



1201 New Road, Suite 308
Linwood, NJ 08221 USA
+1.609.926.5100

Sports Betting: Clearing up Misconceptions

By Adam Steinberg, Executive Vice President

Thank you Chairman Verrengia and the other members of the Public Safety Committee for inviting me to speak to you today. My name is Adam Steinberg and I am executive vice president at Spectrum Gaming Group. Spectrum is a 25-year-old company that researches and consults on the gaming industry. Our company has worked with the Connecticut legislature in the past to address gaming industry topics, including a 2009 study, *Gambling in Connecticut: Analyzing the Economic and Social Impacts*. Our work is national and international in scope, having worked in 36 states and 47 countries.

We are proud to serve as Executive Director for the National Council of Legislators from Gaming States, where the goal is to disseminate best practices in gaming. My background is 20 years in the gaming industry as an investment analyst, consultant and in the industry as director of business evaluation at GTECH. Over the last couple of years, I have focused on emerging forms of gaming. My interest in emerging forms of gaming is because since 2007, gross gaming revenue for commercial and tribal casinos in the US has grown at a compound annual growth rate of 1%, which is less than the change in the consumer price index. Thus, for states preparing budgets, the tax revenue from gaming has not kept pace with the changes in the cost of running a state.

And that is why I am here today. To speak with you about sports betting and other emerging forms of gaming. The experience in NJ, with online gaming, has helped change the dynamic with online gaming creating new customers for the casinos. Online gaming was introduced in the state in November 2013. Since that time, slot and table game revenue at the remaining land-based casinos has continued to grow. The operators have reported that between 60% to 90% of online gaming customers are new customers to the casino, while the online customers that were also land-based customers increased their visits to the casino driving gaming and non-gaming revenue higher.

Before we proceed, I would like to clear up some misinformation about sports betting. The NBA commissioner, the American Gaming Association and multiple other sources have been quoted in newspapers and magazines discussing the amount of illegal wagering in the U.S. Estimates place sports betting somewhere between \$40 billion to as high as \$400 billion annually. These numbers seem very high, but it is important to remember that wagering does not equal revenue. In 2017, Nevada sports books wagering was \$4.9 billion. But, the sports books retained a little over 5% of wagering as revenues. This is the hold percentage and equals \$249 million of revenue. Of the different types of gaming options at Nevada casinos, the sports books had the lowest hold percentage of all types of games. Using the Connecticut gaming industry as an analogy, the two Tribal casinos report their slot revenue to the State. For the last 12 months ended January 2018, the two Tribal casinos reported a combined \$13 billion in slot handle. This is the amount wagered on the slot machines. Slot machine revenue was \$1 billion, or a hold percentage of over 8%. To understand the correct regulatory and taxation policies, we should focus on revenue and not the amount wagered.

Looking back to Nevada, sports book revenue is approximately 2% of total gross gaming revenue, which has been pretty consistent over the years. Spectrum believes that 2% figure understates the true benefit to the casinos from sports betting. It is our belief, based on years of evaluating the casino industry, that sports books drive incremental visitation to casino properties and that sport bettors also wager on the slot machines and table games at casinos, as well as eating at the restaurants and staying overnight in the hotels; driving total gross gaming revenue higher and generating higher tax revenue for the state. It is for this reason, that Spectrum advises states considering emerging forms of gaming to view the fiscal and economic projections through the widest prism to include the incremental gaming and non-gaming revenue that could be engendered by sports betting and online gaming to provide a complete portrait of the potential impacts. As an example, revenue from sports betting nearly doubled with the introduction of mobile wagering.

Returning to sports betting. Recall, the legal sports books will be competing against the illegal operators already accepting wagers from US residents. In any situation, a legal operator that complies with taxes and regulations operates at a competitive disadvantage to the illegal actors. Thus, regulations and taxation must be drafted to ensure the maximum protection for the bettors. To be certain, a legally operating sports book provides more protections for the betting public than illegal operations. Existing land-based casinos have invested in software and operating procedures used to identify problem gamblers and also have opt-out protocols for self-identified problem gamblers. The legal sports books also have protocols to ensure against underage gamblers.

Given that background, I'd like to discuss briefly the operating costs of a sports book so we can begin to focus on two additional costs that are at the discretion of the Legislature. There are a number of operating costs associated with operating a legal sports

book, such as the federal excise tax, payroll, compliance, marketing, data feeds, platform expenses, professional services (KYC and geolocation) and credit card processing fees, among others.

After taking into account the expenses of operating a sports book, we contend that there is less than 40% remaining to be split between the state, the operator and the sports leagues, due to their proposed integrity fee. The integrity fee proposed by the sports leagues is 1% of the amount wagered. Since we've already discussed that sports books hold percentage is around 5%, mathematically the integrity fee is 20% of sports book revenue. Assuming Connecticut or any other state includes the integrity fee in their legislation, there is less than 20% of revenue left for the state and the operator. Without a potential profit, or return on investment, a profit-driven casino enterprise will not operate a sports book. Thus, the State's tax will need to be less than 20%. In other words, the Leagues are asking for a bigger piece of the pie than both the State and the casinos.

I'd like to finish my comments by stating unequivocally that the suggestion of an integrity fee to the leagues equal to 1% of the amount wagered simply doesn't work. As just noted, the leagues are proposing a bigger fee to them than would be afforded to the state or the operators that bear the risk of investment and wagering. An integrity fee is also without precedent in the US, where neither Nevada nor Delaware, two states that legally operate sports betting, pay an integrity fee to the Leagues.

It is also very rare internationally where to the best of my knowledge only Australia and France have integrity fees or sports betting right fees. A European Commission Study found that the sports betting right fee in France is not an effective mechanism for financial distribution or as an integrity argument against match fixing. In fact, we would argue the sports leagues have no experience ensuring the integrity of wagers, while casinos are one of, if not the most, regulated industry. And, the casinos, and the betting integrity companies, have decades of experience in identifying illicit behaviors. This includes the role of the Nevada sports books in identifying point-shaving scandals in college basketball and informing the appropriate authorities.

As noted previously, the two Tribal casinos in Connecticut have generated over \$1 billion in slot machine revenue. That does not include revenue from table games or non-gaming amenities. The potential revenue from sports betting is essentially a rounding error relative to the rest of the operations. To protect those very valuable compacts to offer gaming in Connecticut, the Tribes will be very motivated to ensure the integrity of the games and the betting process.

Another way to look at the proposed integrity fee is the cost of acquiescence by the sports leagues in dropping their opposition to sports betting. An argument could be made that the support of the leagues will lead to a more successful sports betting industry.

Looking at it from that prism, it is up to the states and industry to determine if that is a price they are willing to pay. In Australia, the integrity fee is privately negotiated, but, anecdotally, we understand it to be 5% of sports betting revenue.

This equates to about 0.25% of the amount wagered. Since revenue is affected by the outcome of the sporting event, it is paramount to the league's that they avoid the appearance of gaining by certain outcomes. And that is why any proposed fee should be on the amount wagered and not on the revenue. While we disagree with the integrity fee, we believe it might be in the best interests of the state and its casino industry to negotiate with the League's for more favorable rights fees.

Adam Steinberg is Executive Vice President of Spectrum Gaming Group, which has performed advisory and consulting work to gaming operators, regulators and legislatures in 36 states and 47 countries on six continents. Spectrum serves as the Executive Director for [NCLGS](#) and its sister companies include [Spectrum Gaming Capital](#), based in New York; and [Spectrum Asia](#), based in Bangkok and Tokyo.