

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6481-04
Bill No.: HB 2535
Subject: Gambling; Department of Revenue; Licenses - Miscellaneous
Type: Original
Date: April 3, 2018

Bill Summary: This proposal establishes provisions relating to sports wagering.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Gaming Proceeds for Education Fund	\$0 or Up to \$15,300,000	\$0 or Up to \$15,300,000	\$0 or Up to \$15,300,000
Gaming Commission Fund	\$0 or (\$158,332)	\$0 or (\$179,992)	\$0 or (\$179,992)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or Less than \$15,141,668	\$0 or Less than \$15,120,008	\$0 or Less than \$15,120,008

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Gaming Commission Fund	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
Total Estimated Net Effect on FTE	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0 or Could Exceed \$1,700,000	\$0 or Could Exceed \$1,700,000	\$0 or Could Exceed \$1,700,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety - Missouri Gaming Commission (MGC)** state that as noted in the proposed legislation, implementation of sports betting in Missouri is contingent on a favorable United States Supreme Court decision, which would allow states to begin accepting wagers. Based on the language in the bill, the thirteen riverboat casinos could allow sports wagering, but there are a number of variables that make it difficult to project accurate revenues for taxation.

A wagering tax of twelve percent will be imposed on the adjusted gross receipts. The American Gaming Association (AGA) estimates over \$145 billion dollars are wagered annually on sports in the U.S. With the number of states proposing similar sports betting bills, sports wagering in Nevada, and the total legal and illegal sport wagering in the U.S., up to \$17 million in tax would be generated in Missouri that would be remitted to the Education Fund pursuant to section 313.822. The \$17 million is the top range and is based on the assumption that all players would immediately wager from legal sites and not illegal sites.

Section 313.870.3 requires sports wagering operators to remit a 1% integrity fee of the gross amount wagered.

Oversight assumes the 1% integrity fee paid from the sports wagering operating will be remitted to relevant sports governing board. Since sports wagering operators and sports governing boards are not state government, Oversight will not reflect a fiscal impact.

MGC states the bill allows for a \$10,000 application fee and an annual \$5,000 administration fee for interactive sports wagering platform licenses and allows the commission to recoup the cost of the investigation prior to a license being issued, up to \$50,000. It is estimated that there could be up to six interactive sports wagering platform applicants, but expect there could be as few as one. (the six number is based on the number of Class /parent companies in Missouri having casinos). Based on this assumption, there could be a revenue of up to \$60,000 in the first year and up to \$30,000 in the years following.

ASSUMPTION (continued)

It is estimated that the fees would cover the initial investigative expenses but not cover the on-going costs to MGC relating to interactive sports wagering platform approval, testing devices, adopting rules, and regulating sports wagering operators.

MGC has determined that two FTE, an Information Technology Specialist II (\$72,636/annually) and a Public Safety Manager Band 1 (\$65,276/ annually) plus equipment/expenses would be required to initially meet the legislation.

Oversight assumes Section 313.875 allows for a penalty for violation of sports wagering of \$5,000 for each violation and not to exceed \$50,000 for violation arising out of the same transaction. It also allows any violation shall be subject to penalties under subdivision (6) of 313.805.

Oversight assumes the 12% Wagering tax will be will be distributed pursuant to Section 313.822, which splits 90% of the tax to the Gaming Proceeds for Education Fund and 10% to the home dock city or county.

Since implementation of sports betting in Missouri is contingent on a favorable United States Supreme Court decision, **Oversight** will reflect a revenue of \$0 (the Supreme Court does not rule in favor of sports betting in Missouri) or Up the MGC estimates.

Since the number of casinos applying is unknown, **Oversight** will reflect a revenue of \$0 (the Supreme Court does not rule in favor of sports betting in Missouri) or Up to \$60,000 (6 Riverboat Casinos applied) in FY 2019 and Up to \$30,000 in FY 2019 and FY 2020 to the Gaming Commission Fund.

Oversight will also reflect a cost of \$0 (the Supreme Court does not rule in favor of sports betting in Missouri) or \$114,239 in FY 2019 and \$110,069 in FY 2020 and FY 2021 for MCG FTE cost to the Gaming Commission Fund.

For fiscal note purposes, **Oversight** will assume the legislation intends to remit penalties for violations of sports wagering to the school district in which the violation occurs and will show a \$0 or positive unknown to local school districts.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

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.

Officials from the **Office of the State Treasurer** and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Department of Revenue** estimates a minimal to unknown impact.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GAMING PROCEEDS FOR EDUCATION FUND			
<u>Revenue - MCG</u>	\$0 or Up to	\$0 or Up to	\$0 or Up to
90% of the 12% Wagering Tax	<u>\$15,300,000</u>	<u>\$15,300,000</u>	<u>\$15,300,000</u>
ESTIMATED NET EFFECT TO THE GAMING PROCEEDS FOR EDUCATION FUND	<u>\$0 or Up to</u> <u>\$15,300,000</u>	<u>\$0 or Up to</u> <u>\$15,300,000</u>	<u>\$0 or Up to</u> <u>\$15,300,000</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
GAMING COMMISSION FUND			
<u>Revenue</u> - MGC Application and Administrative Fees	\$0 or Up to \$60,000	\$0 or Up to \$30,000	\$0 or Up to \$30,000
<u>Cost</u> - MGC			
Personal Service	\$0 or (\$137,912)	\$0 or (\$137,912)	\$0 or (\$137,912)
Fringe Benefits	\$0 or (\$62,536)	\$0 or (\$62,536)	\$0 or (\$62,536)
Equipment and Expense	<u>\$0 or</u> <u>(\$17,884)</u>	<u>\$0 or</u> <u>(\$9,544)</u>	<u>\$0 or</u> <u>(\$9,544)</u>
<u>Total Cost</u> - MGC	<u>\$0 or</u> <u>(\$218,332)</u>	<u>\$0 or</u> <u>(\$209,992)</u>	<u>\$0 or</u> <u>(\$209,992)</u>
FTE Change - MGC	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
ESTIMATED NET EFFECT TO THE GAMING COMMISSION FUND	<u>\$0 or</u> <u>(\$158,332)</u>	<u>\$0 or</u> <u>(\$179,992)</u>	<u>\$0 or</u> <u>(\$179,992)</u>
Estimated Net FTE Change to the Gaming Commission Fund	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
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<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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LOCAL POLITICAL SUBDIVISIONS

<u>Revenue - Home Dock City or County</u> 10% of the 12% Wagering Tax	\$0 or Up to <u>\$1,700,000</u>	\$0 or Up to <u>\$1,700,000</u>	\$0 or Up to <u>\$1,700,000</u>
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ESTIMATED NET EFFECT TO THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or Up to \$1,700,000</u>	<u>\$0 or Up to \$1,700,000</u>	<u>\$0 or Up to \$1,700,000</u>
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LOCAL SCHOOL DISTRICTS

<u>Revenue - Violation of sports wagering penalty</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
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ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill allows licensed excursion gambling boats to offer sports wagering when the Missouri Gaming Commission determines that federal law does not prohibit such sports wagering. Sports wagering could be offered on the excursion gambling boat or over the Internet through a website or mobile device. However, in order to place bets over the Internet a person must first activate an account in person at the excursion gambling boat.

The bill requires that an interactive sports wagering platform obtain a license from the state and pay an application fee of \$10,000 before offering sports wagering over the Internet on behalf of an excursion gambling boat. A licensed interactive sports wagering platform will also have to pay an annual license renewal fee of \$5,000. In order to obtain a license, the interactive sports wagering platform must be registered to do business in Missouri and have its principal place of business in the United States.

FISCAL DESCRIPTION (continued)

Under the provisions of this bill the adjusted gross receipts from sports wagering would be taxed at a rate of 12%. At least once per calendar quarter, a sports wagering operator must also remit to the relevant sports governing body a sports betting right and integrity fee of 1% of the gross amount wagered on its sporting events.

Sports wagering operators must allow individuals to restrict themselves from placing wagers with the operator, as described in the bill. The bill also gives the Missouri Gaming Commission the authority to create rules regarding advertising for sports wagering

Operators must conduct background checks on all newly hired employees, and annual background checks on all existing employees. Operators must employ reasonable methods to prohibit the following individuals from placing wagers with the operator: the operator and employees of the operator, along with any relative living in the same household as such person, from placing bets with the operator; athletes, coaches, referees, and other individuals associated with a sporting event (with the prohibition applying only to a sporting event overseen by that sport's governing body); individuals with access to non-public confidential information held by the operator; and persons placing wagers as agents or proxies for others. Sports wagering operators shall maintain records of all bets and wagers placed, including personally identifiable information of the bettor, amount and type of bet, and certain other information relating to the bet as described in the bill. Operators must also maintain the security of wagering data, customer data, and other confidential information from unauthorized access and dissemination.

A sports governing body can notify the commission that it desires to restrict, limit, or exclude wagering on its sporting events by providing notice in a form required by the commission, including restrictions on the sources of data and associated video upon which an operator may rely in offering and paying wagers and the bet types that may be offered. Upon receiving such notice, the commission shall publish such wagering restrictions.

The commission must designate a state law enforcement entity to have primary responsibility for conducting, or assisting the commission in conducting, investigations into abnormal betting activity, match fixing, or other conduct that corrupts a betting outcome. The commission and sports wagering operators shall cooperate with investigations conducted by sports governing bodies or law enforcement agencies. Operators must immediately report to the commission any information relating to certain suspicious or illegal wagering activities, as described in the bill (Section 313.865).

Any person who knowingly violates any procedure implemented under this bill shall be liable for a civil penalty of not more than \$5,000 for each violation, not to exceed \$50,000 for violations

FISCAL DESCRIPTION (continued)

arising out of the same transaction or occurrence. Such person shall also be subject to actions and penalties provided under current law (Section 313.875).

Any person who places, or causes to be placed, a bet or wager on the basis of non-public information relating to that bet or wager, or who knowingly engages in, facilitates, or conceals conduct that intends to improperly influence a betting outcome of a sporting event for purposes of financial gain in connection with betting or wagering on a sporting event shall be guilty of a class E felony (Section 313.880).

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 the Secretary of State
Office of the State Treasurer
Department of Revenue
Office of the State Auditor

Ross Strobe



Acting Director
April 3, 2018