

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1204-06  
Bill No.: Perfected HCS #2 for HB 502  
Subject: Taxation and Revenue - General; Gambling  
Type: Original  
Date: March 29, 2017

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Bill Summary: This proposal modifies provisions relating to fantasy sports contests.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Gaming Commission Fund	(Could exceed \$13,446)	(Could exceed \$13,446)	(Could exceed \$13,446)
Gaming Proceeds for Education Fund	(Could exceed \$329,032)	(Could exceed \$329,032)	(Could exceed \$329,032)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>(Could exceed \$342,478)</b>	<b>(Could exceed \$342,478)</b>	<b>(Could exceed \$342,478)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<b>Total Estimated Net Effect on All Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

**Oversight** was unable to receive the agency responses to the amendment in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Department of Public Safety - Missouri Gaming Commission (GAM)** assume this proposal would have a negative fiscal impact on their organization based on the following information.

§313.935.3(1) - GAM received \$23,446 from the 6 companies that applied for a license in 2016. Based on the reported net revenue of those applicants, 2 of those applicants would pay \$5,000 each (annual renewal fee) and the rest would be exempt from paying a renewal fee, resulting in a \$13,446 reduction in revenue for the Gaming Commission Fund (0286).

§313.935.3(2) - Based on the annual operation fee reports received on January 15, 2017, the applicants reported net revenue of \$1,989,727 for the period of August 28<sup>th</sup> 2016 to December 31<sup>st</sup> 2016. Based on those filings and other information gathered from the applicants we project total net revenues for the calendar year 2017 to be \$5,982,428. The annual operating fee based on that amount at 11.5% would be \$687,979, and at 6% would be \$358,947, which would result in a loss of revenue for the Gaming Proceeds for Education Fund (0285) of \$329,032.

**Oversight** will show a negative fiscal impact that could exceed GAM's estimates because the projected fiscal impact provided by GAM is based only on 6 months of activity.

Officials at the **Office of Administration - Administrative Hearing Commission**, the **Joint Committee on Administrative Rules**, the **Missouri Lottery Commission**, the **Office of Prosecution Services**, the **State Public Defender's Office**, and the **Missouri Tax Commission** each assume this proposal will not have a fiscal impact on their respective organizations.

In response to a previous version of this proposal (1204-04), officials at the **Office of State Courts Administrator** assume this proposal would not have a fiscal impact on their organization.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this proposal would not have a fiscal impact to their organization. However, in response to a previous version of this proposal (1204-04), DOR noted the legislation increases the amount of funds deposited into the Gaming Commission Fund created under §313.835 increasing Total State Revenue an indeterminable amount.

Officials at the **Office of Secretary of State** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs.

However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials at the **Attorney General's Office** did not respond to Oversight's request for fiscal impact.

House Amendment 1, as amended

**Oversight** assumes the amendment would not have a fiscal impact on the agencies affected and therefore, the fiscal note reflects the same fiscal impact as was shown prior to the passage of this amendment.

**This proposal could decrease Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
<b>GAMING COMMISSION FUND</b>			
<u>Reduction of Revenue - §313.935.3(1)</u>			
GAM - Change in Licensing Fees Calculations	(Could exceed <u>\$13,446</u> )	(Could exceed <u>\$13,446</u> )	(Could exceed <u>\$13,446</u> )
<b>ESTIMATED NET EFFECT ON GAMING COMMISSION FUND</b>	<b>(Could exceed <u>\$13,446</u>)</b>	<b>(Could exceed <u>\$13,446</u>)</b>	<b>(Could exceed <u>\$13,446</u>)</b>
<b>GAMING PROCEEDS FOR EDUCATION FUND</b>			
<u>Reduction of Revenue - §313.935.3(2) -</u>			
GAM - Annual Operation Fee reduced from 11.5% to 6.0% of Gross Receipts	(Could exceed <u>\$329,032</u> )	(Could exceed <u>\$329,032</u> )	(Could exceed <u>\$329,032</u> )
<b>ESTIMATED NET EFFECT ON GAMING PROCEEDS FOR EDUCATION FUND</b>	<b>(Could exceed <u>\$329,032</u>)</b>	<b>(Could exceed <u>\$329,032</u>)</b>	<b>(Could exceed <u>\$329,032</u>)</b>
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The bill modifies the definitions of "fantasy sports contest" and "fantasy sports contest operator."

Currently, a fantasy sport contest operator is required to maintain a reserve in the form of cash or cash equivalents in the amount of the deposits made to the accounts of fantasy sports contest players. This bill specifies that the reserve can be in the form of cash, cash equivalents, payment processor reserves, payment processor receivables, an irrevocable letter of credit, a bond, an escrow account, or a combination thereof, in the amount that shall equal or exceed the total balances of the fantasy contest players' accounts.

### FISCAL DESCRIPTION (continued)

This bill changes the requirement that any prize won by a registered player from a contest be deposited into the player's account within 48 hours of winning, to also allow a prize to be mailed within five business days. The bill creates an exception if the licensed operator believes in good faith that the registered player engaged in either fraudulent conduct or other conduct that would put the licensed operator in violation of the law, in which case the licensed operator may delay the deposit for an unspecified reasonable investigatory period until its investigation is resolved, so long as the operator provides notice of the nature of the investigation to the player.

This bill reduces the annual license renewal fee from \$10,000 to a lower amount based upon the net revenue of the operator from the previous calendar year. An operator that made over \$2 million would have to pay a fee of \$5,000, an operator that made less than \$2 million but more than \$1 million would have to pay a fee of \$2,500 and an operator that made less than \$1 million but more than \$250,000 would have to pay \$1,000. An operator that made \$250,000 or less would not be required to pay an annual license renewal fee.

The bill also reduces the annual operation fee from 11.5% of the operator's net revenue from the previous calendar year to 6%. The bill removes the date on which the operation fee is due and instead of an automatic suspension of the license of an operator who fails to apply for a license renewal or pay the annual operation fee by that date, allows the commission to suspend the license or deny the pending license application at its discretion.

This bill also limits the commission's investigation into the operator's employees, officers, directors, trustees, and principal salaries executive staff officers to \$10,000 rather than \$50,000. The bill creates an exception to the audit requirement for operators with a net revenue of \$250,000 or less in a calendar year.

This bill reduces the administrative penalty from not more than \$10,000 to not more than \$1,000 per violation, and from not more than \$100,000 to not more than \$10,000 for violations arising out of the same transaction or occurrence.

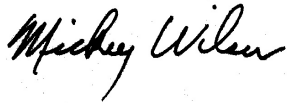
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Public Safety - Missouri Gaming Commission  
Office of Administration - Administrative Hearing Commission  
Joint Committee on Administrative Rules  
Missouri Lottery Commission  
Office of State Courts Administrator

SOURCES OF INFORMATION (continued)

Office of Prosecution Services  
State Public Defender's Office  
Department of Revenue  
Missouri Tax Commission  
Office of Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 29, 2017

Ross Strobe  
Assistant Director  
March 29, 2017