

ACT RELATING TO REVENUE PROTECTION S-3001 AND H-8213

Joint Committee Meeting of the House and Senate Finance
Committees

Presentation by House and Senate Fiscal Staff

May 29, 2012

OVERVIEW OF PRESENTATION

- Introduction
- Rhode Island Gaming
- Regional Competition
- Estimated Impact from Massachusetts Gaming
- 2012 Revenue Protection Act (S-3001/H-8213)
- Next Steps

INTRODUCTION

INTRODUCTION

- 2011 Assembly authorized referendum for November 2012 ballot for voter approval of table games at Twin River
- 2012 Assembly adopted similar language allowing the referendum for table games at Newport Grand
- Both call for 2012 Assembly to identify the “terms and conditions” before the vote

INTRODUCTION

- “It is in the best interest of the state to conduct an extensive analysis and evaluation of competitive casino gaming operations and thereafter for the general assembly to enact comprehensive legislation during the 2012 legislative session to determine the terms and conditions pursuant to which casino gaming would be operated in the state if it is authorized...”

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INTRODUCTION

- S-3001 and H-8213 satisfy that requirement
- Today’s presentation will first provide context for discussion of those terms and conditions contained in that legislation
 - Historical
 - Geographical
 - Financial

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RHODE ISLAND GAMING

RHODE ISLAND GAMING

- Video lottery terminals (VLT) were installed in 1992 at Rhode Island's two former pari-mutuel facilities – Lincoln Park (Twin River) and Newport Jai Alai (Newport Grand)
- The Twin River facility currently offers approximately 4,750 VLT positions and the Newport Grand facility offers approximately 1,100 VLT positions

RHODE ISLAND GAMING

- Net terminal income (NTI) is the revenues generated after prizes are paid out
- The State receives more than 60 percent of NTI from VLTs at the State's two VLT gaming facilities

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RHODE ISLAND GAMING

- State authorized 24/7 gambling, effective November 19, 2009; previously 24/3
- Twin River currently operates 24/7
- Newport Grand has no extended hours

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GAMING IN RHODE ISLAND

- Newport Grand and Twin River are the only two gaming facilities currently operating in Rhode Island
- A substantial portion of State gaming revenue is generated from Massachusetts residents

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RHODE ISLAND GAMING

FY 2013 State General Revenue: <i>May 2012 Estimate</i>	Amount (Millions)	Share of Total
Personal Income Tax	\$1,076.5	34.2%
Sales Tax	873.4	27.8%
VLT Revenues	335.5	10.7%
All Other Taxes and Revenues	861.4	27.4%
Total	\$3,146.8	100%

(Millions)

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RHODE ISLAND GAMING – CURRENT SHARE OF VLT REVENUE

	Twin River	Newport Grand
State Share*	61.49%	61.91%
Facilities	27.76%	27.76%
Technology Providers	7.00%	7.00%
Central Communications	2.32%	2.32%
Narragansett	0.17%	0.00%
City and Town*	1.26%	1.01%
Total	100%	100%

*24/7 Operations at Twin River 1.45% to Lincoln w/ difference coming out of state share. Legislation sunsets 6/30/2012

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RHODE ISLAND GAMING – CURRENT SHARE OF VLT REVENUE

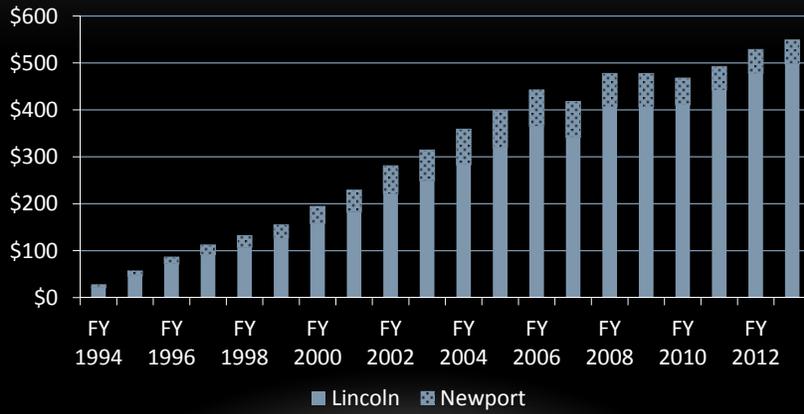
	Twin River	Newport Grand	Total
NTI	\$498.2	\$51.0	\$549.2
State Share*	\$307.7	\$32.0	\$339.7
Facilities	137.5	13.8	151.3
Technology Providers	34.3	3.5	37.8
Central Communications	11.6	1.2	12.8
Narragansett Indian Tribe	0.8	-	0.8
City and Town	6.3	0.5	6.8

*Excludes approx. \$4 million in marketing cost sharing deducted from State

(Millions)

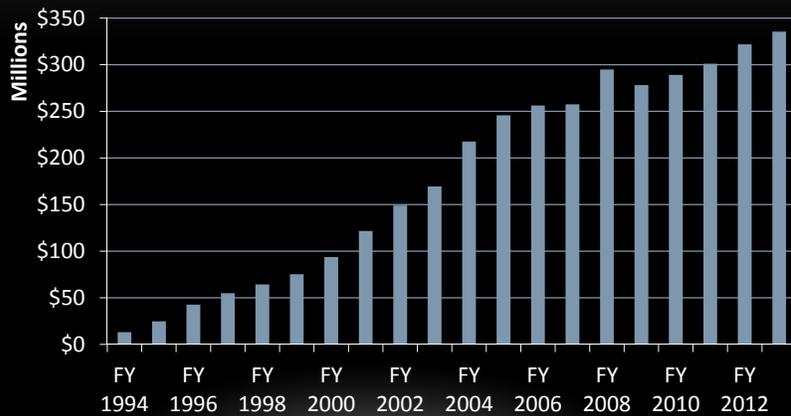
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RHODE ISLAND GAMING - NET TERMINAL INCOME BY FACILITY



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RHODE ISLAND GAMING - TOTAL STATE SHARE OF VLT REVENUES



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REGIONAL COMPETITION

CONNECTICUT CASINO GAMING

- Facilities offer wide range resort-style gaming facilities
- Currently compete with Rhode Island facilities for customers
- Slot tax rate = 25.0%
- Table Game tax rate = 0.0%

MASSACHUSETTS CASINO GAMING

- Massachusetts authorized casino gambling In November, 2011
- Permits three full-scale regional resort-style casinos (Category I)
 - Region A – Eastern Massachusetts
 - Region B – Greater Boston
 - Region C – Southeastern Massachusetts
- Timeline for implementation: 3-5 years

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MASSACHUSETTS CASINO GAMING

- Category I - Casinos
- Massachusetts Tax Rate for table games and slot machines is 25.0%
- Require resort-style casinos to pay initial licensing fee of \$85.0 million each plus \$600 per slot position
- Slow start up of Gaming Commission and unidentified location of facilities may delay estimated start date of facilities

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MASSACHUSETTS CASINO GAMING

- Category II – Slot Parlor
- Permits one slot machine parlor (Category II) with no table games
- Expected to open no sooner than 2013 with a tax rate of 40.0% on slot revenue (and 9.0% on horses)
- Minimum license fee of \$25.0 million and \$600 per slot position

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OTHER STATES GAMING PROGRAMS

	Massachusetts	Delaware	Pennsylvania
Slot Tax Rate	25.0% -Cat I 40.0% - Cat II	43.5%	34.0%
Table Game Tax Rate	25.0%	29.4% (plus 4.5% for horses)	14.0%, reduced to 12.0% with 2.0% local
Initial License Fee	\$85.0 million -Cat I \$25.0 million -Cat II	\$2.25 to \$4.3 million	\$7.5 to \$16.5 million
Annual Fee	\$600 per slot per year	\$6.75 million	None

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INITIAL LICENSE FEES

- Some states opt for large upfront payments in exchange for lower future tax rates
- States must consider value of one-time cash infusion vs. lower annual revenues

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ESTIMATED IMPACT OF COMPETITION FROM MASSACHUSETTS

ESTIMATED IMPACT OF COMPETITION

- Department of Revenue commissioned a study regarding the impact of casino gaming in Massachusetts on Twin River
- Christiansen Capital Advisors (CCA) outlined multiple scenarios to examine the potential revenue and fiscal impact on Rhode Island with the emergence of Massachusetts Gaming (January 2012 report)

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ESTIMATED IMPACT OF COMPETITION

- In consultation with the Department of Revenue, three scenarios were selected to be studied:
 - Best Case Scenario
 - Worst Case Scenario
 - Likely Scenario
- Scenarios were differentiated as to the potential proximity to Rhode Island facilities and their respective markets

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ESTIMATED IMPACT OF COMPETITION

- Christiansen Capital Advisors (CCA):
- “In all three scenarios we examined, the advent of casino gaming in Massachusetts has substantial negative impacts on Twin River and Newport Grand.”
- “This negative impact will be mitigated, but not overturned, with the addition of table games at Twin River.”

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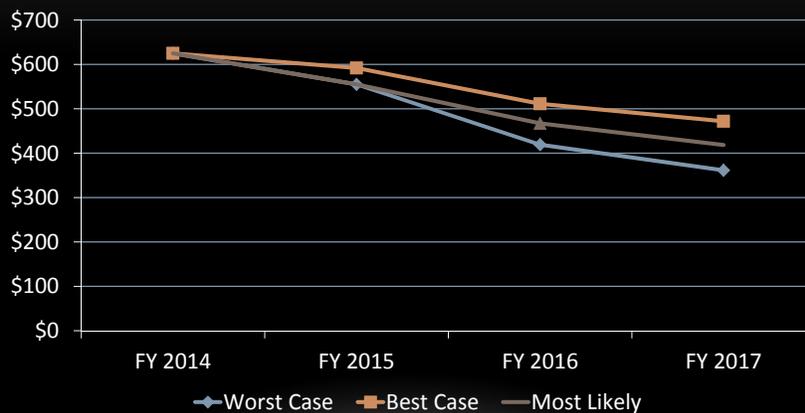
SCENARIOS AND IMPACTS

Scenario	1) Best	2) Worst	3) Likely
Three Casinos	<ul style="list-style-type: none"> • Suffolk Downs (East Boston) • New Bedford • Western (any) 	<ul style="list-style-type: none"> • Foxboro • New Bedford • Western (any) 	<ul style="list-style-type: none"> • Suffolk Downs (East Boston) • Middleboro • Western (any)
Racino	Raynham Park	Plainville	Plainville
<i>FY 2017 GR Impact</i>	<i>(\$57.8 million)</i>	<i>(\$104.3 million)</i>	<i>(\$75.2 million)</i>

Source: Christiansen Capital Advisors, LLC. “Gaming Study and Economic Impact Analysis” (January 17, 2012).

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ESTIMATED IMPACT OF COMPETITION ON GAMING REVENUE



Source: Christiansen Capital Advisors, LLC. "Gaming Study and Economic Impact Analysis" (January 17, 2012).

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RHODE ISLAND REVENUE PROTECTION ACT 2012

S-3001 and H-8213

2012 REVENUE PROTECTION ACT

- General Assembly authorized proposals to place referenda questions before the voters to consider permitting table gaming activity at the two facilities in the State
- Commitment to outlining industry standards, tax policy and regulatory framework prior to voter consideration

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2012 REVENUE PROTECTION ACT

- Developing the proposed legislation was a process to achieve three goals:
 - Preserving state revenue
 - Ensuring that the gaming facilities remain economically viable and competitive
 - Protecting the direct and indirect jobs created by the two facilities

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2012 REVENUE PROTECTION ACT

- The proposed legislation reflects:
 - Information/input from staff of the Senate, House, Governor's Office, Lottery Division, DBR, and representatives of Twin River and Newport Grand
 - Practices and procedures of jurisdictions around the country, material presented in the Christiansen Report commissioned by the Administration and the results of the May Revenue Estimating Conference

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2012 REVENUE PROTECTION ACT

Legislation addresses:

- **Taxation** – Tax structure, accounting for state revenue product, facility operations and oversight costs
- **Promotion/Marketing** – Incentive gaming programs to address market share and competition
- **Regulation** – Requirements for plant, staffing, security, and procedures; Division of Lottery is authorized and prepared to oversee business
- **Timelines** – Time to establish games & ensure oversight

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2012 REVENUE PROTECTION ACT

- Overview of Key Provisions
- Tax rates
 - Twin River – 18% table rate that can fall to 16% if revenues fall; no change in VLT share
 - Newport Grand – 18% table rate, but facility VLT share increases by 1.5%
- Local Shares – Changes VLT share to 1.45% for each
- Promotional Points – Enhances to 10% ; changes allocation impact
- Regulation – provides broad authority to Division of Lottery

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2012 REVENUE PROTECTION ACT

Section 1 – Purpose

- Outlines purpose of legislation (i.e. revenue protection)
- Recognizes the Massachusetts gaming threat
- Clearly identifies the two facilities the legislation is intended to address - Twin River and Newport Grand
- If referendum fails in one community, the other community can still go forward with referendum
- Intended to meet the Assembly's commitment to fully informing the electorate prior to the vote

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2012 REVENUE PROTECTION ACT

Section 2 – Defines key terms, including:

- *Net table game revenue* – Win from all table games
- *Table Game/Table Gaming* – where games are played for cash or chips representing cash, using cards, dice or equipment operated by one or more live persons
- *Promotional/Supplemental Point Programs* – free play and other promotional programs

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2012 REVENUE PROTECTION ACT

Section 3 – Reference to Contracts

- Language incorporated to ensure reference to existing facility contracts, which is consistent with prior revision language
- State has Master Contracts with facilities that are amended from time to time

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2012 REVENUE PROTECTION ACT

Section 4 – Tax Rates – Effective July 1, 2013 if the referendum is approved

- Video Lottery Terminals (VLT):
 - Newport Grand – Share of VLT NTI increases by 1.5% - from 27.76% to 29.26%
 - State share declines by same
 - Twin River – Share of VLT NTI remains at 27.76%

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2012 REVENUE PROTECTION ACT

Section 4 – Tax Rates – Effective July 1, 2013 if the referendum is approved

- Table Games: rate of 18.0% tax on net table game revenue
 - Twin River - Table Game tax rate declines to 16.0% when VLT NTI declines from prior year
 - Newport Grand - Table Game tax rate remains at 18.0%

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2012 REVENUE PROTECTION ACT

Section 4 – Tax Rates – Effective July 1, 2013 if the referendum is approved

- Permanently increases both local shares in Lincoln and Newport to 1.45%
 - Lincoln - from 1.26% (currently getting 1.45% for 24/7 – but sunsets every year)
 - Newport – Share increases from 1.01%

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REVISED ESTIMATES TO SCENARIOS

- Twin River has indicated that it is projecting \$60.0 million annually in table game revenue based on 65 tables at \$2,500 - \$2,700 per table per day, operating year round
- The CCA report indicated revenue of \$3,500 - \$3,700 per day per table generating \$80.0 million in the first year at Twin River – appears to be high compared to other markets and studies

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REVISED ESTIMATES TO SCENARIOS

- CCA Study did not assume table gaming at the Newport Grand facility – was not authorized to be on the November 2012 ballot at time of study
- Comparison of similar sized facilities result in an estimated \$5.0 million in projected table game revenue at Newport Grand based on 14 table games operating at approximately \$1,000 per day

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REVISED ESTIMATES TO SCENARIOS

- Oversight Costs
- Legislation assumes that the State incurs the cost of staffing and all oversight functions of table gaming
- Estimates range from \$3.5 million to \$4.5 million in total annual cost to the State
- Includes similar staffing ratios to Delaware

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ALLOCATION OF NET GAMING REVENUE

- Industry has estimated that approximately \$0.70 of every \$1.00 (70%) of table gaming revenue is needed to support overall operating costs, including, but not limited to:
 - Labor
 - Marketing and promotions
 - Facility costs
 - Supplies and equipment

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ALLOCATION OF NET GAMING REVENUE BY FACILITY

	Twin River Allocation	Estimated Revenue (\$M)	Newport Grand Allocation	Estimated Revenue (\$M)
Labor	35.0%	\$21.00	45.0%	\$2.25
Marketing	15.0%	\$9.00	10.0%	\$0.50
Facility Operations	10.0%	\$6.00	5.0%	\$0.25
Table Operations	10.0%	\$6.00	10.0%	\$0.50
State Tax Rate	18.0%	\$10.80	18.0%	\$0.90
Operator Share	12.0%	\$7.20	12.0%	\$0.60
Total	100.0%	\$60.00	100.0%	\$5.00

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ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Twin River						
VLT	\$498.2	\$505.7	\$434.5	\$363.7	\$335.3	(\$162.9)
Tables	-	60.0	63.8	58.9	45.8	45.8
Total:	\$498.2	\$565.7	\$498.2	\$422.6	\$381.1	(\$117.1)

(Millions)

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ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Newport Grand						
VLT	\$51.0	\$52.3	\$46.7	\$34.2	\$30.6	(\$20.4)
Tables	-	5.0	5.3	4.9	3.8	3.8
Total:	\$51.0	\$57.3	\$52.0	\$39.2	\$34.4	(\$16.6)

(Millions)

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SUMMARY - ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Total Net Gaming Revenue (Both)						
Twin River	\$498.2	\$565.7	\$498.2	\$422.6	\$381.1	(\$117.1)
Newport Grand	51.0	57.3	52.0	39.2	34.4	(16.6)
Total:	\$549.2	\$622.9	\$550.3	\$461.7	\$415.5	(\$133.7)

(Millions)

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STATE SHARE OF ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
State Share (Both)						
VLT	\$336.0	\$340.3	\$293.5	\$242.8	\$223.2	(\$112.7)
Tables	-	11.7	11.2	10.3	8.0	8.0
Total:	\$336.0	\$352.0	\$304.6	\$253.1	\$231.2	(\$104.7)
Percent Change						
VLT		1.3%	-13.8%	-17.3%	-8.0%	-33.6%
Tables		-	-4.6%	-7.6%	-22.3%	-
Total:		4.8%	-13.5%	-16.9%	-8.6%	-31.2%

(Millions)

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FACILITY SHARE OF ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Twin River						
VLT	\$138.3	\$140.4	\$120.6	\$101.0	\$93.1	(\$45.2)
Tables	-	49.2	53.6	49.5	38.4	8.4
Total:	\$138.3	\$189.6	\$174.2	\$150.4	\$131.5	(\$6.8)

(Millions)

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FACILITY SHARE OF ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Newport Grand						
VLT	\$14.2	\$15.3	\$13.7	\$10.0	\$8.9	(\$5.2)
Tables	-	4.1	4.4	4.0	3.1	3.1
Total:	\$14.2	\$19.4	\$18.0	\$14.0	\$12.1	(\$2.1)

(Millions)

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FACILITY SHARE OF ESTIMATED NET GAMING REVENUE

Fiscal Year	2013	2014	2015	2016	2017	Change from 2013
Facility Share (Both)						
Twin River	\$138.3	\$189.6	\$174.2	\$150.4	\$131.5	(\$6.8)
Newport Grand	14.2	19.4	18.0	14.1	12.1	(2.1)
Total:	\$152.5	\$209.0	\$192.2	\$164.5	\$143.6	(\$8.9)

(Millions)

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NET GAMING REVENUE AND STATE SHARES COMPARISON

FY 2017	Base: No Mass Impact	Likely Case - Tables	Chg. To Base	Likely Case – No Tables	Chg. To Base
Net Gaming Revenue	\$592.3	\$415.5	(\$176.8)	\$333.6	\$(258.7)
<i>GR Share</i>	<i>\$365.7</i>	<i>\$231.2</i>	<i>(\$134.5)</i>	<i>\$226.2</i>	<i>\$(139.5)</i>

(Millions)

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2012 REVENUE PROTECTION ACT

Section 5 – Regulatory Structure

- Division of Lottery retains all necessary authority to oversee and regulate all aspects of table game industry:
 - Table game operations
 - All policies and procedures
 - All personnel and hiring procedures
 - Financial management and reporting
- Requires Division to establish regs. by March 31, 2013

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2012 REVENUE PROTECTION ACT

Section 6 – Extends selected restrictions on VLT to table games and adds child support setoff

- Section applies to both or either facility if referendum question fails in one community
- No minors can play either a VLT or Table Game
- Up to \$10,000 fine and 10 years imprisonment if convicted of tampering
- Establishes income tax set-offs for winnings for child support

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2012 REVENUE PROTECTION ACT

Section 7 – Table Game Enforcement

- Administrative penalties of no more than \$1,000 per violation
- Requires notification of penalties through written administrative order
- Appealable to Superior court
- Ensures that table games may be offered at the two facilities for all or portion of days and times VLTs are offered

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2012 REVENUE PROTECTION ACT

Section 7 – Table Game Enforcement

- Recognizes need for problem gambling programs and compels both facilities to work with Division to offer problem gaming programs. May consist of:
 - Casino Employee Gambling Awareness
 - Player Self-Exclusion Program
 - Problem gambling hotline

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2012 REVENUE PROTECTION ACT

Sections 8 and 9 –Supplemental Promotional Points Program – Effective July 1, 2012

- Promotional points are used to provide free gaming experiences, which eventually translate to more overall gaming activity from those taking advantage of the points
- Common tool used by casinos to enhance revenues

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2012 REVENUE PROTECTION ACT

Promotional Programs at Newport Grand & Twin River:

- Current Program – 4.0 Percent of prior year's NTI plus \$750k per facility
 - All share in cost of incentive gaming plan because the cost of free play is deducted *before* calculating NTI
- Proposed Supplemental Program – adds 6.0 percent more for a total of 10.0 percent of prior NTI
 - Key change would be to exclude technology vendors from sharing in cost, but they would still benefit from additional gaming
 - Designed to solve low shares of the rate without reworking shares

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2012 REVENUE PROTECTION ACT

Promotional Points

- Lottery Division monitors use
- Includes annual audit
- Data show that those receiving free play spend more than those who do not resulting in increased revenues to be shared among all entities

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2012 REVENUE PROTECTION ACT

Section 10 – GTECH hardware/software updates

- Relieves GTECH from having to update lottery central system hardware and software for its non-VLT related lottery terminals dispersed throughout the state

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NEXT STEPS

NEXT STEPS

- **Near Term:**
- Evaluate and review information presented today from members of the public, the Division of Lottery, representatives of the two facilities and others who present testimony
- Vigorously review proposed legislation to ensure it is drafted as you intended to protect taxpayers, state revenue and jobs, and to help the two facilities compete in the regional gaming market

NEXT STEPS

- **Long Term:**
- If voters approve table gaming at both or either of the facilities:
 - Ensure regulations are in place by March 31, 2013
 - Ensure Division of Lottery is staffed and organized to provide necessary oversight
 - Continue to monitor both activities across the border and the performance of Rhode Island facilities

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THANK YOU

Joint Committee Meeting of the House and Senate Finance
Committees

Presentation by House and Senate Fiscal Staff

May 29, 2012