

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6820
BILL NUMBER: SB 455

NOTE PREPARED: Jan 19, 2015
BILL AMENDED:

SUBJECT: Video Gaming Terminals.

FIRST AUTHOR: Sen. Boots
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes wagering on video gaming terminals in certain establishments. It establishes a licensing structure for participants in video gaming. It imposes a video gaming wagering tax of 30% of adjusted gross receipts (AGR).

Effective Date: July 1, 2015.

Summary of NET State Impact: Wagering on video gaming terminals (VGTs) in Indiana under this bill is estimated to have the following impact in FY 2016 and FY 2017.

	Video Gaming Wagering Tax - State General Fund (60%)	License Fee Revenue - State General Fund	Video Gaming Wagering Tax - Local Distribution (40%)	Total Video Gaming Terminal Revenue
FY 2016	\$2.1 M - \$8.6 M	\$2.6 M - \$5.1 M	\$1.4 M - \$5.7 M	\$6.1 M - \$19.4 M
FY 2017	\$24.6 M - \$98.6 M	\$1.3 M - \$3.5 M	\$16.4 M - \$65.7 M	\$42.3 M - \$167.8

Due to the time required for the licensing and installation of the VGTs, the wagering tax impact is estimated to occur in the last five months of FY 2016. The first full year of impact will be in FY 2017, of which 40% would be distributed among the municipalities and counties of the state that have not prohibited video gaming and 60% of the revenue would be deposited in the state General Fund. The state General Fund would

also receive revenues from various licensing fees collected under the bill. The expenses for investigations of applicants by Indiana Gaming Commission (IGC) will be paid from the license fees.

The estimate does not account for potential substitution of video for charity gaming, lottery sales, riverboat and racino gaming, or the impact this could have on tax revenue from these activities. The impact on tax collections from other gaming sources could substantially offset the revenue generated by the video gaming in Indiana.

Explanation of State Expenditures: *Indiana Gaming Commission (IGC):* The bill requires the IGC to administer, enforce, and regulate the system of video gaming in Indiana. The IGC will have to set licensing standards and conduct investigations of the licensees. The provisions in the bill would lead to additional administrative cost for the agency. The bill provides that the license fees imposed under the bill would be used to pay for the cost of investigating an applicant for a license. However, any additional expenses would be paid from riverboat wagering tax revenue annually appropriated to the IGC for administrative purposes. The 2013-2015 biennial budget bill appropriated \$3.4 M annually in FY 2014 and FY 2015 from the State Gaming Fund to the IGC for administrative purposes.

Department of State Revenue (DOR): The bill provides guidelines and sets up requirements for the DOR for remittance and collection of the video gaming wagering tax. The DOR will incur additional expenses to create forms, instructions, and computer programs based on the guidelines provided in the bill. The DOR's current level of resources should be sufficient to implement these changes.

Penalties: The bill establishes a Class A misdemeanor, Class C misdemeanor and a Level 6 felony for certain violations in the bill. A Class A misdemeanor is punishable by up to one year in jail. A Class C misdemeanor is punishable by up to 60 days in jail. A Level 6 felony is punishable by a prison term ranging between 6 and 30 months or reduction to Class A misdemeanor. If offenders can be housed in existing facilities with no additional staff, the marginal cost per offender for medical care, food, and clothing is approximately \$3,210 annually, or \$8.77 daily.

Explanation of State Revenues: *Wagering Tax/License Fees:* Due to the start-up time required, the fiscal impact assumes that there would be only six months of statewide gaming operations in FY 2016, so the state could receive five months of wagering tax collections in FY 2016. It is also assumed that the number of establishments would still be growing during FY 2016. The state General Fund will also receive initial license fees in FY 2016.

FY 2016 Impact	Average Daily Number of Establishments	60% of Video Gaming Wagering Tax	Initial License Fees	Total
Low Range	255	\$2.1 M	\$2.6 M	\$4.7 M
High Range	510	\$8.6 M	\$5.1 M	\$13.7 M
Note: Shows 5 months of wagering tax revenue.				

The state General Fund will receive a full year of video gaming wagering tax starting in FY 2017. General Fund will also receive license renewal fees.

FY 2017 and after Impact	Average Daily Number of Establishments	60% of Video Gaming Wagering Tax	Initial/Renewal License Fees	Total
Low Range	1,500	\$24.6 M	\$1.3 M	\$25.9 M
High Range	3,000	\$98.6 M	\$3.5 M	\$102.1 M
Note: Shows 12 months of wagering tax revenue.				

Video Gaming Wagering Tax: The bill imposes a wagering tax equal to 30% of the adjusted gross receipts (AGR) from VGTs. The state General Fund will receive 60% of the video gaming wagering tax revenues.

License Fees: The bill sets an initial license fee. The revenues from the license fee net of the IGC’s cost of investigating an applicant for an establishment license will be deposited in state General Fund. It requires the licenses to be renewed after three years. The license fees are as follows:

- (1) An initial manufacturer, distributor, or supplier fee of \$25,000 for an Indiana resident and \$35,000 for a nonresident. The renewal fee for these licensees is set at \$10,000.
- (2) An initial operator fee of \$15,000 for an Indiana resident and \$25,000 for a nonresident. The renewal fee for these licensees is set at \$5,000.
- (3) An initial establishment fee of \$500. The renewal fee for these licensees are set at a graduated rate between \$100 to \$1,000, based on the AGR generated in the previous 12 months.

Penalties: If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class A misdemeanor is \$5,000. The maximum fine for a Class C misdemeanor is \$500. The maximum fine for a Level 6 felony is \$10,000. Criminal fines are deposited in the Common School Fund. Felonies are filed in a circuit, superior, or county court. Additionally the bill permits the IGC to impose a civil penalty of up to \$5,000 upon a licensee that permits a person barred from wagering under to place a wager on a video gaming terminal.

Other Revenue: This bill may increase the number of VGTs sold, increasing Sales Tax revenue. Sales Tax revenue is deposited in the state General Fund and three other dedicated funds. If allowing operation of VGTs in alcoholic beverage retail establishments increases alcohol sales, revenue from the Alcoholic Beverage Excise Tax may increase. Alcoholic Beverage Excise Tax revenue is deposited in the state General Fund and five other dedicated funds.

Additional Information: The bill allows VGTs to be installed in a licensed establishment. It allows up to: (1) 5 VGTs in a bar or tavern; (2) 5 VGTs in a charitable organization that is a social and fraternal club that holds an alcoholic beverage retail permit; and (3) 10 VGTs in a qualified truck stop. This analysis assumes that between 1,500 and 3,000 qualified establishments will apply for the establishment licenses. It assumes that on average each establishment will install 5 VGTs within their premises.

The average daily AGR in other states on similar operations is \$100. Recent trends indicate that the gaming markets in Indiana are saturated. Consequently, the average AGR could potentially be lower than \$100 in Indiana. The impact below assumes between \$50 and \$100 of average daily AGR in Indiana. The annual statewide AGR of the full impact of the bill is shown below:..

	Number of Establishments	Terminals per Establishment	AGR per Day per Terminal	Annual Statewide AGR
Low Range	1,500	5	\$50	\$136.9 M
High Range	3,000	5	\$100	\$547.3 M

The table below provides data from seven states where VGTs are operated in bars, taverns, lounges, and other sites where access by underage persons is restricted due to retail alcohol sales. New Mexico is somewhat more limited as VGTs are restricted to nonprofit social and fraternal organization facilities. Since variation in VGT activities likely is, in part, the result of state differences in population, income, and competing forms of gaming, this variation has been taken into account in developing the estimated average daily AGR per VGT.

State*	Avg. No. of Establishments	Avg. Daily No. of Terminals	Terminal per Site	Annual AGR	Daily AGR per Machine
Illinois	4,117	16,763	4	\$630.3 M	\$103
Louisiana	2,044	14,108	7	\$609.6 M	\$108
Montana	1,512	16,695	11	\$380.3 M	\$62
New Mexico	54	640	12	\$10.6 M	\$46
Oregon	2,000	11,951	6	\$742.7 M	\$170
South Dakota	1,401	9,045	6	\$185.2 M	\$56
West Virginia	1,526	7,465	5	\$399.2 M	\$147

*The totals are from the available reports for latest 12 month period.

Explanation of Local Expenditures: *Penalties:* If more defendants are detained in county jails prior to their court hearings, local expenditures for jail operations may increase. The average cost per day is approximately \$44.

Explanation of Local Revenues: 40% of the video gaming wagering tax revenue would be quarterly distributed among the municipalities and counties of the state, that have not prohibited video gaming, in the ratio that the amount of revenue received from the municipality or county bears to the total amount of revenue received statewide. The total distributions to the local units is estimated to be:

	Video Gaming Wagering Tax - Local Distribution (40%)
FY 2016	\$1.4 M - \$5.7 M
FY 2017	\$16.4 M - \$65.7 M

Penalties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: The county general fund would receive 27% of the \$120 criminal costs fee that is assessed in a court of record.

State Agencies Affected: Indiana Gaming Commission; Department of State Revenues.

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: Oregon Lottery Audited Financial Reports, <http://www.oregonlottery.org/About/docs/2014cafr.pdf> ; South Dakota Annual Rpeort; http://lottery.sd.gov/documents/videoinfobyyear_thru2013.pdf; Louisiana Gaming Control Board, Annual Reports, http://lgcb.dps.louisiana.gov/annual_reports.html; Montana Department of Justice, Gambling Control Division Reports; www.doj.mt.gov/gaming/gambling-statistics-and-reports/; West Virginia Lottery, Annual Reports, <http://www.wvlottery.com/aboutus/annualreports.aspx>; New Mexico Gaming Control Division, FY 2012 Annual Report, http://www.nmgcb.org/info/annualrpts/2013/fy13_Final.pdf; Indiana Gaming Commission, Annual Reports, <http://www.in.gov/igc/2362.htm>; Hoosier Lottery, Annual Reports, www.hoosierlottery.com/about-us/annual-report; State Revenue Forecast, December 18, 2014, <http://www.in.gov/sba/2648.htm> ; Alcohol & Tobacco Commission, Online License Database; <http://www.in.gov/atc/2410.htm>;

Fiscal Analyst: Randhir Jha, (317) 232-9556.