

Testimony before Georgia Committee to Preserve the Hope Scholarship

By Michael Pollock

Managing Director

Mr. Chairman, members of the committee. Thank you for affording Spectrum Gaming Group the opportunity to offer our viewpoint, based on our experience and observation, as to the future of casino gaming in the state of Georgia. I am managing director of Spectrum Gaming Group, which is neither pro-gaming nor anti-gaming. We simply specialize in gaming, and in particular, we have a great deal of experience in providing advice on gaming policy.

Spectrum produced a 2011 report for the Georgia Lottery that projected gaming revenues from VLT operations, and suggested a blueprint for gaming regulation and oversight.

By definition, revenue projections have a limited shelf life, and those 2011 projections have passed their expiration date, largely because they were based on assumptions provided at the time that are no longer relevant, most notably that they included only video lottery terminals, not full-service casinos, and that we did not assume significant levels of capital investment.

At the same time, however, much of what we put forth in our 2011 report is both timeless and immutable. For example, we noted:

- There is only one opportunity to launch a gaming industry, and such a launch requires extraordinary care and planning.
- The ability of the Georgia Legislature to set the goals, establish the parameters and help ensure a positive impact on both Hope Scholarship funding and the state's economy in general is greatest prior to the opening of a casino. Once facilities are open and operating, the state's influence declines dramatically.

With that in mind, we applaud the efforts – as evidenced in proposed legislation – to ensure significant capital investment in casinos, and to make sure that the authorization of this new industry meets a variety of very important goals, from promoting tourism, employment and training to generating needed funds for the Hope Scholarship.

For nearly 40 years, Spectrum professionals have served as either participants or observers in the promulgation of statutes and regulations as gaming has expanded across the country. Right now, Georgia is in a particularly enviable position. You can look to a variety of states as to what was done correctly, and what was done wrong, in your efforts to get it right.

In our experience going back to the 1970s, tax rates are almost always established in the interest of political expediency, rather than economic fundamentals.

High tax rates, as established in most states, limit operators to one business model: convenience-based gaming, with little capital investment, and thus, little in the way of employment, tourism promotion or other laudable goals.

By contrast, an attractive tax rate will be viewed favorably by the capital markets, by potential operators and will more likely lead to levels of investment that will advance public policy on multiple fronts, including generating needed Hope Scholarship funding.

The question will inevitably arise: If the goal of gaming legislation is to preserve the Hope Scholarship, why not simply impose the highest possible tax rate?

That is a simple question that requires a more complex, nuanced answer. A lower tax rate allows for greater capital investment, which in turn leads to more direct employment, as there will be more attractions and non-gaming investments that create more jobs in both construction and operations.

Also, a lower tax rate allows operators to develop a different, more robust business model, one with a broader geographic and demographic reach. At the same time, it is more likely to work effectively with an existing tourism infrastructure, and is more likely to encourage Georgia residents to spend their discretionary dollars in Georgia.

That means that, even at a lower tax rate, more gaming revenue will be generated. Additionally, that increased direct, indirect and induced employment – as well as any increase in the purchase of goods and services from local businesses in Georgia – will, in turn generate more overall economic activity.

More economic activity is good for the sale of existing lottery products and for the economy in general.

The core question is: What should the tax rate be, and should the rate be uniform throughout Georgia, or perhaps vary by region? While lower rates are more attractive to investors and more likely to generate capital investment, that does

not mean that lowest rate is the best rate. In other words, if an operator would build the same property with the same amenities, and operating the same business model, at a 25 percent tax rate as it would at a 12 percent tax rate, by definition, the state is leaving a lot of the revenue on the table.

The burden should be on potential operators to demonstrate that they would build and operate a gaming property that has earned that low rate.

As we noted in 2011, the goal of authorizing gaming in Georgia should be to:

1. Encourage participation by a variety of reputable operators that possess sufficient integrity, experience and financial wherewithal.
2. Encourage creativity and maximum capital investment
3. Encourage applicants to elicit broad support from local communities and businesses
4. Help identify sites, plans that would optimize benefits to state, minimize disruptions
5. Garner public support, based on the view that the process was designed to operate in the public interest

Effectively, the goal should be to do more than establish the minimum amount of capital investment. Rather, the goal should be to encourage the maximum amount of capital investment.

An attractive tax rate by itself will not work magic. A process that encourages competitive bids, and that demands creative, comprehensive proposals will go a long way toward achieving that goal.

But what happens if only one bidder emerges for a particular license, and what happens if none of the proposals go sufficiently beyond the minimum and do not seek to optimize the benefit of a low tax rate?

To answer those questions, I will again cite our 2011 report: Applicants should understand that the state reserves the right to reject any or all applications if none are deemed to be sufficient in advancing the necessary public policies in Georgia.

That is a challenge that regulators must be willing to follow through on, if need be. Even an applicant that faces no competition should be required to clear a high hurdle, and every applicant should know that in advance.

The proposed legislation notes that a gaming license is a privilege, not a right. To secure that privilege, applicants should be ready and willing to address any number of difficult questions, many of which you have anticipated. The burden of demonstrating that applicants will maximize employment, address unemployment, promote tourism and – just as important – protect and enhance the sale of existing lottery products should rest with the applicants.

Spectrum respectfully suggests that any legislation to authorize casinos in Georgia needs to address a variety of essential issues. Those issues range from provisions for patrons to self-exclude themselves from casinos to provisions to appoint conservators, which would allow a casino to continue operating if a licensee were found to be unsuitable.

A statute should also make it clear that applicants have the burden to demonstrate that they possess the good character, honesty and integrity before they can obtain the privilege of licensure, and a finding of suitability should take place prior to any local referenda.

We noted in 2011 that Georgia, in particular the Atlanta metropolitan area, would be viewed by the gaming industry as one of the most prized opportunities in North America, largely because it is one of the largest, most affluent, untapped markets, with excellent air and highway access.

Leverage that, and make that opportunity work for you. I close my testimony with the same point I raised when I began, and it is the same point we made in 2011: There is only one opportunity to launch a gaming industry, and one opportunity to get it right.