



**Colorado
Legislative
Council
Staff**

HB16-1404

**FINAL
FISCAL NOTE**

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-1175 **Date:** August 17, 2016
Prime Sponsor(s): Rep. Duran; Wist **Bill Status:** Signed into Law
 Sen. Cooke; Guzman **Fiscal Analyst:** Anna Gerstle (303-866-4375)

BILL TOPIC: REGULATE FANTASY CONTESTS

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	<u>\$125,790</u>	<u>up to \$210,790</u>
General Fund	0	up to 10,000
Cash Funds*	125,790	200,790
State Expenditures	<u>\$89,705</u>	<u>\$235,953</u>
Cash Funds	78,077	208,033
Centrally Appropriated Costs	11,628	27,920
TABOR Impact		up to \$210,445
FTE Position Change	0.9 FTE	2.4 FTE
Appropriation Required: \$78,077 - Multiple agencies (FY 2016-17).		
Future Year Impacts: Ongoing state revenue and expenditure increase.		

* A portion of these are pass through moneys to the federal government, treated as reappropriated funds. See the State Revenue and State Appropriations sections.

Summary of Legislation

The bill establishes the registration of small fantasy contest operators and the licensure of all other large fantasy contest operators by the Division of Professions and Occupations in the Department of Regulatory Agencies (DORA). The bill defines a fantasy contest operator as an entity that offers a fantasy contest with an entry fee and cash prize to the public.

Registration. Small fantasy contest operators are required to register with DORA and may not operate without being registered beginning July 1, 2017. Small fantasy contest operators:

- have fewer than 7,500 fantasy contest players in Colorado;
- may not be eligible to register if the applicant or its officers, directors, or partners have pled guilty or no contest to a felony;
- are not required to obtain a fingerprint background check or conduct an annual audit to be submitted to DORA; and
- may be investigated by DORA only if a complaint warrants an investigation.

Licensing. On or after July 1, 2017, a license is required for any large fantasy contest operator with more than 7,500 fantasy contest participants in Colorado (licensee) to operate. DORA may set license and renewal fees. An applicant may not be eligible for a license if the applicant or any of its officers, director, or general partners has been convicted of or has entered a guilty or no contest plea to a felony. The bill specifies the information that must be provided on a license application and the required procedures for licensees to obtain a fingerprint criminal background check from the Colorado Bureau of Investigation (CBI) in the Department of Public Safety (DPS).

Operation of fantasy contests. Fantasy contests may not include university, college, high school, or youth sporting events or utilize video or other depictions of slot machines, poker, blackjack, craps, or roulette. Fantasy contests may be conducted at a licensed gaming establishment, class B horse racing track, and a licensed facility at which pari-mutuel wagering occurs. In addition, the bill establishes certain restrictions and protections that registered and licensed operators must enact.

All fantasy contest operators must separate fantasy contest player funds from operational funds and maintain a reserve in the same amount as the deposits made to the accounts of fantasy players. Each operator must also maintain daily records of its operations for at least three years and large fantasy operators must contract with a third party to annually conduct an independent audit of the operator. The results of the audit must be submitted to DORA.

Discipline. DORA may deny, suspend, place on probation, issue a letter of admonition, or revoke a license or registration if a fantasy contest operator violates rules or provisions of the law, fails to meet the applicable requirements, or uses fraud to apply for a license or registration. DORA may appoint an administrative law judge to gather evidence and report findings and may issue a cease and desist order to licensed or registered fantasy contest operators. Any operator, including small fantasy contest operators, who violates the law may be assessed a civil penalty of up to \$1,000 per violation and DORA may file a civil action to collect the penalty.

The bill is repealed September 1, 2020, following the completion of a sunset review by DORA.

Data and Assumptions

The Fantasy Sports Trade Association (FSTA) estimates that approximately 800,000 Colorado residents participate in fantasy contests, including some who participate in free contests and some who participate in a high number of contests annually.

Based on the FSTA's Colorado membership estimate, the number of casinos licensed by the Department of Revenue, and an industry estimate of the number of operators in Colorado, the fiscal note assumes that there are 100 operators currently in the state. Of those, it is assumed that 10 large operators will be licensed and 90 small fantasy contest operators will be registered. The fiscal note assumes that 45 registrations and 5 initial licenses will be processed in FY 2016-17; and that 5 initial licenses, 5 renewals, and up to 80 registrations (45 current small operators and 35 new small operators) will be processed in FY 2017-18.

The fiscal note assumes that approximately 215 complaints or notifications of criminal history will be received annually beginning in FY 2017-18, based on programs of a similar size, a large consumer base, and a high participation rate by consumers. Of those, 16 will require investigation, 14 will be settled, and 6 will be referred to the Department of Law for adjudication.

The bill specifies that all fantasy contest operators must be registered or licensed beginning July 1, 2017. The fiscal note assumes that the work on the registration and licensure programs will begin on January 1, 2017, licenses must be renewed annually, and that licensing fees will be set by DORA to cover costs of both the licensing and registration components.

State Revenue

The bill increases state revenue by \$125,790 in FY 2016-17 and up to \$210,790 in FY 2017-18. This includes fine revenue to the General Fund and fee revenue to two cash funds. The revenue impacts are detailed below.

License fees. The bill increases fee revenue to DORA by \$125,000 in FY 2016-17 and \$200,000 in FY 2017-18. The bill requires that only licensees pay a fee. It is anticipated that five licensees will pay for an initial license in FY 2016-17 and five will pay for an initial license and five for a renewal in FY 2017-18. Fee revenue is deposited into the Division of Professions and Occupations Cash Fund.

Fingerprint-based background checks — DPS. Fee revenue from fingerprint-based criminal history background checks deposited into the CBI Identification Unit Cash Fund in the DPS will increase by up to \$790 in FY 2016-17 and FY 2017-18, assuming 5 licensees each year, each with up to 4 individuals requiring a background check. The current fee for background checks is \$39.50, which includes \$17.25 for a Federal Bureau of Investigation (FBI) fingerprint-based check, which is passed on to that federal agency. The background check is required only upon initial licensure and is not required for registration.

Fine revenue. The bill will increase revenue to the General Fund from civil penalties. A fantasy contest operator, employee, or agent who violates the law may be fined up to \$1,000 per violation. It is anticipated that up to 10 penalties will be paid per year beginning in FY 2017-18. As a result, up to \$10,000 in fine revenue is expected in FY 2017-18.

Fee impact on fantasy contest operators. Section 2-2-322, C.R.S., requires legislative service agency review of measures which create or increase any fee collected by a state agency. The bill specifies that DORA has the authority to set licensing fees to cover the costs of both the licensing and regulation programs. The fee amounts displayed in Table 1 are estimates only; actual fee calculations are set administratively by the DORA based on the cash fund balance, estimated program costs, and the estimated number of licenses.

Table 1. Fee Impact on Fantasy Contest Operators					
Fiscal Year	Type of Fee	Estimated Fee	Number Affected	Total Fee Impact	Total per Fiscal Year
FY 2016-17	Initial License	\$25,000	5	\$125,000	\$125,790
	CBI Background Check	\$39.50	20	\$790	
FY 2017-18	Initial License	\$25,000	5	\$125,000	\$200,790
	Annual License Renewal	\$15,000	5	\$75,000	
	CBI Background Check	\$39.50	20	\$790	

TABOR Impact

This bill increases state revenue from fines and fees, which will increase the amount of money required to be refunded under TABOR. No impact is expected in FY 2016-17. TABOR refunds are paid out of the General Fund. Fee revenue collected to pass through to the FBI for background checks is approximately \$345 in FY 2016-17 and FY 2017-18 and does not count against the TABOR limit.

State Expenditures

The bill increases cash fund expenditures in DORA and DPS by a total of \$89,705 in FY 2016-17 and \$235,953 in FY 2017-18. The bill also increases the workload of the Department of Revenue, Department of Personnel and Administration, Judicial Department, and Department of Law. The expenditures are listed in Table 2 and detailed below.

Table 2. Expenditures Under HB16-1404		
Cost Components	FY 2016-17	FY 2017-18
Personal Services	\$51,489	\$123,465
FTE	0.9 FTE	2.4 FTE**
Operating Expenses and Capital Outlay Costs	5,653	6,603
Temporary Staffing	10,903	10,903
Legal Services	9,505	66,535
Fingerprint Background Check Costs	527	527
Centrally Appropriated Costs*	11,628	27,920
TOTAL	\$89,705	\$235,953

* Centrally appropriated costs are not included in the bill's appropriation.

** Includes 2.1 FTE for DORA and 0.3 FTE for the Department of Law in FY 2017-18.

Personal Services — DORA. DORA requires \$51,489 and 0.9 FTE in FY 2016-17 and \$123,465 and 2.1 FTE in FY 2017-18 to establish, implement, and enforce the regulatory program established by the bill. Staffing costs are assumed to begin January 1, 2017. Costs include:

- a program director to oversee the program, conduct outreach with stakeholders, develop procedures and guidelines, and conduct formal rulemaking;
- staff to assist with rulemaking, process and verify applications and renewals, communicate with licensees, review annual audits, receive complaints, and coordinate with the CBI; and
- an investigator beginning in FY 2017-18 to investigate complaints, obtain evidence, prepare reports, and assist in multi-jurisdictional field investigations.

Temporary assistance. DORA also requires \$10,903 in FY 2016-17 and FY 2017-18 for temporary staff to assist with applicant inquiries regarding licensing requirements and application status, registration verification, and the issuing of licenses. It is anticipated that a total of 1,124 hours of temporary staff assistance is required at an hourly rate of \$19.40.

Legal services. DORA requires \$9,505 in FY 2016-17 and \$66,535 in FY 2017-18 for legal services, including rulemaking, enforcement, and complaint resolution. This amount represents approximately 100 hours of rulemaking in FY 2016-17 and 700 hours of rulemaking, enforcement, and complaint resolution in FY 2017-18. The legal services will be provided by the Department of Law using reappropriated funds. The Department of Law requires 0.3 FTE in FY 2017-18 to provide these services. Should additional resources for legal services be required, it will be addressed through the annual budget process.

Fingerprint-based background checks — DPS. The bill increases expenditures for DPS by \$527 in each of FY 2016-17 and FY 2017-18. This covers the costs of conducting a CBI background check, including postage and per-print software and equipment costs, as well as the pass through costs of the FBI background check. These costs are based on up to 40 additional fingerprint-based background checks in each of FY 2016-17 and FY 2017-18. The fiscal note assumes that each application for licensure lists up to four individuals, all four must obtain a background check, and no more than four background checks will be required per application.

Administrative law judges — DPA. The bill will increase the caseload for the Office of Administrative Courts in the Department of Personnel and Administration to provide administrative law judges to the office beginning in FY 2017-18. The increase is expected to be minimal and does not require a change in appropriations. Should additional resources be required, it will be requested through the annual budget process.

Judicial Department. The bill increases the workload for the Judicial Department beginning in FY 2017-18 to handle an increase in case filings. The office may file a civil action to collect a penalty imposed against a fantasy contest operator who violates the law, and parties adversely affected by agency actions may file for a judicial review in district court and potential review by an appellate court. The workload increase is expected to be minimal and does not require a change in appropriations.

Department of Revenue. The bill allows fantasy contests to be conducted at licensed gaming establishments, retailers, Class B racetracks, and other licensed facilities, which are overseen by the Department of Revenue. The bill may increase the workload in the department to handle an increase in violations related to underage gaming and lingering in casinos, racetracks, and other licensed facilities. The fiscal note assumes that approximately 17 casinos will be licensed by DORA and operate fantasy contests for people over the age of 18. However, people under the age of 21 may not participate in limited gaming activities or be present on the gaming floor of a casino environment. An increase in people under 18 years old in casinos to participate in fantasy contests will likely increase intervention and enforcement actions by the department's investigators. This increase will initially be handled within existing appropriations; however, should additional resources be required, it will be addressed through the annual budget process.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB16-1404		
Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$7,222	\$16,857
Supplemental Employee Retirement Payments	\$4,406	\$11,063
TOTAL	\$11,628	\$27,920

Local Government

Similar to the state impact, the bill may increase the workload in county courts. This workload increase can be accomplished within the existing resources of these entities, including the Denver County Court, managed and funded by the City and County of Denver.

Effective Date

The bill was signed into law by the Governor on June 10, 2016, and it became effective on August 10, 2016. The bill applies to conduct occurring on or after July 1, 2017.

State Appropriations

For FY 2016-17, the bill requires and includes an appropriation of \$77,550 to the Department of Regulatory Agencies from the Division of Professions and Occupations Cash Fund and an allocation of 0.9 FTE. Of this amount, \$9,505 is reappropriated to the Department of Law.

For FY 2016-17, the bill also requires and includes an appropriation of \$527 to the Department of Public Safety from the CBI Identification Unit Cash Fund. Of this amount, \$345 is pass through funds to the FBI.

State and Local Government Contacts

District Attorneys
Law
Regulatory Agencies

Information Technology
Personnel and Administration
Revenue

Judicial
Public Safety

Research Note Available

An LCS Research Note for HB16-1404 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.