

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4122-05
BILL NO.: Perfected SS for SB 902
SUBJECT: Gambling; Minorities.
TYPE: Original
DATE: April 12, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(under \$100,000)	(under \$100,000)	(under \$100,000)
Lottery Proceeds for Education	\$675,000	\$900,000	\$900,000
Gaming Commission	\$64,905	\$16,208	\$12,674
Gaming Commission Bingo	(\$85,000)	\$0	\$0
Early Childhood Development, Education and Care	(\$413,333)	(\$508,400)	(\$521,100)
Compulsive Gamblers*	\$413,333	\$508,400	\$521,100
Veterans' Commission Capital Improvement Trust*	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)
Total Estimated Net Effect on <u>All State Funds</u>	\$654,905 to (\$7,445,095)	\$916,208 to (\$7,183,792)	\$912,674 to (\$7,187,326)

*Subject to Appropriation from the General Assembly.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 16 pages.

FISCAL ANALYSIS

ASSUMPTION

Transferring of unobligated funds from the Gaming Commission Bingo Fund on August 28, 2000 to the Gaming Commission Fund and abolishing the Gaming Commission Bingo Fund on June 30, 2001.

Officials from the Gaming Commission assume the balance at August 28, 2000 that will be transferred from the Gaming Commission Bingo Fund to the Gaming Commission Fund will be between \$85,000 to \$90,000.

According to the monthly fund activity report, published by the State Treasurer's Office, the balance of the Gaming Commission Bingo Fund at March 31, 2000 was \$105,000, however, additional expenditures were anticipated. Oversight assumes the balance of the fund at the time of the conversion will be roughly \$85,000.

Expands the prizes that the Lottery Commission may give away from Missouri made products to products made in the United States but sold in Missouri.

Officials from the **Lottery Commission (LOT)** assume this change will allow them to offer many alternative products as prizes that they have not been allowed to offer previously. The LOT assumes these other products would generate an additional \$3 million in lottery sales, with

ASSUMPTION (continued)

the gross profit margin of \$900,000 being contributed to the Lottery Proceeds for Education Fund.

Requires excursion gambling boat licensees to develop a system that allows patrons the option to prohibit the licensees from using identifying information for marketing purposes.

Oversight assumes this part of the proposal will not fiscally impact the state.

When determining where to locate a licensed excursion gambling boat, the Gaming Commission shall give priority to those cities and counties where no current excursion gambling boat exists.

Oversight assumes this part of the proposal will not fiscally impact the state.

Redirects 1 cent of the two dollar admission fee paid to the Gaming Commission to the "Compulsive Gamblers Fund"

Officials from the **Department of Revenue (DOR)** stated this proposal provides that one cent of each dollar of the excursion boat admission fee deposited to the Gaming Commission Fund is to be appropriated to the Compulsive Gamblers Fund. It also allows for the establishment of programs to provide treatment, prevention and education services for compulsive gambling to be funded by appropriations from the Compulsive Gamblers Fund. The DOR assumes there is little or no administrative impact to their agency.

The **Missouri Gaming Commission (GAM)** stated this proposal would provide a stable source of funding to combat problem gambling. The GAM estimates the amount of revenue that would be directed to the Compulsive Gamblers Fund in FY 2001 as a range of \$0 to \$496,000. In FY 2002, the amount is estimated to be \$0 to \$508,400, and in FY 2003, the amount is estimated to be \$0 to \$521,100. In its estimates, the GAM assumed an annual increase in admissions consistent with current inflationary levels of approximately 2.5 percent.

In response to similar legislation from this year, officials from the **Department of Mental Health (DMH)** stated they currently contract for compulsive gambling services. These programs are funded through the Compulsive Gamblers Fund and if the DMH receives this funding, compulsive gambling programming will be expanded.

ASSUMPTION (continued)

In addition to the expansion of treatment services, compulsive gambling prevention services will be provided. The DMH used the estimates determined by the Gaming Commission for potential funds available to the Compulsive Gamblers Fund from this proposal.

Officials from the **Department of Social Services** assumed this part of the proposal will not fiscally impact their agency.

In response to similar legislation from this year, officials from the **Department of Elementary and Secondary Education** stated this part of the proposal may reduce the amount of moneys transferred into the Early Childhood Development, Education and Care Fund, and distributed through the Missouri Preschool Program. The amount of the reduction is not known since it would be subject to appropriation.

Oversight assumes the Gaming Commission and all related parties could implement the voluntary exclusion provision of this proposal with existing resources

Various sections including lottery contractors or vendors must award at least 10% of subcontracts to minority businesses until 2005, electronic tokens, affirmative action plan, gambling games and implements may be purchased from any vendor approved by the Gaming Commission, clarifying language to deny a license for failure to meet standards, surety bonds, time length extended for casinos to appeal a gross receipts tax imposed by the Gaming Commission, prohibiting anyone under 21 from wagering, and presenting false identifications.

In response to similar legislation from this year, officials from the **Gaming Commission (GAM)** stated these proposals would change, clarify, and improve language in the riverboat gambling act. The GAM assumes they will not be fiscally impacted by this part of the legislation.

In response to similar legislation from this year, officials from the **Lottery Commission (LOT)** state although the statutory requirements mandating 10% of lottery contracts go to minority-owned businesses and 5% to women-owned business expired on January 1, 2000, they have continued to work to meet those goals. The Lottery spends approximately \$3,200,000 annually with minority-owned businesses and \$1,600,000 with women-owned businesses. The LOT assumes no fiscal impact as they continue this program.

ASSUMPTION (continued)

The **Office of the State Public Defender (SPD)** stated this part of the proposal creates the crime of assisting a person less than 21 years of age to make a wager or to enter a gambling boat. The SPD assumes that existing staff could provide representation for those 25-50 cases arising where indigent persons were charged. However, they state, passage of more than one similar bill would require the State Public Defender System to request increased appropriations to cover cumulative costs of representing the indigent accused in the additional cases.

Officials from the **Department of Corrections (DOC)** stated supervision by the DOC through probation or incarceration would result in some additional costs, but it is assumed that the impact would be \$0, or a minimal amount.

Officials from the **Missouri Highway Patrol**, the **Office of the State Courts Administrator** and the **Office of Prosecution Services** assume this part of the proposal will not fiscally impact their respective agencies.

Oversight assumes GAM will seek prosecution where applicable and the impact of this proposed legislation is unknown, but should be less than \$100,000 per year due to supervision or incarceration costs to the Department of Corrections for the few expected offenders. Oversight also assumes the electronic tokens will not increase gambling boat admissions or winnings.

Expands appropriations that can be made from the Missouri Veterans' Commission Capital Improvement Trust Fund from \$2 million to \$10 million to be used for veterans' memorials in the state.

Officials from the **Missouri Veterans' Commission (VET)** assumes this proposal would require one additional FTE to monitor and manage the grants program for the duration of the 4 year program. A Grant specialist (at \$40,000 annually) with necessary expense and equipment was requested. The VET also assumed that an additional \$400,000 would be necessary for one-time administrative costs over the duration of the grant program.

Oversight assumes the VET will not require the additional FTE, and has ranged the impact of this part of the proposal from \$0 to an additional \$8 million per year, subject to appropriation from the General Assembly.

ASSUMPTION (continued)

Regulation of Raffles and Sweepstakes.

Officials from the **Missouri Gaming Commission (GAM)** state this proposal establishes the statutory criteria and guidelines for religious and charitable organizations to follow to conduct raffles or sweepstakes pursuant to amendment 8 passed by the voters in 1998. Thousands of religious and charitable organizations can conduct raffles annually, those organizations who conduct raffles or sweepstakes events in which prizes awarded exceed \$5,000 per event or who conduct more than 4 raffles per year would be required to be licensed and pay a tax of 2% of the value of prizes awarded.

The GAM stated this proposal will help religious and charitable organizations to raise money for their charitable purposes of the organization. The proposal may have a slight negative impact on the licensed bingo games as some players may elect to buy raffle or sweepstakes tickets rather than spend money on bingo games. This would result in a reduction in the tax receipts from bingo games which is dedicated to education. However because this proposal would levy a 2% tax of the raffle or sweepstakes events, the reduction in tax receipts from bingo games should be more than offset by the reduction in bingo tax receipts. The proposal would allow clarifying religious and charitable organizations the ability to significantly increase their income of which the income must be used for charitable purposes.

The GAM assumed the need for four FTE to implement this proposal. One (1) Data Entry Operator (at \$19,452 annually), one (1) Bingo Analyst II (at \$29,184 annually), one (1) Auditor I (at \$29,184 annually) and one (1) Auditor II (at \$33,624 annually) were requested to process license applications for charities and suppliers, write rules and regulations and develop reporting and record keeping forms. The FTE's would also be responsible for performing necessary audits, the development of automatic computer licensing and tax system, and the development of rules and regulations, license applications, and tax reporting forms.

The GAM assumed the 2% tax on the raffle or sweepstakes events would generate an estimated \$140,000 per year in revenue to the Gaming Commission Fund. They used an estimate of 1,000 licensed raffle events per year and an estimated average of \$7,000 in prizes to be awarded per event ($1,000 \times \$7,000 \times 2\% = \$140,000$).

Oversight assumes the GAM would need two FTE for this proposal, a Bingo Analyst III and an Auditor II. These employees would require the usual expense and equipment items. Oversight has charged the Gaming Commission Fund with these additional costs.

ASSUMPTION (continued)

Oversight notes that GAM officials estimated in the past that several hundred organizations will apply for the license to conduct raffles and sweepstakes. Oversight assumes 300 organizations will apply for a raffle and sweepstakes license. Each non-refundable license costs \$50, therefore, license fee revenue for the Gaming Commission Fund would total \$15,000 for FY 01. Oversight assumes a 10% increase in the number of organizations that would receive a license in the following years. Therefore, license fee revenue would total \$1,500 and \$1,650 in Fiscal Year 2002 and Fiscal Year 2003, respectively.

Oversight notes that the fiscal estimate provided by the GAM did not address the \$25 per event fee that can be imposed by the commission according to Section 313.918 Subsection 3 paragraph (6). Oversight used the GAM's estimate of 1,000 licensed raffle events per year to predict that this \$25 per event fee would generate \$25,000 per year in revenue to be deposited into the Gaming Commission Fund.

In response to an identical proposal from this year, officials from the **Lottery Commission (LOT)** reported the same fiscal impact for this proposal as it did for similar legislation from 1999. In the prior year fiscal note response, LOT stated the Missouri Lottery currently has 195 non-profit organizations selling pull tabs, with total annual sales of \$4,500,000. LOT assumes 50% of pull tab sales would be lost to local raffles and sweepstakes, and that lottery sales would be reduced by \$2,250,000 annually. Assuming a 20% profit margin for pull tabs, this would result in an annual loss of \$450,000 to the Lottery Profits for Education Fund. In addition, LOT assumes this proposal would result in a negative impact on Lottery ticket sales in all Lottery retail locations; however, this loss cannot be reasonably determined.

Oversight has determined the revenue losses anticipated by the Lottery Commission, as stated above, were noted in the fiscal note for Truly Agreed To and Finally Passed Senate Substitute #2 for House Joint Resolution 39 dated May 15, 1998, which was passed by the voters in November, 1998. Therefore, the assumption was that raffles and sweepstakes would be authorized upon approval by the voters. Oversight has not included the estimated revenue loss in the fiscal note for this proposal.

Officials from the **Office of the State Public Defender**, the **Office of Prosecution Services** and the **Office of the State Courts Administrator** assumed that this part of the proposal would not fiscally impact their agency.

In response to similar legislation from last year, the **Department of Corrections (DOC)** stated the need for additional capital improvements is not anticipated at this time.

ASSUMPTION (continued)

They noted that the cumulative effect of various new legislation , if adopted, could result in the need for additional capital improvements funding if the total number of new offenders exceeds current planned capacity. The DOC could not predict the number of new commitments which may result from the creation of the offense(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC would incur a corresponding increase in operational costs either through incarceration or through supervision provided by the Board of Probation and Parole. Supervision by the DOC through probation or incarceration would result in some additional costs but it is assumed that the impact would be minimal.

Oversight assumes offenders placed with the DOC resulting from implementation of this part of the proposal could be absorbed with existing resources.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Gaming Commission's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 12 new pages of regulations in the Code of State Regulations at a cost of \$26.50 per page, and 18 new pages in the Missouri Register at a cost of \$22.50 per page. Costs due to this proposal is estimated to be \$723, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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 request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to identical legislation from this year, officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** assumed they will need five new FTEs to comprise the raffle and sweepstakes enforcement and investigation team. The team would include one (1) Sergeant (at \$38,352 annually), one (1) Corporal (at \$35,352 annually), and three (3) Troopers (each at \$31,512 annually).

ASSUMPTION (continued)

In addition to these 5 FTE, the MHP assumes that they will need standard office equipment for the five new team members as well as equipment needs for the replacement 5 recruit level positions which will be open due to promotions and transfers.

The MHP states the five gaming officers would be assigned all enforcement duties connected with public complaints against legal and illegal raffles and sweepstakes. Enforcement duties assigned to the unit would include, but not be limited to, administrative inspections and reporting to determine compliance with Commission rules and regulations, arrests for criminal statute violations, and interdepartmental liaison activities with local law enforcement agencies. These officers would also conduct background investigations into the charities, their officers and workers who participate in the conduct of management of raffles.

In response to a similar proposal from 1999, the MHP stated the new team would initially start with one officer and, as the demand rises, increase to the optimal level of five members. The funding necessary to cover the expense of the team would be reimbursed to the MHP by the GAM, but the MHP would be responsible to fund the recruitment, training, supply, and assignment of the troopers needed to back fill positions vacated by members reassigned to the new unit.

Oversight assumes the MHP will require one (1) FTE, a Sergeant, initially with corresponding fringe benefits and expense and equipment.

Excursion Gambling Boats offering child care services within their facilities.

The **Gaming Commission** and the **Missouri Highway Patrol** assume this proposal will not fiscally impact their agencies, however this proposal would impact the two existing child care providers at riverboat casinos. Currently, existing child care facilities associated with gaming licensees in the state (*Kids Quest* in Kansas City Station and *Planet 4 Kidz* in Maryland Heights) are independent small businesses operating under contract with the riverboat gaming companies.

The **Department of Revenue** and the **Department of Social Services** assumed this proposal will not fiscally impact their respective agencies.

Oversight assumes the Department of Health will be able to license the existing (and future) child care facilities at excursion gambling boats with existing resources.

L.R. NO. 4122-05
 BILL NO. Perfected SS for SB 902
 PAGE 12 OF 16
 April 12, 2000

SUBJECT TO APPROPRIATION

**VETERANS COMMISSION CAPITAL
 IMPROVEMENT TRUST FUND**

Costs - Additional appropriations for veterans' memorials in the state	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)	\$0 to (\$8,000,000)
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ESTIMATED NET EFFECT ON THE VETERANS COMMISSION CAPITAL IMPROVEMENT TRUST FUND	\$0 TO (\$8,000,000)	\$0 TO (\$8,000,000)	\$0 TO (\$8,000,000)
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SUBJECT TO APPROPRIATION

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal transfers all money in the Gaming Commission Bingo Fund as of August 28, 2000, into the Gaming Commission Fund and effectively abolishes the Bingo Fund at the end of Fiscal Year 2001.

The proposal also expands the prizes that the Lottery Commission may give away from Missouri made products to products made in the United States but sold in Missouri.

This proposal makes several modifications to the law relating to licensed gaming activities.

L.R. NO. 4122-05
BILL NO. Perfected SS for SB 902
PAGE 13 OF 16
April 12, 2000

DESCRIPTION(continued)

In current law, lottery contractors or vendors must award at least 10% of subcontracts to minority business. This act extends that requirement until 2005.

Any money used for gambling may be converted to electronic tokens as well as physical tokens.

Requires excursion gambling boat licensees to develop a system that allows patrons the option to prohibit the licensees from using identifying information for marketing purposes.

Applicants for a license or renewal of a license to operate an excursion gambling boat must provide an affirmative action plan to achieve maximum employment of minorities and maximum procurement of goods and services from minority contractors.

Gambling games and implements may be purchased from any vendor approved by the Gaming Commission instead of only licensed vendors. A licensed facility may not sell or give away gambling games or implements without the prior approval of the Gaming Commission.

When determining where to locate a licensed excursion gambling boat, the Gaming Commission shall give priority to those cities and counties where no current excursion gambling boat exists.

This act clarifies the right of the Gaming Commission to deny a license to any person applying for a license or license renewal for failure to meet any of the standards set forth in section 313.812, RSMo.

The coverage provided by a surety bond posted by a licensed gaming facility is expanded to guarantee that a licensee will complete any proposed modifications to the facility within 3 years of August 28, 2000. Failure to complete any proposed modifications to the facility may result in non-renewal of a gaming license.

This proposal makes it unlawful for a person to present false identification to gain entrance to an excursion gambling boat, cash a check, or verify that such person is legally entitled to be present on the excursion gambling boat. Such violations will be class B misdemeanors.

This proposal authorizes the General Commission to redirect one cent of the two dollar admission fee paid to the Gaming Commission to the credit of the "Compulsive Gamblers Fund". The services funded by this fee have been expanded to include a variety of programs established to prevent compulsive gambling.

RAS:LR:OD:005 (9-94)

L.R. NO. 4122-05
BILL NO. Perfected SS for SB 902
PAGE 14 OF 16
April 12, 2000

DESCRIPTION(continued)

This proposal also allows individuals to voluntarily exclude themselves from excursion gambling boats, thereby electing to expose themselves to a conviction of trespassing in the first degree and full forfeiture of any gambling chips, tokens or electronic gaming credits in their possession.

In current law, a tax of 20% is imposed on the adjusted gross receipts of a licensed gambling facility. If the Gaming Commission has reason to believe that there may be some disparity between the amount due and the payment made by a licensee, then the amount due may be adjusted to reflect the payment due as determined by the Commission. This act extends the amount of time available to a licensee to appeal the adjustment made by the Commission from 10 to 20 days.

This act prohibits anyone under 21 years of age from wagering at a licensed gaming facility. This act also prohibits assisting a person under 21 to make a wager, and permitting anyone under 21 to make a wager. Anyone violating this law for the first time is guilty of a class "B" misdemeanor. Second and subsequent offenses constitute a class "A" misdemeanor.

This proposal makes it a Class D felony to make false statements of a material fact to the Missouri Gaming Commission.

This proposal expands the appropriations that can be made from the Missouri Veterans Commission Capital Improvement Trust Fund from two million to ten million dollars to be used as a match fund for the new construction or renovation of facilities dedicated as veterans' memorials in the state. The deadline for applications applying for these funds has been extended from July 1, 2000 to July 1, 2004.

This proposal changes the annual date that the Gaming Commission must report to the General Assembly from every January 15th, to every October 1st and expands the issues that the commission must address in its report.

This proposal also regulates the conducting of raffles and sweepstakes by charitable and religious organizations. No license is required for sweepstakes or for organizations conducting raffles totaling less than \$5,000 per calendar year, but the organizations are required to have papers and premises open for inspection by the Gaming Commission as well as other restrictions.

DESCRIPTION(continued)

Organizations conducting raffles over \$5,000 per year are required:

- (1) To be licensed;
- (2) To pay out at least 50% of the gross receipts in prizes when the raffle being conducted has prizes exceeding \$15,000;
- (3) To keep their application information current and to report any changes within 30 days;
- (4) To prohibit use of proceeds to pay for leasing or owning the premises where the raffle is conducted; and
- (5) To require the use of the net proceeds for a charitable or religious purpose.

Applicants for a license are required to submit a copy of their tax-exemption letter and federal ID number, a copy of any articles of incorporation and certificate of incorporation, and a statement indicating whether the organization has had a previous application revoked, refused or surrendered. Licensees are required to provide additional information as reasonably requested by the Gaming Commission.

Any person who violates the licensing provisions of the act is guilty of a Class A misdemeanor.

This proposal would also prohibit any operator of an excursion gambling boat in Missouri from providing child care service for anyone other than its own employees, unless such child care is:

- (1) licensed;
- (2) is separated as to sight and sound from the gaming activity; and
- (3) closes no later than 11:00 p.m.

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

L.R. NO. 4122-05
BILL NO. Perfected SS for SB 902
PAGE 16 OF 16
April 12, 2000

SOURCES OF INFORMATION

Missouri Gaming Commission
Missouri Lottery Commission
Office of Prosecution Services
Office of the State Public Defender
Office of the State Courts Administrator
Missouri Highway Patrol
Department of Corrections
Office of the Secretary of State
Department of Mental Health
Department of Revenue
Department of Elementary and Secondary Education
Missouri Veteran's Commission



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