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FISCAL IMPACT STATEMENT

LS 7205

BILL NUMBER: HB 1356

NOTE PREPARED: Jan 8, 2022

BILL AMENDED:

SUBJECT: Interactive Gaming.

FIRST AUTHOR: Rep. Gutwein

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes the following persons to conduct interactive gaming:

- (1) A licensed owner of a riverboat.
- (2) An operating agent operating a riverboat in a historic hotel district.
- (3) A permit holder conducting gambling games at the permit holder's racetrack.

The bill provides for the licensure of persons providing services and equipment for managing and conducting interactive gaming. It specifies requirements for the conduct of interactive gaming. It imposes an Adjusted Gross Receipts (AGR) tax of 18% on interactive gaming. The bill provides for revenue sharing to cities and counties in which casinos are operated. It makes an appropriation. It makes conforming and technical changes.

Effective Date: July 1, 2022.

Explanation of State Expenditures: *Indiana Gaming Commission (IGC):* The bill requires the IGC to regulate and administer interactive gaming conducted by an interactive gaming licensee or an interactive gaming management service provider. It specifies the powers and duties of the IGC as it relates to regulating interactive gaming. It allows IGC to investigate and reinvestigate applicants, interactive gaming licensees, interactive gaming management service providers, and other licensees involved with interactive gaming. It allows the IGC to conduct hearings and take enforcement and disciplinary actions related to violations of interactive gaming provisions. It requires the IGC to develop responsible interactive gaming measures and adopt rules to establish and implement a voluntary exclusion program related to interactive gaming. It provides that the IGC may require a background investigation of any officer, director, or shareholder of an applicant. The bill requires the IGC to add the fiscal impact study on interactive gaming in the report on

sports wagering submitted to the Governor under current law.

The provisions in the bill would increase the administrative workload for the IGC. The bill provides that the IGC may recover certain cost of investigating applicants from the applicant. However, any additional expenses would be paid from Riverboat Wagering Tax revenue annually appropriated to the IGC for administrative purposes. HEA 1001- 2021 appropriated \$3.4 M annually in FY 2022 and FY 2023 to the IGC for administrative purposes.

Child Support Bureau: The bill provides the process for withholding delinquent child support from interactive gaming winnings. It requires the bureau to provide information to an interactive gaming licensee concerning persons who are delinquent in child support. The bureau’s current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: The bill will result in a state revenue impact occurring from:

- (1) An Interactive Gaming Tax imposed at the rate of 18% of AGR from interactive gaming.
- (2) Loss of tax revenues from displacement of gaming activities at brick-and-mortar casinos and racinos.
- (3) Initial and renewal license fees on interactive gaming licensees and providers.

The bill distributes 5/6th of the Interactive Gaming Tax revenues to the state General Fund. The remaining 1/6th of the gaming tax revenues are deposited in the Revenue Sharing Fund established by the bill. The money in the Revenue Sharing Fund will be distributed to the local units (*See Explanation of Local Revenues*). Interactive gaming will result in reduced gaming activity at the racinos and casinos, so the state General Fund will also receive lower gaming tax revenues from the casinos and racinos. The bill imposes license fees and requires the fees be deposited in the Interactive Gaming Fund established by the bill. The fiscal impact will begin in FY 2023 and increase every year to reach the full impact in FY 2025.

The table below shows the net impact in FY 2023 to FY 2025 on the state funds:

Source of Impact	Funds	FY 2023 (in \$ M)	FY 2024 (in \$ M)	FY 2025 (in \$ M)
Interactive Gaming Taxes	State General Fund	\$15.3 - \$30.5	\$30.5 - \$61.0	\$46.2 - \$92.4
Riverboat and Racino Taxes	State General Fund	(\$12.2) - (\$24.0)	(\$24.5) - (\$48.1)	(\$37.1) - (\$72.9)
Supplemental Wagering Taxes	State Dedicated Funds	(\$0.1) - (\$0.2)	(\$0.2) - (\$0.4)	(\$0.3) - (\$0.6)
License Fee	Interactive Gaming Fund	\$7.3 - \$7.8	\$0.9 - \$1.0	\$0.9 - \$1.0
Total	All State Funds	\$10.3 - \$14.1	\$6.7 - \$13.5	\$9.7 - \$19.9
Note: 3.33% of the Interactive Gaming Tax revenue deposited into the state General Fund in the previous state fiscal year would be transferred to the Addiction Services Fund.				

The estimate covers the impact of interactive gaming on the gaming tax base and major gaming taxes in Indiana. It is based on the following assumptions:

- Indiana will offer a full range of online casino games through Indiana’s licensed riverboats and casinos.
- The legalization and regulation of interactive gaming would substantially increase the participation in casino style games.
- Online casino games will displace some gambling activities occurring at brick-and-mortar casinos. Studies

have concluded that up to 30% of new online gaming revenues are displaced from existing casino revenues. This figure would be higher for a saturated market like Indiana.

License Fees: The bill requires the IGC to impose the following license fees:

- (1) An initial license fee of \$500,000 paid by the interactive gaming licensee. This license may be renewed annually upon paying a fee of \$50,000.
- (2) An initial license fee of \$100,000 paid by any interactive gaming management service provider licensee. This license may be renewed annually upon paying a fee of \$25,000.
- (3) It requires the IGC to determine a supplies license fee and occupational license fee.

The estimate assumes that all 13 Indiana riverboats and racinos will apply for an interactive gaming license. It also assumes that businesses having expertise in offering online gaming will apply for online gaming interactive gaming management service provider license.

Interactive Gaming Fund: The bill establishes the nonreverting fund. The fund shall be administered by the IGC. The fund consists of the license fees and administrative fees collected under the interactive gaming provisions. The expenses of administering the fund shall be paid from the fund.

Addiction Services Fund: Of the interactive gaming tax revenue deposited into the state General Fund in the previous state fiscal year, 3.33% would be transferred to the Addiction Services Fund. It provides that 25% of those funds must be spent towards prevention and treatment of compulsive gambling. The fund is administered by Division of Mental Health.

Additional Information: The bill would effectively allow internet or mobile gambling, more commonly known as online gaming, involving wagering money on casino style games over the internet.

The bill defines "interactive game" as an internet-based version or substantial equivalent of a gambling game, in which an individual wagers money or something of monetary value for the opportunity to win money or something of monetary value, and which is accessed by an internet-connected computer or mobile device. Interactive game includes gaming tournaments conducted via the internet. It clarifies that the term does not include sports wagering which is conducted under a different statute of Indiana law.

It provides that "interactive gaming licensee" means an Indiana riverboat owner or operator or a racino owner that holds an interactive gaming license. It allows a licensee or an interactive gaming management service provider on behalf of the licensee to operate an interactive gaming platform where a person who is either physically present in Indiana when placing a wager or otherwise permitted to place a wager by law could participate in interactive games. The bill allows an eligible person to establish an interactive wagering account: (1) in person at a riverboat or racetrack; or (2) over the internet without appearing in person. It disallows a person less than 21 years of age to establish an account.

There is little data available on online gaming in the U.S. The legalization of online gaming in some states has provided information on the potential size of total and per capita online wagers. Using data for per-capita online gaming and online gaming as a share of total statewide gaming from states where online gaming is currently allowed, a range estimate was created for Indiana.

It is estimated that the full impact of interactive gaming will be reached by the third year and generate between \$308 M to \$616 M annually in statewide AGR. It would also reduce the casino/racino AGR between \$123 M to \$247 M annually. The marginal tax rate of riverboat and racino taxes are about 30%, which means

that any AGR losses at the riverboat and racino would have been taxed at 30%. The tax revenue collections from interactive gaming will be taxed at a separate 18% rate. The online gaming will generate about \$55.5 M to \$110.9 M in online gaming taxes. It will also reduce gaming taxes collected from riverboats and racinos by between \$42.5 M to \$84.7 M. The net gaming tax revenue would be between \$13.0 M to \$26.3 M in the third year of legalization. This would impact the state funds and local units. Additionally, license fee revenue will be deposited in the Interactive Gaming Fund established by the bill.

The bill allows IGC to accept applications for an interactive gaming license starting July 1, 2022. It authorizes a licensee to conduct interactive gaming starting September 1, 2022. Since the bill allows the IGC to offer temporary licenses, it is assumed that interactive gaming in Indiana will begin on September 1, 2022. It is assumed that the impact in the first year of legalization will be one-third of the aforementioned impact and gradually increase to the full impact in the third year. Thereafter, it will grow based on industry economic factors and business cycle.

The bill allows IGC to enter into an interactive gaming reciprocal agreement with a regulatory agency of one or more other states or jurisdictions in which interactive gaming is authorized to allow an interactive gaming operator to accept wagers from persons not physically present in Indiana, and to allow persons physically present in Indiana to place wagers with parties to the interactive gaming reciprocal agreement, if the reciprocal agreement is consistent with federal law and is approved by the Governor.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill deposits 1/6th of the Interactive Gaming Tax into the revenue sharing account. It provides that the money deposited in the account in the previous state fiscal year will be distributed as follows:

- (1) 50% to the city in which the interactive gaming licensee's casino is located.
- (2) 50% to the county in which the interactive gaming licensee's casino is located.

If a casino is not located in a city, all the money deposited in the account attributable to taxes paid by a casino would be distributed to the county in which the casino is located. Additionally, the loss of riverboat wagering taxes and riverboat supplemental wagering taxes will reduce distribution of these taxes to local units.

The net impact on local units is shown in the following table:

Source of Impact	FY 2023 (in \$ M)	FY 2024 (in \$ M)	FY 2025 (in \$ M)
Interactive Gaming Taxes		\$3.1 - \$6.1	\$6.1 - \$12.2
Riverboat Wagering Taxes	(\$1.1) - (\$2.5)	(\$2.2) - (\$5.0)	(\$3.3) - (\$7.6)
Riverboat Supplemental Taxes	(\$0.6) - (\$1.2)	(\$1.2) - (\$2.4)	(\$1.8) - (\$3.6)
Total of Local Units	(\$1.7) - (\$3.7)	(\$0.3) - (\$1.3)	\$1.0 - \$1.0

State Agencies Affected: Indiana Gaming Commission; Department of State Revenue; Department of Child Services.

Local Agencies Affected: Local units with riverboats and racinos.

Information Sources: American Gaming Association - State of the States 2021:
<https://www.americangaming.org/resources/state-of-the-states-2021/> ;
Delaware iGaming Reports -
<https://www.delottery.com/More/iGaming/Monthly-Net-Proceeds> ;
Indiana Gaming Commission - Annual Reports: <https://www.in.gov/igc/2362.htm>
National Conference of State Legislatures, Daily Fantasy Sports -
<https://www.ncsl.org/research/civil-and-criminal-justice/tackling-daily-fantasy-sports-in-the-states.aspx> ;
New Jersey Division of Gaming, Internet Gaming Revenues -
<https://www.njoag.gov/about/divisions-and-offices/division-of-gaming-enforcement-home/financial-and-statistical-information/monthly-internet-gross-revenue-reports/> ;
Pennsylvania Gaming Control Board, Internet Gaming -
https://gamingcontrolboard.pa.gov/files/legislation/igaming_FAQ.pdf,
<https://gamingcontrolboard.pa.gov/?p=317> ;
Michigan Internet Gaming Revenue;
https://www.michigan.gov/mgcb/0,4620,7-351-79127_82898-244408--,00.html;
Philander, K. S. (2011). The Effect of Online Gaming on Commercial Casino Revenue.
UNLV Gaming Research & Review Journal, 15(2).
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