

# Governor's FY 2019 Budget: Articles

Staff Presentation to the House Finance Committee  
April 3, 2018

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# Introduction

- Section 1 - Authority for lottery to explore innovative games
- Section 2 - Allowance of sports betting at state casinos if favorable Supreme Court ruling legalizes it

## **Gaming - \$27.6 million**

Lottery Initiatives

\$4.1

Sports Betting

\$23.5

# Article 4: Section 1 – State Lottery

- “...the director shall continue to exercise his authority to... evaluate and where... feasible and advisable... implement lottery-related initiatives... with the goal of generating additional revenues...”
  - Includes pilot programs
  - Cannot be expansion of gaming requiring voter approval

# Article 4: Section 1 – State Lottery

- Budget assumes \$4.1 million in new revenues linked to this statutory change
  - Unclear what newly authorized activities will generate that estimate
  - Lottery has already reached agreements for new offerings under its current authority
    - Stadium Gaming
    - Premium Video Lottery Terminals
  - Current law activities would be reflected in revenue estimates and updated in May

# Article 4: Section 1 – State Lottery

- Requires transfer of lottery funds to General Fund to reflect contribution to state retiree health costs
  - Consistent with current law, but in response to new reporting requirement
  - GASB statement 68 established new reporting requirements for pension and other post employment benefit liabilities
    - Unfunded liability must be reported proportionate to the employer's share

# Section 2 – Sports Betting

- Enabling Legislation
- Background and Key Terms
- Budget Assumptions
- Issues

# Sports Betting – Enabling Legislation

- Permits sports betting at the state's existing casinos
- Cites the constitutional authority under voter approved ballot initiatives in 2012 and 2016
  - Definitions of activities approved by the voters included sports betting

# Sports Betting – Enabling Legislation

- Prohibits betting on collegiate events that take place in Rhode Island, or which involve a Rhode Island college team, regardless of the location of the event
- Does not identify tax rate or state share
  - Placeholder or plans for regulatory rate?
  - Shares for VLT and Table Games spelled out in statutes



# Sports Betting – Background and Key Terms

- Professional and Amateur Sports Protection Act of 1992 (PASPA)
  - Sports betting illegal in all but four states, Delaware, Montana, Nevada, and Oregon whose legal betting was grandfathered in
- Supreme Court agreed to hear recent New Jersey challenge to PASPA
  - Expected to rule by June

# Sports Betting – Background and Key Terms

- *Gaming revenue* (also referred to as gross gaming revenue (GGR) or net win)
  - Amount held by the sports betting operation after payment of prizes
- *Gaming taxes*
  - Taxes calculated as a % of gaming revenue
    - In RI, state is casino operator and ultimate take is a share not a tax
- *Handle*
  - The amount wagered, or amount bet

# Sports Betting – Background and Key Terms

- *Hold percentage*
  - Ratio of gaming revenue to handle, also referred to as win percentage
- *In-play betting*
  - Betting on a sporting event that is already underway
- *Online (mobile) gaming*
  - Gaming conducted electronically (not restrict users to a particular type of device)

# Sports Betting – Background and Key Terms

- Recent studies have tried to estimate impact of expanded sports betting
  - Oxford Economics, *Economic Impact of Legalized Sports Betting*, published in May 2017 as commissioned by the American Gaming Association
  - Global Market Advisors produced an analysis in November of 2017, *An Examination of Sports Betting in America & Forecast of Revenues by State*

# Sports Betting – Budget Assumptions

- Studies consider tax rates & convenience as key factors
  - Reports suggest total potential “handle” for RI assuming limited casinos
  - Oxford data was basis for Governor’s budget estimate
    - GMA study suggested lower potential for revenue

Oxford	Rate	Handle	Hold	Gaming Revenue	State Tax Revenue
Low	6.75%	\$972.5	5.5%	\$53.5	\$3.6
Base	10.00%	836.1	6.0%	\$50.2	\$5.0
High	15.00%	654.6	6.5%	\$42.5	\$6.4

\$ in millions

# Sports Betting – Budget Assumptions

- Governor's estimate selected midpoint values on handle and hold
  - Used current state share for slots (VLT)
  - Scaled FY 2019 to 80% based on October 1 start and Nevada monthly betting patterns to \$23.5

Oxford	Rate	Handle	Hold	Gaming Revenue	State Tax Revenue
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Base	10.00%	836.1	6.0%	\$50.2	\$5.0
High	15.00%	654.6	6.5%	\$42.5	\$6.4
\$ in millions					
<b>Budget</b>	<b>61.00%</b>	<b>\$813.6</b>	<b>5.5%</b>	<b>\$44.7</b>	<b>\$27.3</b>

# Sports Betting – Budget Assumptions

- State is seeking a vendor to provide the platform for the betting
  - RFP issued today with bids due May 18, 2018
  - Evaluation, award and negotiation would follow
  - Three month process expected

# Sports Betting – Issues

- Issues to consider
  - Supreme Court ruling not assured and multiple outcomes possible
  - Revenue assumption based on Oct. 1 start
  - What does tax/revenue sharing structure look like?
    - Rates for others established in the law
    - What other entities have a stake in the outcome and may influence structure?
    - Current federal tax of 0.25% of handle



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