COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

REVENUE BILL ANALYSIS

98TH GENERAL ASSEMBLY

BILL NO: HB 1984, as amended by House Amendment 1 April 10, 2013

SPONSOR (S): Cross

TYPE: Video Gaming: Distribution of Revenues

CHAPTER REF: 30 ILCS 105/5.826 new 30 ILCS 105/6z-98 new

230 ILCS 40/60

FISCAL IMPACT: HB 1984, as amended by House Amendment 1, would not impact the amount of revenues generated by video gaming, but would potentially change the distribution of these revenues. Currently, the Commission estimates that five-sixths of the 30% video gaming tax will amount to approximately \$106 million to \$196 million per year <u>under full</u> implementation.

House Amendment 1 would provide that this portion of the revenues shall be split between the Capital Projects Fund and the newly created School Consolidation Aid Fund (instead of the entire portion to the Capital Projects Fund). The amount that each Fund would receive would be dependent on the amount of Capital Projects Fund revenues from video gaming pledged to pay debt service on bonds issued through the end of FY 2013, which is not known at this time. Under this proposal, the School Consolidation Aid Fund would receive those funds not already pledged as revenue streams to service bonds.

<u>SUBJECT MATTER</u>: HB 1984, as amended by House Amendment 1, amends the Video Gaming Act to change the distribution of revenues from the video gaming tax. Under current law, five-sixths of the revenues are deposited into the Capital Projects Fund and one-sixth is deposited into the Local Government Video Gaming Distributive Fund.

Under this amendment, one-sixth shall be transferred into the Local Government Video Gaming Distributive Fund and five-sixths shall be transferred to the Capital Projects Fund and the School Consolidation Aid Fund as determined by administrative rule adopted jointly by the Governor's Office of Management and Budget and the Treasurer.

No later than July 1, 2013, the Governor's Office of Management and Budget and the Treasurer shall determine the amount of tax revenues paid into the Capital Projects Fund that have already been pledged by indenture by the State as revenue streams to service bonds that have already been sold by the State. All revenues not already pledged by indenture by the State for capital spending shall be deposited into the School Consolidation Aid Fund.

No later than August 1, 2013, the Governor's Office of Management and Budget and the Treasurer shall jointly publish a rule to redivide these revenues. The Governor's Office of Management and Budget and the Treasurer shall exercise emergency rulemaking authority to adopt any emergency rules necessary for the implementation of this Article.

House Amendment 1 also amends the State Finance Act to create the School Consolidation Aid Fund. The monies in the Fund shall be used by the State Board of Education solely for supplemental grants to school districts that are undergoing consolidation or planning for consolidation.

HB 1984, as amended by House Amendment 1, would be effective upon becoming law.

<u>COMMENT:</u> Video Gaming in Illinois became operational in September 2012. In its first seven months (thru March 2013), a net terminal income amount of \$54.5 million has been collected from operating video gaming machines. At the 30% tax rate, this equates to \$16.3 million in revenue. Under the current distribution formula, five-sixths of this total has been distributed to the Capital Projects Fund, while the remaining one-sixth is the municipality share.

The amount of revenues that could eventually be generated by video gaming in Illinois under full implementation on an annual basis remains unclear. While there were 5,092 machines in operation in March 2013, the number of machines under full implementation will likely be much higher once all applicants go through the thorough application process, which includes investigative background checks. It is not known how long this process will take before Illinois can be considered under "full implementation".

The Commission's latest estimate is that the amount of tax revenue from video gaming will be between \$127 million and \$235 million on an annual basis under full implementation. Therefore, the Commission currently estimates that the five-sixths portion of the 30% tax on video gaming will amount to approximately \$106 million to \$196 million per year. These figures, however, are dependent on the number of communities that ban video gaming in their areas. The Commission's latest estimate was based on approximately 63% of the population in Illinois living in areas that ban video gaming in their municipalities/counties (including the City of Chicago) which limits the amount of potential revenue from video gaming in Illinois. Any notable change in these communities and their decision to ban or allow video gaming could have a significant impact on the Commission's estimates.

Under HB 1984, as amended by House Amendment 1, instead of the five-sixths portion going to just the Capital Projects Fund, the revenues would instead be split between the Capital Projects Fund and the School Consolidation Aid Fund. The amount that would go to each of these funds would be dependent on the amount of tax revenues paid into the Capital Projects Fund that have already been pledged by indenture by the State as revenue streams to service bonds that have already been sold by the State. All revenues not already pledged by indenture by the State for capital spending shall be deposited into the School Consolidation Aid Fund.

Again, the Commission currently estimates that the five-sixths portion of the 30% tax on video gaming will amount to approximately \$106 million to \$196 million per year under full implementation. At this point, it is unknown what amount of these revenues will be required for debt service. Therefore, it is unknown how this revenue would be split between the Capital Projects Fund and the School Consolidation Aid Fund under this proposal.

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