

Gaming Policy in Difficult Times: Getting it Right the First Time

April 2, 2020



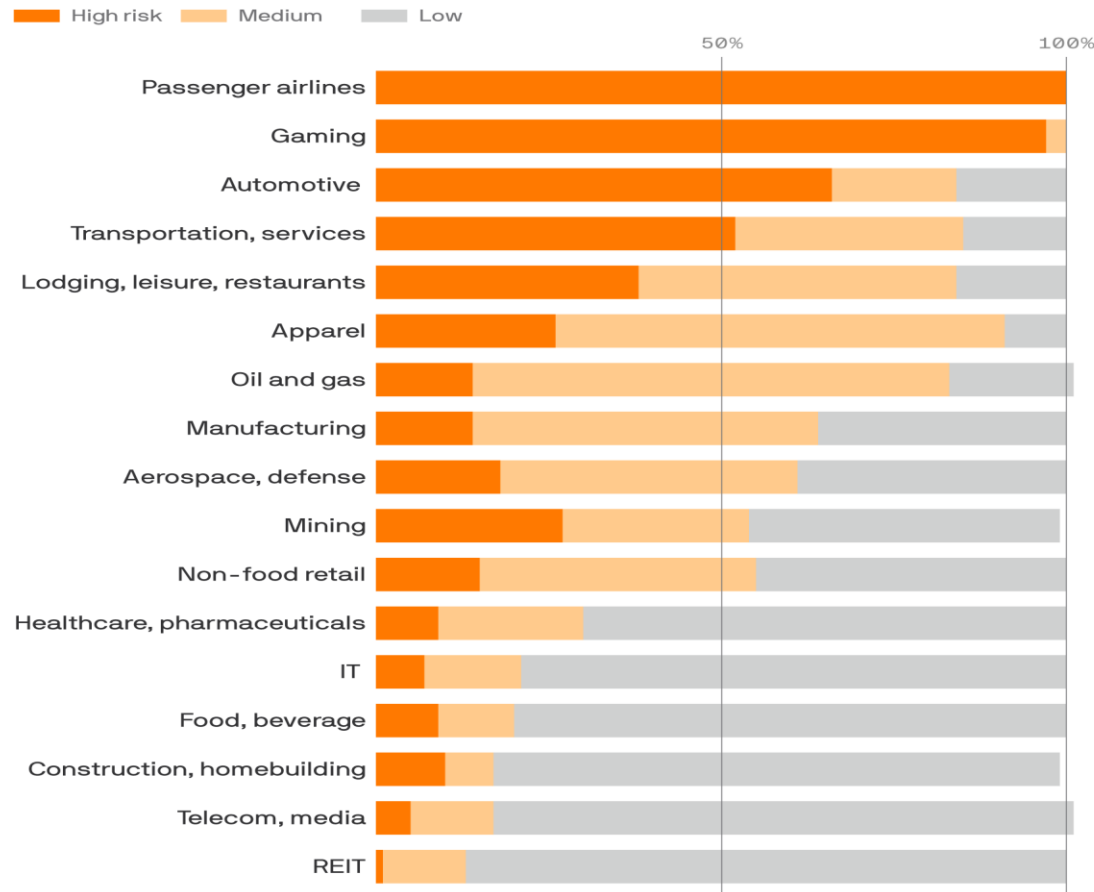
Sen. William Coley, NCLGS President



Putting Crisis in Perspective: Moody's Analytics

Share of companies exposed to financial risks from coronavirus by industry

Moody's Investors Service analysis of 2,000 rated corporate debt issuers



Responding to Grave Crisis

- Industry has made compelling case for federal relief
- For state policymakers: COVID-19 creates challenges, but does not change basic rules of gaming policy:
 - Fully assess options, including risks, opportunities
 - Understand long-term consequences
 - Do not apply long-term solutions to relatively short-term problems

- **Newton's Law:**
 - Every Action has an Equal and Opposite Reaction

- **Spectrum's Law:**
 - Every Policy Change In Gaming Has A Reaction, Which May Or Not Be Equal Or Opposite

Develop Checklist for Each Policy Change

Mobile, igaming, distributed gaming or sports betting:

- Which entities should be licensed? To What standards?
- What will impact be on land-based gaming?
- What will be role of lotteries, retailers?
- Will there be competitive bids or open market?
- What will be overall fiscal impact?

• Changing Tax rates for land-based casinos:

- What controls would be in place to ensure lower rates benefit both operator, state?
- Will this create issues regarding fairness?
- What will be impact on employment, overall fiscal benefits?
- Who has burden to identify, demonstrate benefits, costs?

Mobile Betting: Opportunity?

- Generates revenue for governments, operators while casinos are closed
- Allows adults who are sequestered at home to gamble safely
- Creates database of new players who can visit casinos when crisis abates

Mobile Betting: Reality, Risks

- Adding mobile betting from scratch is a long process that can take many months when done carefully, correctly
- Shortcuts can prove costly:
 - Risk of bad actors
 - Lack of clear determination as to number of licenses, requirements for licensure
- Decisions made quickly can have permanent consequences

Sports Betting or Igaming, or Both?

- Sports betting requires sporting events to take place, a risky assumption in times of pandemic
- Igaming does not require sporting events, can be implemented relatively quickly
- Which entities can offer igaming?
 - Lotteries
 - Land-based operators
 - Third parties

Thorny Questions Emerge

- Should lotteries compete against casinos in mobile, online?
- How should states identify appropriate lanes for both, allowing both to develop online offerings that are complementary?
- Should licenses be limited to lotteries, casinos or should states create opportunities for independent third parties?
- The answers to all these questions will likely be permanent, resistant to future change

Fundamental, Universal Advice

- Do not apply permanent solutions to problems that are not permanent
- Previous examples:
 - States have expanded number of gaming outlets in effort to stem short-term budget shortfalls

40-Year Trend in Gaming Taxation

- Nearly always upward
- Starting with New Jersey in 1978
 - 8%
 - Highest in Nation
- Trend continued for more than two decades
- Nearly always for political considerations

Taxation Trend in 2020 and Beyond

- Upward pressure
 - Political considerations still exist
 - Elected officials do not want to leave money on the table
- Downward pressure
 - Emerging forms of gaming don't work under higher tax rates
 - Nascent movement to energize existing gaming markets in face of saturation

Upward Pressure

- Budgets need to be balanced
 - Round up the usual suspect
 - Expand gaming
 - New licenses
 - New forms of gaming, retail locations to truck stops
 - Sports betting
 - Online gaming

Downward Pressure

- Bowing to reality: When rates reach nearly confiscatory levels, no room for further increases
- Recognition of reality: High tax rates in saturated markets leave little room for gaming operators to pursue different business models

Spectrum Report on Gaming in Louisiana

‘Tax rates that were established in previous decades cannot be assumed to be optimal in coming years. Consistent with that finding is the notion that operators who hold the privilege of a gaming license also bear responsibility to make an economic case for more sensible tax policies. Any change in tax rates, or other major policy changes, require operators to justify such relief. Will these changes lead to more investment, and if so, to what level with what projected outcomes?’

Spectrum Report on Gaming in Louisiana

‘The core recommendation at the heart of this report is: Gaming policy must be established on a foundation of flexibility, adaptability and an adherence to timeless principles, chiefly that a gaming license is a privilege, and the success of gaming depends on public trust.’

Spectrum's Universal Recommendations

- Fast-tracking the expansion of gaming may be desirable to address fiscal pressures, but is not necessarily advisable public policy in the long term.
- Gaming expansion is a long-term solution, not well suited to solve short-term issues

Spectrum's Universal Recommendations

- Carefully re-evaluate tax policies with eye to ensuring that more effective tax rates will lead to capital investment, efficient business models
- View all forms of gaming through the widest possible prism

Fiscal View of Digital, Sports Betting: Multiple Revenue Streams

- Online, sports gaming revenue
- Increased land-based revenue
- Increased non-gaming spending
 - Sales tax
 - Entertainment tax
 - Hotel tax, other tax streams
- Potential for additional capital investment
- Increased employment, leading to additional fiscal benefits

Illinois Testimony, October 2018

When it comes to the authorization of legal sports betting or any other expansion of gaming, the legislators we have met from various states range from those who are eager to do it right, to those who are eager to do it in time for the beginning of the next football season, or by the next fiscal year. While those goals are not necessarily mutually exclusive, the priority should be the former, not the latter. ...

Final Considerations

Gaming, when managed effectively, can be a powerful economic tool, but it is a long-term solution, and cannot be easily undone.

Abide by a sports metaphor:

There are no mulligans in gaming. You have to get it right the first time.