

**SENATE STANDING COMMITTEE ON RACING, GAMING, AND WAGERING
ASSEMBLY STANDING COMMITTEE ON RACING AND WAGERING**

**Tuesday
January 31, 2023**

Testimony of Light & Wonder

On behalf of Light & Wonder, a leading global gaming content and technology company, thank you for the opportunity to present information relevant to the New York State legislature's review of the first year of operations of sports betting. Light & Wonder (formerly Scientific Games) is a major provider of gaming services and equipment to every commercial casino, tribal casino and racetrack casino in New York state. Our video lottery games directly generated \$575 million last year for the state Education Fund, and since the inception of the video lottery program in New York, Light & Wonder's games have directly generated a cumulative contribution of \$6.8 billion to the Education Fund, based on NY Lottery Gaming reports.

New York's launch of sports betting in 2022 is, by any revenue measure, the most successful sports betting launch to date in the United States and likely has not been surpassed anywhere in the world. There is only one gaming initiative performing better than New York sports betting: the iGaming programs of the states surrounding New York.

Pennsylvania, New Jersey, Connecticut, Ontario (as well as Michigan and West Virginia) added or paired iGaming to their sports betting program, resulting in the best performing gaming revenue gaming product in history, when adjusted for tax rate differences.

Light and Wonder participates in the iGaming program of all six US states with online casino gaming, and we provide iGaming products and services in more than 50 countries and jurisdictions around the globe. In this testimony, we present for New York's review some of the key lessons of existing domestic and international iGaming programs.

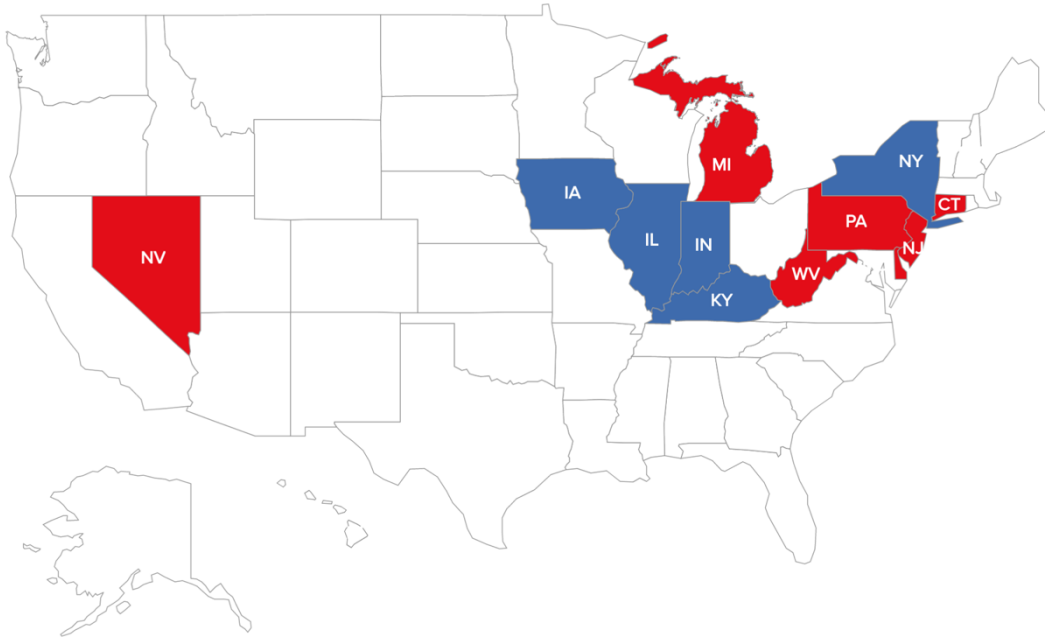
1. Definition of iGaming

iGaming is defined as the offering of virtual casino-style games, including slots and table games such as blackjack and roulette, made available via digital platforms through players' own devices. It does not include online or mobile sports betting, which involves wagers on real-life sporting events.

2. iGaming in the United States

At present, iGaming is legally available in six states – Connecticut, Delaware, Michigan, New Jersey, Pennsylvania and West Virginia. Nevada permits online poker, but not the casino-style games that are also available in the other states. In 2022, legislation to authorize internet gaming or online poker was introduced for consideration in several states, including Illinois, Indiana, Iowa and New York.

New York’s borders are surrounded by iGaming jurisdictions: Pennsylvania and New Jersey to the south and west; Connecticut to the east; and Ontario to the north.



- iGaming Legal
- iGaming legislation considered in 2022

US states have generally followed similar models of iGaming implementation. The chart below compares the key features of iGaming permitted in each state:

State	Start Date	Gaming Tax Rate	Igaming Games Allowed	iGaming Model	No. Sites/ Skins
Nevada	April 2013	6.75%	Poker only	Open	2
Delaware	Nov. 2013	43.5% / 34%	Slots, tables, poker	Closed	3
New Jersey	Nov. 2013	17.5%	Slots, tables, poker	Hybrid	30
Pennsylvania	July 2019	16% / 54%	Slots, tables, poker	Closed	14
Michigan	Jan. 2021	20% - 28%	Slots, tables, poker	Closed	15
West Virginia	July 2020	15.0%	Slots, tables, poker	Hybrid	7

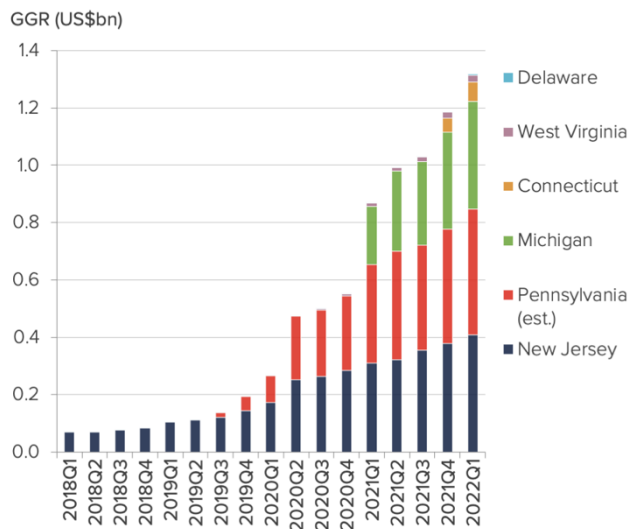
Connecticut	Oct. 2021	18.0%	Slots, tables, poker	Closed	2
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Current tax rates applied to legal iGaming in the six established iGaming states range from 15 percent in West Virginia to 54 percent applied to slot-style games in Pennsylvania, with New Jersey, Connecticut and Pennsylvania (for table games and poker) applying rates of 16 to 18 percent and a graduated rate of 20-28 percent applied in Michigan depending on revenue thresholds.

3. Size and Growth of the US iGaming Market

The iGaming market has grown rapidly in the states which have authorized the product. In 2022, the six iGaming states generated gross gaming revenue (GGR) of about \$5 billion. An independent report by VIXIO Gambling Compliance estimates that if all US states which currently authorize land based casino or tribal gaming adopted iGaming, total iGaming GGR would exceed \$30 billion.

United States: iGaming GGR (US\$bn) - 2018Q1 to 2022Q1

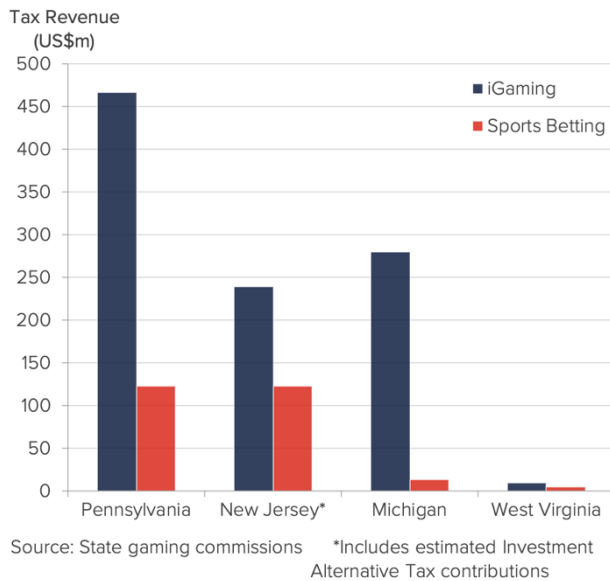


Source: State gaming commissions, VIXIO Gambling Compliance estimates

4. Tax Revenue from iGaming far Outpaces Sports Betting

Tax revenue generated by iGaming is substantial, and generally produces twice the revenue of sports betting programs. ***Internet gaming in the existing six states generated total tax revenue of approximately \$970m in 2021, compared with approximately \$560m from sports betting, despite the latter being offered in 30 states during the year.***

Tax Revenue from iGaming vs Sports Betting (US\$m) - 2021



5. US and NY Revenue Projections

An analysis performed independently by VIXIO GamblingCompliance projected that U.S. State and local governments would conservatively generate almost **\$6.35bn** in annual tax revenue from legal iGaming, if iGaming were permitted in each of the states that presently allows land-based casino gaming or mobile sports betting. The \$6.35bn tax revenue forecast assumes that each state with legal land-based casino gaming or mobile sports betting would generate similar average revenue per adult as four of the established iGaming states in Michigan, New Jersey, Pennsylvania and West Virginia. Given that the first three of those states generate significantly higher revenue on a per capita basis than less populous West Virginia, it is possible this projection is conservative.

Each state would ultimately determine its own tax rate applicable to iGaming based on local public policy factors that include the current gaming tax rates paid by incumbent land-based casinos, state budgetary policies and other matters. Notably, policymakers could also choose whether to apply taxes on a gross or net revenue basis, potentially enabling operators to deduct player bonuses and promotions offered to customers, or a limited amount of them, from taxable revenue.

It should be noted that the forecasted tax revenue for each state reflects an iGaming market that has reached a point of maturity, potentially in the second or third year of full operations, or later. However, the recent adoption of iGaming in Michigan demonstrated that a state's regulated iGaming market could ramp up to a point of relative maturity very quickly and come to generate significant tax dollars within just a few months if accompanied by suitable marketing and product investment on the part of operators.

Based on the average per (adult) capita performance of the existing iGaming states, New York is projected to generate \$2.14 billion in gross gaming revenue. On a 20% tax rate, the

annual tax revenue to New York State would exceed \$425 million. A 30% tax rate would generate \$642 million.

The VIXIO study is a conservative estimate consistent with the conservative end of the range in a study conducted by Spectrum Gaming’s research arm. (Spectrum has conducted studies on behalf of the NYS Gaming Commission. Spectrum projected a gross gaming revenue market range of \$2.3bn on the low end, to 3.1bn on the high end (in year 1) and \$3.bn-\$4.3bn in year 5.

- **The midrange of the Spectrum study, at \$2.7bn gross revenue, would generate \$540 million in tax revenue in year one at a 20% tax rate.**
- **A 30% tax rate would generate \$810 million to the state in year one.**
- **At the five year (mature market) mark, the midrange projection of a \$3.6 billion market would yield \$720 million in tax revenue at 20%, and over \$1billion in tax revenue at 30%.**

6. Illegal iGaming

The legal gaming industry is among the most highly regulated industries in America. Legal gaming operators and suppliers comply with a broad series of laws and regulations designed to ensure consumer protections and confidence in the gaming market. Entities doing business in illegal gaming markets do not meet any of these standards, which exposes consumers to severe risk and undermines the economic and tax contributions of the legal gaming industry. The American Gaming Association recently issued a report, *Sizing the Illegal and Unregulated Gaming Markets in the U.S.*, which estimates that Americans bet more than \$330 billion with illegal iGaming websites, causing a loss of \$3.9 billion in state tax revenue. With \$13.5 billion in estimated revenue, the illegal iGaming market in the U.S. is nearly three times the size of the legal U.S. iGaming market, estimated to be \$5 billion in 2022.

Reports indicate that some non-US based online gaming entities licensed in the US conduct online gambling in countries sanctioned by the Office of Foreign Asset Control of the United States Department of Treasury) and in countries in which such online gambling is prohibited, including terror states such as Iran, Syria and Sudan. Non-US online gaming businesses which have been licensed in some US states are also reportedly offering gambling in countries where such online gambling is illegal, including in China, Turkey and United Arab Emirates.

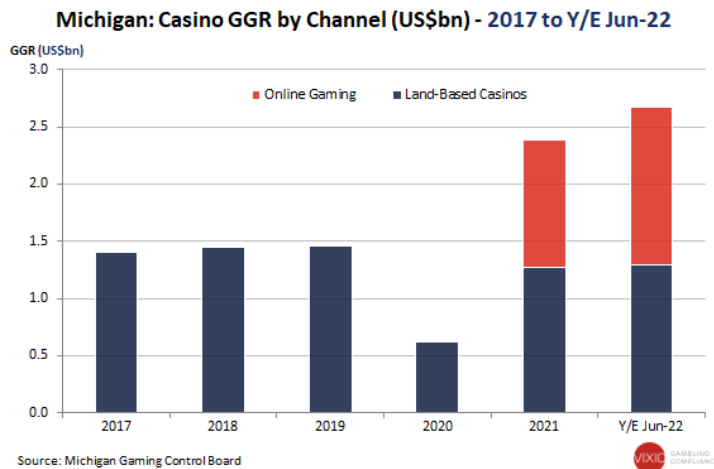
As U.S. states consider adoption of online casino gaming, they are beginning to include clear cut provisions to prevent companies which do business in terror states and illegal markets from being licensed by the state. See, for example, Senate Bill 104, introduced in New Hampshire in January 2023. ***Without strong anti-illegal gaming provisions, states may inadvertently enable money laundering, terrorist financing and tax evasion.***

7. iGaming Drives Growth and Jobs at Land Based Casinos

The rollout of iGaming in major states including New Jersey, Pennsylvania and Michigan has resulted in significant growth of the overall gaming industries of all three states – VIXIO Gambling Compliance estimates that combined land-based and online casino gaming revenue across these three states totaled \$12bn in the 12 months ending June 30, 2022, **up 51 percent** from \$7.96bn in calendar 2019, prior to the pandemic. Simply put, the data shows that the introduction of an iGaming channel grows the size of the entire industry, including land based gaming. According to multi-channel casino operators, this is largely due to the introduction of new players to operator databases, growing the existing customer ecosystem rather than merely redistributing it. More customers means more growth for land based casinos. And, since an iGaming license is tied in every state to an existing land based casino license, ***iGaming drives job growth for land based casinos***, especially with the introduction of “live dealer” online gaming.

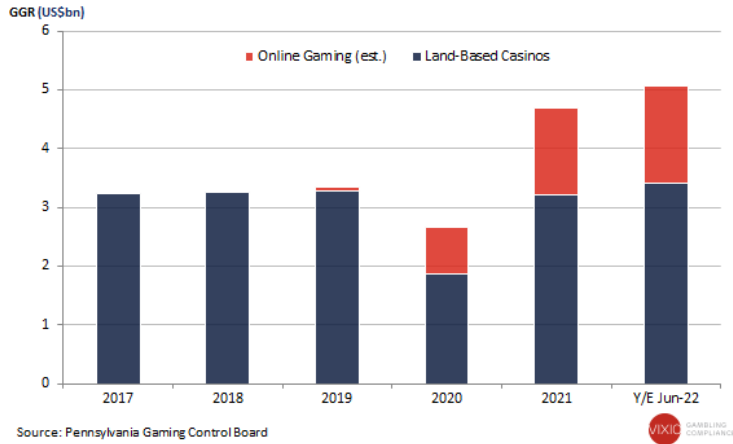
Specific state data demonstrates the parallel growth of online and land-based casinos:

- Michigan:** Overall land-based and online casino gaming revenue in Michigan has grown significantly higher since the advent of iGaming in early 2021. Total online and land-based gaming revenue reached \$2.68bn over the year to June 2022, up 84 percent from the \$1.45bn generated by the state’s three traditional casinos in calendar year 2019.



- Pennsylvania:** In 2019 Pennsylvania became the first major state to launch iGaming operations since New Jersey almost six years prior. In the twelve month period through June 2022, Pennsylvania produced land-based commercial casino gaming revenue of \$3.43bn, up 4.9 percent from the \$3.27bn posted in 2019. VIXIO estimates that overall land-based and online gaming revenue in Pennsylvania reached \$5.06bn over the year to June 2022, up 52 percent from the \$3.33bn produced almost entirely by the state’s land-based casino market in 2019.

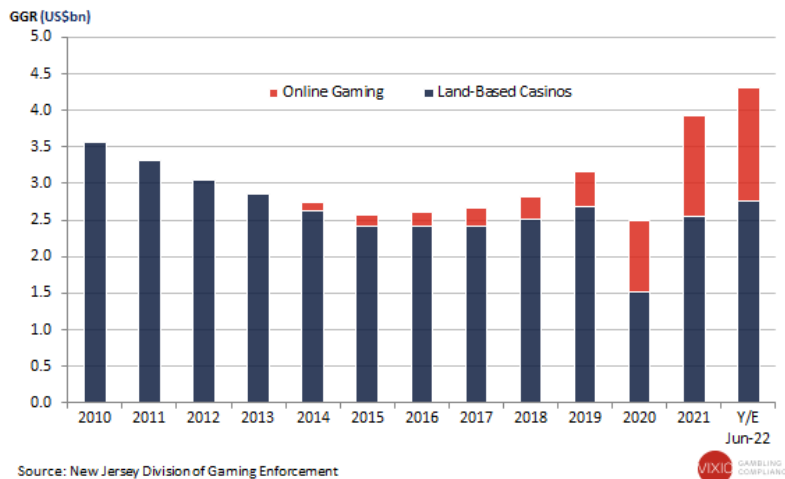
Pennsylvania: Casino GGR by Channel (US\$bn) - 2017 to Y/E Jun-22



- New Jersey:** New Jersey represents perhaps the most useful case study when it comes to revealing the “myth” of iGaming cannibalization, providing eight full calendar years of data since the landmark launch of online casino games and poker in the state towards the end of 2013.

As the iGaming market began to mature in 2016, Atlantic City land based gambling experienced a rebound which was sustained until the pandemic.

New Jersey: Casino GGR by Channel (US\$bn) - 2010 to Y/E Jun-22



Overall land-based and online gaming revenue in New Jersey jumped by 35.7 percent from \$3.17bn in 2019 to \$4.3bn during the year to June 2022, representing growth of just over 50 percent versus the \$2.86bn registered by Atlantic City casinos in 2013.

The Atlantic City rebound has occurred alongside the introduction of iGaming. Having more fallen at a compound annual rate of 8.2 percent from \$5.22bn in 2006 to \$2.41bn in 2015, traditional land-based casino gaming revenue in Atlantic City grew to reach \$2.69bn in 2019 amid the ramp up of iGaming. In 2022 end of year numbers released just last week, New Jersey

reported that land based casino revenue grew 9% for 2022. In fact, New Jersey’s casinos took in almost double from land based casinos compared to their online counterparts.

The data is clear:

- **the introduction of online gaming substantially grows the entire gaming market, and,**
- **in every instance, brick and mortar casinos have continued to grow after the introduction of online gaming.**

The data presented shows that the adoption of legal iGaming channels in the U.S. significantly grows the size of the overall gaming markets in those states with both iGaming and land-based casino gaming and, in general, iGaming states can expect to report far greater total revenue from gaming than they would otherwise.

8. Responsible Gaming

Responsible gaming programs are a critical part of everyday business practices in the U.S. casino gaming industry. The central goal of these programs is to ensure that patrons responsibly enjoy casino games as a form of entertainment. Industry responsible gaming programs operate in compliance and parallel with state laws and regulations on responsible gaming. The majority of gaming operators and suppliers voluntarily implement responsible gaming programs with measures that expand upon what is formally mandated by law or regulation.

Although responsible gaming laws and regulations vary greatly between the 35 commercial gaming jurisdictions, many fit into the following broad categories:

- **Responsible gaming plan required** – 21 jurisdictions mandate that land-based and online gaming operators prepare and submit for approval a wide-ranging plan for addressing responsible gaming issues. Required elements of the plan often include employee training and public awareness efforts. For jurisdictions that require an overall plan, readers should examine the specific elements that must be included in each plan.
- **Self-exclusion program** – 34 jurisdictions require gaming or sports betting operators to adopt self-exclusion programs that enable patrons to exclude themselves from a casino or online/mobile gaming site and operators to expel self-excluded patrons if they are found gambling or wagering. The length of the self-exclusion periods available and the procedures for reversing self-exclusions vary by jurisdiction. A majority of jurisdictions establish a central self-exclusion register that includes enlisted patrons from all gaming venues and platforms. Some state laws specify that casinos and online operators must also eliminate direct promotional outreach to self-excluded individuals and deny them complimentary – commonly known as “comps” – or access to credit.
- **Wager/time limits** – 25 jurisdictions with account-based online gaming, sports betting or digital wallet wagering in casinos require operators to provide a mechanism through

which patrons may self-limit deposits, losses, wagering amounts and/or time spent gambling.

- **Restrictions on extension of house credit** – 28 jurisdictions block or limit the use of house credit in land-based and/or online casino gaming and sports betting. This may include outright bans on credit advances from gaming operators to patrons..
- **Treatment and research funding** – 28 jurisdictions have codified commitments to support treatment for individuals with a gambling problem, education services concerning disordered or problem gambling, or research related to problem gambling. Most of those states earmark certain state revenues from gaming for these programs.

Beyond the overarching categories outlined above, states regularly implement other laws or regulations related to responsible gaming. These may include the creation of statewide responsible gaming programs, mandating research on the effectiveness of responsible gaming provisions, or requirements that operators verify gambling winners do not owe child support.