

Gaming: Revenue Overview

March 26, 2015

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Underlying Economic Premises...

- The money for gambling expenditures comes from somewhere; it is not created:
 - *Recreational budget from discretionary income that could be spent on other items.*
 - *Savings or other investments.*
 - *For problem gamblers, dollars essential to subsistence.*
- Some or all of the jobs, wages and tax revenues attributed to gambling enterprises may be simply transferred from elsewhere. In other words, if the money was spent elsewhere in Florida, it would also generate jobs, wages and potential tax revenues from that expenditure.
 - *Moving activity from one place to another is simply churn without overall statewide gain.*
 - *For jobs, a statewide increase only exists to the extent that the individuals are otherwise unemployable or they are moving in from outside the state to take the jobs*
- In terms of the economy, there are different economic effects based on the type of gambler. Generally:
 - *Residents in the normal course of daily activity—displacement (-) or neutral (=).*
 - *Tourists who would have come to Florida regardless—displacement (-) or neutral (=).*
 - *Residents who would have otherwise left the state to gamble—removal of a leakage (+).*
 - *Tourists coming into the state to gamble who otherwise would not have—new revenue (+).*

The various gaming alternatives will have different mixes of gamblers.

Secondary Premises...

- A local economic gain doesn't necessarily translate into a statewide gain. Activity may be pulled from another area of the state.
- It makes a difference where equipment and supplies are purchased (in-state or out-of-state).
- It matters where the profits go (in-state or out-of-state).
- Financed capital investment for infrastructure is initially positive as the dollars are infused, but later becomes a drain as repayments of the principal and interest remove dollars.

Key Concept for Impact Conference...

- Cannibalization—creating demand for one product at the expense of another; substitution of one purchase for another. It can be detected through:
 - The shifting among state revenue sources when the gambling product is a substitute purchase replacing the purchase of another good which would have been taxed in a different manner. (+ or – depending on the difference in tax rates)
 - The shifting among gambling products that are substitutes for each other. (+ or - depending on the difference in tax rates)
 - The shifting between a nontaxable purchase to a taxed gambling product. (+)

Major Types of Gaming Revenue...

- **Taxes** are compulsory exactions or payments demanded by government to finance public goods and services. They are usually of general benefit, but revenues from some gaming sources (Lottery, Slots, Unclaimed Winning Tickets from certain Pari-Mutuel activities) have been primarily dedicated to education.
 - They can flow to General Revenue, be earmarked for a specific fund, or be redirected from another fund.
- **Fees** are assessed for a particular – or special - service or benefit and are usually collected to defray expenses associated with that service or benefit.
 - “Regulatory fees” are assessed to those obtaining a license, permit or other privilege under regulatory laws enacted to protect public health, welfare and safety. The money is frequently used to cover the cost of regulation.

Basic Tax Base --- Simplistic Form

Handle - Prizes = Net Win

The total sum wagered or bet by participating gamblers on any particular race or game is known as the handle. This is the initial source of all non-investment revenue.

The amount returned to the class of participating gamblers in the form of winnings.

The amount initially retained by the gambling provider. Represents the loss to the entire class of gamblers and is sometimes called the "hold."



Taxes can also be levied more directly against patrons in the form of admissions taxes.

Taxes, Expenses (which can include licenses) and Profits usually come out of *Net Win*, although taxes may be calculated against the handle. Cardroom gross receipts are a special case.

Indian Gaming Compact...

- The Compact has a term of 20 years, which began the first day of the month following the publication of the notice of approval in the Federal Register --- effectively August 1, 2010. Based on this, the expiration date is July 31, 2030.
- An exception is made for the authorization for banking or banked card games (including baccarat, chemin de fer, and blackjack) That authorization expires July 31, 2015, unless renewed.
- The Revenue Estimating Conference's convention of looking at current law / current administration means that the current forecast assumes that the authorization expires.

Compact Provisions...

- The covered games can be offered at 7 facilities:
 - Seminole Indian Casino – Brighton (Glades) --- Slots Only
 - Seminole Indian Casino – Coconut Creek (Broward)
 - Seminole Indian Casino – Hollywood (Broward)
 - Seminole Indian Casino – Immokalee (Collier)
 - Seminole Indian Casino – Big Cypress (Hendry) --- Slots Only
 - Seminole Hard Rock Hotel & Casino – Hollywood (Broward)
 - Seminole Hard Rock Hotel & Casino – Tampa (Hillsborough)
- Roulette, craps, roulette-styled games, and craps-styled games are expressly prohibited.
- While IGRA does not authorize states to impose a tax or fee on tribes—other than an assessment to defray regulatory costs—the Secretary of the Interior has approved compacts that contain provisions for revenue sharing with states, so long as the states provide the tribe with a comparable benefit in return—a benefit to which the tribe would not otherwise be entitled. [GAO-14-743T]

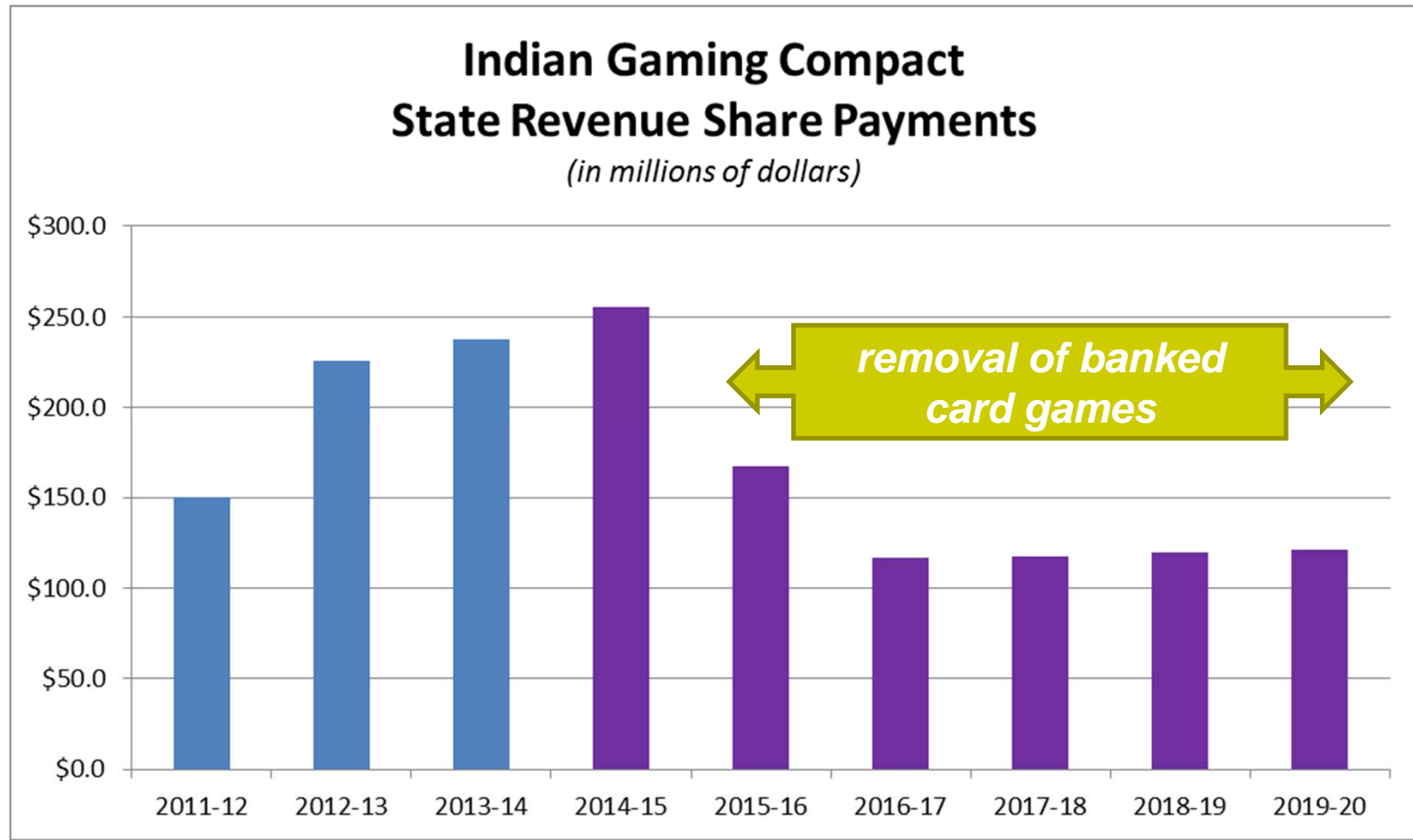
Revenue Sharing...

- Revenue-Sharing is offered in exchange for “partial but substantial” exclusivity related to the authority to conduct some games not offered elsewhere, as well as at some locations outside Miami-Dade and Broward counties that have no nearby competition.
- Implicit Competitive Advantage—a benefit leading to higher profits than rivals will experience.

Example: Seminole Tribe’s tax advantage... Although sales tax applies to spending by patrons at the nongaming Seminole-operated facilities such as restaurants, retail, lodging and entertainment, tribal immunity prevents the enforcement of the collection and remittance of sales tax. The Seminole Tribe not only effectively sells items free from the burden of collecting sales tax, the Tribe and any of its solely owned entities purchase on a sales tax-exempt basis as well.

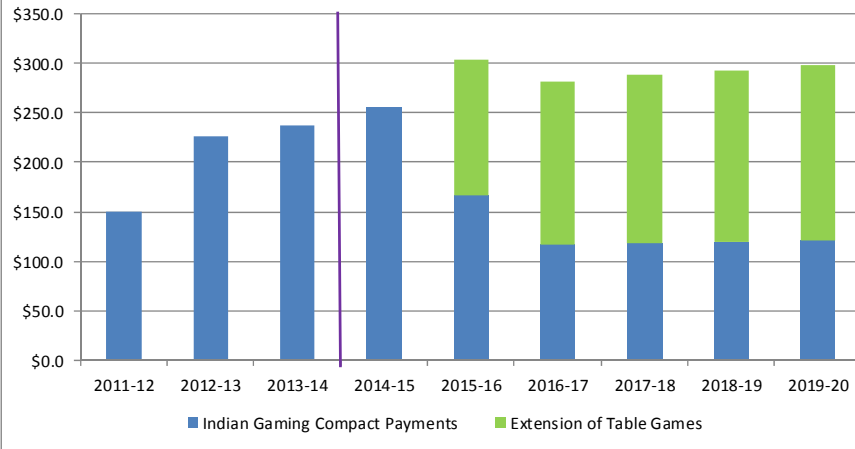
Revenue Sharing Details...

- *Guaranteed Minimum Payments were required for the first five years of the Compact which total \$1.0 billion.*
 - *\$150 million for Fiscal Years 2010-11 and 2011-12 ✓*
 - *\$233 million for Fiscal Years 2012-13 and 2013-14 ✓*
 - *\$234 million for Fiscal Year 2014-15 ✓*
- If the Revenue Sharing calculation exceeds the Minimum Guarantee, a True-up Payment must also be made.
 - True-up payments have been generated in Fiscal Years 2012-13 and 2013-14 that were received in Fiscal Years 2013-14 and 2014-15. A true-up payment is also expected to be generated in Fiscal Year 2014-15 that will be received in Fiscal Year 2015-16.
- The Compact also provides the following Revenue Sharing schedule.
 - 12% of Net Win up to \$2 billion *(in place through 2012-13)*
 - 15% of Net Win between \$2 billion and \$3 billion *(triggered in 2013-14)*
 - 17.5% of Net Win between \$3 billion and \$3.5 billion *(not reached in forecast)*
 - 20% of Net Win between \$3.5 billion and \$4 billion *(not reached in forecast)*
 - 22.5% of Net Win between \$4 billion and \$4.5 billion *(not reached in forecast)*
 - 25% of Net Win over \$4.5 billion *(not reached in forecast)*



True-up payments are received the year after they are generated, so they appear here in Fiscal Years 2013-14 (\$4.3m), 2014-15 (\$21.7m), and 2015-16 (estimated \$31.7m). By the end of FY 2014-15, the Compact will have generated \$1.0577 billion in revenue sharing over its first five years (\$1 billion through the minimum payments, and \$57.7 million in true-up payments), although some of this money will be received in FY 2015-16.

Indian Gaming Compact State Revenue Share Payments
Assuming Extension of Table Games Authorization
(in millions of dollars)



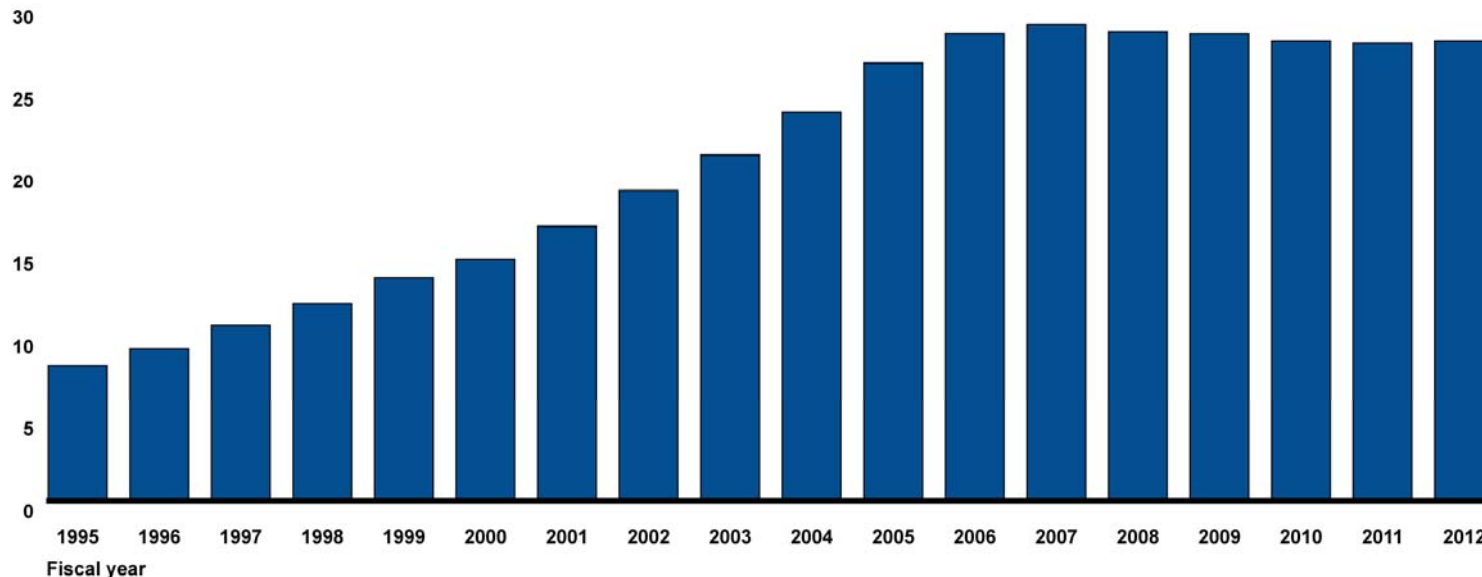
Even if banked card games are extended, the state would not trigger a bracket higher than 15% (net win greater than \$3 billion) in the forecast window, assuming the current level of activity.

| Indian Gaming Revenues Assuming Banked Card Games Extended | | | | | |
|--|---------|----------|--------------|----------|------------|
| Fiscal Year | Net Win | % change | Net Revenues | | |
| 2012-13 | 1,977.6 | | 237.3 | | |
| 2013-14 | 2,098.0 | 6.09% | 254.7 | | |
| 2014-15 | 2,171.4 | 3.50% | 265.7 | | |
| 2015-16 | 2,236.5 | 3.00% | 275.5 | | |
| 2016-17 | 2,281.3 | 2.00% | 282.2 | | |
| 2017-18 | 2,321.2 | 1.75% | 288.2 | | |
| 2018-19 | 2,357.2 | 1.55% | 293.6 | | |
| 2019-20 | 2,393.7 | 1.55% | 299.1 | | |
| 2020-21 | 2,430.8 | 1.55% | 304.6 | | |
| 2021-22 | 2,468.5 | 1.55% | 310.3 | | |
| 2022-23 | 2,506.7 | 1.55% | 316.0 | | |
| 2022-23 | 2,545.6 | 1.55% | 321.8 | | |
| | | | | Current | |
| | | | | Forecast | Difference |
| | | | | 167.1 | 136.6 |
| | | | | 116.7 | 164.9 |
| | | | | 117.7 | 170.0 |
| | | | | 119.5 | 173.6 |
| | | | | 121.3 | 177.3 |
| | | | | 123.2 | 181.0 |
| | | | | 125.1 | 184.7 |
| | | | | 127.1 | 188.4 |
| | | | | 129.0 | 192.4 |

Indian Gaming Across States...

Growth of Indian Gaming Revenues, Fiscal Years from 1995 to 2012 (GAO)

Dollars (in billions, adjusted to 2012 constant dollars)



Source: GAO analysis of National Indian Gaming Commission data. | GAO-14-743T

- In fiscal year 2012, about 240 of the 566 federally recognized tribes operated 425 Indian gaming establishments across 28 states, generating \$27.9 billion. These establishments included a broad range of operations, from tribal bingo to multimillion dollar casino gaming facilities. Of these establishments, a few large operations account for a major portion of the revenue. [GAO-14-743T]
- Effective Revenue Sharing rates ranged from nearly 5% in Wisconsin to 25% in New York and Connecticut.

Options for Improving Revenues...

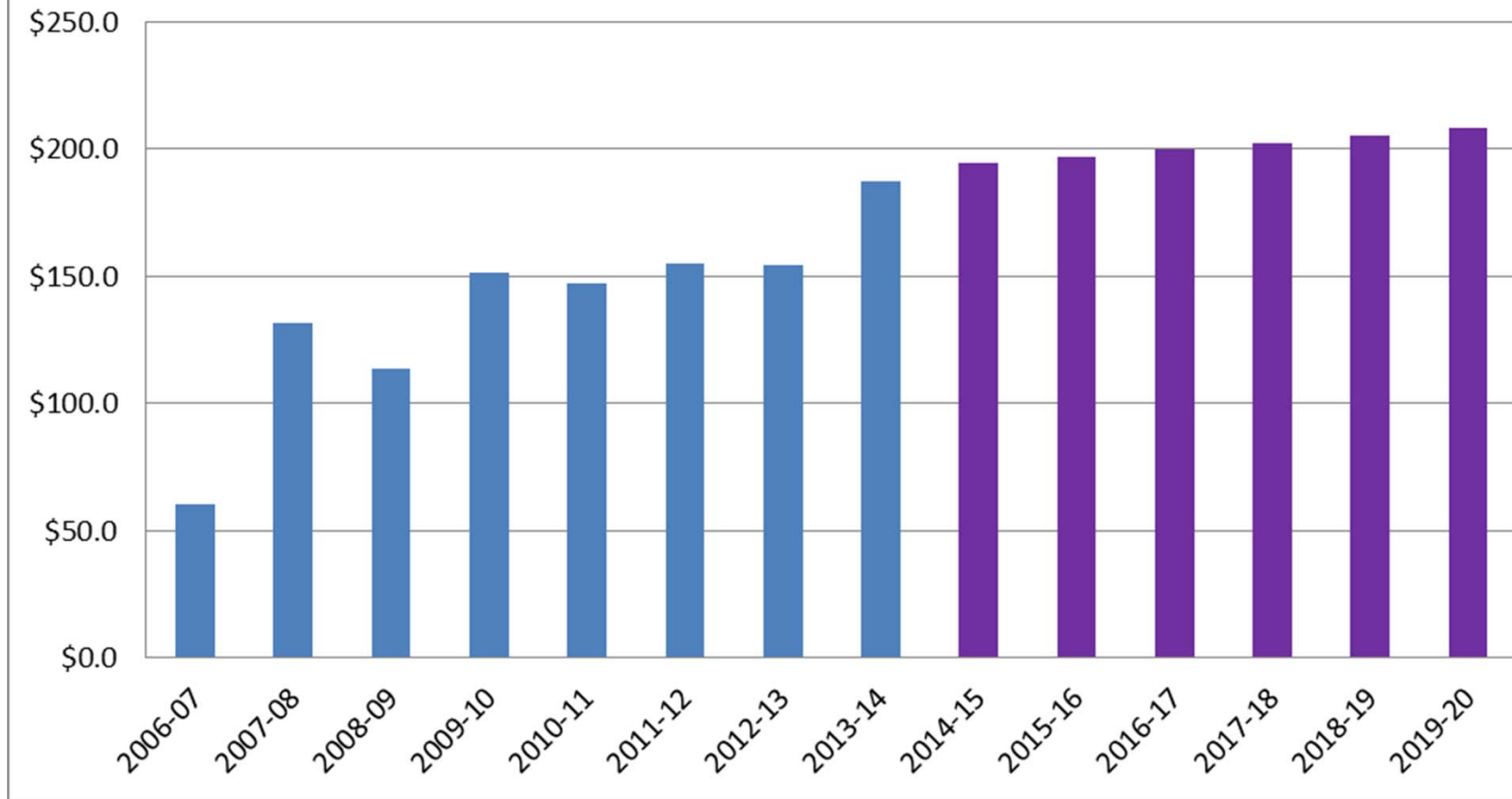
- Exclude deductions for free play and promotional credits from calculation of net win.
- Impose new Minimum Payments related to promised facility expansion or additional gaming opportunities above the current level.
- Incorporate “required effort” to attract tourists from other gambling destinations.
- Provide greater exclusivity (adding in roulette, craps, roulette-styled games, or craps-styled games).
- Change the “brackets” by adjusting tiers and dollar thresholds; the current effective rate is 12.24%.

Pari-Mutuel Permit Holders...

- There are **40 operating licenses at 28 pari-mutuel locations** where wagering is authorized for horse racing, harness horse racing, quarter horse racing, greyhound racing, or jai alai games.
- **Cardroom poker games** are authorized at 24 pari-mutuel facilities.
- **Slot machine gaming** is currently operating at 7 pari-mutuel facilities in Broward and Miami-Dade Counties.

State Revenues from Slot Machine Taxes & Fees

(in millions of dollars)



The slot machine tax rate was 50% in Fiscal Years 2006-07 through 2009-10, and was reduced to 35% beginning in Fiscal Year 2010-11. The state switched from weekly to monthly collections of slot machine taxes in FY 2012-13, which causes the FY 2012-13 revenues to appear artificially low. A slot machine license fee is \$2 million annually.

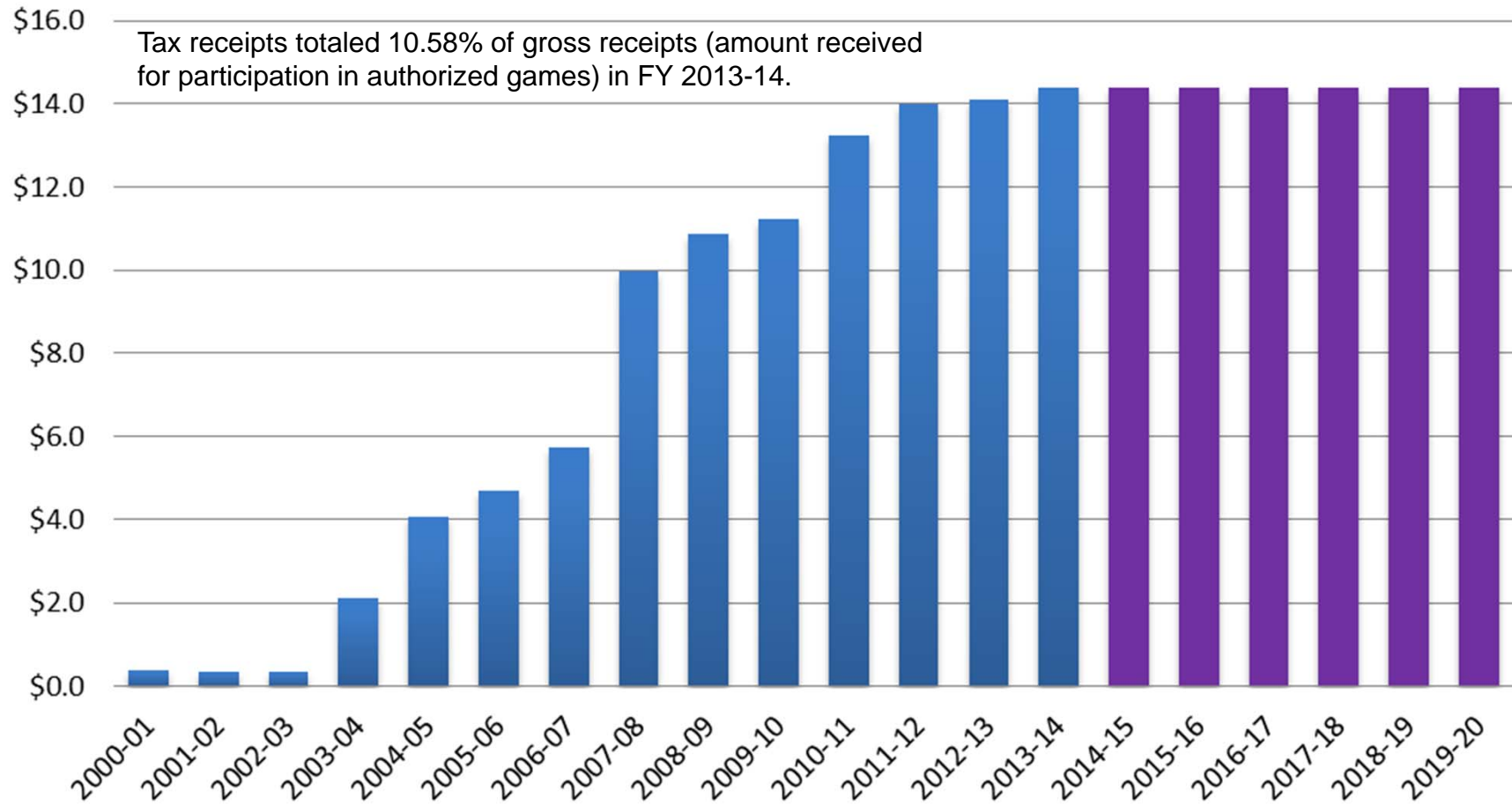
Prior Experience with Tax Rate Change

- 2010 Session...CS/SB 622 (Ch. 2010-29, Laws of Florida); tax rate reduction from 50% to 35% effective July 1, 2010. The Conference developed a new methodology to evaluate the change, assuming a non-recurring loss for three years and then breaking-even in the 4th year (tax receipts at 35% in FY 2013-14 equaling the prior forecast for that year at 50%). The underlying assumption was that activity would increase to the point where the rate change was revenue neutral by the fourth year—due to greater capital investments, promotions and prizes. Overall, net income would have had to increase by 43% for the change to have been revenue neutral.

| Tax | Feb-10 | Impact Rate Chg | Other Changes | Post-Session '10 | Actual | Difference |
|---------|--------|-----------------|---------------|------------------|--------|------------|
| 2006-07 | 48.2 | 0.0 | 0.0 | 48.2 | 48.2 | |
| 2007-08 | 122.3 | 0.0 | 0.0 | 122.3 | 122.3 | |
| 2008-09 | 104.4 | 0.0 | -0.3 | 104.1 | 104.1 | |
| 2009-10 | 129.6 | 0.0 | 0.0 | 129.6 | 136.4 | |
| 2010-11 | 166.7 | -25.0 | 0.0 | 141.7 | 127.7 | -14.0 |
| 2011-12 | 189.4 | -14.2 | 9.1 | 184.3 | 142.7 | -41.6 |
| 2012-13 | 193.8 | -8.7 | 5.9 | 191.0 | 142.2 | -48.8 |
| 2013-14 | 199.0 | 0.0 | 19.1 | 218.1 | 173.1 | -45.0 |

State Revenues from Cardroom Taxes & Fees

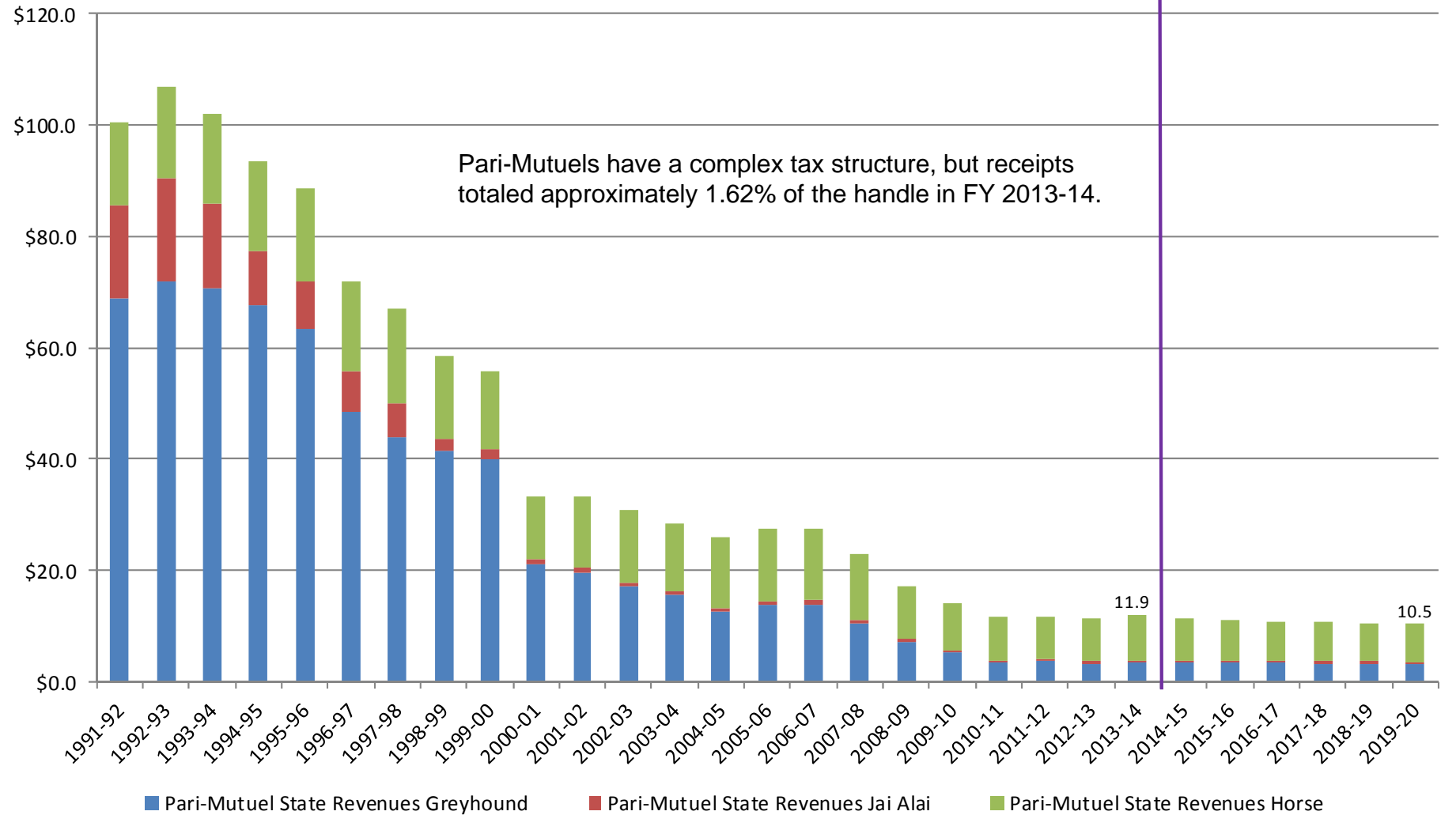
(in millions of dollars)



Prior to FY 2007-08, cardrooms could only be operated during live races at pari-mutuel facilities. Beginning in FY 2007-08, cardroom activity was allowed at any time, resulting in a jump in revenues from cardroom taxes and fees.

Pari-Mutuel State Revenues

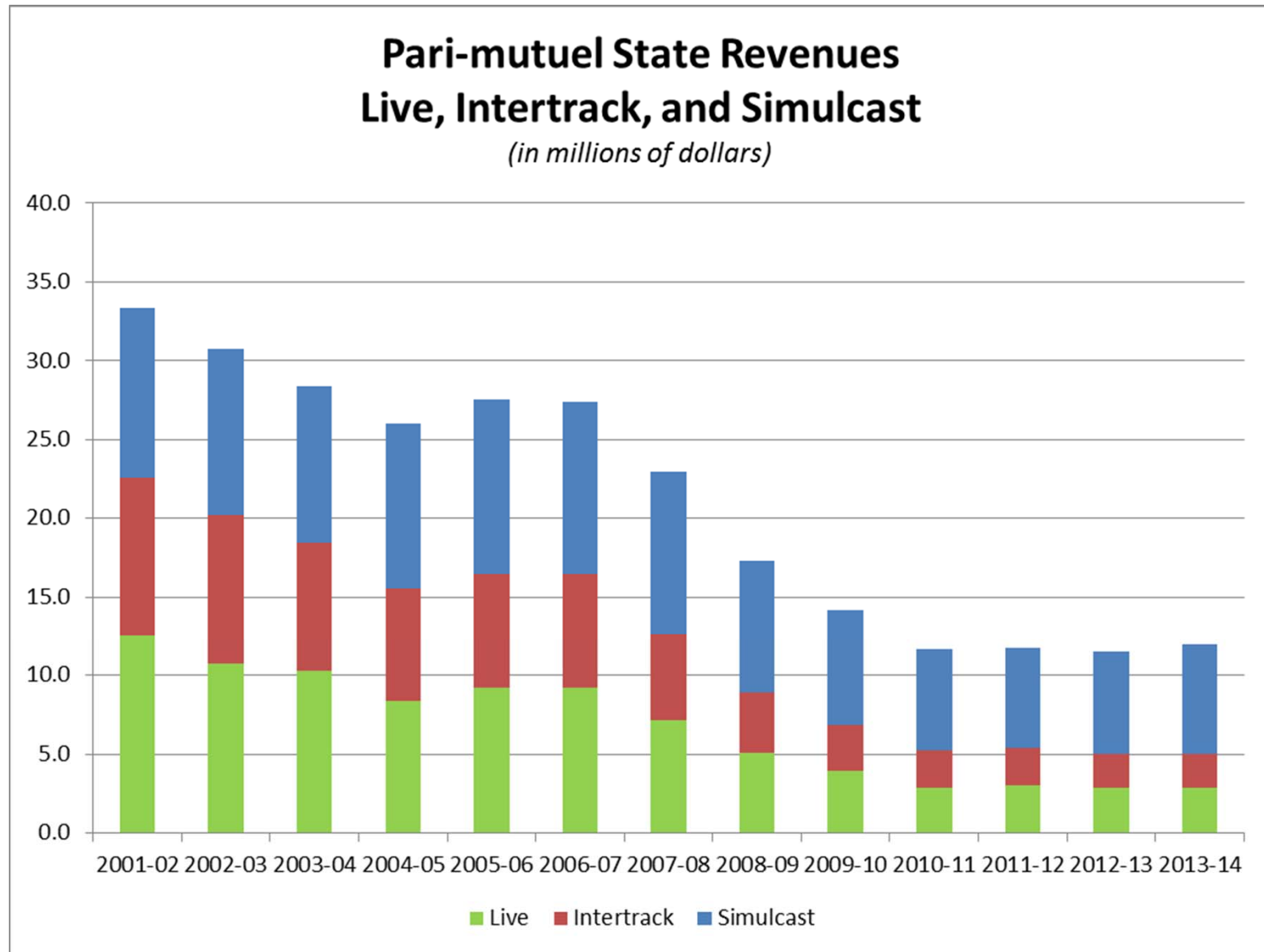
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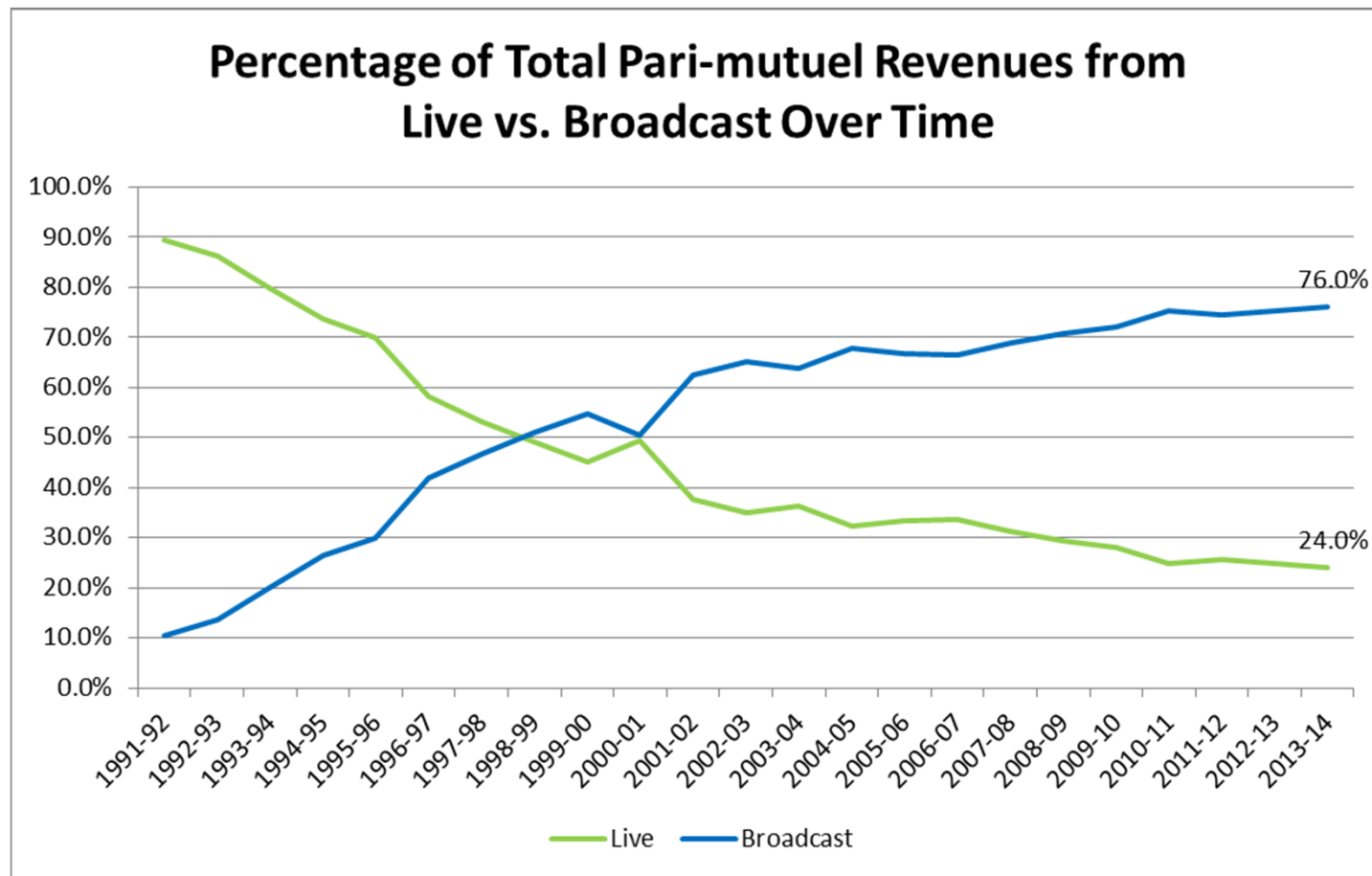
Source: DBPR PMW Annual Reports

Pari-mutuel Terminology...

- There are four types of handle at Florida pari-mutuel facilities. Handle is defined as aggregate contributions to pari-mutuel pools (total betting or wagering).
 - Live Ontrack – handle from races or games that take place at the track/fronton in Florida.
 - Intertrack – handle from races or games at a Florida host track/fronton that is broadcast live other Florida tracks/frontons.
 - Simulcast – handle from races or games that originate from out-of-state and are broadcast to a Florida track/fronton.
 - Intertrack Simulcast – handle from re-broadcasting of simulcast races or games from one Florida track/fronton to other Florida tracks/frontons.



Revenues from Live and Intertrack wagering have declined over time as a percentage of total state revenues, while simulcast wagering has increased.



The portion of revenue generated from live events has consistently and substantially declined over time. An average of 25% of total state pari-mutuel revenues was generated from live handle for the five most recent fiscal years, while 75% was generated from wagering on broadcasts of races (from in-state and out-of-state).

Comparison of Gambling Across Top 10 States

| Revenue by Gaming Activity for Fiscal Year 2013-14 | | | | | | |
|--|------------------|----------------|----------------|---------------|--------------|---------|
| <i>(in millions of dollars)</i> | | | | | | |
| | Lottery | Casino | Racino | Video Gaming | Pari-Mutuel | Total |
| New York | 2,235.0 70.0% | | 937.7 29.4% | | 21.8 0.7% | 3,194.5 |
| Pennsylvania | 1,081.5 44.3% | 575.7 23.6% | 770.8 31.6% | | 11.8 0.5% | 2,439.8 |
| Florida | 1,495.4 88.2% | | 174.0 10.3% | | 25.3 1.5% | 1,694.7 |
| Illinois | 815.4 54.9% | 516.6 34.8% | | 145.6 9.8% | 6.5 0.4% | 1,484.1 |
| California | 1,349.6 99.0% | | | | 13.8 1.0% | 1,363.4 |
| Texas | 1,220.7 99.4% | | | | 7.3 0.6% | 1,228.0 |
| New Jersey | 965.0 79.0% | 257.1 21.0% | | | | 1,222.1 |
| Ohio | 764.9 64.2% | 273.4 22.9% | 148.0 12.4% | | 5.0 0.4% | 1,191.3 |
| Michigan | 738.1 73.3% | 264.0 26.2% | | | 4.3 0.4% | 1,006.4 |
| Georgia | 945.1 100.0% | | | | | 945.1 |

Source: The Nelson A. Rockefeller Institute of Government, public policy research arm of the State University of New York, Data Alert, March 2015.

Revenue Scenarios...

Impact to Current Revenue Forecasts from Various Scenarios

| Scenario | Compact | Slots at Pari-Mutuels | Pari-Mutuels | Cardrooms |
|--|---|------------------------|--------------|---------------------|
| Compact - No Extension of Banked Card Games | Neutral* | Neutral** | Neutral | Neutral |
| Compact - With Simple Extension of Banked Card Games | Increase | Neutral** | Neutral | Neutral |
| Compact - Added Games such as Roulette or Craps | Increase | Decrease to Neutral | Neutral | Neutral |
| Compact - Simple Extension with Targeted Tourism or Capital Investment | Increase | Decrease to Neutral | Neutral | Neutral |
| Reduction of the 35% Tax Rate on Slots at Pari-Mutuels | Neutral | Likely Decrease | Neutral | Neutral |
| Slots at Pari-Mutuel Facilities Other Than Broward & Miami-Dade | Total Loss of Revenue Sharing | Increase | Neutral | Neutral |
| Banked Card Games at Existing Pari-Mutuel Slots (Miami-Dade & Broward) | Largely Neutral if No Extension; Less of an Increase if Extension | Increase to Neutral*** | Neutral | Decrease to Neutral |
| Destination Resorts - Locations Other Than Broward & Miami-Dade | Total Loss of Revenue Sharing | Decrease to Neutral | Neutral | Neutral |
| Destination Resorts - Broward & Miami-Dade | Largely Neutral | Decrease to Neutral | Neutral | Neutral |

*The current forecast assumes the loss of all revenue sharing from Broward and all banked card game revenue outside of Broward.

**The Revenue Estimating Conference assumed the loss of banked card games would induce the players to go out-of-state to play banked card games.

***Even if there is no extension to the Compact, the Tribe would still be allowed to have banked card games in this scenario--with a significant competitive advantage (reduced revenue share).

Note: Actual Impact Conference results would be dependent on the details of the specific legislative proposal.