

for full casinos. It establishes initial licensing fees for full casinos at \$50 million, with an initial licensing period of 10 years and annual renewal thereafter at \$6 million per year.

HB 41 permits limited casino gaming at horse racing tracks licensed under KRS Chapter 230, establishes requirements for limited casinos, and establishes requirements for any track holding a limited casino license. The Act establishes requirements for principals of any corporation granted a casino license and creates license application requirements for casino, manufacturer, or supplier licenses. It prohibits anyone not licensed from selling, leasing, or otherwise furnishing gaming supplies and prohibits anyone under the age of 21 from participating in casino gaming. The bill requires the Lottery Corporation to determine occupations related to casino gaming that require licensure, and establishes criteria for occupational licensing. It permits the corporation to initiate disciplinary action against applicants and license holders, and establishes an appeal process.

HB 41 creates a gaming tax of 31 percent and limits that money to the benefit of the state retirement systems for the first 10 years. It establishes an admission tax of \$3 per person per day. It creates a casino gaming revenue distribution trust fund and provides for the distribution of funds to retirement systems. The Act also establishes a regional tourism and infrastructure development fund and delineates the criteria for projects seeking money from that fund.

HB 41 waives 15 U.S.C. sec. 1172, 1173 and 1174 for devices authorized by this Act. It requires the corporation to promulgate administrative regulations to define and limit games and devices permitted for gaming in casinos. The Act provides guidelines for exclusion or ejection of certain persons, defines “cheat” and provides penalties for those who cheat at casino games. It amends KRS 243.500 to exempt limited or full casino gaming, amends KRS 525.090 to exempt persons engaged in casino gaming, and amends KRS 528.010 to exempt gambling activity and devices licensed under KRS Chapter 154A. It amends KRS 528.020 to conform, amends KRS 528.070 to exempt activity licensed under KRS Chapter 154A, amends KRS 528.080 to exempt those with the appropriate license required under KRS Chapter 154A; and amends KRS 528.100 to exempt limited or full casino gaming licensed under KRS Chapter 154A.

The Act takes effect upon passage of a Constitutional amendment authorizing casino gaming in Kentucky.

The fiscal impact of HB 41 on affected local governments is indeterminable, but is expected to be moderate to significant in those locations directly affected by full or limited casinos.

If the local option election to authorize a casino is initiated by ordinance of a qualifying city or county government, **the cost of adopting and having the local sheriff publish the ordinance would be borne by the local government enacting the ordinance.** Most counties require a minimum of two publications. A recent sampling of various ordinance publication costs are as follows: Campbell County \$80-\$110; Davies \$700-\$1,000; Pike \$100-200; Pulaski \$200-\$300; Warren \$300-\$600.

The county clerk would have to verify the signatures on a petition to hold a local option election. **There would be labor costs associated with the county clerk employees**

verifying the accuracy of individuals who have signed the petition.

The cost of a local option election depends on whether the election is held on a regular election day or is held on a day other than the day of a regular election.

If the local option question is added to the regular election ballot, it would be an additional item on an already scheduled statewide election. **The only additional cost to county clerks would be the cost of programming voting machines to add the local option question.**

According to Harp Enterprises, a vendor that provides electronic voting machines to 97 Kentucky counties, there would be some additional programming cost to add a local option question to a ballot. For example, the cost to add an amendment to the ballot for Franklin County, with 44 precincts, has been estimated at between \$1,250 and \$2,000.

If the local option election is held on a day other than a regular election day, the same types of costs would be incurred as those of a regular election. Precinct election workers would be hired and trained, ballots would be printed, and voting machines would be set up and programmed. A 2013 survey conducted by the Kentucky County Clerks Elections Committee showed an average per-precinct cost for the 2012 general election of \$1,671.87. A more recent sampling of several counties of varying size resulted in a range between \$1200 and \$1650 per-precinct costs for the 2016 general election. Final costs for a county vary greatly depending on the size and nature of the county, the nature of the election, and state cost reimbursement.

However, if the local option election is initiated by petition, and is held on a day other than a regular election day, the person or persons sponsoring the petition drive must reimburse the county for the costs of the local option election.

The Kentucky Horse Racing Commission lists the following horse tracks in the Commonwealth that could be affected by this Act: Churchill Downs, Louisville; Ellis Park, Henderson; Keeneland Association, Lexington; Kentucky Downs, Franklin; Turfway Park, Florence; Bluegrass Downs, Paducah; The Red Mile, Lexington; and Thunder Ridge, Prestonsburg.

Section 25 of the legislation imposes a \$3 tax on each person admitted to a casino each day. **(LRC economists estimate that this tax would produce \$16 million during the first full year of operations.)** This \$3 admission tax is then to be deposited in the regional tourism and infrastructure development fund in the Kentucky State Treasury which is created in Section 28 of the legislation. Proceeds from that fund are to be used to promote tourism in regions containing a casino, to provide public protection, or to develop infrastructure projects designed to ease the burden of increased tourist activity in regions containing a casino. This will be structured to incorporate multiple units of local government acting cooperatively through interlocal agreements. Projects to be funded from this fund must be within a 30 mile radius of an approved casino and the population of the participating local government units must be at least 70,000. **The fiscal impact of the revenues from the regional tourism and infrastructure development fund on local government is unknown**, as it is unclear how much money each local government will receive and exactly what that money can be used for. Clarification will come when the General Assembly establishes a program to administer the funds in the regional tourism and infrastructure development fund.

It is estimated that approximately \$778 million in adjusted gross revenue could be generated at nine potential casino locations (i.e., estimating four full and five limited at existing horse racing tracks). At a proposed tax rate of 31 percent as provided for in Section 24 of the Act, total gaming tax revenue would be approximately \$236 million for the state above what is currently, and forecasted to be, collected at historic racing venues. Because Kentucky has no experience with casino-style gaming within its borders, information from other states was used to project casino facility revenues in Kentucky. Estimates were based on past revenues of casino facilities located in Illinois, Indiana, Ohio and West Virginia.

Section 35 defines “cheating” and makes cheating a Class D felony. Section 35 also enumerates several actions in addition to “cheating” that will result in Class D felony charges. The Act makes it a Class A misdemeanor for an applicant to make a false statement on an occupational, manufacturer’s supplier’s or casino license application, a Class A misdemeanor for permitting a person less than 21 years of age to make a wager at a casino, and a Class A misdemeanor if a person less than 21 years enters, or attempts to enter a casino. **Creating new criminal offenses has the potential of affecting local law enforcement agencies, jails, and the court system. However, the number of cases constituting a crime under HB 41 is expected to be small. Therefore, the costs borne by local governments are expected to be minimal.** Below is a description of jail costs associated with misdemeanor and felony incarcerations.

Class B and Class A misdemeanors:

A person convicted of a Class B misdemeanor may be incarcerated for up to 90 days. A person convicted of a Class A misdemeanor may be incarcerated for up to twelve months. Misdemeanants are housed in one of Kentucky’s 76 full service jails or five life safety jails. While the expense of housing inmates varies by jail, this estimated impact will be based on \$31.34 per day, which equals the per diem and medical expenses that the Department of Corrections pays jails to house felony offenders. While the majority of misdemeanor defendants are granted bail, those who do not will also cost local jails an average of \$31.34 per day.

Class D felons:

When a court denies bail to a Class D felony defendant, the local government is responsible for incarcerating the defendant until disposition of the case in one of Kentucky’s 76 full service jails or five life safety jails. While the expense of housing inmates varies by jail, each additional inmate increases facility costs by an estimated average of \$31.34 per day, which equals the per diem and medical expenses that the Department of Corrections pays jails to house felony offenders. Upon sentencing, a Class D felon is housed in one of Kentucky’s full service jails for the duration of his or her sentence. The Department of Corrections pays a jail \$31.34 per day to house a D felon. Since the per diem pays for the estimated average cost of housing a Class D felon, the per diem may be less than, equal to, or greater than the actual housing cost.

Additional benefits and costs for local governments will likely occur with the advent of casino gaming. Economic benefits will occur if there is net new employment that increases the occupational license, or other authorized local government tax base. Likewise, assuming net new investments in real and personal property there will be an increase in the property tax

base. In addition, hotel tax receipts likely will increase in affected communities. The net new employment could come from private construction in connection with casino gaming sites. There also could be certain “spin-offs,” such as the creation of other entertainment, hospitality, and leisure businesses and facilities.

There are costs associated with compulsive or problem gambling that may increase with the availability of casino gambling in the Commonwealth of Kentucky.

Additional costs typically arise from a need to provide expanded or added transportation and other types of infrastructure, such as utilities, possible law enforcement to assure public safety, and additional fire stations or fire equipment. But while there will certainly be a variety of added benefits and costs for local governments, the quantification of the benefits and costs is beyond the scope of this analysis.

Part III: Differences to Local Government Mandate Statement from Prior Versions

The Part II section above pertains to the bill as introduced and there are not any prior introduced versions of the bill to complete the Part III section.

Data Source(s): The Kentucky County Clerks Elections Committee; Kentucky Horse Racing Commission; Secretary of State's Office; Kentucky County Clerk's Association; LRC Staff, including LRC Staff economists; Legislative Research Commission; Kentucky Department of Corrections

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