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The _____ MICHIGAN GAMING _____ Newsletter



HOUSE COMMITTEE HOLDS HEARING ON GAMING BILL PACKAGE : STATE REVENUES ARE FOCUS

Chairman Brandt Iden, R District 61, held a hearing of the House Ways and Means Committee on May 2, 2019 regarding the package of gaming bills previously passed by the House Committee on Regulatory Reform. The committee received testimony on a package of eight bills—HB 4307 regarding amending the Gaming Control Act, HB 4308 and 4309 regarding regulation and authorization of fantasy sports, HB 4310 regarding allowing third-party advance deposit wagering at Michigan horse tracks, HB 4311, 4312 and 4323 regarding regulation and authorization of iGaming, and HB 4173 regarding amendments to charitable gaming millionaire party regulations. The hearing mainly focused on the iGaming bills, with revenue to the state being the focal point.

Representatives from the State Budget office, Bethany Wicksall, and Jeff Guilfoyle, Chief Deputy Treasury, provided some economic projections with regard to the iGaming bill. Their estimates suggested that iGaming would result in decreased revenues to Lottery as players of iLottery could move to iGaming. In questioning, Rep. Iden clarified that the decrease in revenues they were referring to wasn't an actual decrease of revenue but rather a decrease in a speculative projected increase in revenue. Their analysis was also only narrowly focused on the Lottery's iGaming platform. The real question and focus of comparison is on the dollars that will go to the School Aid Fund if iGaming is introduced. Although there might be some direct competitive impact on the Lottery's iLottery program, this does not necessarily translate into an overall negative impact on Lottery revenues or what the School Aid Fund would receive. For example, using the numbers presented, they projected \$70 Million in iLottery contributions to the state School Aid Fund. The budget projections also suggested that iLottery may have a defection rate of 1 out of 6 players, which mathematically would translate into a decline in of only \$11.7 Million (1/6th of \$70M). In contrast, if iGaming passed, based on the budget analysis they presented the state would

likely see iGaming revenues of totaling \$225 Million, which would translate into additional state and city revenues totaling \$25 Million. Subtracting the projected decline in state revenue (that the State Budget Office and Chief Deputy Treasurer focused on) from the \$25 Million increase in state revenue results in an OVERALL INCREASE IN REVENUE of \$13.4 Million which will go to the state with a partial allocation to the city.

It is also important to note that the amount of revenue that the budgetary analysts were focused on at the hearing is a miniscule part of the overall School Aid Fund. According to a presentation on "The Basics of School Funding" presented by Kathryn Summers, Associate Director of the Michigan Senate Fiscal Agency in February 2019, the total estimated School Aid Fund for 2018-2019 is \$13,550,500,000. Even using the numbers presented by the Budget and Treasury officials to the committee suggesting a decline from the potential loss of iLottery play of \$11.7 Million amounts to a .08634 percentage drop, or less than 1/10th of one percent of the overall \$13.5 Billion School Aid Fund. It is important to remember that even this miniscule percentage of estimated drop in revenue is more than offset by the upside benefit of a \$25 Million increase in state and city revenues that is estimated (by the same Budget and Treasury officials) to come from the bills before the Committee.

Bruce Dall, President of MotorCity Casino, and Michael Neubecker, President of MGM Detroit, also gave testimony to the committee. They noted that while the tax rate for iGaming is 8%, that doesn't account for the increased costs associated in age verification, payment processing, and third party vendor costs associated with iGaming that total between 13-18% of revenue. When added in, the costs associated with iGaming are roughly equivalent to the costs associated with gambling revenue from gambling at the casino location. Thus, the tax rate in the bill was set to economically equate things for both the casino operators and for the ultimate players. They also made it clear that the tax rate would not incentivize the casinos to drive gambling to iGaming as opposed to gambling at

the bricks and mortar facilities. They noted that they have development agreement obligations with the City of Detroit and earn significant revenue from bars and restaurants, so they will definitely use the online gaming as a way to promote the bricks and mortar casinos. They also pointed to revenue numbers from New Jersey to refute claims that iGaming will cannibalize existing gambling revenue derived from their current operations. Readers should also see the article entitled Sports Wagering Boosting Gaming Revenues in New Jurisdictions in this week's issue of the Michigan Gaming Newsletter.

The committee adjourned without voting on the proposed legislation.

SPORTS WAGERING BOOSTING GAMING REVENUES IN NEW JURISDICTIONS

With Michigan currently contemplating legislation to authorize both online gaming and sports wagering, a key issue is the potential impact of these new offerings on overall revenues.

Mississippi recently added sports wagering to its gaming mix offered by its casinos. The most recent revenue figures released suggests that the addition of sports wagering has had a dramatic positive effect on revenues. The figures show an increase to \$212 million, up five percent from the same month last year. \$8.4 million of this revenue came from sports betting at the casinos. In March, the Gulf Coast casinos had the second highest monthly revenues ever, likely boosted by sports wagering and March Madness. The casinos located on the coastal area saw a 13 percent rise in revenue.

Even more dramatically, New Jersey's licensed iGaming and sports betting operations also generated increased revenues helping the state to experience a 34.5 percent increase in gaming revenue for the month of March compared to last year. Notably, this has NOT come at the expense of other forms of gaming. Casino revenues were up 15.7 percent during March compared to the

prior year. Additionally, revenues from sports wagering were \$31.7 million in March, which was the highest monthly total since sports wagering was introduced. In total, the gaming win for the state during the first quarter of the year were up 26.8 percent over the first quarter of 2018.

Thus it appears that the introduction of these new forms of wagering is likely getting traffic redirected from currently operating illegal betting sites to properly regulated gaming facilities in the states where it has been introduced. This, of course, leads to greater government revenues to help fund essential programs and projects.

SALE OF JACK GREEKTOWN CASINO MAY CLOSE BY END OF MAY

During the Penn National earnings call yesterday, CEO Timothy Wilmott provided an update on the company's merger and acquisitions activity. He said: "We are working with the Michigan regulators and pending their approval, we expect to close on our \$300 million purchase of the Greektown operating assets in Detroit by the end of May in partnership with VICI as our landlord.

Similarly, during the VICI earnings call, Edward B. Pitoniak, CEO stated: "We have also partnered with Penn to acquire Greektown, which as Penn noted this morning on their own earnings call, we anticipate closing by the end of May."

The Michigan Gaming Control Board is scheduled to meet on May 21st. An agenda for that meeting has not yet been released.