

November 25, 2019



Gaming in the Commonwealth

Commission Briefing

Study mandate

- Estimate potential fiscal and economic impacts of new forms of gaming
- Assess impacts on existing forms of gaming (lottery, horse racing wagering, charitable gaming)
- Examine current and potential governance, regulatory, and administrative structures for additional forms of gaming
- Review casino gaming laws in other states

Study mandate: SB 1126 (2019) and Item 31 #3c in the 2019 Appropriation Act

Research activities

- Contracted with consultants* to:
 - Estimate the state and local fiscal and economic impacts of gaming expansion
 - Identify gaming governance, regulatory, and administrative structures used in peer states
- Collected and analyzed data on other states' gaming revenue and gaming agency expenditures and staffing
- Visited existing gaming venues in Virginia, as well as proposed locations

*The Innovation Group in collaboration with Regulatory Management Counselors, P.C. (RMC)

Research activities, continued

- Interviewed key stakeholders in Virginia and other states
 - Virginia Lottery, Virginia Racing Commission, Office of Charitable and Regulatory Programs (OCRP)
 - Gaming oversight staff in other states
 - National gaming industry experts
 - Tribal groups
- Reviewed research literature and documents
- Attended an educational seminar regarding casino regulation at the University of Nevada, Las Vegas

In brief

Casinos authorized by SB 1126, sports wagering, and online casino gaming are projected to generate nearly \$370 million in net state revenue, accounting for impacts to other forms of gaming and new administrative costs.

All SB 1126 casinos are projected to be viable at a tax rate of 27 percent of net gaming revenue, which is comparable to other states.

Lottery and charitable gaming are projected to experience small declines in proceeds, but the impact on horse racing revenue would be substantial.



In brief

Risk of harm from problem gambling could increase, but could be mitigated with a robust state-run treatment and prevention program.

Issuing a casino license through a competitive selection process would maximize potential benefits and minimize public risks.

Administrative costs of a gaming oversight agency are projected to be about \$17 million to \$19 million annually.

Virginia Lottery could oversee casino gaming, but would need additional staff and resources, limiting administrative savings.



In this presentation

Background

Fiscal and economic impact of additional gaming Impacts to existing gaming Governing, administering, and regulating gaming Problem gambling prevention and mitigation Implementation and net fiscal impact to the state Unregulated gaming in Virginia



SB 1126 establishes a broad framework for expanding gaming via commercial casinos

- Authorizes casino gaming in Virginia to be regulated and overseen by the Virginia Lottery Board and administered by the Virginia Lottery
- Authorizes a single casino in five cities
 - Bristol, Danville, Norfolk, Portsmouth, and Richmond
 - The Pamunkey tribe is the sole entity eligible to own a casino in Norfolk and Richmond
- Requires each city to pass a referendum approving casino gaming before a casino license can be granted

*SB 1126 is subject to re-enactment in 2020.

Sports wagering was also considered during the 2019 General Assembly Session

 SB 1126 and other legislation considered by the General Assembly in 2019 would have permitted sports wagering to be offered in the Commonwealth (SB 1238, SB 1356, HB 1638, and HB 2210)



Virginia's permitted forms of gaming generated nearly \$700 million in revenue in 2018

- Virginia Lottery generated \$606 million in proceeds for Virginia's K-12 public education system
- Charitable gaming sales generated over \$59 million for the organizations that hosted the games and nearly \$3 million for the general fund
- Horse racing wagering generated about \$12 million in revenue for organizations that support horse racing, the horse breeding industry, and the operations of the Virginia Racing Commission

Wagering on historical horse racing terminals became available in 2019, and therefore is *not* included in \$700 million of revenue in 2018.

In this presentation

Background

Fiscal and economic impact of additional gaming

- Impacts to existing gaming
- **Overseeing and regulating additional forms of gaming**
- Problem gambling prevention and mitigation
- Implementation and net fiscal impact to the state
- Unregulated gaming in Virginia



Projected fiscal and economic impacts of casinos and additional forms of gaming

- Projections of impacts included:
 - a casino in the five localities identified in SB 1126 (2019)
 - a casino in Northern Virginia
 - competition from potential casinos in neighboring states
 - sports wagering and online casino gaming
 - historical horse racing gaming (with and without casinos)
- Fiscal impact included state gaming tax revenue, other state tax revenue, and local tax revenue
- Economic impact included job creation, wages, and contributions to state gross domestic product (GDP)

Casino revenue and economic impact projections were guided by several assumptions

- Projections are reported for 2025
 - first year of casino operations in 2024
 - one year for casino patronage and revenue to stabilize
 - five historical horse racing facilities are in operation
- Accounts for projected income and population changes
- Projections assume a 27 percent effective tax rate applied to casino gaming revenue
 - a higher and lower tax rate were examined for sensitivity

Projections are in 2025 dollars. Projections do not include historical horse racing facilities in Dumfries and Danville because those potential locations had not been announced at time of analysis.

Finding

Total state gaming tax revenue from operating a casino in all five SB 1126 localities is projected to total \$262 million* but could be higher or lower depending on the tax rate applied to gaming revenue.

*Assumes a 27 percent gaming revenue tax rate, which is the median among other states.



SB 1126 casinos projected to generate \$262 million annually in state gaming tax revenue



Assumes 27 percent gaming revenue tax rate, which is the median among other states. Does not sum because of rounding.



Danville and Bristol casinos would be most reliant on out-of-state customers







SB 1126 casinos would generate additional revenue through other state taxes and local taxes.



Casinos would generate additional state and local tax revenue

State tax revenue

- \$29 million to \$33 million
- From sales, personal income, and corporate taxes

Local tax revenue

- Ranging from \$3.7 million in Bristol (8 percent of local revenue) to \$8 million in Richmond (1 percent of local revenue)*
- Primarily real estate and sales tax

* Excludes any additional payments to localities from casino gaming taxes (i.e. revenue sharing).



Casinos would have a positive economic impact, but it would be modest relative to the broader local economy.

New jobs created would range from 0.3 percent to 3.2 percent of the local labor force, with a median wage of \$33,000.



Each casino is projected to directly employ at least 1,000 people



Statewide total of 7,592 direct jobs and 3,200 secondary jobs. Includes full- and part-time jobs. These estimates do not include one-time jobs for construction.



Casino direct employment projected to account for 3 percent or less of local labor force

Locality	Casino employees as a % of local labor force	Local unemployment rate (2018)
Danville	3.2%	4.1%
Bristol	1.0	3.6
Richmond	0.4	3.0
Norfolk	0.3	3.1
Portsmouth	0.3	3.2



Over half of casino jobs projected to pay lower wages, but some would be higher skill or wage

		Percentage of total
Position	Annual wages	employees by position
Executive	\$219,766	1%
Managerial & supervisory	62,608	19
Accounting & other professional	59,007	2
Table game dealers	54,854	15
Technical & mechanical	43,906	5
Security & surveillance	33,086	9
Administrative	32,517	1
Cage & cashier	29,587	5
Food & beverage	25,990	31
Housekeeping	20,246	12
Median	\$33,086	100

Projected tips included for table game dealers and food & beverage workers. Does not include other components of compensation such as benefits.

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Median wage of casino jobs is projected to be lower than median wage in host region



Projected 2025 casino wage and regional median wages.

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Sports wagering and online casino gaming would generate additional revenue and jobs but much less than casinos.



Sports wagering and online casino gaming could have a modest positive fiscal impact

- Sports wagering is projected to generate \$22 million to \$55 million in gaming tax revenue, depending on availability
 - Would equal 8 percent to 21 percent of gaming tax revenue from casinos
- Online casino gaming is projected to generate \$84 million in gaming tax revenue
 - Would equal 30 percent of gaming tax revenue from casinos

Represents a fully mature market after 5 years of operation and assumes a 12 percent tax rate for sports wagering and a 27 percent tax rate for online casino gaming.

Economic impact from sports wagering and online casino gaming would be small

- Sports wagering with a "brick-and-mortar" component is projected to generate employment and GDP ranging from 6 percent to 10 percent of what casinos would generate
- Online casino gaming is not projected to have a material economic impact
 - Automation means few jobs created
 - Operations are typically contracted to out-of-state vendors

Represents a fully mature market after five years of operation and assumes a 27 percent gaming revenue tax rate.





A casino in the Northern Virginia market would generate additional positive fiscal and economic impact.



A Northern Virginia casino would generate additional positive fiscal and economic impact

- Casino in Northern Virginia is projected to increase
 - state gaming tax revenue by \$155 million
 - total employment by ~4,400 jobs
 - contributions to GDP by \$700 million
- Projected to attract, or recapture, over \$311 million of gaming revenue currently spent out-of-state
- Would be expected to pose little competition to the five SB 1126 locations

Assumes a 27 percent gaming revenue tax rate.

Finding

All five SB 1126 casinos are projected to be viable under a 27 percent gaming revenue tax rate applied to net gaming revenue, which is the median among other states.



Market demand and gaming revenue tax rate influence the size and scale of a casino

- Size/scale of a casino is largely determined by the volume of gaming activity that the surrounding market will support
- Tax rates have modest impact on size/scale, but have a greater effect on state gaming tax revenue
 - High tax rate: higher state revenue, but potentially lower economic impact
 - Low tax rate: lower state revenue, but potentially higher economic impact

Higher tax rates are common in states with limited number of casino licenses

- Open casino markets result in greater in-state competition than limited markets
 - Leads to lower gaming tax rates
- The five states with an open casino market have tax rates ranging from 7% to 15% (median of 12%)
- The 19 states with a limited casino market have tax rates ranging from 19% to 50% (median of 33%)
- Across all states, median tax rate is 27%

Effective tax rates represent the actual tax rate paid across all casinos, amount of gaming revenue, and game types.



Fiscal and economic impact in Virginia projected for three casino gaming revenue tax rates

- Rates evaluated include
 - 12 percent near the nationwide low
 - 27 percent median across states
 - 40 percent median in mid-Atlantic region
- Represent effective, or "blended" rates, that are applied uniformly to all types of gaming revenue

At 27 percent tax rate, all SB 1126 localities are projected to support a "resort-style" casino

- SB 1126 requires a minimum \$200 million capital investment
- The Innovation Group projected that such a casino could be built at a 27 percent tax rate
- Expected to result in at least a small "resort-style" casino
 - Hotel, meeting/entertainment space, dining options
 - 1,000 or more jobs directly at each casino



Finding

A lower casino gaming revenue tax would result in substantially less state revenue.

A lower casino gaming revenue tax rate is projected to result in only modest additional positive economic impacts, which would be most apparent in Bristol and Danville.



Projected state revenue greatly varies depending on the tax rate applied to casino gaming revenue





Statewide, a lower tax rate would create only modest additional economic impacts

- Applying a 27 percent tax rate instead of a 12 percent tax rate is projected to
 - Increase state gaming tax revenue by 115 percent
 - Decrease statewide casino employment by 8 percent and annual GDP contributions by 6 percent
- Applying a 40 percent tax rate instead of a 27 percent tax rate is projected to
 - Increase state gaming tax revenue by 45 percent
 - Decrease statewide casino employment by 11 percent and annual GDP contributions by 4 percent

At 40% rate, Bristol casino is not projected to meet SB 1126's \$200 million capital investment minimum.
Tradeoffs between tax rate and economic impact vary across gaming markets

- Bristol/Danville: lower tax rate (12%) could result in additional, but modest, economic impact
- Richmond: large-scale casino projected to be supported at a higher tax rate (40%); economic impacts marginally reduced at this higher rate
- Norfolk/Portsmouth: competition projected to result in smaller scale projects at higher tax rate (40%)
 - A lower tax rate (12%) is projected to result in substantial forgone state revenue but only marginal additional economic impact

General Assembly has several considerations when setting a casino gaming tax

- A casino gaming revenue tax rate that balances fiscal impact to the state from casino gaming tax revenue and economic impact for localities
 - graduated tax that increases rate as gaming revenue increases
 - levy a different tax rate by host locality or region
- Balance simplicity with optimal impact

In this presentation

Background

Fiscal and economic impact of additional gaming

Impacts to existing gaming

Overseeing and regulating additional forms of gaming Problem gambling prevention and mitigation Implementation and net fiscal impact to the state Unregulated gaming in Virginia



Finding

Casino gaming would have a relatively small negative impact on revenue generated by lottery and charitable gaming.

Casino gaming would have a more substantial negative impact on revenue generated for the horse racing industry.



Casino gaming is estimated to reduce lottery proceeds by \$30M annually

- Lottery proceeds projected to be reduced by \$30 million (~3.6 percent) annually, primarily as a result of the introduction of casino gaming
- A \$30 million annual reduction in proceeds would be equal to 0.5 percent of state funding for K-12 education

Projected impact is for 2024, which is assumed to be the first year of casino operation.

Casino gaming is estimated to reduce charitable gaming proceeds by about \$3 million annually

- Charitable gaming proceeds projected to be reduced by \$3 million annually (~4.4 percent), primarily as a result of the introduction of casino gaming
- Impacts would be more severe for organizations located near casinos
 - Example: estimated reduction in annual proceeds of \$36,000 for a large charitable gaming operator in Southwest Virginia, which is ~12.5 percent of its total proceeds

Projected impact is for 2024, which is assumed to be the first year of casino operation.

Casino gaming would negatively impact horse racing industry revenue

- Casino gaming projected to reduce revenue to horse racing industry by approximately \$9 million annually
 - As a result of a projected 45 percent decrease in HHR gaming revenue
- Reduction in revenue to horse industry may hinder industry's goals to expand live racing; options include:
 - Reallocate funds from other racing programs
 - Expand racing to a lesser degree than planned
 - Allocate additional funds from gaming revenue

Projected impact is for 2024, which is assumed to be the first year of casino operation. HHR: historical horse racing

In this presentation

Background

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Finding

Issuing a casino license through a competitive selection process maximizes potential benefits, minimizes public risks, and is common in other states.



Most states with limited license casino markets use a competitive selection process

- 13 out of 25 states with casinos have limited number of licenses
 - another six limit casinos to existing racetracks
- SB 1126 would limit the number of casino licenses but award those licenses without competition
- Of the 13 states with limited licenses, 11 used a competitive selection process to award casino licenses to an owner/operator

Competitive selection process reduces the risk that a casino project will be unsuccessful

- Limited market would have few casino licenses, and those licenses are typically held for a long term
- Competitive process seeks to identify potential owners/operators that are qualified, financially stable, and experienced
- Competitive process allows states to select the projects with the greatest fiscal and economic impact

The General Assembly may wish to consider including a requirement in any casino authorizing legislation that casino licenses will be awarded through a competitive selection process.





States use expert consultants to independently verify the feasibility of casino proposals.



States use expert consultants to independently verify the feasibility of casino proposals

- Casino proposals may overpromise anticipated revenue or economic impact
- Casinos not generating sufficient profit may seek to
 - have gaming tax rate reduced by the state
 - reduce the scale of community commitments
 - lay off workers
- Most states use expert consultants to evaluate proposals up front to identify and manage these risks

The General Assembly may wish to consider including a provision in any casino authorizing legislation that an independent consultant, hired by the state, assess the accuracy and reasonability of the projected financial, economic, and other benefits included in casino development proposals prior to selecting a winning proposal.



States with a competitive selection process set criteria for evaluating and selecting casino operators and their proposals.

States with a competitive selection process rely on a committee of experts and local input to evaluate the strength of casino proposals.



States set criteria for evaluating and selecting casino operators and their proposals

- Authorizing legislation sets broad parameters for selection criteria, and RFP sets more specific criteria
- Sample criteria
 - Criteria to maximize impact
 - ✓ Total value
 - ✓ Capital investment
 - \checkmark Employment and wages
 - ✓ State and local tax revenues
 - ✓ Redevelopment of area of city

Criteria to minimize risks

- ✓ Feasibility and sustainability
- ✓ Casino operator experience
- ✓ Operator's financial health
- ✓ Strength of business plan
- \checkmark Local community support

Selection criteria could factor in tribal or local ownership

- Pamunkey Tribe has expressed interest in owning and operating a casino
 - Pamunkey are pursuing federal approval for a tribal casino
 - Pamunkey are entering into a land-sale agreement with City of Norfolk
- General Assembly could require that any competitive casino selection process include a preference for tribal or local ownership
 - Giving too much weight to this criterion instead of those that minimize risk/maximize benefits undermines advantages of the competitive process

Option

The General Assembly could consider requiring that (i) any competitive casino selection process include among the criteria used for evaluating casino proposals a criterion for casino ownership by a Virginia resident or Virginia Indian Tribe and (ii) such a criterion not receive greater weight than any other individual criterion used to select a casino proposal.



States appoint dedicated committee to select casino proposals

- Dedicated committee can focus solely on selection process
 - allows the governance board to focus on regulatory process
 - ensures adequate expertise informs proposal evaluation and selection
- Members should be required to have qualifications relevant to evaluating casino proposals
 - experience with business development
 - financial expertise

Local input can ensure casino's impact on host community is considered

- States usually conduct the casino selection process
- Some states incorporated local input into the competitive process
- Virginia could incorporate local input into the competitive process by
 - including local representatives on the selection committee
 - obtaining local input in the RFP development

Recommendation

The General Assembly may wish to consider including a provision in any casino authorizing legislation that establishes a committee to evaluate and select proposals for the operation and development of casinos.

The committee should include individuals with business, finance, and operations experience and who represent both the statewide and local perspectives.



Findings

Lottery is the only existing state agency that could oversee casino gaming but would require many new staff and structural changes.

Estimated administrative costs would be about \$17 million annually



Gaming oversight agencies have several responsibilities to ensure integrity and fairness

- Licensing and investigations
- Enforcing compliance with casino laws and regulations
- Accounting and audit
- Ensuring gaming technology operates fairly and securely



Virginia Lottery is the only existing state agency that could oversee casino gaming

- Lottery's existing leadership and administrative structure may provide some economies of scale compared with creating a new stand-alone agency
- Lottery does not appear to have any major shortcomings in its current operations; leadership is receptive to expanding the agency's mission
- JLARC's consultants and other experts indicate that lottery agencies can effectively oversee casino gaming

Regulating new forms of gaming would expand lottery's mission and workload significantly

- Lottery's staff and board are highly committed to its mission to raise funds for K-12 public education
- Lottery would experience large workload expansion
- Potential conflicts of interest appear to have been managed by other states
 - Not a problem for other state lotteries that oversee gaming
- Changes to lottery board would be needed to govern other forms of gaming

Stand-alone agency could offer focused oversight but would require more time and resources

- Bills other than SB 1126 would have established a stand-alone agency for oversight of additional gaming
- Would ensure lottery's continued focus on core K—12 mission
- Leadership of stand-alone agency could make decisions based solely on its responsibility to monitor and enforce the gaming operators' compliance with the law
- Stand-alone agency would require more time and resources

Assigning oversight responsibility to lottery estimated to cost less than a stand-alone agency

Annual cost

Estimated number



Represents estimated additional employees and administrative costs required by Virginia Lottery.

In this presentation

Background

Fiscal and economic impact of additional gaming

Impacts to existing gaming

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Problem gambling prevention and mitigation

Implementation and net fiscal impact to the state Unregulated gaming in Virginia

Finding

Expanding gaming in Virginia will increase the number of people at risk of being negatively affected by gambling problems.



Expanding gaming in Virginia would increase the risks of problem gambling

- About 1—2 percent of people develop gambling disorder, most serious form of problem gambling
 - A portion of Virginians are already problem gamblers due to existing gaming options
- Expanded opportunities and easier access to gaming would increase the number of Virginia residents who gamble at casinos
- Problem gambling can affect finances, mental health, and relationships; more likely to impact certain populations

Virginia's current problem gambling mitigation efforts are relatively minimal

- Efforts include
 - a problem gambling helpline and posting problem gambling helpline number
 - one part-time staff member at lottery
 - one part-time volunteer at the Virginia Council on Problem Gambling
- Almost no funding provided for prevention and treatment, despite over \$700 million in revenue for existing forms of gambling in 2018



Effective problem gambling prevention and treatment program could cost \$2M—\$6M annually

- All states with casinos provide public funding, usually from gaming tax revenue (~1 percent of tax revenue)
- DBHDS* could administer, in consultation with the central gaming agency
 - would require three to five staff
- Implementation of a state program should be coordinated with private gaming operators

*Department of Behavioral Health and Developmental Services

Recommendations

The General Assembly may wish to consider

- requiring applicants for a gaming license to submit a responsible gaming plan;
- requiring the central gaming oversight agency to develop and administer a voluntary self-exclusion list;
- requiring DBHDS to develop a plan and framework for a comprehensive problem gambling prevention/treatment program; and
- amending the Appropriation Act to establish a dedicated stable funding source for problem gambling prevention and treatment.

In this presentation

Background

Fiscal and economic impact of additional gaming

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Additional forms of gaming would generate positive fiscal impact for the state

\$ millions

State revenue	
Casinos	
Casino gaming tax revenue	122 to 363
Other state taxes generated by casinos	28 to 33
Additional forms of gaming	
Online casino gaming	37 to 125
Sports wagering	22 to 55
Total revenue	154 to 571
State costs	61 to 73
Net state revenue	83 to 510

A Northern Virginia casino is not included in these ranges
Additional forms of gaming would generate positive fiscal impact for the state

	\$ millions
State revenue	154 to 571
State costs	
Reduction in lottery proceeds to K-12 education	30
Gaming agency operations	15 to 22
Reduction in state gaming taxes paid by HHR	13
Reduction in other state taxes generated by HHR	1
Problem gambling response	2 to 6
Total costs	61 to 73
Net state revenue	83 to 510

A Northern Virginia casino is not included in these ranges



A realistic state net revenue estimate is \$367 million

- State revenue (\$432 million):
 - SB 1126 casinos gaming revenue (\$262 million) and other state tax revenue (\$31 million),
 - broad availability of sports wagering (\$55 million),
 - and online casino gaming (\$84 million)
- State costs (\$65 million) from:
 - negative impacts to existing forms of gaming
 - mid-range estimates of administration and oversight costs

Assumes 27 percent casino gaming revenue tax rate.

Comprehensive legislation would be needed to establish state's gaming principles and priorities

- Most important aspects include
 - \checkmark Establishing the public purpose of gaming
 - ✓ Defining key gaming terminology
 - \checkmark Setting the number of permitted casinos
 - ✓ Identifying casino locations
 - ✓ Determining how casino licenses will be awarded
 - $\checkmark\,$ Identifying the governing board and regulatory agency
 - ✓ Establishing a tax rate and structure for gaming revenue
 - ✓ Deciding how gaming tax revenues will be used

Casino development would take four years after authorizing legislation





In this presentation

Background

Fiscal and economic impact of additional gaming

Impacts to existing gaming

Overseeing and regulating additional forms of gaming

Problem gambling prevention and mitigation

Implementation and overall fiscal impact

Unregulated gaming in Virginia



Finding

Unregulated electronic gaming devices, or "grey machines," likely produce substantial gaming revenue and depress revenue for Virginia's authorized forms of gaming, but lack protection for customers and business owners.



Grey machine revenues are substantial and likely depress revenues from authorized gaming

- Grey machines are electronic gaming devices in retail locations and bars; legality is in question
- Number of devices have recently proliferated
 - estimated to range from 4,500 to 9,200 devices*
 - estimated gaming revenue of \$83 million to \$468 million
- Virginia does not collect gaming taxes on device revenue
- Grey machines are competing with, and likely depressing revenue, from other forms of authorized gaming

*As of September 2019

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Unregulated grey machines create risks for players and businesses

- No state regulations, audits, or compliance activities for the devices, manufacturers, or vendors
- Risks to businesses and players
 - no formal accounting mechanism to ensure businesses receive fair payment for hosting devices
 - no assurances that machines are routinely inspected for compliance, integrity, and fair gameplay



Other states have taken different approaches to regulating grey machines

- Use a court process to determine the legality of machines
- Ban grey machine devices entirely
- Regulate devices, vendors, and manufacturers; collect taxes on gaming revenue
 - Georgia's regulation process is most highly developed
 - Regulation in Georgia is expensive (47 additional staff at lottery at a cost of ~\$15 million annually)

The General Assembly may wish to consider amending the Code of Virginia to require the regulation of grey machines to ensure gaming integrity, protect consumers, protect businesses hosting the devices, and minimize impacts to Virginia's existing authorized gaming.



Key findings

Realistic net annual state revenue from expanding gaming could be approximately \$370 million.

Impacts on jobs and GDP in localities hosting casinos are projected to be positive but modest.

All SB 1126 casinos are projected to be viable at a 27 percent casino gaming tax rate.

Existing forms of gaming are estimated to see proceeds decline but declines would be modest except for historical horse racing.

The risk of harm from problem gambling would increase with expansion of gaming opportunities.

Key findings

States typically award licenses for casinos to operate using a competitive selection process.

Virginia Lottery is the only <u>existing</u> agency that could realistically be expanded to fill this role, at an estimated cost of about \$17 million. A new stand-alone agency would cost \$2 million more annually.

Major tasks required to open casinos include passing comprehensive legislation, holding local referendums, establishing an oversight structure, promulgating regulations, selecting casino operators, and licensing casino staff.



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85