

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

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FISCAL IMPACT STATEMENT

LS 6768
BILL NUMBER: SB 255

DATE PREPARED: Dec 18, 2001
BILL AMENDED:

SUBJECT: Docksides Gaming.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Docksides Gaming:* The bill authorizes docksides gaming in Hammond, Gary, and East Chicago if the city council adopts an ordinance approving docksides gaming. The bill also authorizes docksides gaming in Dearborn, Harrison, LaPorte, Ohio, Switzerland, and Vanderburgh counties if the county council adopts an ordinance approving docksides gaming. The bill makes conforming amendments to apply to riverboats docked in cities and counties in which docksides gaming is approved.

Riverboat Admission Tax: The bill requires a riverboat licensee who commences docksides gaming operations to pay the \$3 Riverboat Admission Tax with respect to the number of persons on board the riverboat at the time a passenger count is recorded. The bill requires the passenger counts to be conducted each day one hour after the riverboat begins admitting patrons and then every two hours thereafter.

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, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: *Wagering and Admission Taxes:* The bill provides that a riverboat owner may commence docksides gaming operations allowing for continuous boarding of riverboat patrons, if an ordinance approving docksides gaming is approved by: (1) the city council for riverboats docked in Hammond, Gary, or East Chicago; or (2) the county council for riverboats docked in Dearborn, Harrison, LaPorte, Ohio, Switzerland, or Vanderburgh counties. The change to docksides gaming is expected to increase both wagering and admissions on riverboats that operate in such a manner. As a result, docksides gaming is

expected to increase revenue from both the Riverboat Wagering Tax and the Riverboat Admission Tax. While it is possible that under the bill some riverboats would not commence dockside gaming operations, the fiscal impacts outlined below assume that all riverboats are given permission and choose to commence dockside operations. Estimates pertaining to particular riverboats and communities will be made available upon request. It is also important to note that the earliest time that dockside gaming could commence is January 1, 2003. Therefore, any impact this bill could have would be delayed at least until the second half of FY 2003.

If all of the existing riverboats were to begin dockside gaming operations, revenue from the Riverboat Wagering Tax could potentially increase by an estimated \$111.0 M annually. The state share of the increase, as determined by statute, is equal to 75%, or approximately \$83.3 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 gaming operations, revenue from the Riverboat Admissions Tax could potentially increase by an estimated \$55.4 M to \$57.0 M annually. The following distributions, as determined by statute, are made to the state from each \$3 Admission Tax. These distributions are estimated to total \$16.6 M to \$17.1 M annually.

\$0.15 to the State Fair Commission (\$2.8 M - \$2.9 M);
\$0.10 to the Division of Mental Health (\$1.8 M - \$1.9 M); and
\$0.65 to the Indiana Horse Racing Commission (\$12.0 M - \$12.4 M).

Penalties: 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, and 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: The estimated impact of dockside gaming in Indiana is based on the observed impact of dockside gaming in Illinois. 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 67 months beginning with January 1996 and concluding with August 2001. The analysis controlled for the underlying monthly trend in both variables, for changes in the number and size of riverboat casinos during the period observed, for general economic conditions, and for seasonal differences. The results of this analysis indicate that during the months since dockside gaming began (July 1999 to August 2001) in Illinois, adjusted gross receipts have on average been about 30% 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 about 45% higher during the months since dockside gaming began.

Wagering Tax Estimate: The Wagering Tax impact is derived using the State Budget Agency's FY 2003 forecast as of January 22, 2001, for total Wagering Tax revenue equal to \$370.16 M.

Admission Tax Estimate: The Admission tax impact is based on an FY 2003 estimate derived using total riverboat admissions during the 12-month period from November 2000 to October 2001 (40.4 M), and assuming growth rates ranging from 1.1% to 3% annually. These growth rates are based on recent trends in admissions relative to casino space and in overall riverboat admissions. Thus, FY 2003 riverboat admissions are estimated to total approximately 41.1 M to 42.2 M. Total admissions are used to derive these

estimates as the bill creates a system of counting passengers every 2 hours that would tend to replicate the existing system of counting riverboat admissions. Under the existing system, admissions are the sum of a turnstile count and a multiple excursion count. 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).

Caveats: It is important to note that the estimates assume 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 Admission Tax and the Riverboat Wagering Tax in Indiana.

Explanation of Local Expenditures: *Dockside Approval:* The bill would require a city or county council seeking to adopt an ordinance approving dockside gaming to: (1) conduct a public hearing on the proposed ordinance; and (2) publish notice of the public hearing.

Penalties: 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 Admission Taxes:* Under current statute, 25% of Wagering Tax revenue is distributed to local units. Thus, if all of the existing riverboats were to begin operating under flexible scheduling, local revenue from the Riverboat Wagering Tax could potentially increase by an estimated \$27.8 M annually (25% of the total impact estimated to equal \$111.0 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 undertake flexible scheduling, revenue to local units from the Riverboat Admission Tax could potentially increase by an estimated \$38.8 M to \$39.9 M. The local share of each \$3 Admission Tax, as determined by statute, depends on the location of the riverboat from which the fee 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 fee:

\$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.

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: Indiana Gaming Commission.

Local Agencies Affected: Local units receiving Wagering Tax or Admission Tax revenue, trial courts, local law enforcement agencies.

Information Sources: Illinois Gaming Board, *Monthly Riverboat Revenue Reports* (Jan. 1996 to Aug. 2001); Illinois Gaming Board, *1999 Annual Report*; Illinois Economic and Fiscal Commission, *Wagering in Illinois: 2000 Update*, September 2000; Indiana Gaming Commission, *Summary of Wagering and Admission Tax*, Various Months; State Budget Agency, *Lottery and Gaming Revenue Forecast*, January 22, 2001; Bob Lain, State Budget Agency, (317) 232-5610.