FOR EDUCATION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
CRIMINAL RECORDS SYSTEM FUND (0671)			

<u>Revenue</u> - MHP Background check fees (§313.429.14) p. 12	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON THE CRIMINAL RECORDS SYSTEM FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Income</u> - Cities and Counties compensation paid to municipalities or counties - 4% AGR (§313.429.10) p.6-8	\$5,703,125	\$11,406,250	\$17,109,375
<u>Income</u> - School districts (§313.429.9) Fines from violations p. 6 & 9	\$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 p. 14	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>Could be Less than \$5,703,125</u>	<u>Could be Less than \$11,406,250</u>	<u>Could be Less than \$17,109,375</u>

FISCAL IMPACT – Small Business

This legislation will impact fraternal and veteran organizations, truck stops, and liquor by the drink establishments who become video lottery retailers, as well as video lottery manufacturers, operators, and distributors. It may also have an economic impact on Lottery retailers who choose to sell sports lottery games.

FISCAL DESCRIPTION

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, provided that the commencement of video lottery gaming shall not occur prior to January 1, 2024. 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, 2030. The Commission shall not allow more than 15,000 video lottery terminals to be placed in the state. (313.429.1 and .2)

Video lottery game terminals may be placed in fraternal organizations, veterans' organizations, bars, and truck stops, as defined in the act. The Commission may also authorize the placement of pull-tab machines in video lottery game retailer establishments. Beginning January 1, 2024, the Commission may allow the placement of pull-tab machines that utilize electronically generated ticket facsimiles where game plays are pre-determined from a finite pool of ticket results. (Sections 313.427 and 313.255)

Video lottery game terminals and video lottery game ticket redemption terminals shall be connected to a centralized computer system developed or procured by the Commission. No video lottery game terminal or video lottery game ticket redemption terminal shall be in operation without being connected 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 two years. 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. The license of any sales agent violating such provision shall be revoked. (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.

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, or, upon approval of the Commission, a negotiated 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, except that video lottery game operators may provide up to \$7,500 to video lottery game retailers for structural changes required by the act. (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. Any state or federal tax reporting and withholding requirements shall be satisfied by the video lottery game operator. Operators shall not operate more than five terminals at any one fraternal organization, veterans organization, bar, or truck-stop. The operating location for any video lottery game terminal shall be approved by the Commission prior to such video lottery game terminals being placed. The Commission may, at its sole discretion, deny such location pursuant to the provisions of the act. (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 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 and .12)

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. 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.

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 conduct background checks of applicants for licenses and to investigate violations of the provisions of the act and may contract with a state law enforcement entity or the Missouri Gaming Commission to assist in conducting such investigations. (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 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)

SOURCES OF INFORMATION

Attorney General's Office

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

Division of Alcohol and Tobacco Control

Missouri Gaming Commission

Missouri Highway Patrol

Missouri Veterans Commission

Department of Social Services

Joint Committee on Administrative Rules

Lottery Commission

Department of Agriculture

Department of Transportation

Missouri Office of Prosecution Services

L.R. No. 3531S.02I

Bill No. SB 642

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March 8, 2022

Office of Administration - Budget and Planning

Office of State Courts Administrator

Office of Secretary of State

State Public Defender's Office

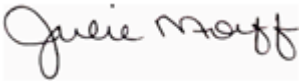
State Treasurer's Office

City of Kansas City

City of Springfield

Kansas City Police Department

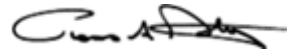
St. Louis County Police Department



Julie Morff

Director

March 8, 2022



Ross Strobe

Assistant Director

March 8, 2022