

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

301 State House
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FISCAL IMPACT STATEMENT

LS 7658

BILL NUMBER: HB 1332

DATE PREPARED: Jan 2, 2001

BILL AMENDED:

SUBJECT: Docked Riverboat gaming and admissions taxes.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Dockside Gaming:* The bill expands the existent definition of a "Riverboat" to include permanently moored vessels as well as self-propelled excursion boats. The bill also permits Riverboat owners to conduct gambling games while a Riverboat is docked and allowing the continuous ingress and egress of passengers for the purpose of gambling

Riverboat Admissions Tax: The bill increases the Riverboat Admissions Tax from \$3.00 to \$4.00. The bill also requires that the additional \$1.00 admissions tax be paid into the Property Tax Replacement Fund for the purpose of providing additional homestead credits in each Indiana county. The bill also changes the basis for imposing the Riverboat Admissions Tax from the number of persons admitted to a Riverboat to the number of persons on board a Riverboat at the time a passenger count is recorded. The bill requires passenger counts to be conducted one hour after the Riverboat begins admitting people during the daily "reporting period" and once every two hours thereafter. The daily "reporting period" begins at 6 a.m. each day and concludes at 5:59 a.m. the following day.

Penalties: The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a Riverboat to enter or attempt to enter a Riverboat. It also makes it a Class C misdemeanor for a person who is less than 21 years of age and who is not an employee of a Riverboat to knowingly or intentionally enter or attempt to enter a Riverboat.

Effective Date: July 1, 2001.

Explanation of State Expenditures: *Wagering and Admissions Taxes:* The bill permits owners of Riverboat casinos to conduct dockside gaming with continuous boarding of Riverboat patrons. The change to dockside gaming is expected to increase both wagering and admissions on Riverboats that operate in such a manner and, thus, to increase revenues from the Riverboat Wagering Tax and the Riverboat Admissions Tax. While the bill provides dockside operations as an option for Riverboat owners, the fiscal impacts

outlined below assume that all Riverboat owners will choose to undertake dockside gaming operations. Estimates pertaining to particular Riverboats and communities will be made available upon request.

If all of the existing Riverboats were to begin dockside operations, revenue from the Riverboat Wagering Tax could potentially increase by an estimated \$97.9 M per year. The state share of the this increase as determined by statute is equal to 75%, or approximately \$73.43 M. The state share of the Wagering Tax is deposited in the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Likewise, if all existing Riverboats begin dockside operations, revenue from the existing \$3 Riverboat Admissions Tax could potentially increase by an estimated \$45.29 M. The state share of the existing \$3 Admissions Tax, as determined by statute, depends on the location of the Riverboat from which the tax is collected. For Riverboats located in counties contiguous to either Lake Michigan or the Ohio River, the following distributions are made to the state from each \$3 tax:

\$0.15 to the State Fair Commission;
\$0.10 to the Division of Mental Health; and
\$0.65 to the Indiana Horse Racing Commission.

For a Riverboat on Patoka Lake, the following distributions are made to the state from each \$3 admissions tax:

\$0.50 to the General Fund; and
\$0.10 to the Division of Mental Health..

Penalties: If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase due to the penalty provisions of the bill. The maximum fine for a Class A misdemeanor is \$5,000. The maximum fine for a Class C misdemeanor is \$500. 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.

Background:

Dockside Gaming in Illinois: The estimates above are based on the growth in adjusted gross receipts earned by Riverboat casinos (the wagering tax base) and Riverboat casino admission counts in Illinois prior to and after dockside gaming was permitted in that state. Dockside gaming with continuous boarding of Riverboat patrons began on Illinois Riverboats as of June 26, 1999. Monthly totals for adjusted gross receipts and admissions were analyzed for a period of 58 months beginning with January 1996 and concluding with October 2000. The analysis controlled for the monthly trend in both variables, for changes in the number and size of Riverboat casinos during the period observed, and for the presence of dockside gaming in neighboring Iowa from November through March. The results of this analysis indicate that during the months since dockside gaming began (July 1999 to October 2000) in Illinois, adjusted gross receipts have on average been 29.4% higher than during the months prior to dockside gaming (January 1996 to June 1999). Likewise, the analysis indicated that Riverboat admissions have on average been 36% higher during the months since dockside gaming began.

These estimates assume that the conditions that have existed in Illinois since dockside gaming commenced will be replicated in Indiana if and when dockside gaming commences. This assumption may be problematic

in particular since the competitive environment for Indiana Riverboats may not be similar to that which has existed for Illinois Riverboats. At the time dockside gaming began in Illinois the primary competitors of Illinois Riverboats were Riverboats located in: (1) Indiana, where dockside gaming is not permitted; (2) Missouri, where continuous boarding of Riverboat passengers was at the time not permitted and where a \$500 per excursion loss limit was in place; and (3) Iowa, where dockside gaming on Riverboats was only allowed during the late fall and winter months. If dockside gaming were to be implemented in Indiana the impact on Riverboat wagering and admissions may not reach the level achieved in Illinois since Indiana Riverboats would be competing, to a great extent, with Riverboats in Illinois that already conduct dockside gaming. The presence of land-based casinos operating in Detroit, Michigan, also may serve to dampen the impact of a change to dockside gaming in Indiana. As a result, the estimates based on the Illinois experience may overestimate the impact that dockside gaming will ultimately have on the Riverboat Wagering Tax and the Riverboat Admissions Tax in Indiana.

In order to evaluate this issue further, a separate analysis of adjusted gross receipts and admissions at the Casino Rock Island Riverboat in Rock Island, Illinois, was performed. The Casino Rock Island Riverboat is situated on the Mississippi River across from Riverboats in Bettendorf, Davenport, and Clinton, Iowa. The analysis indicated that the Rock Island Riverboat experienced a larger increase in adjusted gross receipts and admissions due to dockside gaming than was the case for all Riverboats in Illinois. However, the analysis also suggests that the competition of dockside gaming from Iowa Riverboats during the late fall and winter months does have a negative impact on adjusted gross receipts and admissions at the Rock Island Riverboat. More importantly, this impact is much more pronounced for the Rock Island Riverboat than for all Riverboats in Illinois.

Wagering Tax Estimate: The estimated impact of dockside gaming on the Riverboat Wagering Tax (assuming all Riverboats change to dockside gaming) is based on the current forecast by the State Budget Agency for the state share of the tax in FY 2002. The forecast is \$250 M. The state share of the Wagering Tax is set by statute at 75%. As a result, total Wagering Tax revenues are forecast at roughly \$333 M for FY 2002. Based on the Illinois experience, the change to dockside gaming is estimated to increase the Wagering Tax by 29.4%, or \$97.9 M.

Admissions Tax Estimate: The estimated impact of dockside gaming on the Riverboat Admissions Tax (assuming all Riverboats change to dockside gaming) is based on the FY 2000 turnstile and multiple excursions counts adjusted for the operation of Belterra Riverboat that began operating during October 2000. The turnstile count is the number of persons entering the Riverboat and the multiple excursion count is the number of persons remaining on the Riverboat for an additional excursion (generally 2 hours in length). While multiple excursions would not occur with dockside gaming, the bill creates a system of counting passengers every two hours that would tend to replicate the existing turnstile and multiple excursions count. The bill also requires that the Admissions Tax be imposed on the basis of these periodic passenger counts. Therefore, the Admissions Tax estimate uses the FY 2000 turnstile and multiple excursion counts as a base for the passenger counts that would take place if dockside gaming were conducted by the Riverboats under the bill.

The FY 2000 turnstile count was approximately 18.67 M and the multiple excursion count was approximately 20.06 M for nine Riverboats containing approximately 458,490 square feet of casino space. Due to the addition of the Belterra Riverboat since the conclusion of FY 2000, a proportionate adjustment was made to the turnstile and multiple excursions counts to account for the additional casino space. A unit turnstile count of 40.71 per square foot of casino space and a unit multiple excursions count of 43.75 per square foot were utilized for the adjustment. Belterra reportedly contains 38,000 square feet of casino space.

The adjusted turnstile count is 20.21 M and the adjusted multiple excursions count is 21.72 M resulting in an estimated passenger count for FY 2002 of 41.93 M. This assumes that admissions will not trend upward from FY 2000 to FY 2002 and that admissions will grow proportionately with growth in casino space.

The change to dockside gaming by all Riverboats is estimated to increase the passenger count by 36%, or 15.1 M, leading to an estimated \$45.29 M increase in revenue from the existing \$3 Admissions Tax. This assumes that the count of passengers staying for more than one 2-hour passenger count period (what was previously the count of people staying on the Riverboat for an additional 2-hour excursion) increases by the same factor as the turnstile count. However, the change to dockside gaming may have a greater impact on the count of passengers staying for more than two hours since passengers would be able to board and disembark the Riverboat at anytime.

The estimated passenger count for FY 2002 without dockside gaming is 41.93 M. The change to dockside gaming would increase the passenger count to an estimated total of 57.03 M. Thus, the additional \$1 Riverboat Admissions Tax proposed under the bill would generate \$57.03 in additional revenue from the tax.

Explanation of Local Expenditures: *Penalty:* A Class A misdemeanor is punishable by up to one year in jail and a Class C misdemeanor is punishable by up to 60 days in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Wagering and Admissions Taxes:* The bill permits owners of Riverboat casinos to conduct dockside gaming with continuous boarding of Riverboat patrons. The change to dockside gaming is expected to increase both wagering and admissions on Riverboats that operate in such a manner and, thus, to increase revenues from the Riverboat Wagering Tax and the Riverboat Admissions Tax. While the bill provides dockside operations as an option for Riverboat owners, the fiscal impacts outlined below assume that all Riverboat owners will choose to undertake dockside gaming operations. Estimates pertaining to particular Riverboats and communities will be made available upon request.

If all of the existing Riverboats were to begin dockside operations, revenue from the Riverboat Wagering Tax could potentially increase by an estimated \$97.9 M per year. As determined by statute, the local share of this increase is 25%, or approximately \$24.48 M. The distribution of the local share of the Wagering Tax depends upon the location of the Riverboat from which the tax was collected. For Riverboats docked in the largest city in a county that is contiguous either to Lake Michigan or the Ohio River, the local share of Wagering Tax revenue is distributed to the city designated as the home dock. For Riverboats that are not docked in the largest city in a county that is contiguous either to Lake Michigan or the Ohio River, the local share of Wagering Tax revenue is distributed to the county in which the Riverboat is docked. For the Riverboat on Patoka Lake, the local share of Wagering Tax revenue is distributed in equal shares to each of the counties that are contiguous to the lake.

If all existing Riverboats begin dockside operations, revenue from the existing \$3 Riverboat Admissions Tax could potentially increase by an estimated \$45.29 M. What's more, the additional \$1 Riverboat Admissions Tax proposed in the bill would result in an estimated \$57.03 M in additional revenue. What's more, the additional \$1 Riverboat Admissions Tax proposed in the bill would result in an estimated \$57.03 M in additional revenue.

The local share of the existing \$3 Admissions Tax, as determined by statute, depends on the location of the Riverboat from which the tax is collected. For Riverboats located in counties contiguous to either Lake Michigan or the Ohio River, the following local distributions are made from each \$3 tax:

\$1.00 to the city in which the Riverboat is docked;*
\$1.00 to the county in which the Riverboat is docked; and
\$0.10 to the county convention and visitor bureau or promotion fund.

*In counties along the Ohio River in which the Riverboat is not docked in the largest city in the county, this \$1.00 is also distributed to the county.

For a Riverboat on Patoka Lake, the following local distributions are made from each \$3 admissions tax:

\$1.00 distributed equally among the counties contiguous to the lake;
\$1.00 to the Patoka Lake Development Account; and
\$0.40 to the resource conservation and development program that serves the Patoka Lake area.

Under the bill, the additional \$1 Riverboat Admissions Tax would be distributed to the Property Tax Replacement Fund. Property tax payers could see a reduction in property tax liability under this proposal if the current PTRC is supplemented with money from the additional \$1 tax.

Penalties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources due to the penalty provisions of the bill: (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: Indiana Gaming Commission.

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

Information Sources: Monthly Riverboat Revenue Report (Jan. 1996 to Oct. 2000), Illinois Gaming Board.
Illinois Gaming Board 1999 Annual Report.
Wagering in Illinois: 2000 Update, Illinois Economic and Fiscal Commission,
September 2000.
Monthly Riverboat Statistical Report (July 1999 to June 2000), Indiana Gaming
Commission.
Indiana Gaming Commission 1999 Annual Report to the Governor.
Bob Lain, State Budget Agency, 232-5610.