

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 1098

PRINTER'S NO. 2580

AMOUNT

See Fiscal Impact Section

FUND

General Fund

DATE INTRODUCED

April 3, 2013

PRIME SPONSOR

Representative Payne

HISTORY OF BILL

Referred to GAMING OVERSIGHT, April 3, 2013

Reported as amended, May 7, 2013

First consideration, May 7, 2013

Laid on the table, May 7, 2013

Removed from table, May 8, 2013

Second consideration, with amendments, May 13, 2013

Re-committed to APPROPRIATIONS, May 13, 2013

(Remarks see House Journal Page 852), May 13, 2013

Re-reported as committed, May 15, 2013

Third consideration and final passage, May 15, 2013 (177-19)

In the Senate

Referred to COMMUNITY, ECONOMIC AND RECREATIONAL DEVELOPMENT,
June 5, 2013

Reported as amended, June 19, 2013

First consideration, June 19, 2013

Second consideration, June 20, 2013

Re-referred to APPROPRIATIONS, June 20, 2013

Re-reported as amended, Oct. 22, 2013

DESCRIPTION AND PURPOSE OF BILL

House Bill 1098, as amended, amends the Local Option Small Games of Chance Act of 1988 (P.L. 1262, No. 156) by making omnibus amendments to the act.

A summary of the provisions of House Bill 1098 is as follows:

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Major League Sports Drawings

- Amends definition of "Major league sports team" to include the National Football League (NFL) in addition to Major League Baseball (MLB), National Hockey League (NHL), National Basketball Association (NBA) and Major League Soccer (MLS). The term is further modified to also allow for professional sports teams (minor league teams) affiliated with MLB, NHL, NBA, NFL or MLS and to allow any other professional sports team that has a sports facility or an agreement with a sports facility to conduct home games at the facility.
- Allows proceeds from a major league sports drawing (i.e. 50/50 drawing) to be donated to one or more designated charitable organizations (vs. just single designated charitable organization).
- Allows non-prize money for the following:
 - To employ or provide payment to individuals 18 years or older to sell major league sports drawing tickets.
 - For administrative expenses directly related to the conduct of a major league sports drawing (not to exceed 2% of the total amount collected).

Club Licenses

- Provides for annual reports to the Dept. of Revenue from club licensees that shall include:
 - Proceeds received from each SGOC conducted (itemized by week).
 - Amount of prizes paid from all SGOC (itemized by week).
 - Other costs incurred related to conduct of SGOC.
 - Verification of amounts distributed for public interest purposes.
 - Itemized list of expenditures made or amounts retained and expenditures.
 - Address and county in which club licensee located.
 - Other information or documentation required by the Dept. of Revenue.
 - Must be filed under oath or affirmation of an authorized officer.

Distribution of proceeds

- 60% (vs. 70%) for public interest purposes in the calendar year in which the proceeds obtained.
- 40% (vs. 30%) for operational expenses of the club licensee, which will now also include personnel, other than a bartender or individual who operates games of chance.
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- Records shall be made available to Dept. of Revenue and Bureau of Liquor Control Enforcement, although records shall also remain available to other entities authorized to enforce SGOC Act.
- Raffle tickets – no longer requires the club to maintain a record of purchase of raffle tickets.

Tavern Gaming – New Chapter

- The following key terms are defined:
 - “Restaurant licensee.” A for-profit hotel, restaurant, privately owned public golf course, brew pub or micro brewery licensed to sell liquor under the act of April 12, 1951 (P.L.90, No.21), known as the Liquor Code. The term does not include a grocery store or location that sells gasoline.
 - “Tavern game.” The conduct of pull-tab games, daily drawings or tavern raffles by a for-profit restaurant licensee.
 - “Tavern raffle.” A raffle held for a charitable or public purpose.
- Provides that a restaurant licensee (for-profit) may apply to DOR for a license to conduct tavern games on its licensed premises via an application that includes information regarding the applicant and all owners of the restaurant license.
- Application fee - \$1,000.
- Investigation fee of \$1,000 paid to PLCB in addition to paying actual costs of required background checks.
- Every applicant and owner shall include information and documentation to establish suitability, honesty and integrity. The information shall include:
 - Criminal history record information.
 - Financial background information.
 - Data investigation by the bureau.
 - Regulatory history before the board (or other Commonwealth agency).
 - Other information required by the bureau.
- An applicant shall reimburse the bureau for costs of the investigation.
- The LCB shall approve or deny the application within six months of receipt. Approval shall be determined if an applicant and other owners possess financial stability, integrity and responsibility, sufficient business experience and ability to effectively operate tavern games, and character, honesty and integrity to operate tavern games in a responsible and lawful manner.

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- Upon approval the applicant shall pay an initial license fee of \$2,000 to be deposited in the General Fund, which shall be renewed annually at \$1,000.
- Tavern games license is a privilege and may not be sold, transferred or assigned.
- Licensee shall maintain a separate bank account to hold proceeds from tavern games.

Prize limits

- Individual prize limit - \$2,000 per single chance.
- Aggregate prize limit (per seven day period) - \$35,000.
- Tavern raffles are limited to one per month.

Tavern Gaming Tax

- Revenue from tavern games shall be subject to a new tax at the rate of 60% and shall be reported and distributed as follows:
 - Net revenue from pull-tabs and daily drawings:
 - 60% - Commonwealth of Pennsylvania.
 - 40% - Retained by the licensee.
 - Revenue from tavern raffles:
 - 50% - Designated charity (distributed within seven days)
 - 50% as follows:
 - 60% - Commonwealth of Pennsylvania.
 - 40% - Retained by the licensee.
- Department of Revenue will administer and enforce the tavern gaming tax.
- Penalties – The LCB may suspend or revoke license and impose civil penalty as follows:
 - Initial violation - up to \$1,000.
 - 2nd or subsequent violation – up to \$3,000.
 - A violation shall be a summary offense.
- Provides for an annual report from the department as to whether the play of games of chance in taverns has an impact on the State Lottery Fund.

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Fiscal Impact:

Tavern Gaming Tax:

The Governor’s Budget Office has indicated that based upon a similar model presently operated in the state of Indiana, it is anticipated that approximately 2,000 tavern gaming licenses would be obtained in Pennsylvania. Assuming that 25% of the licenses would yield maximum payouts of \$35,000 per week on the high end, and \$500 per week on the low end, a realistic weekly average payout of \$10,000 per tavern could be expected. Assuming these parameters, House Bill 1098 would generate tax revenues of \$156 million in a full year.

The addition of chapter 9 (i.e. tavern games) takes effect in 60 days, and the LCB and Gaming Control Board likely will require several months to perform their duties before all licensees may begin conducting tavern games. As a result, the Governor’s Budget Office assumes that minimal tax revenues will be generated in fiscal year 2013-14 will be approximately \$36 million.

The tables below illustrate potential annual revenue to the Commonwealth using the above assumptions, with lower average weekly payout amounts per licensee also shown, which project more conservative estimates for annual revenue.

Average Weekly Payout per Licensee	\$10,000	\$8,000	\$6,000	\$4,000
Average Maximum Profit	25%	25%	25%	25%
Number of Weeks	52	52	52	52
Annual Gross Profit per License	\$130,000	\$104,000	\$78,000	\$52,000

Number of Licensees	2,000	2,000	2,000	2,000
Total Annual Gross Profit	\$260,000,000	\$208,000,000	\$156,000,000	\$104,000,000

Tax Rate Due to Commonwealth	60%	60%	60%	60%
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Annual Revenue	\$156,000,000	\$124,800,000	\$93,600,000	\$62,400,000
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Administrative Costs:

House Bill 1098 could create annual costs of approximately \$4 million for the Gaming Control Board's Bureau of Investigations and Enforcement for carrying out required background investigations. Because the legislation specifies that the licensees must cover the actual costs of these investigations, it is anticipated that the majority of these costs will be recouped.

Annual costs of approximately \$750,000 are anticipated for the Department of Revenue for auditing, administering and enforcing the tax. The Department will also need to contract with an independent expert to determine any impact of the legislation's provisions on the State Lottery Fund. The department would have a one-time, upfront cost of \$100,000 for information technology upgrades.

The Liquor Control Board may be subject to costs associated with the administration of the application process, although these are not currently quantifiable by the Governor's Budget Office. However, it is anticipated that any costs should be recouped from the \$1,000 license application fee.

Unanticipated additional costs could yield overall annual costs of between \$5 million and \$6 million. However, it is expected that some of these costs would be recouped through license fees.