

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1983-01  
Bill No.: SB 445  
Subject: Gambling  
Type: Original  
Date: March 6, 2017

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

**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 6 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

Officials at the **Missouri Lottery Commission** assume this proposal would have a negative fiscal impact to their organization.

§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 Prosecution Services**, the **State Public Defender's Office**, and the **Office of State Courts Administrator** each assume this proposal would not have a fiscal impact on their respective organizations.

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

In response to a similar proposal from this session (HCS for HB 502), officials at the **Department of Revenue (DOR)** assumed the proposal would not have a fiscal impact to their organization. However, DOR notes the legislation increases the amount of funds deposited into the Gaming Commission Fund created under §313.835 increasing Total State Revenue an indeterminable amount.

In response to a similar proposal from this session (HCS for HB 502), officials at the **Office of Secretary of State** stated 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

ASSUMPTION (continued)

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.

<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

Several definitions related to fantasy sports are modified. (Section 313.905)

This act also requires that a licensed operator maintain a reserve 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 an amount that shall equal or exceed the total balances of the fantasy contest players' accounts.

This act also 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. A licensed operator may delay such deposit for up to fifteen days 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 so long as the operator provides notice of the nature of the investigation to the player. The Gaming Commission shall establish its own investigation process and issue determinations on a case-by-case basis as to whether the licensed operator is required to deposit the prize in the winner's account. This act provides the right for any person or entity to appeal any such finding, decision, or determination of the Gaming Commission to the Administrative Hearing Commission. (Sections 313.915 and 621.047)

This act limits a license applicant's liability for the cost of the Gaming Commission's investigation into the applicant's employees, officers, directors, trustees, and principal salaried executive staff officers to \$10,000 rather than \$50,000. The Commission may grant a waiver of all or a portion of the cost of an investigation.

This act also establishes a graduated license renewal fee structure. An operator that made over \$2 million in the previous calendar year shall pay a fee of \$5,000. An operator that made less than \$2 million but more than \$1 million shall pay a fee of \$2,500. An operator that made less than \$1 million but more than \$250,000 shall pay a fee of \$1,000. An operator that made \$250,000 or less shall not be required to pay an annual license renewal fee.

This act also reduces the annual operation fee from 11.5% of the operator's net revenue from the previous calendar year to 6%. The Commission may suspend an operator's license if such operator fails to apply for an annual license renewal or remit the operation fee. (Section 313.935)

FISCAL DESCRIPTION (continued)

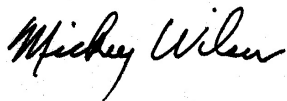
This act requires a third-party audit of licensed operators to ensure compliance with the provisions of fantasy gaming law. Operators with net revenues of \$250,000 or less in a calendar year shall be exempt from auditing provisions. The Commission may perform an audit of such operators at the Commission's expense. If such audit uncovers evidence of a violation of fantasy gaming laws, the operator shall remit the cost of such audit to the Commission. (Section 313.940)

This act reduces the administrative penalty for violations of fantasy gaming laws 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. (Section 313.950)

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

Missouri Lottery Commission  
Office of Prosecution Services  
State Public Defender's Office  
Office of State Courts Administrator  
Department of Revenue  
Office of Secretary of State



Mickey Wilson, CPA  
Director  
March 6, 2017

Ross Strobe  
Assistant Director  
March 6, 2017