

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR Hernandez/Dixon LAST UPDATED _____
ORIGINAL DATE 2/20/23
BILL _____
SHORT TITLE Nonprofit Gaming Machine Payouts NUMBER House Bill 309
ANALYST Anderson

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	Indeterminate but substantial	Indeterminate but substantial	Indeterminate but substantial	Indeterminate but substantial	Recurring	

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent version of this legislation.

Duplicates Senate Bill 143

Relates to House Bill 301

Sources of Information

LFC Files

Responses Received From

Gaming Control Board (GCB)

SUMMARY

Synopsis of House Bill 309

House Bill 309 amends Section 60-2E-28 NMSA 1978 to increase the maximum jackpot payout allowed at machines operated by non-profit organization gaming operator licensees from \$4,000 to \$10 thousand.

This bill does not contain an effective date, and as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed.

FISCAL IMPLICATIONS

The Gaming Control Board (GCB) said gaming taxes are based on net revenue so tax revenue might decrease if larger jackpots are paid more frequently and outpace net revenues. According to GCB, an increased amount of payouts could reduce the net revenue collected by non-profit gaming organizations. While an increased payout has the potential to attract more players, GCB stated “The pool of potential players is limited to the organization’s membership.” GCB stated raising the amount of jackpot payout might decrease the amount of Charity & Education

contributions.

GCB provided the following:

Tax is based on net revenue (coin-in minus coin-out) and the pool of potential players is limited to the organization's membership. The potential is for tax revenue to decrease if the amount of play (coin-in) remains consistent and larger jackpots hit causing the payouts (coin-out) to increase which would reduce the net revenue. Charity & Education contributions are based on net revenue and the same dynamics apply here as with the tax payments and the possibility of Charity & Education contributions decreasing is a reality.

GCB did not estimate any gains in revenue from House Bill 309 for increased game play.

SIGNIFICANT ISSUES

Non-profit gaming locations are comprised of American Legion Posts, Elks Lodges, six Fraternal Order of Eagles, seven Loyal Order of Moose, and eight Veterans of Foreign Wars Posts. GCB said only 12 percent of their non-profit gaming operator licensees would be able to sustain the amended jackpot payouts and some non-profits in rural communities would be at risk of going out of business:

Currently, there are 48 Non-Profit Gaming Operator licensees in NM. A small percentage of these, maybe 12 percent would be financially able to sustain these jackpot limits. Additionally, regulation requires that jackpots be paid at the time they are won. Licensees are required to maintain funds on hand at 2 and ½ times the maximum payout on hand. This would require a significant increase in cash on hand at the locations that have the limit set on their machines. In locations where there are competing clubs in small rural communities this may work to actually put some Non-Profits out of business.

GCB stated its Audit Division performed an analysis which determined that a Non-Profit gaming operator would need to keep cash-on-hand of approximately 2.5 times the highest possible jackpot to have enough available funds to pay multiple large payouts. By this calculation of the GCB audit division, non-profit gaming locations would then be required to maintain \$25 thousand on hand for a \$10 thousand jackpot payout. GCB also said:

Non-Profit gaming operators are required to pay a patron upon demand of a gaming machine ticket (cashout or jackpot). This requirement is in place because checks aren't an option at most Non-Profit gaming operators because pre-signed checks are not permitted and require 2 FOS (Finding of Suitability) licensee signatures. The security of the facility and safeguarding of funds is a concern for Non-Profit gaming operators.

A study, "Social and Spatiotemporal Impacts of Casino Jackpot Events" <https://www.eurekalert.org/news-releases/951194> conducted by Park and Joseph Pancras of the University of Connecticut, found that using jackpot events increase slot machine gambling and frequency of plays by jackpot winners, have a return on investment profitable to the casino 49 percent of the time, and are not effective advertising tools:

The average impact on the jackpot winner is a 33 percent increase in the number of plays and a \$39 increase in bet amount per play for two hours after they win. Play by their peers increases 21 percent in the same period... we find that rather than taking risks only from winnings (the house money effect), belief in continued success (the hot-hand effect) seems to be driving betting behavior of players once they win a jackpot.

ADMINISTRATIVE IMPLICATIONS

GCB said its Audit Division works closely with licensees who raise the highest possible jackpots limit to \$10 thousand and works to ensure compliance with Rule 15.1.8.19(A) NMAC which addresses Minimum Bankroll Requirements.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 143 duplicates house bill 309 and also amends Section 60-2E-28 NMSA 1978 to increase the maximum jackpot payout allowed at machines operated by non-profit organization gaming operator licensees from \$4,000 to \$10 thousand.

House Bill 301 adds a 13 percent gaming tax on net take for gaming operator licensees located in a class A county and within a 60-mile radius of three or more tribal casinos. This is half of the current 26 percent rate for other gaming operator licensees that are not manufacturers, distributors, or non-profits. The effective date for HB301 is July 1, 2023.

OTHER SUBSTANTIVE ISSUES

Increasing/maintaining membership for the Non-Profits is difficult, especially for the veterans organizations. Patronage of the gaming machines at the Non-Profits is limited to members only, so having patrons to support increased jackpot limits may not be feasible. Non-Profits located in higher population areas already compete with the racetrack and tribal casinos for patrons.

GA/al/ne