

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 1554 (First Edition)

**SHORT TITLE:** Casino Nights for Nonprofits

**SPONSOR(S):** Representative Owens

<b>FISCAL IMPACT</b>					
	<b>Yes ( )</b>	<b>No ( )</b>	<b>No Estimate Available (X)</b>		
	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>
<b>REVENUES</b>					
ALE Departmental Receipt					See Assumptions and Methodology
<b>EXPENDITURES</b>					
General Fund					See Assumptions and Methodology
ALE					See Assumptions and Methodology
Judicial					**No substantial impact anticipated**
Correction					**No substantial impact anticipated**
Local Jails					See Assumptions and Methodology
<b>POSITIONS:</b>					See Assumptions and Methodology
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Crime Control and Public Safety - Alcohol Law Enforcement Division					
<b>EFFECTIVE DATE:</b> When it becomes law.					

**BILL SUMMARY:** The bill authorizes nonprofits to conduct casino nights in accordance with provisions laid out in the new statute. It provides that a casino night conducted pursuant to the statute is not gambling. Conducting a casino night in violation of the statute is a Class 2 misdemeanor. Nonprofits are limited to four casino nights per year, and the games played at casino night are limited to those listed in the statute with no bet at any game exceeding \$10. Prior to conducting a casino night, a nonprofit must pay a fee of \$25 to the Alcohol Law Enforcement Division of the Department of Crime Control and Public Safety (ALE) to defray the costs of enforcing the statute.

**BACKGROUND:** According to the North Carolina Center for Nonprofits, North Carolina has 29,337 organizations in the 21 primary types of tax-exempt entities in the U.S. Internal Revenue Code. Of these, 18,128 are 501(c)(3) nonprofits, with a religious, educational, charitable, scientific, literary, or cultural purpose.

## ASSUMPTIONS AND METHODOLOGY:

### Revenues

The fee paid to ALE for each event is not mandated to go to the state General Fund or to the eleven ALE regional district offices (see Technical Considerations section.) The net proceeds from a casino night function will remain with the nonprofit, with no less than 90% being used by the nonprofit for charitable, religious, educational, civic, or other nonprofit purpose.

**It is difficult to estimate the number of casino nights that will be held in the state once authorized by law.** Nonprofit staff or volunteers will be required to manage the operations of casino night events, which will involve financing and coordinating the events. The North Carolina Center for Nonprofits recognizes that such events are very cost and work intensive, thus not a highly attractive fundraising option for nonprofits. However, with more limited funding opportunities statewide, nonprofits may attempt to tap a new funding source such as this.

Based on conversations with fundraising organizations and several nonprofits in other states that hold casino nights, organizations can generate net proceeds of approximately 25-30% of the gross revenues from casino night events. It is estimated that a casino night for 300-500 attendees will cost a nonprofit on average \$13,000 to coordinate, not taking into account time and labor (which are not compensable activities per the proposed legislation.) Fiscal Research found that both gross revenues and nonprofit outlays from casino night events vary widely depending on the amount charged per ticket, the number of attendees, and the magnitude of the events.

No exact estimate is available for the fiscal impact of this bill. However, Fiscal Research analyzed the impact for every 1% of the state's nonprofits engaging in casino night events. For every 1% of the state's nonprofits holding one casino night annually, the state would hold 293 casino nights in a year. The \$25 fee for each event would generate \$7,325 in fees to ALE.

### Expenditures

**ALE:** ALE will also incur expenditures associated with the bill's enforcement requirements. **Again, no exact estimate is available for the fiscal impact of this bill, because it is not certain how many nonprofits may choose to hold casino night events or how many complaints will require investigation.**

Depending on the actual volume of casino night events, ALE estimates it could require 11 additional positions to support casino night activities, one officer for each district office. Using an average recurring cost of \$57,000 per an Agent II position, the Division could require \$627,000 in recurring funds to hire up to 11 new positions. This figure does not include non-recurring costs for vehicle and other equipment needs. Logistically, only a limited number of qualified staff could be recruited, hired and trained within a year. The Division estimates that no more than two new employees could be hired in a fiscal year. The estimate comes from prior ALE experience with nonprofit bingo and Video Gaming Machines (VGMs). It is assumed there will be a statewide need for training and education of nonprofit organizations that wish to hold casino night events. Administration and enforcement duties for the actual casino night events will fall on current and new district staff. Additionally, complaints and allegations of wrongdoing in every district will need to be addressed. ALE reports that simple complaints may

require as little as two or three hours of an agent's time; more complex complaints could require countless hours of investigative time as well as administrative and court time.

**Judicial Branch:** For most criminal penalty bills, the Administrative Office of the Courts (AOC) provides Fiscal Research with an analysis of the fiscal impact of the specific bill. For these bills, fiscal impact is typically based on the assumption that court time will increase due to an expected increase in trials and a corresponding increase in the hours of work for judges, clerks and prosecutors. This increased court time is also expected to result in greater expenditures for jury fees and indigent defense.

The AOC does not expect HB 1554 to have a substantial impact on the courts. Current law already punishes gambling (other than bingo and raffles) as a Class 2 misdemeanor. Therefore, the AOC does not anticipate many new violations.

**Correction:** To project the impact of a bill on the prison population, the Sentencing Commission uses data based on offense codes from the Administrative Office of the Courts (AOC). Offenses that are infrequently charged or infrequently result in convictions are not assigned offense codes. Violations of the statutes similar to those in this bill (G. S. 14-309.5 and 14-309.15) are not assigned offense codes. This is an indication that violations are relatively rare. Without data from the AOC, the Sentencing Commission cannot provide an estimate of the impact of this bill.<sup>1</sup>

If sentencing patterns for this offense follow other Class 2 misdemeanor offenses, only a small percentage of offenders would receive active sentences. The majority of individuals convicted of Class 2 misdemeanors (87%) are given community sentences. The average cost for community punishment is \$1.87/day.

**Local Jails:** According to the Sentencing Commission, in 2000-01 approximately 12 percent of Class 2 misdemeanors statewide involved an active sentence; the average estimated time served was 19.1 days. Offenders serving active sentences of 90 days or less are housed in county jails. As a result, Class 2 misdemeanor convictions typically do not have a significant impact on the prison population. However, local jail populations may be affected if there are a large number of convictions for a Class 2 misdemeanor offense.

**SOURCES OF DATA:** North Carolina Center for Nonprofits, Alcohol Law Enforcement Division of the Department of Crime Control and Public Safety, Department of Correction, Judicial Branch, North Carolina Sentencing and Policy Advisory Commission, various nonprofit organizations, various fundraising organizations.

**TECHNICAL CONSIDERATIONS:** Nonprofits will pay a \$25 fee to ALE to help defray the costs of enforcing the statute's provisions. The collected fees could be allocated to each district, because the enforcement costs for casino night events will be incurred at the local level. ALE is

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<sup>1</sup> The Sentencing and Policy Advisory Commission prepares inmate population projections annually. The projections used for incarceration fiscal notes are based on December 2001 projections. These projections are based on historical information on incarceration and release rates under Structured Sentencing, crime rate forecasts by a technical advisory board, probation and revocation rates, and the decline (parole and maxouts) of the stock prison population sentenced under previous sentencing acts.

totally state General Fund supported, thus the state could appropriate funds to ALE to cover the costs of the casino night enforcement program in the Division's certified budget. The allocation of the funds will need further clarification in the legislation before implementation.

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