April 2, 2018: Committee on Finance, Revenue, and Bonding

Public Hearing

Testimony Regarding:

**SB 540 (RAISED) AN ACT AUTHORIZING SPORTS WAGERING AND ONLINE LOTTERY DRAW GAMES IN THE STATE**

Chairman Fonfara, Chairman Frantz, Chairman Rojas, Ranking Member Davis, and distinguished members of the Finance, Revenue, and Bonding Committee, I am Seth Young, Executive Director of Online Gaming at Foxwoods Resort Casino. Thank you for the opportunity to appear in front of you and provide testimony today. I am here to express the Mashantucket Pequot Tribal Nation’s support for legal sports gambling – both on-reservation and online – and more broadly, for regulated online gambling.

We appreciate that there is significant interest in sports gambling within the state of Connecticut given the anticipated U.S. Supreme Court decision. Over the past few weeks you heard much about that issue from some industry experts, and then from others who recognize that there is a financial gain to be had from regulating an existing black market activity. I would like to clarify some points about the sports gambling market – including the perceived financial opportunity – but first I would like to address iGaming, which is a more lucrative opportunity for the state than sports gambling. The Mashantucket Pequot Tribal Nation has been a great partner to the state of Connecticut for 26 years, and in that spirit it is my goal to speak with you plainly – as a longtime partner – and to provide you with facts and context so you can make the most informed decision possible when considering codifying law and regulation within this state. While I am not a lawyer for Foxwoods or the Tribe, I will also state for the record that it is the Tribe’s position that sports gambling, daily fantasy sports betting, and iGaming fall under the exclusivity agreement, and the Mashantucket Pequot Tribal Chairman, Rodney Butler, submitted a statement today if you’d like to read more about it.

As we see it, the strongest opportunity for the state is in legalizing statewide iGaming, another activity that is currently operating for Connecticut residents in the black market today. Online gaming has already been permitted in Connecticut for OTB operations, in addition to a law that has been enacted for online daily fantasy sports, which is contingent on agreements with the Tribes. Online gambling includes games like slots, table games, and poker games on mobile or desktop environments. Since iGaming was introduced in New Jersey in 2013, New Jersey has collected more than $126M in tax revenue. We project the revenue opportunity for iGaming in Connecticut to be greater than the revenue opportunity for sports gambling. Based on our estimates coupled with a pragmatic tax rate, over the course of five years Connecticut stands to
collect roughly $87M in tax revenue from iGaming, at a rate starting at roughly $14.25M in Year One, escalating to roughly $20M in Year Five.

There are strong ancillary benefits of a legalized, statewide online gaming program for land-based casinos, and by proxy the state of Connecticut. iGaming has shown to be incremental – not cannibalistic – to land-based gaming revenue, with data showing that iGaming encourages increased visitation to land-based properties. In fact, in 2016 Atlantic City casinos turned around from a decade-long decline in gaming revenue, and the overall Atlantic City casino market grew by 2.2% from 2016 to 2017. Since its introduction, iGaming has grown significantly as a percentage of land-based revenue in New Jersey. In 2013, iGaming made up 0.3% of New Jersey’s overall Net Gaming Revenue. In 2017, iGaming made up 10% of New Jersey’s overall Net Gaming Revenue, driving a total of $245.6m in new revenues. iGaming has contributed to Atlantic City’s stabilization and turnaround in a market with new casinos right over the border in Philadelphia and other neighboring states, in a similar destination-style market as we have here in Connecticut. With this in mind, we submit that iGaming is a valuable asset that can be leveraged, with the potential ancillary benefit of increasing slot revenue to the state.

Further, iGaming engages a new kind of customer, something that will be vitally important to the continued success of the land-based casinos. David Satz, the Senior Vice President of Government Relations at Caesars, told the Pennsylvania Democratic Policy Committee that 91% of their online players are new customers that were not in their total rewards program prior to the launch of iGaming. This sentiment was echoed on the record by other New Jersey operators, including the Tropicana, Golden Nugget, and the Borgata.

iGaming creates jobs. A study by the iDevelopment and Economic Association estimates 3,374 full-time equivalent jobs were created in New Jersey directly or indirectly since the introduction of iGaming in 2013. The regulated New Jersey iGaming market has had no reports of replacing people with computer servers. In fact, dozens of jobs were created directly as required by regulation, along with hundreds of additional jobs to support the market. Further, as iGaming revenue has proven to be incremental to land-based operations, it is more likely that additional jobs will be created within a casino to manage both an online business and to address the needs of the brick-and-mortar establishment because of the online offering.

iGaming is safe. Regulated iGaming operators can restrict underage access effectively by performing “know-your-customer” checks with advanced technologies, as it is currently being done by Connecticut’s OTB’s. Since New Jersey has legalized iGaming, there have been zero reported instances of a minor setting up an online gaming account, depositing funds, and playing. Regulated iGaming operators can safeguard against money laundering, fraud, cheating, and unauthorized access. Regulated iGaming operators can effectively “geo-locate” their customers, ensuring legal compliance within the borders of the jurisdiction in which it operates. Regulated online gaming operators can manage responsible gaming programs, and a nationwide study conducted a decade apart by the University of Buffalo found no significant increase in the rates of problem gambling in the US, despite a nationwide increase in gambling opportunities. Technology has come a long way.
Now I’d like to address the deeply flawed sports gambling section of this bill that was introduced to the committee. While we support the legalization of sports gambling, as written this bill takes the power out of the hands of the state and transfers it directly to the sports leagues, where the leagues themselves would have the sole power to decide whether or not Connecticut will be allowed to try to recapture its illegal black market. The demands of the sports leagues make supporting this bill, as written, a vote for the continued success of the unregulated black market, a vote against revenue enhancement to the state, and a vote against common sense.

Let’s start with the proposition of an integrity fee – which I’d prefer to call a royalty fee – pitched by the representatives from Major League Baseball and the National Basketball Association. This proposed royalty fee goes directly against the interest of good public policy and social responsibility in any state considering sports gambling legislation. The leagues’ position is somehow premised on the illogical assumption that it will cost more to ensure the integrity of a fully transparent regulated market than it does to ensure that level of integrity in the black market they’re currently facing; that’s simply absurd. As you may have heard or read in testimony from William Hill’s Dan Shapiro – a well-known industry expert from an industry-leading bookmaker – operating a sports gambling operation is already a low margin business. A royalty fee payable to the leagues would drive sports gambling margins even lower and offer little incentive for licensed operators to invest in product and marketing, which will adversely affect a trusted, regulated operator’s ability to recapture a large black market from unregulated, unlicensed operators. To be clear and speak without any ambiguity, a royalty fee payable to the leagues will have the direct result of not allowing Connecticut to recapture the full potential of its currently illegal sports gambling market, which will directly and negatively influence the revenue opportunity for both the operators and the state.

Further, when pressed in a CT Public Safety Committee hearing, one of the league representatives stated that they would not support sports gambling legislation if it did not include a royalty fee payable to their league. What I heard is that regulating a black market activity in interest of good public policy and social responsibility is only supportable if they get a cut of the action, which is unfortunate. While every operator would like to work with the leagues to support their efforts to fight any game integrity issues, we support regulation for sports gambling with a prudent tax rate and structure that makes it possible to run a business optimally and serve the residents of Connecticut with a world-class product, while maximizing the opportunity to recapture the illegal black market and support state tourism. In reality, this is also good for the leagues.

Additionally, allowing the leagues the optionality to restrict wagering on their contests essentially allows each league to dictate whether or not it would like to bring sports gambling out of the black market. By allowing any league to dictate wagering restrictions on its contests, Connecticut may find itself at the mercy of a third party in order to accomplish its goals of combating illegal sports gambling, which is already happening within its borders. I cannot imagine this is within the interest of the state, or even in the interest of a league committed to monitoring game integrity and match fixing on its contests. Any prudent, regulated sports gambling operator will be monitoring suspicious betting activity, and would likely be pleased to cooperate with leagues on league-led investigations. In a similar vein, the prospect of codifying into law or regulation that sports gambling operators must only use official league data will
create a structure that may drive up hard costs for operators, when there are many additional options within the market that a sports gambling operator can leverage to fit their business needs.

Next, I’d like to clarify the financial opportunity for sports gambling within the state. We have seen some wild estimates thrown around about the market potential, and we do not have a political reason to oversell the opportunity. Together with the Mohegan Tribe, we have compiled market projections based in part from the latest black market “handle” numbers, or of total amount of money wagered on sporting events, from the American Gaming Association’s estimate of $150B. I would like to remind the committee that this $150B handle number is an estimate of wagering activity across all domestic jurisdictions, and Connecticut represents a small percentage of the USA’s population.

We estimate that the entire sports gambling market opportunity in Connecticut is worth between $75M to $105M per year, split between all operators, before any operating costs or taxes are contemplated. Based on our market estimates coupled with a pragmatic tax rate, we estimate Connecticut can collect $6.5M in tax revenue after Year One of operation, escalating to $9.1M by Year Five of operation, for a total of $40M in new tax revenue over the course of five years. This is a far cry from the $40M-$80M in tax revenue per year that you’re being sold. Even in our most ambitious projections, we do not reach a scenario where the figures of $40M-$80M per year in tax revenue seem possible or plausible.

With iGaming and sports gambling operated together by the Tribes, we project Connecticut will collect tax revenues of $20.8M in Year One, escalating to $29M in Year Five, for a total of $127.7M in projected new tax revenues over five years. We are comfortable standing behind these projections, and are comfortable stating that you can book this revenue into the budget for the 2018-2019 fiscal year if we are legally authorized to get both programs up and running.

I would also like to state for the record that the revenue potential for the state through the taxation of daily fantasy sports is minimal, and that loose or bad regulation for daily fantasy sports operators may embolden some companies to offer what appear to be gambling games under the protection of poorly constructed, ambiguous law, without offering any semblance of consumer protection to the constituents of the jurisdiction in which the activity is offered. After all, the daily fantasy sports business was born out of a perceived loophole in federal law. It stands to reason that history could repeat itself and raise even more questions than answers in the future if legalization and regulation of this activity is not carefully considered.

At this point, the legalization of daily fantasy sports in jurisdictions across the country appears to be acting as a shoehorn for daily fantasy sports companies to transition to offering sports gambling in jurisdictions where they are “regulated”. The stark reality is that in many domestic jurisdictions in which fantasy sports law was passed, there is no real backbone to regulation – it certainly is not comparable to regulating a gambling entity like a casino – which is somewhat ironic because the daily fantasy sports sector was rife with compliance failures and scandal for years as companies worked to grow at all costs, while dealing in real money online gaming. In 2017, New York State collected a total of $3M in tax revenue from all licensed fantasy sports operators. This is equivalent to roughly two and a half days of toll revenue at the George Washington Bridge, and Connecticut is markedly smaller than New York.
Lastly, I’d like to speak to the importance of brand trust in iGaming and sports gambling. For 26 years, Foxwoods has been a brand that consumers know that they can trust for a fair game and a great experience. For many years, all that consumers have seen in newspaper headlines with regard to online gaming has been scandal. Whether it was backlash over deceptive advertising tactics, allegations of defrauding customers, allegations of Ponzi schemes, or reading about criminal tactics to recoup unpaid debts, there has been a long-standing public mistrust associated with unregulated iGaming and sports gambling. This state needs trusted partners to stand behind a strong program in order to restore the trust in iGaming and protect its constituents from dishonest operators.

We are fighting for the state and its local communities, including the thousands of Connecticut residents that we currently employ. By engaging new customers through iGaming, driving continued brand loyalty, combating brick-and-mortar competition in other jurisdictions aiming to siphon revenue and jobs out of the state, and capturing an unregulated black market, Connecticut and its existing partners stand to create good public policy and much needed new revenues for the state and its constituents by working together to embrace the future. I welcome the opportunity to answer any questions.