

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**April 10, 2013**

**TO:** Honorable John Carona, Chair, Senate Committee on Business & Commerce

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE: SJR64** by Carona (Proposing a constitutional amendment providing immediate additional revenue for the state budget by creating the Texas Gaming Commission, and authorizing and regulating the operation of casino games and slot machines by a limited number of licensed operators and certain Indian tribes.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SJR64, As Introduced: a negative impact of (\$48,264,703) through the biennium ending August 31, 2015.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	(\$219,993)
2015	(\$48,044,710)
2016	(\$31,612,710)
2017	(\$14,616,710)
2018	(\$10,049,710)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund - 1	Probable Revenue Gain/(Loss) from General Revenue Fund - Compulsive Gambling Program 1	Probable Revenue Gain/(Loss) from General Revenue Fund - Texas Gaming Commission for Gambling Offenses 1	Probable Revenue Gain/(Loss) from General Revenue Fund - Bingo 1
2014	(\$219,993)	\$0	\$0	\$0
2015	(\$72,710)	\$5,594,000	\$5,594,000	(\$7,171,000)
2016	(\$72,710)	\$14,453,000	\$14,453,000	(\$7,319,000)
2017	(\$72,710)	\$23,268,000	\$23,268,000	(\$7,484,000)
2018	(\$72,710)	\$25,808,000	\$25,808,000	(\$7,715,000)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from Foundation School Fund 193</b>	<b>Probable Revenue Gain/(Loss) from Property Tax Relief Fund 304</b>	<b>Probable Savings/(Cost) from Texas Casino &amp; Slot Gaming Fund</b>	<b>Probable Revenue Gain/(Loss) from Texas Casino &amp; Slot Gaming Fund</b>
2014	\$0	\$0	(\$33,375,808)	\$265,000,000
2015	(\$51,989,000)	\$89,511,000	(\$33,375,808)	\$305,000,000
2016	(\$53,127,000)	\$340,390,000	(\$33,375,808)	\$0
2017	(\$53,596,000)	\$555,382,000	(\$33,375,808)	\$0
2018	(\$53,878,000)	\$637,042,000	(\$33,375,808)	\$0

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from GR-Dedicated Equine Development Fund</b>	<b>Probable Revenue Gain/(Loss) from GR-Dedicated - Performance Horse Development Fund</b>	<b>Probable Revenue Gain/(Loss) from GR-Dedicated - Canine Development Fund</b>	<b>Probable Savings/(Cost) from Texas Racing Comm Acct 597</b>
2014	\$0	\$0	\$0	(\$3,485,040)
2015	\$74,917,000	\$9,365,000	\$16,418,000	(\$5,057,836)
2016	\$114,623,000	\$14,328,000	\$25,120,000	(\$6,047,567)
2017	\$175,372,000	\$21,922,000	\$38,434,000	(\$6,649,073)
2018	\$178,880,000	\$22,360,000	\$39,203,000	(\$6,744,665)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from Texas Racing Comm Acct 597</b>	<b>Probable Revenue Gain/(Loss) from Municipal &amp; County Governments</b>	<b>Change in Number of State Employees from FY 2013</b>
2014	\$3,485,040	\$0	304.5
2015	\$5,057,836	\$22,378,000	317.9
2016	\$6,047,567	\$58,172,000	328.1
2017	\$6,649,073	\$93,072,000	333.3
2018	\$6,744,665	\$103,233,000	334.2

## **Fiscal Analysis**

The resolution would propose amendments to Article III of the Texas Constitution.

The amendment would add new Section 47a to create the Texas Gaming Commission, authorize and regulate casino games, authorize and regulate slot machines at licensed pari-mutuel racetracks, provide for federally recognized Indian tribes to conduct casino games, and set aside money to be appropriated for property tax relief and financial aid for higher education students. The resolution would establish the Texas Casino and Slot Gaming Fund, a special fund of the treasury, into which all casino gaming and slot machine-related revenue collected by the state would be deposited. Gaming tax revenue placed in the Texas Casino and Slot Gaming Fund that is not needed for administration would be dedicated to the Property Tax Relief Fund 0304.

The Governor would appoint members to the Texas Gaming Commission with the advice and consent of the Senate. The commission would exercise control and supervision over all gaming activities authorized by this amendment, adopt necessary rules, and appoint an executive director and other necessary staff. Nine slot or casino establishments could be licensed at racetracks that are licensed for pari-mutuel betting as of January 1, 2013, three casino gaming licenses could be issued to Class 1 horse tracks, three casino gaming licenses could be issued to casino-anchored destination attraction development projects, and three more casino licenses could be issued to development projects on Gulf islands.

The application fee for an owner's license for a casino at a racetrack that is licensed for pari-mutuel betting as of January 1, 2013 would be \$25 million, and the application fee for a slot establishment would be \$15 million. The application fee for an owner's license for a casino at a Class 1 horsetrack, casino-anchored destination attraction development project, or a casino anchored development project on a Gulf island would be \$50 million. A tax of 20 percent of gaming revenue would be imposed on casinos and slot gaming establishments. If the commission determines over \$1 billion was invested in a gaming facility, the tax rate would be 15 percent of gaming revenue. The resolution would require that Indian tribes remit a portion of their gaming revenues to the state, either via a gaming agreement with the state or subject to an amount set by general law.

From the casino and slot gaming tax revenue collected by the state, 1/20th would be allocated to the municipality in which a casino is located, 1/20th to the county (or 1/10th to the county if the casino is not located in a municipality), 1/40th to General Revenue Fund 0001 to be appropriated to a compulsive gambling program established by the Texas Gaming Commission, and 1/40th to Fund 0001 to be appropriated to the Texas Gaming Commission to investigate and prosecute gambling offenses. Taxes collected at casinos and slot establishments from sources other than gaming (such as sales and use taxes, franchise taxes, hotel occupancy taxes, alcoholic beverage taxes, and other taxes) would be deposited in Fund 0001, to be appropriated only to fund the TEXAS grant program to provide grants to higher education students in Texas.

From the casino and slot gaming tax revenue collected by the state at a casino located at a greyhound racetrack, 9/20th would be allocated to a newly established canine development fund. From the casino and slot gaming tax revenue collected by the state at a casino located at a horse racetrack, 2/5th would be allocated to a newly established Texas equine development fund and 1/20th to a newly established performance horse development fund to be administered by the Texas Racing Commission. The funds deposited in the equine development fund would be specifically allocated toward racing purses, the Texas-bred incentive programs, and other programs considered beneficial to the equine industry.

The proposed amendment would be submitted to the voters at an election to be held November 5, 2013.

### **Methodology**

The amendment is self-enacting. The fiscal impact calculated below is based on the estimated number of gaming machines, the average ratio of gaming revenue from tables to machines, the assumed ramp-up time required for slot establishments and casinos, average play per gaming machine in other large states based on recent data from the American Gaming Association, and the impact on the traditional lottery and bingo.

Because of the time necessary to establish rules and regulations, develop infrastructure, and acquire operating systems, the only revenue expected in fiscal 2014 is from application fees. All slot establishments and casinos allowed by the resolution are assumed to apply for a license, although based on experience in other states, the full complement of licenses will not occur in one year.

Indian casino operations will provide gaming competition to state revenues. This fiscal note analysis does not assume a (necessary) compact between the Indian tribes and the state and, therefore, no remittance of gaming tax revenue to the state. As a hypothetical example, a 5

percent state tax on Indian casino operations would increase state revenues by about \$25 million per year at full implementation, assuming the necessary compact and subsequent remittances.

Because of competition among gaming options for a limited number of gaming dollars, the Texas lottery and bingo operations would lose a portion of their revenues if commercial casinos and slot establishments operate within the state.

Revenues in the Texas Casino and Slot Gaming Fund that exceed the amounts needed for commission administration are to be transferred to Property Tax Relief Fund 0304. However the amounts that would be deposited to the new fund beyond the application fees, and the amounts needed for administration, cannot be determined. Therefore, the distribution of revenue between the new fund and Fund 0304, presented in the table below, could, in fact, be different, and it could be expected that some or much of the new fund's deposits will ultimately flow to Fund 0304.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

This analysis assumes the new Gaming Commission will be structured similar to the Lottery Commission. Therefore, 276.5 additional Full-Time Equivalents (FTEs) will be required and administrative costs of \$33,375,808 per year to the new Casino & Slot Gaming Fund.

The Texas Racing Commission estimates the need for additional FTE's and related expenses of \$3.5 million in FY14 increasing to \$6.7 million in FY18 mainly for regulation of additional racetracks and live racing dates. Any increase in costs would be offset by additional revenue.

The Texas Department of Agriculture estimates the need for 1 additional FTE and related expenses of \$111,072 in FY14 and \$72,710 each year thereafter to administer a program to promote the equine industry.

The cost for publication of the resolution is \$108,921

### **Local Government Impact**

Fiscal impacts to local government are reflected in the above table.

**Source Agencies:** 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 476 Racing Commission, 551 Department of Agriculture

**LBB Staff:** UP, RB, SD, ED