



HOUSE COMMITTEE ON APPROPRIATIONS
2009-10 Legislative Session

FISCAL NOTE

SENATE BILL: 711 PRINTER'S NO: 1460 PRIME SPONSOR: Earll

FISCAL IMPACT SUMMARY	FY 2009/10	FY 2010/11
Expenditure Increase/(Decrease):		
General Fund	\$2,750,000	\$0
State Gaming Fund	\$5,400,000	\$5,400,000
Compulsive and Problem Gambling Fund	\$5,400,000	\$5,400,000
Pennsylvania Race Horse Development Fund	\$39,695,000	\$44,795,000
Revenue Increase/(Decrease):		
General Fund	\$341,400,000	\$292,200,000
State Gaming Fund	See analysis	See analysis
Compulsive and Problem Gambling Fund	\$5,400,000	\$5,400,000
State Race Horse Development Fund	See analysis	See analysis
<i>Local Funds</i>	<i>See analysis</i>	<i>See analysis</i>

OVERVIEW:

Senate Bill 711 is an omnibus bill that amends the Gaming Act (Title 4) to authorize table games and makes reforms regarding slot machines. The bill also modifies the distributions of gross terminal revenue received from slot machines

Under the bill, Category 1 and 2 licensees are authorized to operate up to 200 table games and Category 3 licensees to operate up to 75 table games. Category 1 and 2 licensees petitioning for a table games certificate must pay a \$20 million fee to operate table games. The fee is \$7.5 million for Category 3. These fees are paid into the General Fund. License holders must pay the fee in full before June 1, 2010 and facilities that do not complete payment on time are subject to a \$5 million penalty.

Suppliers and manufacturers of table game equipment and devices must acquire a license. Suppliers must pay \$25,000, with a \$15,000 renewal fee. The manufacturer fee is \$50,000, with a \$30,000 renewal fee. The renewal fees also apply for slot machine supplier and manufacturer licenses, an increase of \$5 million over the previous fee. After three years of a licensee paying annual license fees, the bill makes the license valid for three years, with a renewal fee of \$30,000 for a supplier's license and \$75,000 for a manufacturer's license. These supplier and manufacturer fees for table games are deposited in the General Fund, while slot supplier and manufacturer fees continue to be deposited in the State Gaming Fund.

Category 1 and 2 facilities will be required to make 1,850 slot machines at minimum available to play, with exceptions for conversion, renovation or emergency.

If a Category 3 facility is approved to have more than 500 slots by the Pennsylvania Gaming Control Board, an additional fee of \$5 million will be paid for each additional 250 slot machines put into operation. These fees would go into the General Fund.

In addition to the fees collected, a tax of 34% is imposed upon the daily gross table games revenue. This tax and any accrued interest is payable weekly to the Department of Revenue. Proceeds shall be deposited in the General Fund. However, if at the close of a fiscal year, the balance in the Budget Stabilization Reserve (Rainy Day) Fund exceeds \$750 million, deposits shall instead switch permanently to the Property Tax Relief Fund.

The bill changes the distribution of local share assessments on slot revenues. The affected counties are Luzerne, Washington, and Lebanon. More detail is provided in the analysis section.

SB 711 amends the existing distribution of Race Horse Development Fund proceeds that were initially established in Act 71 of 2004. The bill provides for a temporary distribution from the Race Horse Development Fund to the General Fund for the next four fiscal years. It also adjusts the distribution from the fund to horsemen's organizations and the Breeding Fund. In 2013/14, the General Fund distribution will cease and the prior formula will go into effect again.

The bill amends §1407 (Pennsylvania Gaming Economic Development and Tourism Fund) relating to the \$150 million authorization for "debt service and development and economic development projects" for an international airport in a county of the second class, which was itemized in the Pennsylvania Gaming Economic Development and Tourism Fund Capital Budget for 2007 (P.L. 342, No. 53). The bill stipulates that after the distribution of \$42.5 million, the remaining funds shall be distributed directly to the authority that operates the airport. The airport in question is the Pittsburgh International Airport, and the authority is the Allegheny County Airport Authority.

The bill provides for new misdemeanors and felonies related to gaming, and increased fines for summary offenses. It is not possible to determine how many individuals may be sentenced under this legislation; nor is it possible to predict what type of sentencing individuals may receive as are result of conviction. It is assumed that there may be a fiscal impact on both Commonwealth funds and local funds as a result of the enactment of this legislation. However, this bill provides for fines for summary violations and revenue from the collection of these fines may offset some costs related to incarceration.

The bill provides for a transfer of funds previously appropriated for local law enforcement grants to the General Fund.

This bill takes effect immediately.

ANALYSIS:

Fees

Because of the time needed for table games to become operational, the fees paid for a table games certificate would be the main source of revenue from the bill in the first fiscal year. This analysis assumes that nine Category 1 or 2 license holders will pay \$20,000,000 per Table Game

Operation Certificate in FY2009-10. The PGCB has stated that two Category 1 or 2 license holders and one Category 3 license holder could petition for licenses in FY 2009/10. Because of the \$5 million penalty for current license holders who petition late, it seems likely, though not certain, that \$47.5 million in fees will be received in the 2009/10 fiscal year. If table games certificates were not awarded to these licensees, and they petitioned in FY 2010/11, fee revenue with penalties would total \$62.5 million in that year. For purposes of this analysis, the three license holders are assumed to not pay the penalty and so total fee receipts will total \$227,500,000 in 2009/10.

PROJECTED GENERAL FUND REVENUE FROM TABLE GAME AUTHORIZATION FEES
(\$ Millions)

	FY2009-10	FY2010-11
Table Game Certificate Fees	\$227,500,000	\$0

The supplier and manufacturer fees from table games would also add an unknown additional amount of revenue into the General Fund. This source is not included in the analysis.

Tax Revenue from Table Games

The Pennsylvania Gaming Control Board (PGCB) prepared three scenarios to illustrate the potential revenue impact from table games at licensed gaming facilities. This analysis assumes the middle scenario (Scenario 2).

Although SB 711 PN1460 would allow Category 1 and Category 2 certificate holders to operate up to 200 table games, the PGCB middle scenario assumes that five of the currently operating facilities would choose to operate 100 table games and 30 poker tables, and that four of the currently operating facilities would choose to operate 50 table games and 20 poker tables.

The PGCB scenarios assume that the win per day for each table game would be \$2,631 and that the win per day for each poker game would be \$660. These estimates are based upon New Jersey table game revenue for the 12-month period from June 2008 to May 2009 as reported by the New Jersey Casino Control Commission. The PGCB forecast only includes the nine currently-operating facilities in the revenue calculation.

PROJECTED ANNUALIZED REVENUE FROM A 34% TAX ON GROSS TABLE GAME REVENUES

	Casinos	Games	Win Per Table Per Day	Days	Gross Table Game Revenue	34% Tax
Table Games	5	x 100	x \$2,631	x 365	= \$480,157,500	\$163,254,000
	4	x 50	x \$2,631	x 365	= \$192,063,000	\$65,301,000
Poker Tables	5	x 30	x \$660	x 365	= \$36,135,000	\$12,286,000
	4	x 20	x \$660	x 365	= <u>\$19,272,000</u>	<u>\$6,552,000</u>
Total Revenue					\$727,627,500	\$247,393,000

Source for estimated Number of Games per casino and estimated Win Per Table Per Day: Pennsylvania Gaming Control Board. Wins per day are rounded to the nearest dollar.

Since table game operations will not commence until later in the fiscal year, the revenue projections must be scaled for FY 2009/10. This analysis assumes that table games will be operational for three months in the first year. It also assumes that the Budget Stabilization Reserve fund will not have a balance greater than \$750 million, which would cause the tax revenues to go into the Property Tax Relief Fund

	FY2009-10	FY2010-11
Revenue from Table Games Tax (\$ millions)	\$61.8 *	\$247.4

* Reflects estimated 3 months of operations

Redirection from the Pennsylvania Race Horse Development Fund (RHDF)

The bill also redirects revenue from the Race Horse Development Fund into the General Fund for FY 2009/10 to FY 2012/13. The RHDF currently receives a variable amount based on the gross terminal revenue from Category 1 licensees, subject to a cap of 12% of gross terminal revenue. The bill would change this to a fixed 10%. Of that amount going to the RHDF, 17% will be transferred to the General Fund. This transfer to the General Fund is estimated to total \$39.6 million in 2009/10 and \$44.8 million in 2010/11.

Of the remaining 83%, 4% or \$11 million, whichever is greater, shall be used for health and pension benefits for horseman’s organizations. Of that remainder, 78% shall be set aside for purses. For thoroughbred tracks, 17% shall be put into the Breeding Fund. Standardbred tracks will split their next 17% equally, with 8.5% into the Pennsylvania Sire Stakes Fund, and 8.5% into a restricted account called the Pennsylvania Standardbred Breeders Development Fund. 5% shall be deposited into the State Racing Fund as defined in Section 222 of the Race Horse Industry Reform Act. In 2013/14, the General Fund distribution will cease and the prior formula will go into effect again.

Transfer from PA Gaming Control Board

No later than 90 days after the effective date, \$12.5 million shall be transferred by the Pennsylvania Gaming Control Board to the General Fund, from amounts previously appropriated pursuant to 4 P.A.C.S §1408 (related to local law enforcement grants).

Changes related to the Pennsylvania Gaming Economic Development and Tourism Fund

The change to §1407 would enable the Allegheny County Airport Authority to spend \$107.5 million of the original allocation of \$150 million for purposes relating to the Pittsburgh International Airport other than those originally outlined in the Pennsylvania Gaming Economic Development and Tourism Fund Capital Budget for 2007. Under current law, the authority would be restricted to “debt service and development and economic development projects”. Section 1407(d) restricts Allegheny County from receiving additional money from the Pennsylvania Gaming Economic Development and Tourism Fund within ten years of the first fiscal year deposits were made to the fund, which was FY 2006-07.

Changes to Local Share Distribution in Select Counties

The bill changes the distribution of local share assessments on slot revenues in certain counties. Luzerne County’s distribution will change to: 40% awarded to cities located in the county of a

pro rata basis according to population, 35% to municipalities contiguous to the host municipality and 25% to noncontiguous municipalities on a competitive basis. Washington County's distribution changes to a formula whereby each municipality except the host receives \$25,000 plus \$10 per resident, with the exception that no municipality can receive more than 50% of its total budget for FY2009, adjusted for inflation. Lebanon County will now receive a portion of the revenue distributed because the licensed facility owns land in the county, though the facility itself is not located there.

Compulsive and Problem Gambling Fund (CPGF)

The current transfer to the CPGF would be increased from \$1.5 million or 0.1% of gross terminal revenue (whichever is greater) to \$2 million or 0.2% of gross terminal revenues (whichever is greater). In addition to this, \$3 million will be transferred annually to the CPGF from Local Law Enforcement Grants. This money shall be used solely for compulsive and problem gambling as well as alcohol assessment and treatment. According to the Governor's Executive Budget document, transfers under the existing formula were expected to be \$2.4 million in 2009/10. The new formula would increase the transfer to \$4.8 million, plus the additional \$3 million giving a new total into the fund of \$7.8 million, an increase of \$5.4 million.

Requirements of Executive Agencies

Senate Bill 711 would require various actions on the part of many executive agencies in the Commonwealth. Unless otherwise noted it is assumed that the effort required under this bill can be accomplished by current staff levels and within the current confines of the associated budget. The increased burden resulting from the provisions of this bill are as follows:

- The reimbursable expenses of any regulatory agencies shall be submitted on receipts for in accordance with the right-to-know law. This provision provides clarification to the manner in which expenses are submitted.
- The Department of Revenue currently transfers costs and expenses to the Department of Revenue, Pennsylvania State Police, Pennsylvania Gaming Control Board, and the Office of Attorney General. This bill would also require funds to be distributed to the Department of the Auditor General once an appropriation has been made by the General Assembly. Currently there is no appropriation for the Auditor General from the Gaming Fund.
- Office of Budget in cooperation with the Department of Community and Economic Development would be required to submit an annual report of all of the distributions of the Gaming Economic Development and Tourism Fund.
- Local reports would be required by cities and counties of the first and second class, convention centers, and sports authorities that receive money from the Gaming Economic Development and Tourism Fund shall file reports regarding use of the funds.
- The Department of Revenue shall prescribe rules, regulations, and forms for accounting and recordkeeping related to table games.
- Department of Health and the Gaming Control Board shall collaborate on implementing a strategic plan for the prevention and treatment of compulsive and problem gambling and associated behavior disorders including drug and alcohol addictions.
- State Police, Attorney General, Auditor General, and Department of Revenue shall adopt a code of conduct to supplement current standards in relation to this bill.

- The Commissioner of the State Police shall submit a report summarizing enforcement activities at each of the licensed establishments.
- The Department of Education shall develop curriculum guidelines for gaming school instruction. The Department has estimated that the cost associated with this requirement would be approximately \$100,000 in 2009-10.

Requirements of the Pennsylvania Gaming Control Board (PGCB)

This bill requires a significant amount of new responsibilities to be conducted by the PGCB in order to regulate the addition of table games. The Board has estimated that the additional costs associated with meeting these demands would be \$2.65 million in 2009-10. Many of the current requirements for posting information, filing reports, and holding hearings for slot machine operation would be expanded to include information related to table games. A summary of new duties imposed upon the Board by this bill are as follows:

- The PGCB must issue table game certificates, develop regulations and standards, test devices and review petitioners' plans to hold table games.
- The PGCB must post information on website regarding the license owners, subsidiaries, anyone with controlling interest, trustees, officers, directors, and key employees.
- Collect fines and fees associated with manufacturers, suppliers, and table game certificate holders.
- Report gross table game revenue.
- Report itemized expenses of the Board on the website on a monthly basis.
- Develop standards for gaming service providers
- Appoint a trustee to act on behalf of the commonwealth if license requirements are breached.
- Adopt regulations necessary to ensure that the Bureau of Investigations and Enforcement is a distinct entity to prevent commingling of the investigatory and prosecutorial functions of the bureau.
- Develop regulations on post employment restrictions.
- Hold public hearings.
- Maintain a list of suspicious transactions
- Prescribe procedure for and oversee junkets

The following sources were consulted in the preparation of this fiscal note:

- Pennsylvania Gaming Control Board
- Office of the Budget
- Pennsylvania State Police
- Department of Education
- Department of Agriculture
- Department of Revenue
- Attorney General

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General Note and Disclaimer: *This Fiscal Note was prepared pursuant to House Rule 19(a), and the elements considered and reported above are required by Section 5 of the rule. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*