



# OFA ♦ OLR RESEARCH REPORT

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## **QUESTIONS AND ANSWERS ON EXPANDING VIDEO SLOTS IN CONNECTICUT**

By: Duke Chen, Legislative Analyst II  
Christopher Wetzel, Associate Analyst

You asked a series of questions regarding the expansion of video slot machines in Connecticut. Please find our responses below:

### **1) What is the status of the existing tribal-state slot machine agreements?**

Connecticut currently has two separate, but virtually identical, slot agreements with the Mashantucket Pequot and Mohegan tribes. Under these agreements, the tribes have the exclusive right to operate video facsimiles (i.e., slot machines) and commercial casino games in the state. In return, each tribe must contribute 25% of its gross slot machine revenue to the state monthly. If either tribe's contribution falls below \$80 million in any year, its rate increases to 30%.

It should be noted that in 2009, the state and the Mashantucket Pequot and Mohegan tribes reached a settlement regarding the casinos' issuance of coupons or e-mail credits for specified amounts of free slot play. In addition to a one-time settlement of \$25.0 million, both tribes agreed to start paying the state 25.0% of the value of redeemed free slot play coupons/credits that exceeded 5.5% of the monthly slot "win."<sup>1</sup> Under Public Act 12-1 of the June Special Session, the 5.5% threshold was subsequently increased to the current level of 11.0%.

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<sup>1</sup> The "win" is defined as the total amount wagered less any prize amounts paid out.

**2) How much revenue does the state currently receive under the agreements?**

Based on the November 8, 2013 Consensus Revenue Estimates produced jointly by the Office of Fiscal Analysis (OFA) and the Office of Policy and Management (OPM), the state is projected to receive approximately \$285.3 million in Indian gaming payments in FY 14.

The following table illustrates projected Indian gaming payments through FY 18, also based on the November 8, 2013 Consensus Revenue Estimates:

Indian Gaming Payment Projections			
(\$ in millions)			
<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
280.4	264.0	212.2	212.2

**3) How much revenue, in total, has the state received under the agreements?**

Through November of 2013, the state has received a total of approximately \$6,533.7 million in Indian gaming payments.

Please see the table below for a breakdown by fiscal year and venue:

Indian Gaming Payments (\$ in millions)			
	<u>Foxwoods</u>	<u>Mohegan Sun</u> <sup>1</sup>	<u>Total</u>
FY 93	30.0	-	30.0
FY 94	113.0	-	113.0
FY 95	135.7	-	135.7
FY 96	148.7	-	148.7
FY 97	146.0	57.6	203.6
FY 98	165.1	91.0	256.1
FY 99	173.6	113.5	287.1
FY 00	189.2	129.8	319.0
FY 01	190.6	141.7	332.3
FY 02	199.0	169.9	368.9
FY 03	196.3	191.0	387.3
FY 04	196.9	205.9	402.8
FY 05	205.0	212.9	417.9
FY 06	204.5	223.0	427.5
FY 07	201.4	229.1	430.5
FY 08	190.0	221.4	411.4
FY 09	177.2	200.7	377.9
FY 10	188.6	195.6	384.2
FY 11	174.1	185.5	359.6
FY 12	165.5	178.8	344.3
FY 13	138.5	157.9	296.4
FY 14	46.5	53.0	99.5
<b>GRAND TOTAL</b>			6,533.7

<sup>1</sup>The Mohegan Sun casino opened in October of 1996

**4) How much state revenue is generated currently by existing off-track betting (OTB) licensed facilities?**

Approximately \$3.6 million was transferred to the General Fund in FY 13 from OTB licensed facilities.

**5) In what ways would the tribal-state slot machine agreements be affected if video slots were expanded to OTB facilities?**

Introducing video slots to the OTB facilities would violate the agreements. Under such a scenario, the tribes would no longer be obligated to contribute any portion of their slot machine revenue to the state.

**6) What would have to change in the agreements in order for OTB facilities to conduct video slot gaming?**

The Indian tribes and the state would have to amend the current agreements to allow video slots in these OTB facilities. Although there are no formal procedures on how to conduct negotiations, historically they have been conducted by the executive branch. In 1994, Governor Weicker negotiated the current slot agreements and PA 13-184, § 86, directs the OPM secretary to enter into separate agreements, on behalf of the state, to introduce keno as a lottery game.

Once an agreement is reached, it must be approved by the legislature. By law, the governor must file the agreement with the Senate and House clerks within 10 days after it is executed. If filed during a regular session, the legislature has until its adjournment to approve or reject it. If not filed during a regular session, the legislature has until adjournment of (1) the next regular session or (2) a special session convened to take action on the measure. If the legislature does not act by adjournment, the agreement is rejected and is not implemented.

If the governor files the agreement within 30 days of the end of a regular session, the legislature can either convene in a special session and vote within 30 days or vote on it within the first 30 days of its next regular session. The legislature has until the end of either the 30-day-period to vote before the measure is considered rejected (CGS § 3-6c).

**7) How much revenue could realistically be generated if video slot machine gaming is expanded to pari-mutuel facilities within the state?**

The net revenue impact of slot machine expansion within existing pari-mutuel facilities depends upon the actual manner in which such an expansion would be implemented, as well as the substance of any related agreement with the Mashantucket Pequot and Mohegan tribal nations. Consequently, we have provided illustrative figures based on estimated

net revenue from video slot machine gaming and an estimate of regulatory costs, assuming no impact to the current slot machine agreements.

**Revenue Impact**

Assuming the proposed expansion would be similar to existing facilities in Rhode Island, it is estimated that video slot machine net revenue would total approximately \$40.2 million per 1,000 machines annually. The following table illustrates estimated annual net revenue for given numbers of machines:

<u>Number of Video Slot Machines</u>	<u>Estimated Net Operating Revenue (\$ in millions)</u>
500	20.1
1,000	40.2
1,500	60.3
2,000	80.4
2,500	100.5
3,000	120.6
3,500	140.7
4,000	160.8
4,500	180.9
5,000	201.0
5,500	221.1
6,000	241.2
6,500	261.3
7,000	281.4
7,500	301.5
8,000	321.6

The amount of revenue the state would receive from these estimated figures depends upon the policy that would be enacted.

Additionally, it is anticipated that the expansion of video slot machine gaming within the state would result in lower gambling revenue for the Foxwoods and Mohegan Sun casinos. Based on historical experience with the opening of video lottery terminal facilities in neighboring states, it is

estimated that video slot expansion would result in a decrease in Indian gaming payments to the state of approximately 7.8%. For the current fiscal year, that would equate to a \$22.3 million reduction in such payments.

### **Cost Impact<sup>2</sup>**

As mentioned previously, this is difficult to estimate without direction as to how the locations would operate. The number of machines is not a significant factor in determining staffing levels but how a facility will operate must be considered. If the hours of operation are similar to the hours the facilities are opened for pari-mutuel activity (approximately 16 hours per day), Department of Consumer Protection (DCP) staff requirements would consist of three-to-four personnel (Gaming Regulation Officers) at each location and two auditors (Accounts Examiner) to work between the three locations. In addition, there would be a need to increase the DCP Licensing staff by one Licensing and Application Analyst to process additional applications for individuals and companies conducting business. The office operation would mirror that of DCP's operation at Mohegan Sun and Foxwoods with the need for office equipment including slot testing equipment for each location.

The following is an estimated annualized cost for DCP personnel at three pari-mutuel sites based on proposed expansion of operations:

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<sup>2</sup> Source: Department of Consumer Protection

**Department of Consumer Protection**  
**Estimated Cost for Proposed Expansion at Pari-Mutuel Facilities<sup>1</sup>**

Cost Item	Bi-Weekly Salary \$	Base Salary \$	Total Cost \$
<b>Personal Services (PS)</b>			
(12) DCP Gaming Regulation Officers	1,921	599,208	599,208
(2) Accounts Examiners	2,391	124,344	124,344
(1) License & Applications Analyst	2,118	55,061	55,061
Shift Differential Pay	-	-	15,600
<b>Subtotal – Salaries &amp; Wages</b>	<b>6,430</b>	<b>778,614</b>	<b>794,214</b>
Fringe Benefits (FB)	-	-	635,371
<b>Subtotal – PS &amp; FB</b>	<b>6,430</b>	<b>778,614</b>	<b>1,429,585</b>
<b>Other Expenses (OE)</b>			
Employee Assistance Program Services			391
Office Equipment Maintenance/Repair – Contractual			4,982
Cellular Communication Services			2,376
Capital – IT Hardware Purchase			48,000
<b>Subtotal – OE</b>			<b>55,749</b>
<b>TOTAL</b>			<b>1,485,334</b>

<sup>1</sup>Estimated fringe benefit cost is based on the current fringe benefit cost recovery rate established by the Office of the State Comptroller.

**8) What is the status of the licensing of the pari-mutuel facilities within the state as they exist currently?**

Currently, Sportech is the only licensed pari-mutuel operator in the state. Sportech is authorized under CGS § 12-571a to operate up to eighteen (18) OTB facilities within the state. At this time there are 15 approved locations where pari-mutuel activity is conducted; the locations are: Norwalk, Bridgeport, Milford, New Haven, Torrington, Waterbury, East Haven, New London, Willimantic, Putnam, Manchester, Hartford, Windsor Locks, Bristol, and New Britain. Sportech has not identified any additional locations at this time, however to do so would require local legislative approval and approval by DCP. There is not an additional licensing requirement or fee for Sportech to operate any additional facility,

however the enabling legislation for Sportech is specific as to what type of activity can be conducted at these locations. The activity is limited to operation of off-track betting and any enhancement to products offered must also be specifically authorized.

It is anticipated there would be a requirement for additional licenses for vendors that would be associated with any additional activity at these facilities.

**9) How would introducing video slot machines affect the current OTB licenses?**

Without a formal proposal, it is unclear how OTB venues would be affected by introducing video slots. But, it is likely that regulating video slots will require different licenses and oversight, which may mean little to no change to the OTB portion of the facilities.

**10) Who would regulate video slot machines if they were allowed in OTB venues?**

A proposal could direct either DCP, Connecticut Lottery Corporation, or some other entity to regulate video slots. OFA's fiscal impact analysis assumes DCP would oversee video slots.

**11) How much state gambling revenue goes to combat problem gambling?**

Per CGS § 12-818, a portion of Connecticut Lottery revenue is transferred to a dedicated Chronic Gamblers' Fund administered by the Department of Mental Health and Addiction Services (DMHAS). To date, a total of \$22.3 million has been transferred to this account, with another \$2.3 million scheduled to be transferred this fiscal year (FY 14).

It should be noted that the above figures do not include lottery revenues dedicated to public service announcements regarding problem gambling or transfers of gambling revenues from entities besides the state.

**12) How many gaming casinos exist in Massachusetts, New York, and Rhode Island? How many more are planned?**

There are currently seven casinos in Connecticut's neighboring states (five Indian casinos in New York and two non-Indian casinos in Rhode Island).

Additionally, there are plans to build three casinos in Massachusetts and up to seven more in New York.

In 2011, Massachusetts authorized three casinos to be built in various parts of the state. Massachusetts has not awarded these licenses. The state is currently evaluating bids that have gained local approval and certain bidding companies are still trying to secure local approval.

In a November 2013 referendum, New York voters approved a constitutional amendment to expand casino gaming and authorized up to seven casinos. The first four would be permitted upstate and there will be a seven-year moratorium on licensing the other three. State officials say bids will likely be due by mid-2014 and licenses could be awarded in the second half of 2014.

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