

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0968H.011
Bill No.: HB 970
Subject: Gambling; Entertainment, Sports and Amusements; Public Safety, Department of
Elementary and Secondary Education, Lotteries; Veterans
Type: Original
Date: January 27, 2025

Bill Summary: This proposal establishes provisions relating to video lottery gaming terminals, licenses, and regulation.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| | | | |
| | | | |
| Total Estimated Net Effect on General Revenue | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|--|--|--|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| State Lottery Fund (0682) * | \$0 | \$0 | \$0 |
| Criminal Records Fund (0671) | Unknown | Unknown | Unknown |
| Gaming for Education Proceeds Fund (0285)** | (Unknown) | (Unknown) | (Unknown) |
| Gaming Commission Fund (0286)** | (Unknown) | (Unknown) | (Unknown) |
| Lottery Enterprise Fund (0657) * | \$0 | \$0 | \$0 |
| Lottery Proceeds Fund (0291) *** | \$109,849,276 | \$225,587,063 | \$338,525,618 |
| Compulsive Gamblers Fund (0249) **** | (\$118,428) | \$6,519 | \$6,519 |
| State Road Fund (0320) | \$810,000 | \$810,000 | \$810,000 |
| Illegal Gaming Enforcement Fund | \$810,000 | \$810,000 | \$810,000 |
| Veterans Commission Capital Improvement Trust Fund (0304) | \$3,240,000 | \$3,240,000 | \$3,240,000 |
| Total Estimated Net Effect on <u>Other</u> State Funds | More or Less than \$114,590,848 | More or Less than \$230,453,582 | More or Less than \$343,392,137 |

*Revenues and Expenses Net to \$0

**Per the MGC, the extent of the reduction in revenue in both state and local taxes from riverboat gaming and charitable bingo is unknown, but significant.

***Oversight reflects revenue tax of 34% is imposed on adjusted gross gaming revenue due to Section 313.429.13 less administrative expenses and transfers.

****Oversight reflects the net difference between cost of 1% of the license fee under Section 313.429.14 and compulsive gambling treatment on page 7 as specified by DMH.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| Lottery Enterprise Fund (LOT) | 27 FTE | 27 FTE | 27 FTE |
| Lottery Enterprise Fund (MHP) | 15 FTE | 15 FTE | 15 FTE |
| Total Estimated Net Effect on FTE | 42 FTE | 42 FTE | 42 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 2026 | FY 2027 | FY 2028 |
| | | | |
| Local Government | More or Less than <u>\$14,185,125</u> | More or Less than <u>\$26,750,250</u> | More or Less than <u>\$39,315,375</u> |

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Section 27.180 – Illegal Gaming Enforcement Fund

Oversight notes this section of the proposal establishes the Illegal Gaming Enforcement Fund which shall consist of revenues received by the Missouri Lottery Commission pursuant to sections 313.425 to 313.437.

Oversight does not assume there will be a fiscal impact. Therefore, Oversight will reflect a zero impact in the fiscal note for this section.

Sections 313.425-313.437 – Honoring Missouri Veterans and Supporting Missouri Education Act

Officials from the **Missouri Lottery Commission (Commission/LOT)** state:

Section 313.429.1

The **Commission** shall implement a system of video lottery game terminals and issue licenses to video lottery game manufacturers, video lottery game distributors, video lottery game operators, video lottery game handlers, and video lottery game retailers.

Section 313.429.2

Video lottery game terminals shall meet independent testing standards approved by the commission. The commission shall promulgate rules for minimum standards for video lottery game terminals operating in the state.

Section 313.429.3

The **Commission** may impose license application fees, annual renewal fees and annual terminal administration fees. The terminal administration fees shall be distributed to the highway patrol, attorney general's office, veterans commission, and municipalities.

- It is assumed four (4) additional lead administrative support assistant positions at a salary of \$38,888 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 license application fees, annual renewal fees and annual terminal administration fees. The terminal administration fees shall be distributed to the highway patrol, attorney general's office, veterans commission, and municipalities.
- It is assumed that four additional lead admin support assistant positions at a salary of \$38,888 each will be needed to process applications, renewals, annual terminal administration fees, and no chance game registration fees which includes completing background checks on owners and handlers and determining eligibility. It is assumed revenues from initial application/administrative and registration fees will total \$61.9 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 \$79,000 per year (background checks are estimated to be \$33.25 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 \$79,000 per year, with approximately \$11.7 million in revenues assumed from the first year of renewal/administrative fees, ramping up to approximately \$46.8 million in year 4 and beyond.

Section 313.429.8

Video lottery game terminals shall be inspected and approved by the commission. Redemption terminals shall meet independent testing standards.

Section 313.429.9

Video lottery terminals must be connected to a centralized computer system approved by the Commission.

Section 313.429.10

Operators shall provide the **Commission** with a list of players who have been elected to be excluded from video lottery game play.

Section 313.429.11

No operator shall operate more than twelve video lottery terminals per location.

Section 313.429.12

No person under the age of twenty-one shall play video lottery game terminals. Retailers shall have a video surveillance system where the video lottery game terminals are located. An operator or retailer that fails to report a violation may be subject to an administrative fine or suspension or revocation of their license.

The **Commission** assumes:

- Nine (9) Lottery Security Specialists at an annual salary of \$61,940 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.
- Four (4) additional Lottery Security Specialists at an annual salary of \$61,940 are needed to facilitate and document VLT investigations.
- One (1) responsible gaming public relations coordinator is needed at an annual salary of \$60,000 to educate operators and retailers on problem gambling and manage the self-exclusion program.
- One (1) human resource specialist is needed at an annual salary of \$65,083 to assist with hiring and training FTE to administer the program.

The Commission will need appropriation authority for the central system but there is no cost associated since the cost will be reimbursed by operators.

Advertising, promotions and point-of-sales costs associated with the program are estimated to be \$1,500,000 per year.

Oversight notes provisions of 313.429.12 provide for multiple administrative fines against a video lottery game operators or retailers 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

An adjusted gross gaming revenue tax of 34% is imposed on adjusted gross gaming revenue. The commission must identify and compensate the municipality where a licensed video lottery retailer maintains an establishment 29% of the tax (10% of adjusted gross gaming revenue). Appropriation authority will be needed to remit compensation to the municipalities. The

remaining amount of the tax after Lottery administrative costs shall supplement education funding (i.e. transferred to the Lottery Proceeds Fund for appropriation to public education).

Section 313.429.14

Up to one percent of license fees shall be deposited to the credit of the compulsive gamblers fund.

The **Commission** assumes:

- Three (3) senior accounts assistants are needed at an annual salary of \$46,188 each to collect license, renewal, administrative and registration fees, verify and collect the 34% adjusted gross gaming revenue tax, and remit payments to municipalities, the Missouri State Highway Patrol, the Missouri Attorney General's Gaming Enforcement Fund, the Veterans' Commission Capital Improvements Trust Fund, and the Compulsive Gamblers Fund.
- Two (2) data analysts/applications developers are needed at an annual salary of \$63,391 to ensure the centralized system is accurately capturing data and to develop files, applications and reports to assist in the licensing, security and accounting of the program.

The **Commission** assumes approximately \$37 million, \$73.9 million and \$110.9 million per year will be remitted to municipalities where video lottery establishments are located in 2026, 2027 and 2028, respectively, from 10% of gross gaming revenue.

\$1,620,000 per year will be remitted to the Missouri State Highway Patrol, \$810,000 per year to the Missouri Attorney General's Gaming Enforcement Fund, \$810,000 per year to the Veterans' Commission Capital Improvement Trust Fund, \$1,620,000 per year to the municipality or county, and \$810,000 per year to the Compulsive Gamblers Fund from the \$1,000 annual per terminal administrative fee.

Oversight assumes the proposal does not state which fund the \$100 of annual per terminal admin fee per year for the MHP will be remitted to; therefore, Oversight will reflect the transfer in from the Lottery Enterprise Fund into the State Road Fund in the fiscal note.

Officials from the **Department of Mental Health (DMH)** assume all revenues received by the commission from license fees shall be deposited into the state lottery fund. Subject to appropriation, up to one percent of such license fees shall be deposited to the credit of the compulsive gamblers fund created under section 313.842.

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 FY 24 DMH served approximately 15 consumers through compulsive gambling (CG) treatment services with an average cost of \$987 per consumer for a total of \$14,805. These numbers are not reflective of the need for gambling treatment services in Missouri. The state has experienced a reduction of credentialed professionals (retirement, workforce shortages) that have resulted in fewer referrals.

A recent prevalence study conducted in Missouri in 2022 (Spare, K., Wiley, H. D., Mills, D. J., Lee, U., & Lewis, L. E. (2023). 2022 Missouri Gambling Prevalence Study) revealed that from a sample of 3,259 adults, 4.1% of the population or 200,000 adult Missourians met the criteria for a Gambling Disorder, and an additional 20.8% (or 1 million adult Missourians) were at risk for a gambling disorder. According to the journal *Addiction*, by the Society for the Study of Addiction, 1 in 5 people with problem gambling had sought help for problem gambling. Other more conservative research studies estimate 10% of individuals with a gambling disorder seek treatment.

Based on the recent prevalence study, if even .05% of the estimated total of Missourians meeting the criteria for a gambling disorder sought treatment, the number would be equal to 1,000 individuals. Based on our current numbers and in the event of serving 100 individuals with an average cost per consumer at \$987 for FY 24, it would equate to \$98,700.

Currently, DMH has seven (7) 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 \$8,000 in FY 26. 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 \$273,100 in FY 26, this includes treatment cost, advertising, and new counselor training (first year only). For FY 27 and beyond the amount would be \$265,100 or more based upon the need for compulsive gambling services.

Oversight will reflect the estimated cost provided by DMH and will also reflect the transfers of monies as required by sections 313.429.14.

Oversight notes section 313.429.14 states “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 by the Missouri Lottery Commission to be \$154,672 in FY 2026 and \$271,619 in FY 2027 and 2028.

The balance of the Compulsive Gamblers Fund (0249) was \$99,986 on June 30, 2024.

Section 313.429.15

The **Commission** shall contract with a state law enforcement entity to assist in conducting background investigations and for enforcement.

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** state the commission may 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 video lottery game licensee of any of the provisions of sections 313.425 to 313F.437 or state law regulating illegal gambling activities..."

If the Lottery Commission elects to contract with the Patrol, this bill would create hundreds of additional locations throughout the state that would require regulatory compliance checks.

The MHP further states that Funding for this review is shown as the Lottery Fund as outlined in Section 313.429.14, however, there is also another identified fund (Illegal Gaming Enforcement Fund) in Section 27.180, and the Patrol is specified as receiving appropriation from this fund in Section 313.429.3(3)(a). Both specify funding is for the purposes of the administration of Section 313.425 to Section 313.437.

It is assumed that expenses incurred by the Patrol will be reimbursed by the Lottery Commission from the Lottery Fund or the Illegal Gaming Enforcement Fund. However, the minimum resources required by the Patrol are estimated to be fifteen (15) additional FTE to perform background investigations on vendors/operators, criminal investigations, and regulatory enforcement throughout the state. This consists of the following:

- Two (2) members to perform background investigations.
- Twelve (12) members to oversee regulatory and criminal investigations in the field.
- One (1) clerk/typist to process related reports.

The 12 field investigators include one member per troop in six of the troops, and two members in Troops A, C, and D.

If the Patrol continues to be the investigative agency that has been tasked with investigating the majority of illegal gambling complaints, a reasonable assumption can be made that the number of illegal devices and complaints can potentially increase resulting in a greater backlog of complaints, and a greater expectation placed on the enforcement of the establishments allowing the operation of illegal devices. This legislation now moves the investigative responsibility to the Attorney General in Section 27.180.

The number of fingerprints or name only criminal record checks performed based on the regulatory criteria for the video lottery section of this proposed legislation is unknown.

Below are calculations for the name or fingerprint based criminal history checks and how much is deposited into the Criminal Record System Fund for each check performed:

- State and Federal Fingerprint Criminal History Fee - \$22.00 to the Criminal Record System Fund (0671)
- State Name Criminal History Fee - \$15.00 to the Criminal Record System Fund (0671)

Oversight does not have any information to the contrary. Therefore, Oversight will show the FTE as assumed by the MHP. Oversight will reflect the cost of 15 FTE to the State Lottery Fund (0682). In addition, Oversight will reflect an unknown gain to the Criminal Record System Fund (0671) for the number of fingerprints or name only criminal record checks performed based on the regulatory criteria for the video lottery.

Section 313.429.17

The **Commission** shall adopt rules for the implementation of the video lottery game system and will require:

- One (1) paralegal FTE at an annual salary of \$60,757
- One (1) legal assistant at an annual salary of \$62,579

These positions are assumed to assist with additional legal work involved with promulgating rules and seeking prosecution of violations by the Attorney General.

Section 313.431

The **Commission** shall procure and implement a centralized computer system, make a form use agreement and form license applications available for manufacturers, distributors, operators, retailers and handlers, promulgate rules, establish a start date for when operators may begin soliciting use agreements with retailers, approve or deny applications, and establish and operational date by which the system of video lottery game terminals shall be operational.

The **Commission** assumes one VLT manager is needed to manage and oversee the VLT program and related FTE at an annual salary of \$104,326. Fringe benefits for the twenty-seven additional FTE are estimated to be \$1,000,000 per year. Equipment, vehicle, and one-time telecommunication costs for the new FTE are estimated to be \$985,000. Annual office supplies, fuel, janitorial, utilities and ongoing IT cost for the new FTE is estimated to be \$209,000 per year.

The Lottery assumes 4,500 retailers will operate 32,400 terminals after a 4-year ramp up period. Additional revenue to the Lottery and municipalities from video lottery sales are anticipated to

be \$125.7 million in year one and grow to \$377.0 million in year three, offset by lost profits from Pull-Tabs and Keno of approximately \$13.2 million per year. Pull-Tab sales at fraternal organizations are assumed to be completely cannibalized by video lottery sales; Keno sales are expected to be cannibalized by 31.3%.

The net effect of the above impacts on the Lottery Proceeds Fund is anticipated to be a positive \$89.4 million in FY 2026, \$180 million in FY 2027, and \$268.6 million in FY 2028.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the 27 FTE cost and the estimated revenue as reflected by the Missouri Lottery Commission to the Lottery Enterprise Fund.

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 notes the Commission estimated a loss of revenue of \$3,309,418 in FY 2026, \$13,237,672 in FY 2027 and \$13,237,672 in FY 2028 as a result of potential elimination of current Pull-Tab programs at fraternal organizations and reduction in Keno sales. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the loss to the State Lottery Fund in the fiscal note.

Oversight currently does not have the data or resources available to produce independent revenue projections 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 313.429.13).

| <u>State Revenue Impact</u> | | | |
|---|----------------------|----------------------|----------------------|
| Provision | FY26 | FY27 | FY28 |
| Initial Application Fee | \$15,467,200 | \$15,467,200 | \$15,467,200 |
| Annual Renewal and Terminal Admin Fees* | \$0 | \$11,694,700 | \$11,694,700 |
| VLT Proceeds | \$125,651,250 | \$251,302,500 | \$376,953,750 |
| Total State Impact | \$141,118,450 | \$278,464,400 | \$404,115,650 |
| <u>Local Revenue Impact</u> | | | |
| Cities/Counties (10% of AGR Tax) | \$12,565,125 | \$25,130,250 | \$37,695,375 |

* There are no renewal fees in the first year per (Section313.429.3(2)).

Oversight will reflect an adjusted gross gaming revenue tax of 34% that is imposed on adjusted gross gaming revenue. The remaining amount of the tax after Lottery administrative costs shall supplement education funding (i.e. transferred to the Lottery Proceeds Fund for appropriation to public education).

Oversight will also show 10% of adjusted gross gaming revenue from video lottery terminals as income to the State Lottery Fund, then show a transfer to the Lottery Enterprise Fund where the income will be transferred once again to municipalities or counties where a licensed video lottery game retailer maintains an established license for the operation of video lottery game terminals.

Bill as a Whole:

Officials from the **Missouri Gaming Commission (MGC)** state this bill proposes the Honoring Missouri Veterans and Supporting Missouri Education Act as a new form of entertainment, which would be regulated by the Missouri Lottery Commission. It also provides avenues for formal legalization of No Chance Games, or NCGs. The bill provides for administrative fees to be paid by VLT operators and retailers, with such fees to be split among causes including the Missouri State Highway Patrol for investigations and enforcement of the new bill, the Missouri attorney general’s office for use in illegal gambling enforcement, the veterans’ commission capital improvement fund, and the municipality or county where the VLT is located. The bill also provides that the tax revenue generated shall be in addition to, and shall supplement, and shall not supplant, any education funding otherwise appropriated by the general assembly. It also specifically provides that each city and county in which a VLT is operating, as determined in rules set forth by the Lottery Commission, shall receive ten percent (10%) of the gross gaming revenue tax collected, remitted, and assessed on the gross gaming revenue generated by the

VLTs in that jurisdiction, with such funds to be used to provide services necessary for the safety of the public in visiting a VLT retail location.

It is assumed that video lottery terminals (VLTs) and no chance game devices would be in direct competition with bingo and excursion gambling boats, resulting in a reduction in state gaming taxes to education. The extent to which these reductions will be offset by new revenue generated by VLTs is unknown. This Act would also result in a reduction of state admission fees to excursion gambling boats. Such admission fees benefit Veterans, National Guard and Access Missouri programs. The extent to which these reductions would be offset by the administrative fees proposed by the bill is unknown. The Act would likely also result in reductions in casino taxes and admission fees paid to local governments in home dock cities. The extent of the reduction in revenue in both state and local taxes from riverboat gaming and charitable bingo (and the potential offset associated with the administrative fees identified in the bill) is unknown, but significant, as evidenced in other states with legalized video lottery terminals. Illinois, in particular, noted a 15% decline in state revenue in the first five years of legalized VLTs while VLT revenue grew nearly 900%. That shift in revenue resulted in a significant decrease in the amount of funding going to the Education Assistance Fund during that same time period.

Officials from the **Office of Administration - Budget and Planning** and the **Missouri Veterans Commission** both defer to the Missouri Gaming Commission for the potential fiscal impact of this proposal.

Officials from the **Department of Corrections** state that Section 27.180 states the Attorney General shall prosecute violations of chapter 572. This legislation does not specify which section of chapter 572 the possession or use of an unauthorized video lottery game terminal would fall. Section 572.020 is modified to enhance the penalty for the offense of gambling from a misdemeanor to a class E felony. Section 572.070 is modified to enhance the penalty for the offense of possession of a gambling device from class A misdemeanor to a class E felony. In FY 2024, there were no misdemeanor findings of guilt under either section. DOC therefore expects no impact to the department with this change in legislation.

Officials from **Department of Elementary and Secondary Education (DESE)** assume no measurable fiscal impact to DESE, any potential increases would be dependent upon appropriations.

Officials from the **Office of Attorney General (AGO)** assume any additional litigation costs arising from this proposal can be absorbed with existing personnel and resources. However, the AGO may seek additional appropriations if there is a significant increase in litigation.

Oversight does not have any information to the contrary. Therefore, Oversight assumes the AGO will be able to perform any additional duties required by this proposal with current staff and resources and will reflect no fiscal impact to the AGO for fiscal note purposes.

Officials from the **Office of Administration - Administrative Hearing Commission**, the **Department of Higher Education and Workforce Development**, the **Department of Revenue**, **Department of Public Safety - State Emergency Management Agency**, the **Missouri Department of Transportation**, the **Office of Administration**, the **Office of the State Public Defender**, the **State Tax Commission**, the **Office of the State Courts Administrator**, the **Missouri Office of Prosecution Services** and the **Office of the State Treasurer** 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** assume the proposal will have a potential positive fiscal impact on their organization.

Rule 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)** note 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.

Oversight only reflects the responses received from state agencies and political subdivisions; however, cities 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.

| <u>FISCAL IMPACT – State Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|-----------------------|-----------------------|-----------------------|
| STATE LOTTERY FUND (0682) | | | |
| (\$313.429) | | | |
| <u>Revenue</u> - Initial Application Fees p. 10 | \$15,467,200 | \$15,467,200 | \$15,467,200 |
| <u>Revenue</u> - Annual Renewal Fees & Terminal Admin Fees p. 10 | \$0 | \$11,694,700 | \$11,694,700 |
| <u>Revenue</u> - VLT Proceeds (State Portion 34% of the AGR) p.10 | \$125,651,250 | \$251,302,500 | \$376,953,750 |
| <u>Loss</u> – LOT Lost profits from Keno and Pull-Tab Sales p. 10 | (\$3,309,418) | (\$13,237,672) | (\$13,237,672) |
| <u>Transfer Out</u> - to Lottery Proceeds Fund p.7 | (\$109,849,276) | (\$225,587,063) | (\$338,525,618) |
| <u>Transfer Out</u> - to Lottery Enterprise Fund (10% to municipalities/admin costs) p. 3-4 | (\$27,959,756) | (\$39,639,665) | (\$52,352,360) |
| ESTIMATED NET EFFECT ON THE STATE LOTTERY FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| CRIMINAL RECORDS SYSTEM FUND (0671) | | | |
| <u>Revenue</u> – MHP – Criminal history request fees | <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 – State Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|--|-------------------------|-------------------------|-------------------------|
| GAMING COMMISSION FUND (0286) | | | |
| <u>Loss – MGC – loss of revenue resulting from video lottery competition</u> | <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 – MGC – loss of revenue resulting from video lottery competition</u> | <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> |
| LOTTERY ENTERPRISE FUND (0657) | | | |
| <u>Transfer In – from State Lottery Fund</u> | \$27,959,756 | \$39,639,665 | \$52,352,360 |
| <u>Cost – LOT p. 9</u> | | | |
| Personal Service | (\$1,315,747) | (\$1,609,424) | (\$1,640,559) |
| Fringe Benefits | (\$882,671) | (\$1,000,377) | (\$1,012,856) |
| Equipment and Expense | (\$2,592,637) | (\$1,959,417) | (\$2,006,418) |
| <u>Total Costs – LOT</u> | <u>(\$4,791,055)</u> | <u>(\$4,569,218)</u> | <u>(\$4,659,833)</u> |
| FTE Change – LOT | 27 FTE | 27 FTE | 27 FTE |
| <u>Costs - MHP p. 8</u> | | | |
| Personal Services | (\$1,239,520) | (\$1,517,172) | (\$1,547,516) |
| Fringe Benefits | (\$1,087,059) | (\$1,330,560) | (\$1,357,171) |
| Other Cost | (\$1,642,325) | (\$340,846) | (\$340,846) |
| <u>Total Costs – MHP</u> | <u>(\$3,968,904)</u> | <u>(3,188,578)</u> | <u>(\$3,245,533)</u> |
| FTE Change – MHP | 15 FTE | 15 FTE | 15 FTE |

| <u>FISCAL IMPACT – State Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|---------------------|-------------------|-------------------|
| | | | |
| <u>Transfer Out – to Compulsive Gamblers Fund §313.429.14 p.7</u> | (\$154,672) | (\$271,619) | (\$271,619) |
| | | | |
| <u>Transfer Out - To municipalities (10% of the 34% AGR) of video lottery game to municipalities to cover admin. costs (§313.429.13) p.7,10</u> | (\$12,565,125) | (\$25,130,250) | (\$37,695,375) |
| | | | |
| <u>Transfer Out - To Missouri State Highway Patrol State Road Fund - \$100 of annual per terminal admin fee (§313.429.14) p.7</u> | (\$810,000) | (\$810,000) | (\$810,000) |
| | | | |
| <u>Transfer Out - To Illegal Gaming Enforcement Fund - \$100 of annual per terminal admin fee (§313.429.14) p.7</u> | (\$810,000) | (\$810,000) | (\$810,000) |
| | | | |
| <u>Transfer Out - To Veterans Commission Capital Improvement Trust Fund - \$400 of annual per terminal admin fee (§313.429.14) p.7</u> | (\$3,240,000) | (\$3,240,000) | (\$3,240,000) |
| | | | |
| <u>Transfer Out - Municipality or County - \$200 of annual per terminal admin fee (§313.429.14) p.7</u> | (\$1,620,000) | (\$1,620,000) | (\$1,620,000) |
| | | | |
| ESTIMATED NET EFFECT ON THE LOTTERY ENTERPRISE FUND (0657) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| | | | |
| Estimated Net FTE change to the Lottery Enterprise Fund | 42 FTE | 42 FTE | 42 FTE |
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| <u>FISCAL IMPACT – State Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|-----------------------------|-----------------------------|-----------------------------|
| LOTTERY PROCEEDS FUND (0291) | | | |
| <u>Transfer In – from State Lottery Fund</u> (§313.429.13) p.7 | <u>\$109,849,276</u> | <u>\$225,587,063</u> | <u>\$338,525,618</u> |
| ESTIMATED NET EFFECT ON THE LOTTERY PROCEEDS FUND | <u>\$109,849,276</u> | <u>\$225,587,063</u> | <u>\$338,525,618</u> |
| COMPULSIVE GAMBLERS FUND (0249) | | | |
| <u>Transfer In – from Lottery Enterprise Fund</u> | <u>\$154,672</u> | <u>\$271,619</u> | <u>\$271,619</u> |
| <u>Cost – DMH p. 19-20</u> Administrative cost for treating additional consumers p. 11-12 §313.429.14 | <u>(\$273,100)</u> | <u>(\$265,100)</u> | <u>(\$265,100)</u> |
| ESTIMATED NET EFFECT TO THE COMPULSIVE GAMBLERS FUND | <u>(\$118,428)</u> | <u>\$6,519</u> | <u>\$6,519</u> |
| STATE ROAD FUND (0320) | | | |
| <u>Transfer In – from Lottery Enterprise Fund</u> | <u>\$810,000</u> | <u>\$810,000</u> | <u>\$810,000</u> |
| ESTIMATED NET EFFECT TO THE STATE ROAD FUND | <u>\$810,000</u> | <u>\$810,000</u> | <u>\$810,000</u> |
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| <u>FISCAL IMPACT – State Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|---------------------------|---------------------------|---------------------------|
| ILLEGAL GAMING ENFORCEMENT FUND | | | |
| <u>Transfer In – from Lottery Enterprise Fund</u> | <u>\$810,000</u> | <u>\$810,000</u> | <u>\$810,000</u> |
| ESTIMATED NET EFFECT TO THE ILLEGAL GAMING ENFORCEMENT FUND | <u>\$810,000</u> | <u>\$810,000</u> | <u>\$810,000</u> |
| VETERANS COMMISSION CAPITAL IMPROVEMENT TRUST FUND (0304) | | | |
| <u>Transfer In – from Lottery Enterprise Fund</u> | <u>\$3,240,000</u> | <u>\$3,240,000</u> | <u>\$3,240,000</u> |
| ESTIMATED NET EFFECT TO THE VETERANS COMMISSION CAPITAL IMPROVEMENT TRUST FUND | <u>\$3,240,000</u> | <u>\$3,240,000</u> | <u>\$3,240,000</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|---------------------|--------------|--------------|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Transfer In from Lottery Enterprise Fund - Cities and Counties compensation paid to municipalities or counties (10% of the 34% AGR) (§313.429.13) p.10</u> | \$12,565,125 | \$25,130,250 | \$37,695,375 |
| <u>Transfer In - Municipality or County - \$200 of annual per terminal admin fee (§313.429.14) p.7</u> | \$1,620,000 | \$1,620,000 | \$1,620,000 |

| <u>FISCAL IMPACT – Local Government</u> | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|--|--|--|
| <u>Revenue</u> - School districts Fines from violations (§313.429.12) p. 6 | \$0 to Unknown | \$0 to Unknown | \$0 to Unknown |
| <u>Loss</u> - Cities and Counties - loss of gaming revenue from video lottery competition** p. 10 | (Unknown) | (Unknown) | (Unknown) |
| ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS | More or Less than <u>\$14,185,125</u> | More or Less than <u>\$26,750,250</u> | More or Less than <u>\$39,315,375</u> |

**Per the MGC, the extent of the reduction in revenue in both state and local taxes from riverboat gaming and charitable bingo is unknown, but significant.

FISCAL IMPACT – Small Business

This legislation will impact fraternal and veteran organizations, truck stops, and establishments that sell liquor by the drink who become video lottery retailers, as well as video lottery manufacturers, operators, and distributors. In addition to revenue generated by license application fees, renewal fees, and fines for non-compliance, the proposed legislation taxes the adjusted gross receipts of video lottery terminal operators and directs revenue to the State Lottery Fund.

FISCAL DESCRIPTION

ILLEGAL GAMING ENFORCEMENT FUND

This bill creates the "Illegal Gaming Enforcement Fund", which consists of revenues received from the State Lottery Commission. Revenue deposited into the fund will be used by the Attorney General for investigating and prosecuting violations of law. (Section 27.180, RSMo)

ENFORCEMENT OF LICENSED GAMING ACTIVITIES

Currently, the Superintendent of the State Highway Patrol may enter into an agreement with the Missouri Gaming Commission to enforce rules and regulations, conduct background investigations, and enforce the regulations of licensed gaming activities. This bill allows the Superintendent to also enter into agreements with the Missouri Lottery Commission. (Section 43.050)

HONORING MISSOURI VETERANS AND SUPPORTING MISSOURI EDUCATION ACT

This bill creates the "Honoring Missouri Veterans and Supporting Missouri Education Act". The bill provides funding for Missouri education programs and the Veterans Commission, and establishes a regulatory framework for video lottery game terminals (Section 313.425).

The Commission shall implement a system of video lottery game terminals and issue licenses to video lottery game manufacturers, distributors, operators, handlers, and retailers, with the following restrictions:

- (1) A person licensed as a video lottery game manufacturer or distributor cannot also be licensed as a video lottery game operator or retailer;
- (2) A video lottery game operator cannot hold a license as a video lottery game manufacturer, distributor, or retailer; and
- (3) A video lottery game retailer cannot obtain a license as a video lottery game manufacturer, distributor, or operator.

Nothing in these provisions prevents a video lottery game manufacturer from acquiring both a manufacturer's license and a distributor's license, as well as providing and operating the centralized computer system for monitoring video lottery game terminals.

The Commission must not permit a single vendor to implement the entire system of video lottery game terminals. A vendor that offers a centralized computer system is ineligible to be licensed as a video lottery game operator or retailer. The Commission must also ensure that private sector investment and job opportunities are encouraged.

The commission will set minimum standards for video lottery terminals operating in the state. Those minimum standards for game terminals must include:

- (1) Conforming to all required Federal laws and regulations, including FCC Class A Emission Standards;
- (2) Theoretically paying out a mathematically demonstrable percentage over the lifetime of the machine, which must not be less than 80%. The Commission must establish a maximum payout percentage. Game terminals that may be affected by skill must meet this standard and provide the greatest return to the player over a period of continuous play;
- (3) A random number generator or similar method to ensure each play produces a random outcome of each play of the lottery game. This process must achieve 99% percent confidence, verified by a chi-squared test;
- (4) An accurate display of the game outcome;
- (5) Must not automatically alter pay tables or any function of the terminals based on internal computation of hold percentage or any methods of manipulation that affects the random selection or probability of winning;

- (6) Must not be adversely affected by static discharge and electromagnetic interference;
- (7) Must be capable of detecting and displaying messages like "power reset," "door open," and "door just closed" when in an idle state or on demand;
- (8) Must have the capacity to display complete play history, including outcome, intermediate play steps, available credits, bets placed, credits paid, and credits cashed out, for the most recent game and the 10 games played immediately prior;
- (9) The theoretical payback percentage of a game terminal must not be capable of being changed without making changes to hardware or software in the game terminal;
- (10) Must be designed so that replacement of parts or modules does not necessitate replacement of electromechanical meters;
- (11) Must have meters that cannot be reset or housed in a locked area of the game terminal that keep a permanent record of:
 - (a) All cash inserted into the machine;
 - (b) All credits cashed out by the terminal printer;
 - (c) Credits played by players; and
 - (d) Credits won by players.

The Commission shall determine how on-demand displays of stored information will be provided. The information must be preserved for at least 180 days after a power loss to the terminal;

- (12) Must have a minimum of one mechanism that accepts cash in the form of bills. Such mechanisms must be designed to prevent obtaining credits by tampering with the game terminal, and if attempts at physical tampering are made, the game terminal will suspend itself from operating until reset;
- (13) Must have accounting software that keeps an electronic record of information including total cash inserted, value of winning tickets claimed, total credits played, total credits awarded, and payback percentage credited to players;
- (14) Must be capable of issuing and accepting tickets for play, commonly known as ticket-in, ticket-out and must not directly dispense anything of value except for tickets representing credits purchased or won on a video lottery game terminal; and
- (15) Must connect to a centralized computer system developed by the Commission.

The Commission may impose an initial nonrefundable license application fee that will be deposited in the State Lottery Fund, at set dollar values as specified in the bill. The initial license will be valid for one year. After the first year, the license can be renewed for a period of five

years, provided the applicable renewal fee is paid in advance for each year of renewal. Annual renewal fees will apply for anyone licensed under these provisions. The fees are specified in the bill.

An annual administrative fee of \$1,000 is required for each video lottery game terminal placed in service. This fee will be equally divided between the video lottery game operator and the retailer, payable to the Commission once a year. The fee will be allocated with \$200 distributed to the State Lottery Fund and the remaining \$800 will be allocated as follows:

- (1) \$100 to the Missouri State Highway Patrol for investigations;
- (2) \$100 to the Missouri Attorney General's Office for illegal gambling enforcement;
- (3) \$400 dollars to the Veterans Commission; and
- (4) \$200 to the municipality where the terminal is located; if in an unincorporated area, the funds will be transmitted to the county.

Licensed video lottery game operators and retailers must sign a written agreement for the placement of video lottery game terminals. The operator must provide the retailer with a copy of the signed agreement within 10 days. This agreement must be on a commission-approved form and include commercially reasonable terms, as specified in the bill.

A video game lottery retailer must not enter into an agreement with more than one video lottery game operator as any time. All licenses shall remain subject to all imposed taxes.

Game terminals must be inspected and approved by the Commission before being sold, leased, or transferred. Licensed manufacturers can buy, sell, or lease new or refurbished terminals to and from licensed distributors. Distributors may also conduct these transactions with licensed operators. Ticket redemption terminals must meet independent testing standards approved by the Commission. The bill allows a video lottery game operator that owns or leases redemption terminals before the specified operational date to use or sell the terminals.

The Commission will approve terminals for use and sale if they meet the criteria of these provisions or if they have been approved by another state for its video lottery game system.

Licensed video lottery game operators may:

- (1) Purchase, lease, or rent video lottery game terminals from licensed manufacturers, operators, or distributors;
- (2) Handle, place, and service video lottery game terminals; an
- (3) Connect the game terminals to the centralized computer system approved by the Commission.

All video lottery game tickets must be redeemed at a video lottery game ticket redemption terminal located near the game terminals within the retailer's establishment. Video lottery game operators must pay a 32% commission on any cash prize from tickets not redeemed within 180 days. The bill prohibits game terminal operators from leasing property to retailers, and lease agreements cannot include provisions for sharing net terminal income or calculating rent based on the income.

Only video lottery game operators or their employees may negotiate agreements with video lottery game retailers for placing terminals. Operators and retailers may not offer anything of value, aside from the agreed percentage of adjusted gross receipts and may not compensate a third party for contract solicitation or execution. The bill allows operators to contribute up to \$10,000, covering half the costs of a video lottery game terminal area in their agreements with retailers.

To address problem gambling, video lottery game operators must allow players to voluntarily exclude themselves from games. Operators must provide the Commission with a confidential list of excluded players within 30 days and update the list as required. Additionally, video lottery game operators or retailers may establish a commission-approved player rewards system, but players cannot be required to join the program to participate in the games.

A licensed video lottery game operator must not:

- (1) Dispense anything of value from video lottery game terminals except video lottery game tickets, which must indicate the total credits, cash award, time, date, terminal serial number, ticket number, and an encrypted validation number. The maximum wager per play is \$4, and the maximum prize must be \$1 less than the minimum reporting threshold for slot machine winnings;
- (2) Operate more than 12 video lottery game terminals in any licensed establishment;
- (3) Advertise to the public in any form, including media, mail, and billboards. This prohibition applies to all licensees but does not restrict marketing among manufacturers, distributors, operators, retailers, and handlers in trade journals or conferences; or
- (4) Allow game play when the establishment is closed for business. This bill states that no one under 21 years of age is allowed to play video lottery games and the video lottery game retailer is responsible for preventing anyone under 21 from playing video lottery games. Every retailer is required to have a video surveillance system where the game terminals are located and the video footage must be maintained for 30 days. Any operator or retailer that fails to report any violation of these provisions may be subject to a fine not to exceed \$5,000.

The bill requires each operator to post a sign in a conspicuous location where the terminals are located that contains the phone number for the problem gambling helpline as specified in the bill.

Video lottery game operators must pay the Commission 34% of the adjusted gross receipts from video lottery games, which must be deposited into the State Lottery Fund. The Commission will allocate these funds as follows:

- (1) Retain an amount for necessary to cover administrative expenses not covered by operator reimbursements;
- (2) Distribute funds to municipalities and counties based on tax revenue from video lottery game terminals. Each municipality and county will receive 10% the revenue generated within its boundaries for public safety services at the terminals. These funds will be placed in the general revenue fund of each municipality and county; and
- (3) Deposit the remaining funds into the State Lottery Fund, which must be equally allocated to public elementary and secondary education and public institutions of higher education. Emphasis must be placed on student transportation costs and workforce development programs, and the funding will supplement, not replace, existing education appropriations.

All revenues from license fees and any related reimbursements received by the Commission, including interest earned, will be considered administrative expenses and deposited into the State Lottery Fund. Subject to appropriation, up to 1% of the license fees may be allocated to the Compulsive Gamblers Fund and the remaining funds will be used for administrative expenses associated with overseeing and enforcing these provisions.

To ensure an orderly implementation of the video lottery game system, the Commission must:

- (1) Contract for the supply and operation of a centralized computer system for video lottery games within 365 days of the effective date;
- (2) Make license applications for manufacturers, distributors, operators, retailers, and handlers available within 365 days and establish necessary regulations;
- (3) Provide an approved form for video lottery game terminal operator applications within 365 days;
- (4) Establish a start date for initial operators to solicit contracts with retailers, which cannot exceed 180 days after the last application from the first year is approved;
- (5) Approve or deny applications within 90 days, ensuring decisions for first-year applications are made at least 30 days before the start date; and
- (6) Establish an operational date for the video lottery game terminal system, set no more than 180 days after the start date.

Any municipality or county with an ordinance that prohibits or restricts video game terminals will be invalid as of the effective date of this bill and a new ordinance shall not be adopted until one year after the operational date, as specified in the bill. Any municipality or county that

adopts an ordinance prohibiting or restricting the licensing of video lottery game retailers or terminals is required to notify the Commission.

Beginning August 28, 2025, no person shall enter into any contract, agreement, or otherwise for the sale, use, license, or operation of no-chance game machines, coin-operated amusement devices, or any other similar device. Existing no-chance game machines will be allowed to continue in force if the owner of the no-chance game machine requests and receives a permit sticker from the Commission for each no-chance game machine. The owner has 60 days to submit the request.

The Commission shall provide a form to request permit stickers for no-chance gaming machines. The forms will include certain information, as described in the bill.

The Commission shall charge a \$25 fee for each permit sticker issued. Once the completed form is received, the Commission will issue the permit sticker within 10 days.

This bill does not prevent the issuance of licenses based on an applicant's involvement with no-chance game machines. Video lottery game retailers must certify, using a form from the Commission, that they do not operate any no-chance game machines in their establishments. This certification must be submitted within 48 hours of installing and beginning operation of any video lottery game terminals.

A permit sticker will expire upon the earlier of:

- (1) The expiration of the 48 hour notice if it's on a no-chance game machine at a retailer with video lottery terminals; or
- (2) 180 days after the specified operational date. The Commission must provide all necessary forms within 60 days of the effective date of the bill (Sections 313.425 to 313.437).

DEFINITIONS AND GAMBLING OFFENSES

This bill updates the definition of gambling to include gambling devices, as provided in the bill (Section 572.010).

Currently the offense of gambling is a class C misdemeanor, except in certain circumstances. This bill makes gambling a class E felony (Section 572.020).

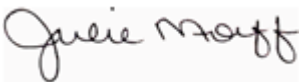
The offense of possession of a gambling device changes from a class A misdemeanor to a class E felony (Sections 572.070).

This legislation is not federally mandated, would not duplicate any other program and may require rental space.

SOURCES OF INFORMATION

Office of Administration - Administrative Hearing Commission

Department of Elementary and Secondary Education
Department of Higher Education and Workforce Development
Department of Mental Health
Department of Corrections
Department of Revenue
Missouri Gaming Commission
Missouri Highway Patrol
Missouri Veterans Commission
Missouri Department of Transportation
State Emergency Management Agency
Office of the Secretary of State
Office of the State Public Defender
Office of the State Treasurer
Office of Administration - Budget and Planning
Joint Committee on Administrative Rules
Missouri Lottery Commission
State Tax Commission
Office of the State Courts Administrator
City of Kansas City



Julie Morff
Director
January 27, 2025



Jessica Harris
Assistant Director
January 27, 2025