

ANALYSIS OF HB 4307 TO HB 4311

PRESENTATION TO THE HOUSE WAYS
AND MEANS COMMITTEE

MAY 2, 2019



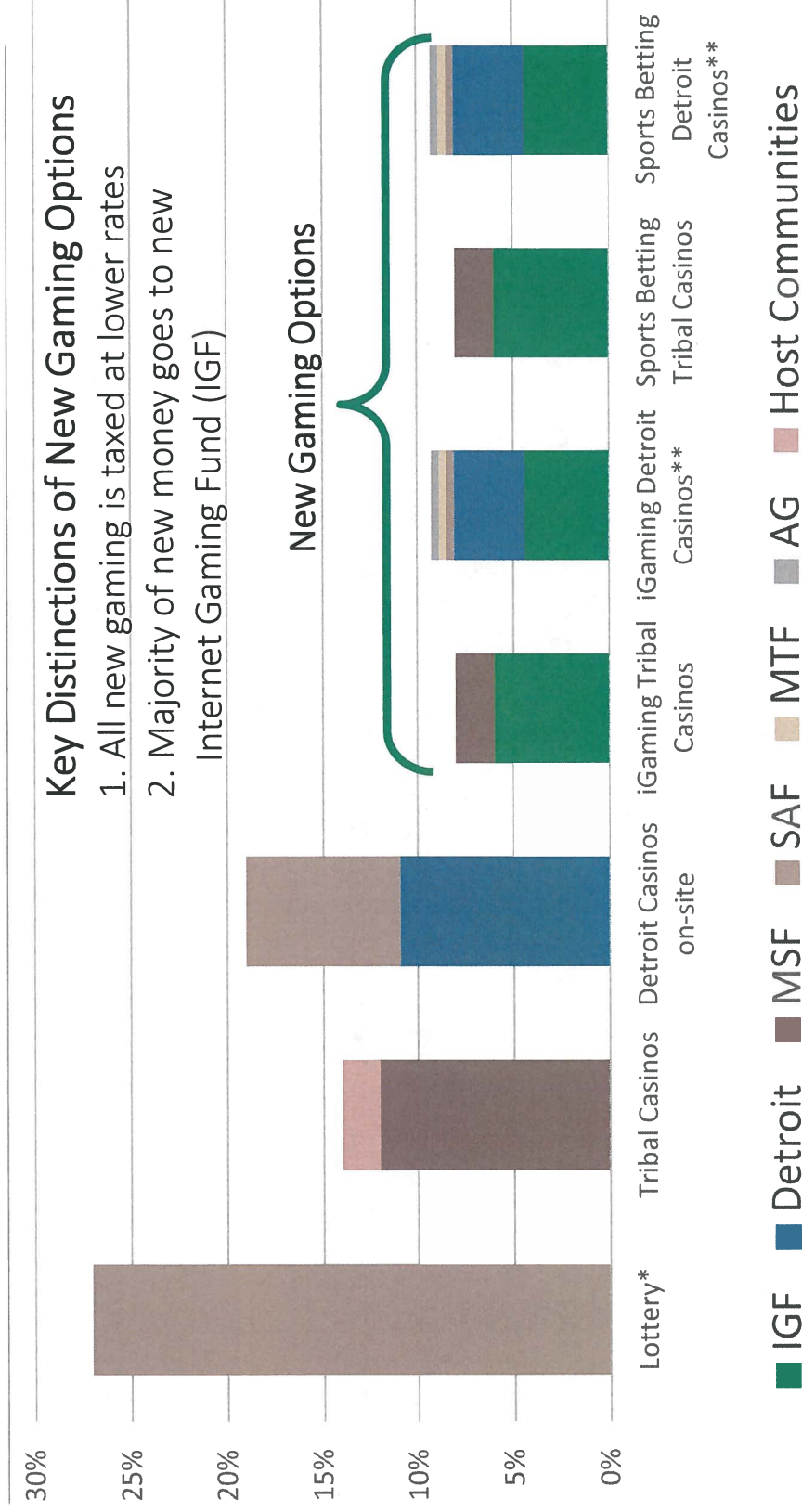
Gaming Proposal

Proposal would make Michigan one of the states with the most gaming options, after adding the items in red.

State	Lottery	iLottery	Casino	Tribal Casino	Sports Betting		iGaming
					Offsite	Onsite	
Michigan	✓	✓	✓	✓	✓	✓	✓
New Jersey	✓		✓		✓	✓	✓
Nevada			✓	✓	✓	✓	Poker Only
Delaware	✓		✓		✓	✓	✓
Mississippi			✓	✓		✓	
Pennsylvania	✓	✓	✓		✓	✓	Upcoming
Total States*	45	11	25	29	12 (6 active)	13 (8 active)	4 (3 active)

* Number of states that have legalized a specific gaming activity (includes the District of Columbia). Active refers to the number of states where specific legal gaming activity is currently being offered.

Tax Rates for Gaming Proposal



* SAF receives 27% of the total lottery sales. Shown here as a 27% rate, as there is not a tax rate.

** Excludes proposed Municipal Services Fee. Proposed Municipal Services Fee is a 1.25% tax.

Treasury Fiscal Estimates

Treasury's estimates of new revenue created by sports betting and iGaming are very similar to those produced by the Detroit Casino and other advocates.

Treasury's estimates have three key differences

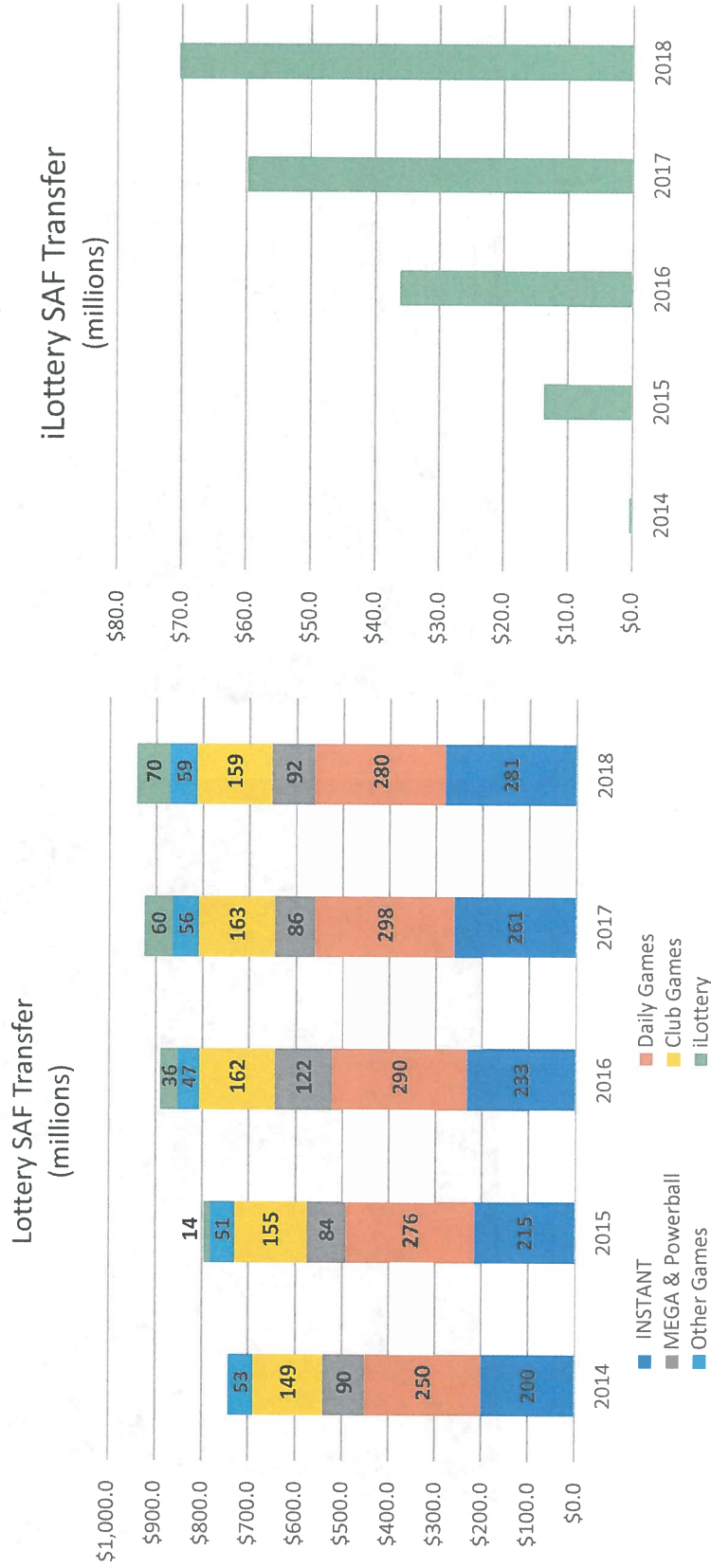
1. Treasury forecasts some substitution between lottery and iGaming
 - Small substitution can have a large revenue impact
2. Treasury forecasts a small decrease in existing activity at Detroit facilities, which the industry has acknowledged but omitted from their estimates
3. MSF payments from some tribal casinos could be at risk

Michigan iLottery National Leader; 70 online games



Lottery Revenue

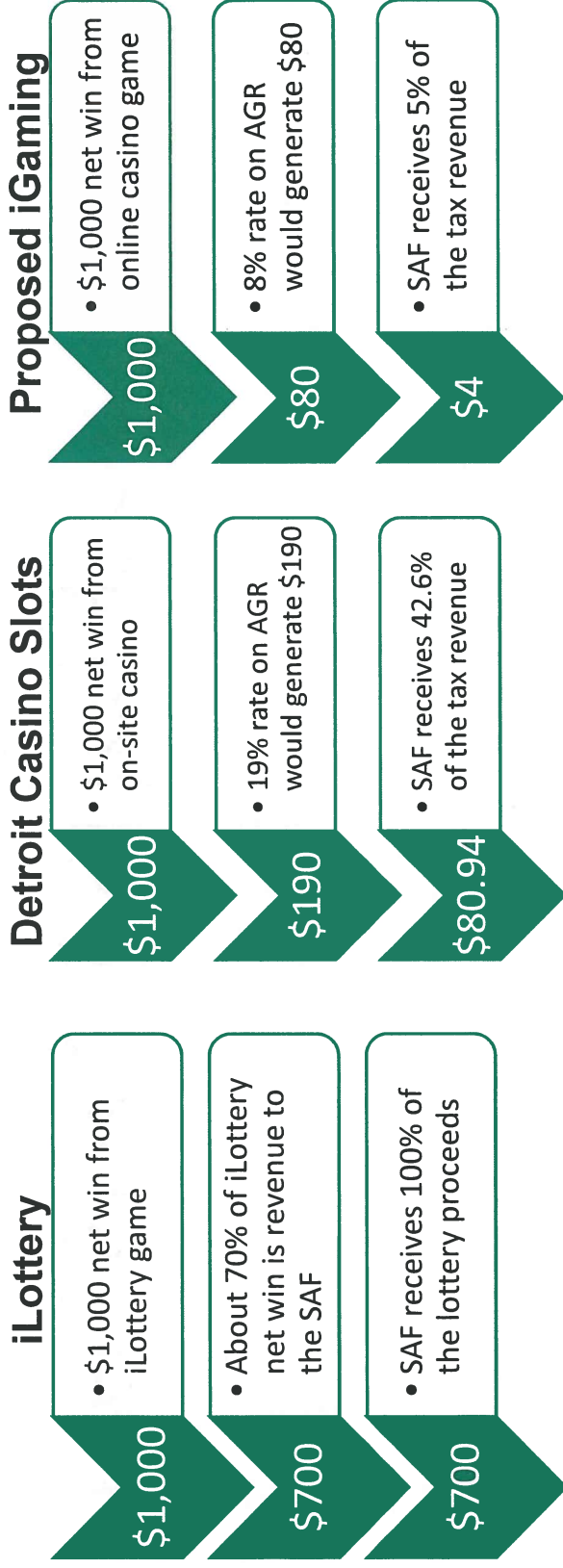
Michigan's lottery revenue grew on average 5.2% over the last five years. Key question for this analysis: What does Lottery and iLottery revenue look like over the long-term (10 to 20 years), both under current law and under this proposal?



All values represent fiscal year totals shown in millions

SAF Loses Revenue in all Scenarios Treasury has Estimated

The substitution effect can be small and cause a large impact to the SAF. Assuming a player loses \$1,000 in one of the gaming options, the revenue to the SAF is dramatically different.



With any substitution, SAF funding will decline, as it receives a lower portion of a smaller tax rate

- For every \$1 in net win to the operator that moves from iLottery to iGaming, an additional \$174 in net win needs to occur for the SAF to break even

Treasury Estimates

REVENUE SCENARIOS UNDER GAMING PROPOSAL

Treasury Revenue Estimates

Scenario	School Aid Fund	Other State Funds*	Total State Impact	City of Detroit
Mid-level	-\$28.6	\$15.7	-\$12.9	\$14.0
Optimistic	-\$18.5	\$29.7	\$11.2	\$20.9
Slightly Pessimistic	-\$39.8	\$4.4	-\$35.5	\$7.2

*State funds include Internet Gaming Fund (IGF), Michigan Strategic Fund (MSF), Agricultural Fund (AG), and the Michigan Transportation Fund (MTF)

All values shown in millions. Individual amounts may not add to totals due to rounding.

Mid-level Scenario

Online Games: \$18 million in taxes (\$4.7 million in Detroit fees),
 Sports Betting: \$15 million in taxes (\$4 million in Detroit fees),
 3% Lottery Decrease, 1% Detroit Casino Decrease, One large tribe stops MSF payment

Existing Gaming	Location	Total		Revenue Distributions (in millions)						Host Community	
		State Impact	Local Impact	IGF (b)	Detroit	MSF	SAF	MTF	AG Fund		
Lottery	Onsite & Online	-\$29.0					-\$29.0				
Tribal Casinos	Onsite, slots only	-\$8.6	-\$1.5			-\$8.6					-\$1.5
Detroit Casinos (*)	Onsite (all games)	-\$1.1	-\$1.9		-\$1.9		-\$1.1				

Proposed Gaming

Online Games (a) (c)	Tribal Casinos	\$5.4		\$4.1		\$1.4					
	Detroit Casinos (*)	Online	\$8.5	\$6.9	\$8.5		\$0.6	\$0.6	\$0.6		
	Onsite										
Sports Betting (a)	Tribal Casinos	\$4.5		\$3.4		\$1.1					
	Detroit Casinos (*)	Online	\$6.4	\$5.2	\$6.4		\$0.5	\$0.5	\$0.5		
	Onsite	\$0.4	\$1.0		\$1.0		\$0.4				
Net Impact from Proposed Games		-\$12.9	\$12.5	\$19.6	\$14.0	-\$6.1	-\$28.6	\$1.1	\$1.1	\$1.1	-\$1.5

Individual amounts may not add to totals due to rounding. All amounts are shown in millions.

(a) Assumes market split is 30% Tribal and 70% Detroit casinos. 100% of iGaming is assumed to be offsite and 90% of sports betting online.

(b) Revenue from the IGF is required to fund a \$1 million appropriation for compulsive gaming and the Detroit guarantee. This analysis assumes the technical issues with the guarantee are corrected.

(c) iGaming tax revenue of \$18 million would translate into market total of \$225 million in estimated revenue (net win) for the casinos. This estimate assumes about 18% of the new market would come from Lottery.

(*) Includes Detroit Development Agreement Fees and Municipal Services Fee.

Optimistic Scenario

Online Games: \$25 million in taxes (\$9 million in Detroit fees),
 Sports Betting: \$18 million in taxes (\$4 million in Detroit fees),
 2% Lottery Decrease, 1% Detroit Casino Decrease, One small tribe stops MSF payment

Existing Gaming	Location	Total State Impact	Total Local Impact	Revenue Distributions (in millions)						Host Community	
				IGF (b)	Detroit	MSF	SAF	MTF	AG Fund		
Lottery	Onsite & Online	-\$19.3									
Tribal Casinos	Onsite, slots only	-\$2.0									
Detroit Casinos (*)	Onsite (all games)	-\$1.1	-\$1.9								

Proposed Gaming

Online Games (a) (c)	Tribal Casinos	\$7.5									
	Detroit Casinos (*)	\$12.3	\$14.7								
Sports Betting (a)	Tribal Casinos	\$5.4									
	Detroit Casinos (*)	\$7.9	\$7.0								
		\$0.5	\$1.1								
Net Impact from Proposed Games		\$11.2	\$20.9								

Individual amounts may not add to totals due to rounding. All amounts are shown in millions.

(a) Assumes market split is 30% Tribal and 70% Detroit casinos. 100% of iGaming is assumed to be offsite and 90% of sports betting online.

(b) Revenue from the IGF is required to fund a \$1 million appropriation for compulsive gaming and the Detroit guarantee. This analysis assumes the technical issues with the guarantee are corrected.

(c) iGaming tax revenue of \$25 million would translate into market total of \$312.5 million in estimated revenue (net win) for the casinos. This estimate assumes about 9% of the new market would come from Lottery.

(*) Includes Detroit Development Agreement Fees and Municipal Services Fee.

Slightly Pessimistic Scenario

Online Games: \$13 million in taxes (\$3.4 million in Detroit fees),

Sports Betting: \$10 million in taxes (\$2.6 million in Detroit fees),

4% Lottery Decrease, 2% Detroit Casino Decrease, Two tribes stop MSF payments

Existing Gaming	Location	Total		Revenue Distributions (in millions)						Host Community		
		State Impact	Local Impact	IGF (b)	Detroit	MSF	SAF	MTF	AG Fund			
Lottery	Onsite & Online	-\$38.6										
Tribal Casinos	Onsite, slots only	-\$12.5	-\$3.0			-\$12.5						
Detroit Casinos (*)	Onsite (all games)	-\$2.3	-\$3.9		-\$3.9							-\$3.0

Proposed Gaming

Online Games (a) (c)	Tribal Casinos	\$3.9		\$2.9		\$1.0						
	Detroit Casinos (*)	Online	\$6.2	\$5.0	\$6.2			\$0.5	\$0.5	\$0.5		
	Onsite											

Sports Betting (a)	Tribal Casinos	\$3.0		\$2.3		\$0.8						
	Detroit Casinos (*)	Online	\$4.4	\$4.3	\$4.3			\$0.3	\$0.3	\$0.3		
	Onsite	\$0.3	\$0.7		\$0.7			\$0.3				
Net Impact from Proposed Games		-\$35.5	\$4.2	\$13.6	\$7.2	-\$10.8	-\$39.8	\$0.8	\$0.8	\$0.8		-\$3.0

Individual amounts may not add to totals due to rounding. All amounts are shown in millions.

(a) Assumes market split is 30% Tribal and 70% Detroit casinos. 100% of iGaming is assumed to be offsite and 90% of sports betting online.

(b) Revenue from the IGF is required to fund a \$1 million appropriation for compulsive gaming and the Detroit guarantee. This analysis assumes the technical issues with the guarantee are corrected.

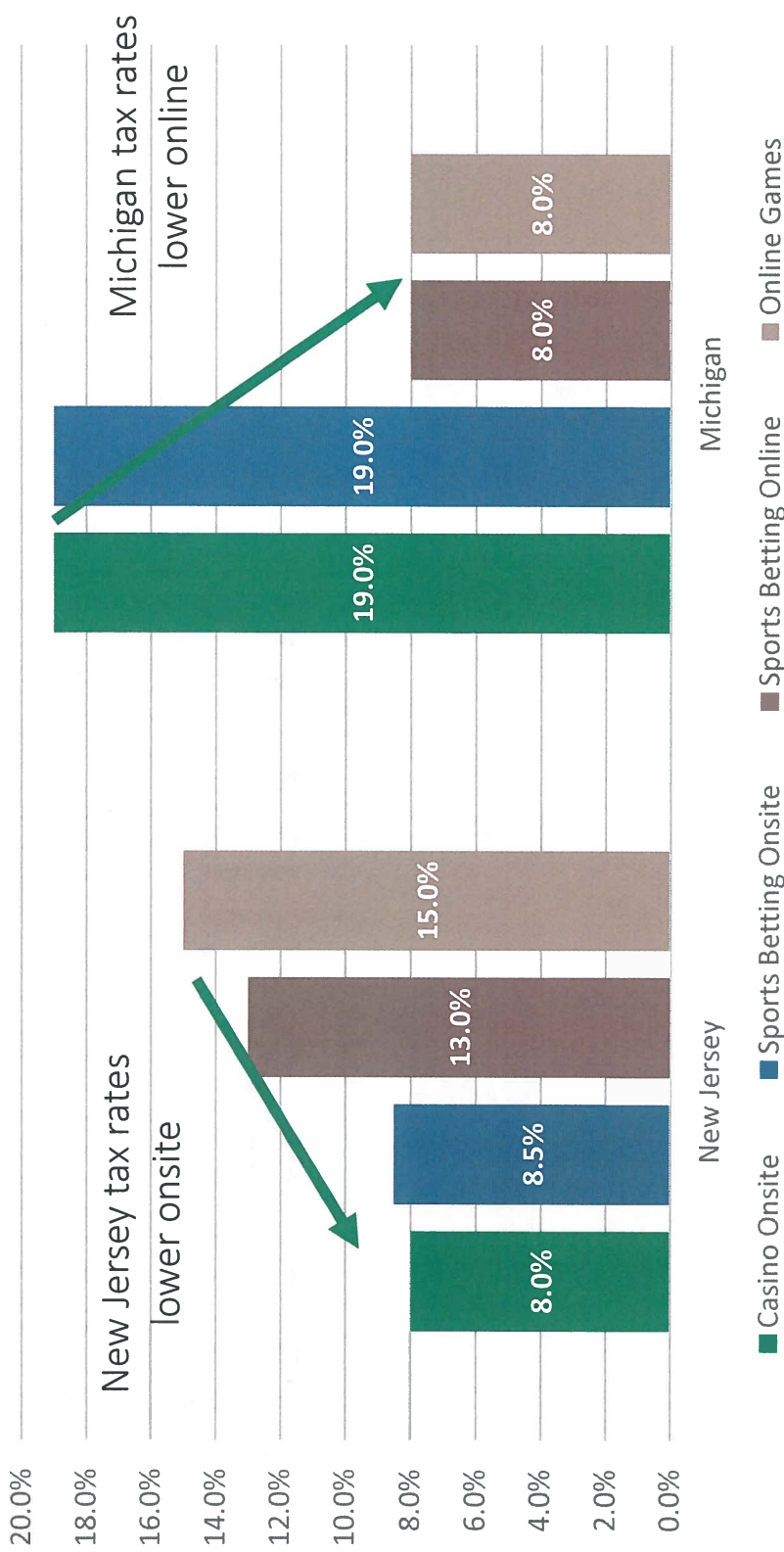
(c) iGaming tax revenue of \$13 million would translate into market total of \$162.5 million in estimated revenue (net win) for the casinos. This estimate assumes about 34% of the new market would come from Lottery.

(*) Includes Detroit Development Agreement Fees and Municipal Services Fee.

Appendix A

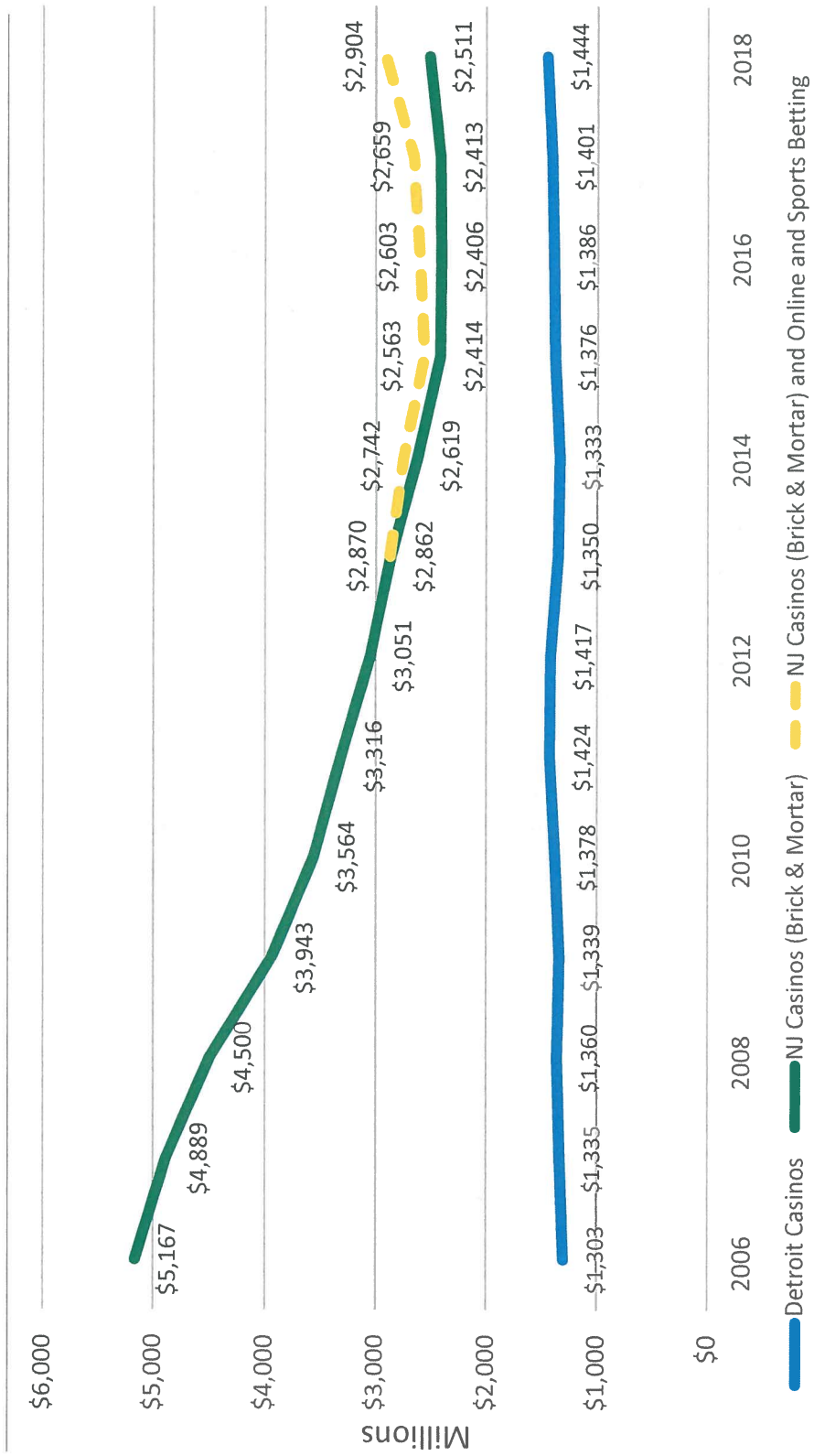
DIFFERENCES BETWEEN NEW JERSEY AND MICHIGAN:
DIFFERENT GAMING MARKETS AND LOTTERY PROGRAMS

Tax Structure Differences Between New Jersey and Michigan Proposal



Rates do not include Development Agreement Fees or Municipal Service Fee that game operators, in both New Jersey and Detroit, must pay to the host communities.

New Jersey and Michigan Commercial Casinos Adjusted Gross Wagering

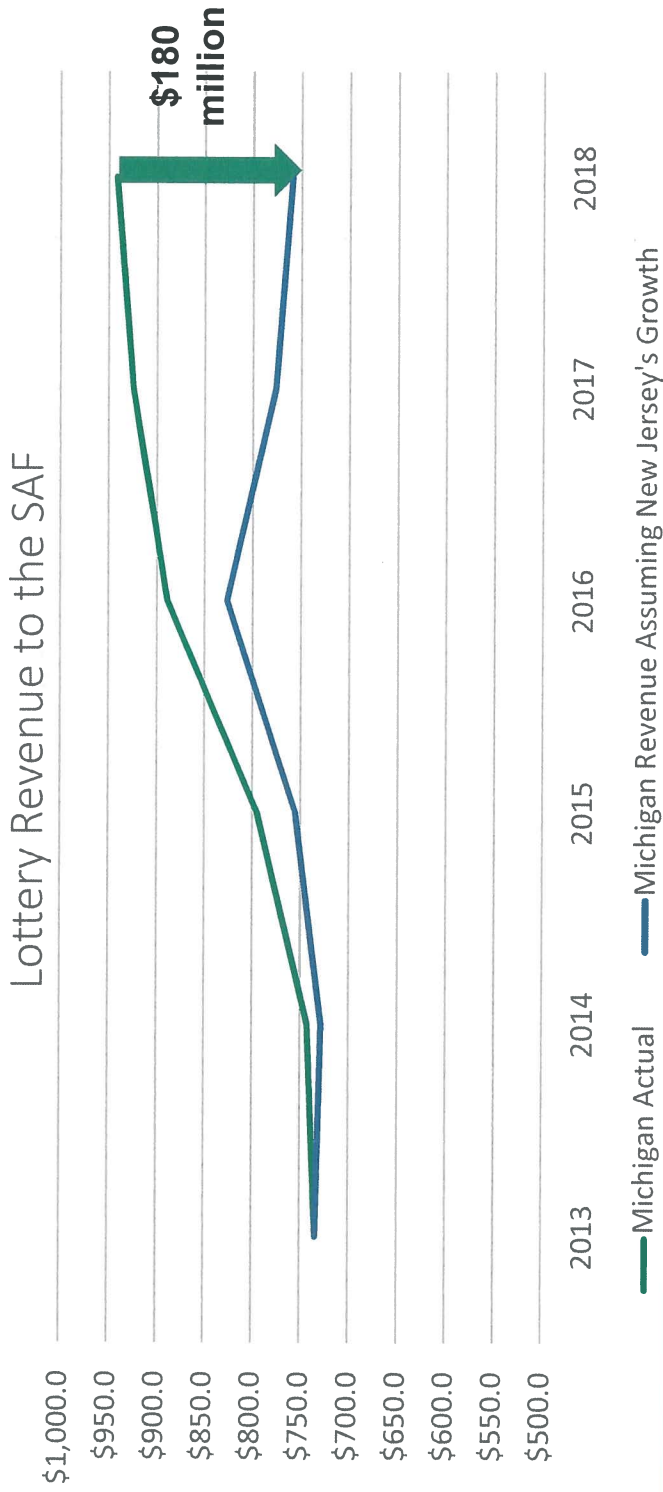


All values shown in millions in Calendar Year totals

New Jersey and Michigan Lottery

Since iGaming was legalized in New Jersey in 2013, annual growth in lottery revenue has been 3.1%. Over that time, Michigan's lottery revenue grew on average 7.6% each year.

If Michigan's Lottery grew at the rate of New Jersey's, the SAF would have \$180 million less revenue in FY18. The Michigan growth was boosted by iLottery, which New Jersey does not allow.



All values represent fiscal year totals shown in millions

New Jersey Revenue from Online Games and Sports Betting

(November 2013 through 2018)

<u>Tax Base (Net Win for Casinos)</u>	
Online Games	\$1,022,451,953
Sports Betting	<u>\$93,853,935</u>
Total Tax Base	\$1,116,305,888
<u>Tax Revenue</u>	
Online Games (15% rate)	\$153,367,793
Sports Betting (13% online & 8.5% onsite)	<u>\$10,420,878</u>
Total Tax	\$163,788,671
<u>Licensing Fees</u>	
Online Games	\$3,600,000
Sports Betting	<u>\$1,000,000</u>
Total Licensing	\$4,600,000
Total Revenue from 2013 to 2018	\$168,388,671
Average Revenue Per Year (last 3 years)	\$41,171,315

Data from New Jersey Division of Gaming Enforcement.
 iGaming began in November 2013 and sports betting started in June 2018.
 Online games and Sports Betting tax revenues do not include Investment Alternative tax (1.25%) paid by providers.

- New Jersey’s gaming market has activity from a much larger number of nonresident tourists
- Personal income in the Atlantic City area is 25% higher than in the Detroit region

	<u>New Jersey</u>	<u>Michigan</u>
Key Gaming Hub	Atlantic City	Detroit
Population within 125 miles	32,609,100	10,133,800
Residents	9,005,600	7,186,900
Nonresidents	23,603,500	2,946,900
Average Earnings:		
Residents:	\$65,696	\$52,475
Nonresidents:	\$61,389	\$54,150
	\$67,222	\$49,023

Key Differences Between New Jersey and Michigan Gaming Markets