

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 600** HLS 19RS 1197

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

| | | |
|---|---------|-------------------------------|
| Date: May 5, 2019 | 3:38 PM | Author: TALBOT |
| Dept./Agy.: Public Safety - Gaming Control Board | | Analyst: Greg Albrecht |
| Subject: Fantasy Sports Contests - Taxation | | |

TAX/GAMING OR +\$346,500 GF EX See Note Page 1 of 1
Levies a state tax on the net gaming proceeds of fantasy sports contests, and authorizes a fee for issuance of certain licenses or permits

Proposed law provides for fantasy sports contest operators to be licensed in the state. An annual fee of \$10,000 is imposed, as well as an annual license renewal fee of 10% of net revenue

Effective upon governor's signature.

| EXPENDITURES | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 5 -YEAR TOTAL |
|---------------------|------------------|------------------|------------------|------------------|------------------|----------------------|
| State Gen. Fd. | \$346,500 | \$365,000 | \$365,000 | \$442,000 | \$365,000 | \$1,883,500 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$346,500 | \$365,000 | \$365,000 | \$442,000 | \$365,000 | \$1,883,500 |

| REVENUES | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | \$0 | INCREASE | INCREASE | INCREASE | INCREASE | \$0 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | | | | | \$0 |

EXPENDITURE EXPLANATION

Fantasy sports contests were authorized by Act 322 of 2018, and approved in 47 parishes at the November 6, 2018 statewide election. The operation of fantasy sports contests in parishes that approved is subject to the enactment of laws and regulations for the licensing, regulation, and taxation of such activity. To implement this bill, state police anticipates the need for 4 positions (one trooper, 2 auditors, and one investigative specialist). The first year costs to operate and equip this staff group is some \$529,000 (\$164,000 in initial system setup and equipping and \$365,000 in personnel and operating costs). State Police anticipates replacement equipment acquisitions by the fourth year of operation. Full equipping costs and half-year operations are displayed above for FY20 as the regulatory apparatus is set up. Depending on the number of operators and levels of activity, fewer resources may be needed to regulate this industry, and some regulatory effort might be handled by existing resources. However, this is a new and additional activity for the control board and gaming division, and some additional resources seem likely to be needed to adequately regulate the industry. Although permitting/licensing fees are typically utilized to offset administrative/enforcement costs of various programs, the bill provides no allocation from any of the proceeds collected for regulation/enforcement. Thus, subject to appropriation, these costs are assumed to be financed by the state general fund.

REVENUE EXPLANATION

The magnitude of fantasy sports contests in the state that would be affected by the bill is speculative. Limited information on this activity suggests that total tax receipts the state might expect to eventually receive are relatively small. The New York State Gaming Commission reports that interactive fantasy sports in 2017 generated only \$4.8 million in tax receipts, based on a tax rate rate of 15%, and with New York state residents comprising 9.45% of nationwide gross revenue of this industry. Louisiana residents of the 47 parishes that approved fantasy sports contests would comprise a much smaller share of industry revenue, and this bill levies a renewal license fee rate against operator net revenue only 2/3 as high. Simply using the state population share of the nation (1.4%) and the bill's fee rate, the New York report implies only about \$470,000 of tax receipts to Louisiana. This rough extrapolation might be somewhat low, since the New York participation share (9.45%) is over 60% larger than the state's share of nationwide population (6%). However, not all of the Louisiana population would be able to participate without being in an approval parish when participating.

The Gaming Control Board and State Police have been working on drafting rules for this activity, but can not begin promulgation until the bill is enacted. That process takes about 5 months, followed by a licensing process. Full year tax receipts seem likely until FY21 and beyond. In addition, the REC has typically not adopted gaming revenue estimates for new forms or venues until after the activity has been observed for some time.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H} | | <input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

John D. Carpenter
Legislative Fiscal Officer