

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

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**FISCAL IMPACT STATEMENT**

**LS 6748**  
**BILL NUMBER: SB 458**

**DATE PREPARED:** Jan 4, 2000  
**BILL AMENDED:**

**SUBJECT:** Wagering Tax and Pharmaceutical Program.

**FISCAL ANALYST:** Brian Tabor; Al Gossard.  
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**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill increases the Riverboat Wagering Tax from 20% of adjusted gross receipts to 33% of adjusted gross receipts. The bill adjusts the amounts of the Wagering Tax distributed to a city or county in which a riverboat is docked and to the Build Indiana Fund. It further establishes the Pharmaceutical Assistance Fund and requires 39.4% of the Wagering Tax to be paid to the Pharmaceutical Assistance Fund.

The bill also creates the Pharmaceutical Assistance for the Aged and Disabled Program. It provides that an Indiana resident who is eligible for the program is required to pay only a \$5 copayment for various prescription drugs. It also provides the Division of Disability, Aging, and Rehabilitative Services with the authority to restrict the supply of prescription drugs under certain circumstances and requires a pharmacy to provide prescription price information to the Division before a pharmacy may be paid for a prescription claim. Penalties for violations of the program are also established.

**Effective Date:** July 1, 2000.

**Explanation of State Expenditures:** *Summary:* Total costs of the Pharmaceutical Assistance for the Aged and Disabled Program (PAAD) are estimated to be \$170.2 M beginning in FY 2001. Total second year costs are estimated to be about \$183.0 M. (Future growth of program expenditures is estimated to average about 7.6% per year.)

*The PAAD Program:* The PAAD program is established for the purpose of partially reimbursing aged and disabled individuals for the costs of prescription drugs, including certain diabetic materials. Eligible individuals include those individuals: (1) whose annual income is less than \$15,500 if single, or \$19,500 if married; (2) who are at least 65 years of age, or a recipient of Social Security Disability Insurance (SSDI); and (3) who are not covered under the Medicaid program or wholly covered for prescription drug costs by another plan of assistance. The program consists of payments to pharmacies in excess of a \$5 copayment for

generic drugs.

Fourteen other states are currently known to have pharmacy assistance programs. The eligibility and financial requirements provided in this bill were compared to New Jersey's program which has been in operation since 1975. The program cost of the PAAD program is estimated to be about \$168.1 M for FY 2001 (not including administrative expenses). Future program costs are estimated to grow by about 7.6% per year on average due to growth in the eligible population, as well as in the per capita cost of prescription medicines.

The Division of Disability, Aging, and Rehabilitative Services (DDARS) of the Family and Social Services Administration (FSSA) is to administer the program with administrative costs estimated to be about \$2.1 M per year, including claims processing. The costs to administer this program is to be paid from the Pharmaceutical Assistance Fund which will receive wagering tax revenue described below.

**Explanation of State Revenues:** *Riverboat Wagering Tax:* This bill increases the Riverboat Wagering Tax rate and makes adjustments to the distribution of this revenue. The Riverboat Wagering Tax currently is assessed at a rate of 20% on adjusted gross receipts. After paying administrative expenses of the Indiana Gaming Commission (IGC), 75% of Wagering Tax revenue remaining is distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund and 25% is distributed to the city or county in which the riverboat is docked.

This bill would raise the rate of the Riverboat Wagering Tax to 33% from the current 20%. It also adjusts the share of revenue that is distributed to the LGSA from 75% to 45.45%. The current 25% distribution to home docks would also be reduced to 15.15%. It further provides that 39.40% of total revenue is to be distributed to the Pharmaceutical Assistance Fund established by this bill. This non-reverting fund is to be administered by the Division of Disability, Aging, and Rehabilitative Services to operate the PAAD program.

Given the substantial increase in the tax rate, it is likely that revenue would be negatively affected. For the projections used in this analysis, it was assumed that raising the Wagering Tax rate by 13% may cause a 10% decrease in the amount wagered at Indiana's casinos. A decrease in wagering may result if the higher tax rate is passed along to riverboat patrons through higher admission prices or other charges. It also may result from the closure of a riverboat or the scaling back of gaming activities if operating a riverboat becomes less profitable. Table A illustrates the estimated distributions under this proposal based on the Wagering Tax base in FY 1999:

TABLE A: Estimated Impact on Riverboat Wagering Tax Revenue & Distributions  
(based on a 10% reduction in the Wagering Tax base)

RECIPIENT UNIT	ACTUAL FY 1999	SIMULATED FY 2001*	NET IMPACT
Pharmaceutical Assistance Fund	\$0	\$176.1 M	\$176.1 M
Lottery and Gaming Surplus Account (within the Build Indiana Fund)	\$213.7 M	\$203.1 M	(\$10.6 M)
Home docks (E. Chicago, Evansville, Gary, Hammond, Harrison Co., Lawrenceburg, Michigan City, Rising Sun)	\$71.2 M	\$67.7 M	(\$3.5 M)
Tax Rate	20%	33%	
<b>Total Actual vs. Estimated Revenue</b>	<b>\$284.9 M</b>	<b>\$446.9 M</b>	<b>\$162.0 M</b>

\* Although the actual FY 1999 Wagering Tax base was used in this analysis, Caesar's in Harrison County only began operation in November 1998. The figures used in this analysis were adjusted to incorporate a full year of revenue generated by the Caesar's riverboat. A certificate of suitability has been granted for a riverboat operation in Switzerland County, however, it is not known if a tenth riverboat will generate additional gaming tax revenue or if casino patrons will simply redistribute the amount that is currently wagered. Effects of additional riverboats in Indiana were not included in this analysis.

As shown above, an increase in the Wagering Tax rate to 33% and a subsequent distribution of 39.40% of this revenue to the Pharmaceutical Assistance Fund is projected to generate \$176.1 M in FY 2001. Total costs for the PAAD program are estimated to be \$170.2 M beginning in FY 2001 and \$183 M in FY 2002. Riverboat Wagering Tax revenue may also grow by FY 2001, however, future revenue is difficult to project and may largely depend on changes in the status of gaming in surrounding states.

Based on the projected level of Wagering Tax, there may be a decrease in the distribution of revenue to the Build Indiana Fund. There are currently two accounts within the Build Indiana Fund: the LGSA and the State and Local Capital Projects Account. Riverboat Wagering Tax revenue, as well as surplus Lottery revenue, Pari-Mutuel Wagering Tax revenue and charity gaming revenue is deposited in the LGSA. A statutorily determined amount of revenue in this account is transferred each year to the Motor Vehicle Excise Tax Replacement Account within the state General Fund. A portion of money remaining in the LGSA is then transferred to the State and Local Capital Projects Account. The State Budget Agency projects that as of June 30, 2001, the available balance of the Lottery and Gaming Surplus Account will be \$290.6 M.

As shown above, \$213.7 M in Riverboat Wagering Tax revenue was transferred to the LGSA in FY 1999. Even with a decrease in the distribution of the Riverboat Wagering tax revenue, it is expected that the statutory distributions to the Motor Vehicle Excise Tax Replacement Account could continue to be made, although a decreased revenue may result in less being transferred to the State and Local Capital Projects Account.

*Riverboat Admission Tax:* As noted above, increasing the Riverboat Wagering Tax rate by 13% may cause the amount wagered at Indiana's casinos to decrease. A decrease in wagering may result if the higher tax rate

is passed along to riverboat patrons through higher admission prices or from the closing or scaling back of a riverboat operation(s) if the casino business becomes less profitable. This could affect the number of patrons visiting Indiana's riverboats and reduce revenue from the Riverboat Admission Tax by an indeterminable amount.

In FY 1999, the Riverboat Admission Tax generated \$110.7 M in revenue. The tax is \$3 for each paid or unpaid admission to a riverboat gaming excursion and is paid by a person or organization that holds an owner's license for riverboat gambling operations. For each \$3, the Treasurer of State makes quarterly distributions as outlined below:

\$1.00 to the city in which the boat is docked\*;  
\$1.00 to the county in which the boat is docked;  
\$0.10 to the county convention and visitor bureau or promotion fund;  
\$0.15 to the State Fair Commission;  
\$0.10 to the Division of Mental Health; and  
\$0.65 to the Indiana Horse Racing Commission.

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\$3.00 TOTAL

\*In counties along the Ohio River in which the riverboat is not docked in the largest city in the county, this \$1.00 is distributed to the county (\$2.00 total distribution for the county). There is also a distribution formula unique for riverboats operating on Patoka Lake.

**Explanation of Local Expenditures:** *Penalties:* This bill provides that an individual violating the provisions of this bill would commit a Class A misdemeanor. If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

**Explanation of Local Revenues:** *Riverboat gaming taxes:* see Explanation of State Revenues above.

*Penalties:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed, and if collected would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed, and if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

**State Agencies Affected:** Division of Disability, Aging, and Rehabilitative Services, FSSA.

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

**Information Sources:** State Budget Agency; Auditor of State; New Jersey Department of Health, Division of Consumer Support; State Pharmacy Assistance Program, David Gross and Sharon Bee, AARP Public Policy Institute, April 1999; "Prescription Drug Coverage and Spending for Medicare Beneficiaries", Health Care Financing Review, Spring 1999, Vol. 20, No. 3; "Trends in Personal Health Care Expenditures, Health Insurance, and Payment Sources, Community-Based Population: 1996-2005", Agency for Health Care Policy and Research (AHCPR), U.S. Dept. of Health and Human Services, August 1998; Health Benefits Databook, Employee Benefit Research Institute (EBRI), 1999; Medicare State Profiles, Henry J. Kaiser Family Foundation.