

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 4395-01  
BILL NO.: SB 981  
SUBJECT: Gambling; Higher Education.  
TYPE: #Corrected  
DATE: February 24, 2000  
 #Corrected due to calculation error

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Lottery Proceeds Fund	(\$4,457,500)	(\$12,083,100)	(\$6,594,675)
Lottery Enterprise Fund	\$1,049,814	\$1,003,503	\$2,104,901
#Higher Education Trust Fund	\$15,600,000	\$37,143,000	\$35,459,400
<b>#Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$12,192,314</b>	<b>\$26,063,403</b>	<b>\$30,969,626</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>

Numbers within parentheses: ( ) indicate costs or losses

This fiscal note contains 8 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal establishes the Higher Education Trust Fund (HETF) to receive proceeds from video gaming. The fund is exempt from Section 33.080 requirements and is to be credited with its own interest. The State Treasurer is to make an annual transfer from the HETF to the Lottery Proceeds Fund equal to the reduced amount of lottery ticket sales sold pursuant to sections 313.200 to 313.350. This legislation also exempts sales tax from being charged when playing games and income tax from being imposed upon an individuals game prizes under \$600 a year.

The DOR assumes they will incur a minimal impact on processing the funds cash receipts documents. The electronic fund transfer (Section 313.403.4 page 7) should make transmittal of moneys from this legislation more convenient than manual processing requirements. The DOR assumes the exemption of sales and income taxes will not impact the Division of Taxation.

Officials from the **Missouri Lottery Commission (LOT)** state this proposal would legalize video gaming machines in Missouri. The LOT anticipates long-range sales losses for, at a minimum, the scratchers game and the pulltab game. They believe, based on their research in other states, that the pulltab game would not be able to compete in liquor-by-the-drink establishments with video gaming. The LOT assumes the pulltab game would lose approximately 25% of base sales annually for three years with an unknown reduction thereafter. Pulltab sales have increased from \$10.7 million in FY 1993 to \$29.2 million in FY 1999. This equates to a potential loss of \$7.5 million annually in **gross** sales in the first year.

The LOT states that the scratchers game, if it follows the experience of South Dakota with video gaming run by the Lottery, would lose approximately 50% of its base sales annually to video gaming by the third year. The LOT estimates one-half of the sales loss experienced in South Dakota due to the fact that the games in Missouri may not be in direct competition as is the case in South Dakota convenience stores. The scratchers sales in Missouri have increased from \$115 million in FY 1993 to sales of \$248.5 million in FY 1999. The LOT assumes this equates to a potential loss of \$128.7 million in **gross** sales in the first three years with unknown reductions in years thereafter. Losses to the state from the decrease in sales of scratchers and pulltab games is estimated to be \$4,457,500 in FY 2001, \$16,540,600 in FY 2002, and \$23,135,275 in FY 2003

The LOT estimate that twenty-five (25) FTE would be required to administer this proposal. These would consist of one (1) Video Product Manager, one (1) Administrative Assistant, one (1) Inspector Manager, eight (8) VLT Field Inspectors, four (4) Computer Operator I's, three (3) Computer Operator II's, one (1) Communication Specialist, one (1) VLT Certifier Specialist, one (1) Systems Administrator, one (1) Programmer Analyst II, one (1) Game Accountant, one (1)

ASSUMPTION (continued)

Licensing Specialist II, and one (1) Security Specialist II. These positions were based upon staffing levels in the state of South Dakota and within the Missouri Lottery. Additional expenses include necessary office equipment/supplies, travel expense, consulting and research, and 6 new vehicles. Costs for a central computer system have been estimated at \$1,900,000 in FY 2001, and \$79,000 each year thereafter.

The LOT estimated the revenue from licensing fees to be \$4,775,000 in FY 2001, \$3,575,000 in FY 2002 and \$4,325,000 in FY 2003. The LOT also estimated revenues from the video lottery system as \$15,600,000 in FY 2001, \$41,600,000 in FY 2002 and \$52,000,000 in FY 2003.

Officials from the **Missouri Highway Patrol** state that their agency would require a total of 27 FTE (25 patrolmen and 2 clerical staff) to perform background checks on prospective licensees.

**Oversight** assumes that most of these employees would be needed to handle the initial load of license requests. Costs should be less after the first three fiscal years. It is assumed for purposes of this fiscal note that the background checks performed by the MSHP would be part of the administrative costs of the Missouri Lottery.

Officials from the **Office of Administration (OA)** assume this proposal would not result in any impact on Total State Revenue or any fiscal impact on their agency. However, the proposal may result in considerable general revenue fund costs. The proposal contains a provision (Sec. 313.403, subsection 6) that would help insulate the lottery proceeds fund (and programs that rely on the fund) from revenue losses resulting from the institution of video gambling as described in this proposal. However, the proposal contains no similar provision to protect the gaming proceeds for education fund (riverboat gambling) from such revenue losses. Since the types of games this bill would permit are currently available only on riverboats, it would appear that the proposal could reasonably be expected to result in a significant erosion in gaming proceeds for education fund receipts. Except for seven million dollars used for the school district bond program, all gaming proceeds for education fund revenues are used to fund the school foundation formula. The Governor recommended \$180.2 million for FY 2001 for the school foundation formula from the gaming proceeds for education fund. Any reduction in that amount would have to be replaced with general revenue funds if the school foundation formula was to remain fully funded. Likewise, the proposal could result in significant reductions in the amount of gaming commission fund revenue. Gaming commission fund net proceeds are the revenue source for the veteran's commission capital improvement trust fund, Missouri National Guard trust fund, Missouri college guarantee fund and the early childhood development, education and care fund. Thus, any significant downturn in gaming commission fund revenues would place the programs supported by these funds in jeopardy unless sufficient general revenue funds were available to make up the difference.

ASSUMPTION (continued)

The OA also states that Article III, Section 39(b), subsection 3 of the Missouri Constitution requires that lottery net proceeds be transferred to the lottery proceeds fund, and that monies in the fund be appropriated for public institutions of elementary, secondary and higher education. Based on that requirement, the OA questions whether it would be constitutional to transfer revenue received by the Lottery Commission for video gaming to the higher education trust fund as required by Section 313.403, subsection 6 of this proposal.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Lottery Commission's authority to promulgate rules, regulations, and forms. SOS estimates the department could require approximately 18 new pages of regulations in the Code of State Regulations at a cost of \$26.50 per page, and 27 new pages in the Missouri Register at a cost of \$22.50 per page. Costs due to this proposal would be \$1,085. The actual fiscal impact would be dependent upon the actual rulemaking 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.

Officials from the **Office of the State Courts Administrator**, the **State Treasurer's Office**, the **Department of Corrections** and the **Missouri Gaming Commission** assume this proposal will not fiscally impact their respective agencies.

Officials from the **Office of State Public Defender** assume they could provide representation for those few cases arising where indigent persons were charged. However passage of more than one similar bill would require the State Public Defender System to request increased appropriations to cover cumulative cost of representing the indigent accused in the additional cases.

Officials from the **Department of Higher Education (CBHE)** state this proposal specifies the distribution of funds out of the higher education trust fund as follows: not less than 10% for maintenance and repair at public four-year schools; not less than 5% for maintenance and repair at two-year schools; not less than 5% to fund bond major renovations and capital improvements at all public schools; not less than 5% to the Gallagher Student Grant Program; and not less than 5% to various purposes to be determined by the Governor and General Assembly. The

ASSUMPTION (continued)

operations of the network are funded by new fees on video gaming machine manufacturers, distributors, operators, and on video gaming machine locations. The proposal also provides various new regulations regarding video gaming machines.

The CBHE assumes there would most likely be a positive fiscal impact on higher education as a new revenue source is created for certain higher education programs.

**#Oversight** assumes this proposal will not have a negative impact on the gaming boat revenues. Oversight also assumes the proposal will generate additional funds which will be used for specific purposes, but does not mandate new programs or costs.

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
	(10 Mo.)		

**LOTTERY PROCEEDS FUND**

Income to Lottery Proceeds Fund

Transfer from Higher Education Trust Fund	\$0	\$4,457,500	\$16,540,600
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Loss to Lottery Proceeds Fund

Reduction in instant lottery revenues due to video lottery	(\$4,457,500)	(\$16,540,600)	(\$23,135,275)
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**NET EFFECT TO LOTTERY PROCEEDS FUND**

**(\$4,457,500) (\$12,083,100) (\$6,594,675)**

**LOTTERY ENTERPRISE FUND**

Income - Licensing Fees

	\$4,775,000	\$3,575,000	\$4,325,000
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Costs - to the Lottery Commission

Personal Service (25 FTE)	(\$465,322)	(\$620,429)	(\$651,451)
Fringe Benefits	(\$143,087)	(\$190,782)	(\$200,321)
Expense and Equipment	<u>(\$2,302,500)</u>	<u>(\$354,000)</u>	<u>(\$354,000)</u>

Total <u>Costs</u> to the Lottery Commission	(\$2,910,909)	(\$1,165,211)	(\$1,205,772)
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2001 (10 Mo.)	FY 2002	FY 2003
Costs - to the Missouri Highway Patrol			
Personal Service (27 FTE)	(\$548,744)	(\$674,955)	(\$691,829)
Fringe Benefits	(\$210,608)	(\$259,048)	(\$265,524)
Expense and Equipment	<u>(\$54,925)</u>	<u>(\$472,283)</u>	<u>(\$56,974)</u>
Total Costs to the Missouri Highway Patrol	(\$814,277)	(\$1,406,286)	(\$1,014,327)
<b>NET EFFECT TO THE LOTTERY ENTERPRISE FUND</b>	<b>\$1,049,814</b>	<b>\$1,003,503</b>	<b>\$2,104,901</b>
<b>HIGHER EDUCATION TRUST FUND</b>			
<u>Income</u> - Video lottery revenues	\$15,600,000	\$41,600,000	\$52,000,000
<u>Costs</u> - Transfer to Lottery Proceeds Fund		\$0	(\$4,457,000) (\$16,540,600)
<b>#NET EFFECT ON HIGHER EDUCATION TRUST FUND</b>	<b><u>\$15,600,000</u></b>	<b><u>\$37,143,000</u></b>	<b><u>\$35,459,400</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Income</u> - Appropriations for specific higher education purposes	unknown	unknown	unknown

A portion of the appropriations from the Higher Education Trust Fund would go to the Local Public Community Colleges.

FISCAL IMPACT - Small Business

A fiscal impact to small businesses qualified to host video gaming machines would be expected as a result of this proposal.

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DESCRIPTION

This act authorizes the Missouri Lottery Commission to create a statewide "Video Gaming Machine Network". Certain types of video gambling machines are authorized in licensed locations. The machines will be electronically linked to a main computer which will audit the functioning of the devices and provide transfers of funds to the machines.

Revenues generated by the "Video Gaming Machine Network" will be placed in the "Higher Education Trust Fund", also created by this act, for the purpose of creating reserves for capital improvements to higher education facilities and providing grants for student education. A portion of this fund shall offset any decline in lottery sales.

A license is required for manufacturers and distributors of such video games as well as for each machine and each premises containing the machines. The Director of the Lottery Commission sets the rules for licensing of machine locations, distributors, manufacturers, and parts suppliers. The Commission will contract with these licensed entities on an annual basis.

Tampering with games or machines is a Class D felony. After the effective date of this act, it shall be illegal to operate any video device that can simulate a game played on a licensed video gaming machine.

This legislation is not federally mandated, would not duplicate any other program, but may, however, require additional capital improvements or rental space to house the additional FTE requested by the Lottery Commission or the Highway Patrol or the Lottery Commission's mainframe computer.

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SOURCES OF INFORMATION

Department of Revenue  
Missouri Gaming Commission  
Missouri Lottery Commission  
Department of Higher Education  
Department of Public Safety  
    Missouri State Highway Patrol  
Office of the Secretary of State  
Office of the State Treasurer  
Office of the State Courts Administrator  
Office of the State Public Defender  
Department of Corrections



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