



RIPEC

Comments on Your Government

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Impact of the Expansion of Gaming on State Finances in Rhode Island

This RIPEC report examines the impact the proposed Constitutional Amendments to casino gaming at Twin River and Newport Grand will have on the state's finances, including potential revenue losses as a result of casinos opening in Massachusetts. Additionally, the analysis will discuss the potential terms and conditions of any agreement between the state and the two Rhode Island facilities authorizing the expansion of table games.

Introduction

Since Rhode Island introduced video lottery terminals (VLTs) in 1993, the state has become increasingly reliant on gaming revenues to support state operations. Currently, lottery revenues (including games, Keno, and VLTs) account for roughly 12 percent of the state's general revenue budget. However, out-year budget projections assume decreasing lottery receipts, based on the estimated impact of a racino and three destination casinos in Massachusetts, starting in FY 2015. In response, the Rhode Island General Assembly voted to add two referendums to the November ballot regarding the authorization of table gaming at the state's two casinos: Twin River and Newport Grand.

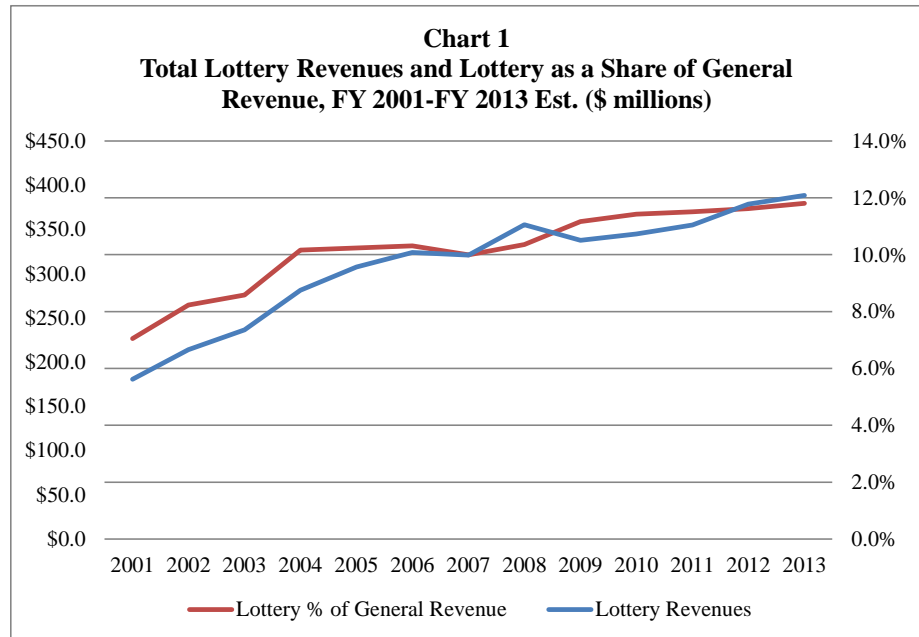
On November 6, 2012, voters will be asked to weigh in on the expansion of gaming in the state. The host communities, Lincoln and Newport, along with the general electorate, must approve the ballot questions in order for Twin River and Newport Grand to allow casino gaming, in addition to operating VLTs. Article 25 of the FY 2012 enacted budget defines casino gaming as "games played with cards, dice or equipment, for money, credit or any representative of value including, but not limited to roulette, blackjack, big six, craps, poker, baccarat, pai gow, any banking or percentage game." The result of the referendum, and, specifically, the terms and conditions of the expansion will have far-reaching impacts on the state's revenues and economy.

Gaming in Rhode Island

The Rhode Island Division of Lottery oversees a number of lottery activities including, but not limited to: instant games/scratch tickets (e.g. "Lucky Loot", "Cash Bonus", and "Money Bags"), traditional lottery games such as PowerBall and The Numbers, Keno, and the state's Video Lottery game. A portion of the sales from these games is transferred into the state's general revenue fund to support state general operations. Certain portions of these revenues are dedicated to property tax relief and, for one year, additional revenue from 24-hour gaming at Twin River was used to support education through the "Permanent Education Fund". Together, these games contributed, on average, \$309.6 million in state general revenue between FY 2001 and FY 2013 (estimated). Lottery as a share of total general revenues increased from 7.0 percent of all general revenues in FY 2001 to an estimated 11.8 percent in FY 2013.

Video Lottery Terminals

The majority of the state's revenue from gaming comes from VLTs at Twin River (formerly Lincoln Greyhound Park) in Lincoln, RI and Newport Grand in Newport, RI. Video lottery terminals are similar to slot machines in that they are stand-alone games with minor differences. Rhode Island introduced VLTs in 1993, and, as the games have become increasingly popular,



VLT contributions to the state have increased. The following section discusses VLT in Rhode Island, as well as the structure of the games' contribution to Rhode Island general revenues.

Table 1
VLT Net Terminal Income
FY 2001-FY 2013 Est. (\$ millions)

FY	Twin River	Newport Grand	Total	Annual Change	Percent Change
2001	\$182.1	\$47.0	\$229.1	\$34.4	17.6%
2002	221.3	59.7	281.0	51.9	22.7%
2003	248.6	66.1	314.7	33.7	12.0%
2004	283.3	75.6	358.9	44.2	14.0%
2005	319.8	79.4	399.2	40.3	11.2%
2006	338.9	77.6	416.5	17.3	4.3%
2007	342.0	74.6	416.6	0.1	0.0%
2008	406.5	71.2	477.7	61.1	14.7%
2009	396.6	64.2	460.8	(16.9)	-3.5%
2010	410.5	57.3	467.8	7.0	1.5%
2011	442.4	50.2	492.6	24.8	5.3%
2012	478.0	51.0	529.0	36.4	7.4%
2013	498.2	51.0	549.2	20.2	3.8%
Total Change	173.6%	8.5%	139.7%		
Ave Annual Change	8.7%	0.7%	7.6%		

SOURCE: Christensen Capital Advisors; RI Division of Lottery; May 2012 Revenue Estimating Conference; RIPEC calculations

Twin River

Located in Lincoln, RI, Twin River Casino is a 500,000 square foot gaming facility that currently operates 4,750 VLTs, including slot machines, virtual blackjack and roulette, and simulcasting. The facility operates 24 hours a day as of July 2009. Table 1 shows net terminal income (NTI), defined as gross income minus prizes, at Twin River between FY 2001 and FY 2013 (estimated). In FY 2001, Twin River (then Lincoln Greyhound Park) generated \$182.1 million in NTI. The May 2012 Revenue Estimating Conference (REC) projected Twin River will generate \$478.0 million in net terminal income in FY 2012 and \$498.2 million in FY 2013. Over the 12-year time period, NTI has increased by 173.6 percent, or at an average annual rate of 8.7 percent. Although NTI growth has slowed over the past decade, FY 2009 was the only year in which NTI declined year-over-year.

Newport Grand

Like Twin River, Newport Grand operates slot machines, virtual blackjack and poker, and Keno games. Originally, the facility was known as Newport Jai Alai and Newport Grand Jai Alai. In 2003, the state ended Jai Alai licensing, as the game had largely been subsidized by VLT income. The facility currently operates approximately 1,100 VLTs. In contrast to Twin River, NTI at Newport Grand decreased steadily between FY 2006 and FY 2012 (estimated). However, as shown on table 1, the May 2012 REC projected no growth in NTI between FY 2012 and FY 2013– estimates for both years were \$51.0 million.

Net terminal income, and, therefore, revenue growth from FY 2001 through FY 2013 was generated by increasing the number of VLT positions as well as increased activities at both facilities. In FY 2001, Rhode Island had just under 2,500 VLT positions, of which roughly 30 percent were located at Newport Grand and the remaining 70 percent were located at Twin River. Currently, there are approximately 5,850 VLTs, the majority of which, just over 80 percent, are located at Twin River, while the remaining machines are located in Newport.

Distribution of NTI

The state’s share of VLT revenues is based on a percentage of NTI. Table 2 shows the changes since FY 1993 in the distribution of the net terminal income to the facilities, providers and the state. In FY 1993, 33.0 percent of the net terminal income was allocated to the two gaming facilities, 15.0 percent to technology providers (e.g., GTECH), 3.0 percent to the central communication provider, 10.0 percent to the dog kennel owners (at Lincoln Greyhound Park/Twin River only), and 1.0 percent to the host municipalities. The 38.0 percent balance was transferred to the state.

Over the years, the allocation of NTI has become more complicated. Currently, both facilities receive 27.76 percent of NTI. Technology and communication providers receive 7.0 percent and 2.5 percent, respectively. However, these rates are variable: the technology provider share decreases if a per VLT NTI per day threshold is met, while the communication provider share is set at 2.5 percent for the first \$500.0 million, and 1.0 percent thereafter. The town of Lincoln has seen its share of NTI increase over the years, from 1.0 percent to 1.26 percent, with a 0.19 percentage point increase for 24/7 gaming that must be reauthorized by the General Assembly every year. In 2004, the General Assembly eliminated the NTI share for dog kennel owners, which increased the share of NTI to the facility

Table 2
Distribution of Net Terminal Income

Recipient	1993	Current	
	Both	Twin River	Newport
Gaming Facility	33.00%	27.76%	27.76%
Technology Providers	15.00%	7.00%	7.00%
Communication Providers*	3.00%	2.50%	2.50%
Host Municipality**	1.00%	1.45%	1.01%
Dog Kennel Owners	10.00%	0.00%	0.00%
Narragansett Indian Tribe	0.00%	0.17%	0.00%
Transfer to State	38.00%	61.12%	61.73%
Total	100.00%	100.00%	100.00%

* Communication providers receive 2.5% on the first \$500 million of NTI, and 1% thereafter. Based on May 2012 revenue estimates, communication providers will receive 2.42% of NTI.
 ** The town of Lincoln receives 1.26% per statute, and 1.45% for 24/7 gaming. The 1.45% sunsets every year and must be renewed.

SOURCE: RI Division of Lottery; House Fiscal Staff; Senate Fiscal Staff; RIPEC calculations

and the town of Lincoln. The city of Newport currently receives 1.01 percent of NTI, although the city would be eligible for an additional 0.19 percentage point increase if the facility were to move to 24/7 gaming. As part of the 2005 expansion agreement, the Narragansett tribe receives 0.17 percent of Twin River NTI, up to \$10.0 million. The state’s share is the balance of NTI, or 61.12 percent from Twin River and 61.73 percent from Newport Grand, an increase of 23.12 and 23.73 percentage points, respectively, compared to 1993.

Gaming Revenue Forecasts

As VLT revenues have increased over the past two decades, the state has grown increasingly reliant on gaming to support state operations. However, in November 2011, the Massachusetts legislature voted to allow the development and operation of three casinos and one racino in the commonwealth. In recognition of the potential loss of an important revenue source, the state of Rhode Island retained Christiansen Capital Advisors, LLC (CCA) to analyze the potential impact of gaming in the Bay State. The study evaluated both the fiscal impact to the state, as well as “broader statewide economic impacts.” This section provides an overview of the Christiansen findings with a focus on the projected effect casinos in Massachusetts will have on Rhode Island general revenues.

Current Rhode Island Revenues

The state’s general revenue budgets have increasingly relied on gaming revenues, which now constitute the third largest source of revenue to the state (behind income and sales taxes). In FY 2001, the state received approximately \$121.6 million in revenues from the state’s two gaming facilities. This represented 4.7 percent of the state’s total general revenue (\$2,564.4 million). In FY 2011, the state received \$301.1 million in revenue from the two gaming facilities. The revenue from Twin River and Newport Grand represented 9.8 percent of FY 2011 revenues (\$3,083.7 million). Based on the most recent REC, the state’s share of VLT revenue is projected to contribute \$321.9 million and \$335.5 million to general revenues in FY 2012 and FY 2013, respectively. This accounts for 9.9 percent of total FY 2012 general revenues and 10.2 percent of projected FY 2013 general revenues.

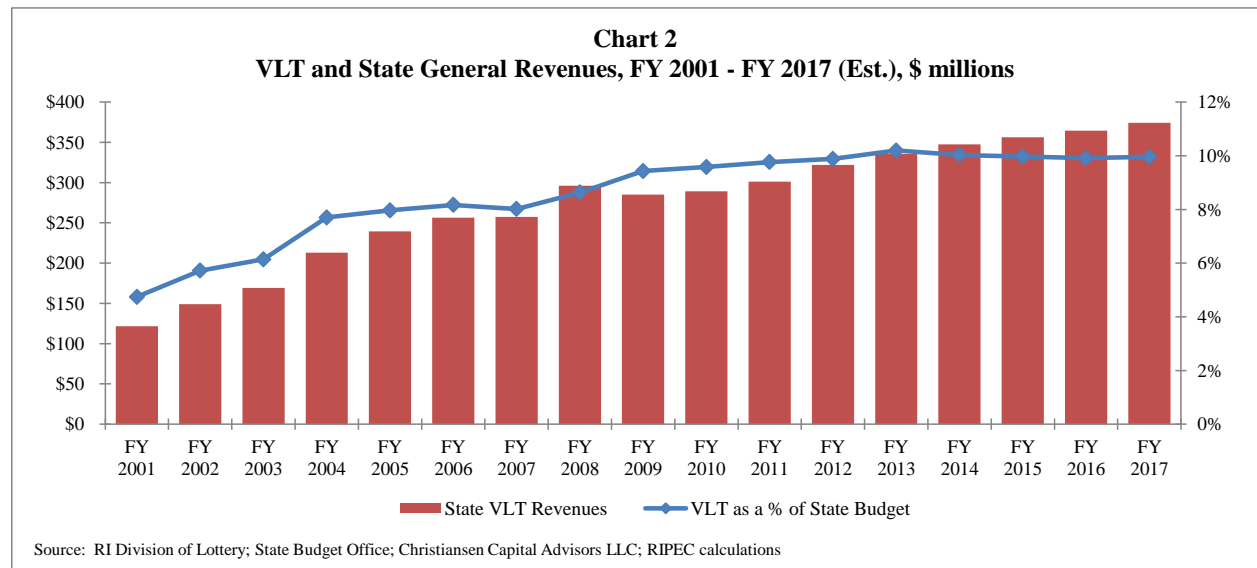


Chart 2 shows the VLT contribution to general revenues through FY 2013 and the share of the state budget accounted for by VLT revenues, as well as a baseline forecast through FY 2017. The baseline forecast uses data from CCA, adjusted for the May 2012 revenue estimating conference changes to NTI, and assumes no change to state law in Rhode Island or neighboring states. Based on adjusted CCA estimates, VLT revenues are projected to increase to \$374.3 million in FY 2017. All else held constant, including no casino gaming in Massachusetts, VLT revenues would account for 10.0 percent of projected FY 2017 general revenues.

In addition to the “baseline” forecast shown above in chart 2, CCA estimated the effect on state revenues if table games were added at Twin River. These two scenarios are outlined on table 3 on page 6. Based on their estimates, adding table games at Twin River would increase general revenues, on average, by \$33.8 million per year between FY 2014 and FY 2017. Christiansen Capital Advisors did not estimate the impact if Newport Grand added table games as, at the time of the study, Newport Grand did not indicate a willingness to provide table games at the facility. Subsequent to the study, Newport Grand indicated a willingness to provide table games and, as noted, the General Assembly voted to put the referendum question on the November ballot. Table gaming at Newport Grand is estimated to generate approximately \$5 million per year, increasing general revenues by roughly \$2 million per year.

Massachusetts Casino Impact

In order to evaluate the potential impact of gaming in Massachusetts, CCA, in conjunction with the Rhode Island Department of Revenue, developed three potential scenarios. The three scenarios represent the most likely locations for the three casinos and the racino, and the nature of the potential facilities. Because there appeared to be little difference in the revenue impact from the possible casino locations in western Massachusetts (Region B), CCA combined the results into one scenario. In all scenarios, CCA assumed the racino would open in the beginning of FY 2015, and the other three casinos would open one year later. The three scenarios are:

- Best Case: A casino at Suffolk Downs in East Boston; a casino in New Bedford and a racino at Raynham Park in Raynham; and one of the three potential facilities in western Massachusetts.
- Worst Case: A casino at Foxboro; a casino in New Bedford and a racino at Plainridge Racecourse in Plainville; and one of the three potential facilities in western Massachusetts.
- Likely Case: A casino at Suffolk Downs in East Boston; a casino in Middleboro and a racino at Plainridge Racecourse in Plainville; and one of the three potential facilities in western Massachusetts.

The assessment considered a number of variables in order to project the revenue impact of casinos located in the above communities, such as: the amount of people residing in different population centers, driving distance to the casinos, customer behavior and preferences, estimated gaming penetration in the market, and the appeal of each facility. Christiansen Capital Advisors assumed a lower state share for table games when compared to VLT due to the labor intensive nature of table gaming (35.0 percent, compared to the current ratio of 61.44 percent for Twin River and 61.69 percent for Newport).¹

¹ Based on RIPEC calculations, it appears that CCA used an assumed state share value of 61.8 percent for Twin River NTI and 61.2 percent for Newport Grand NTI.

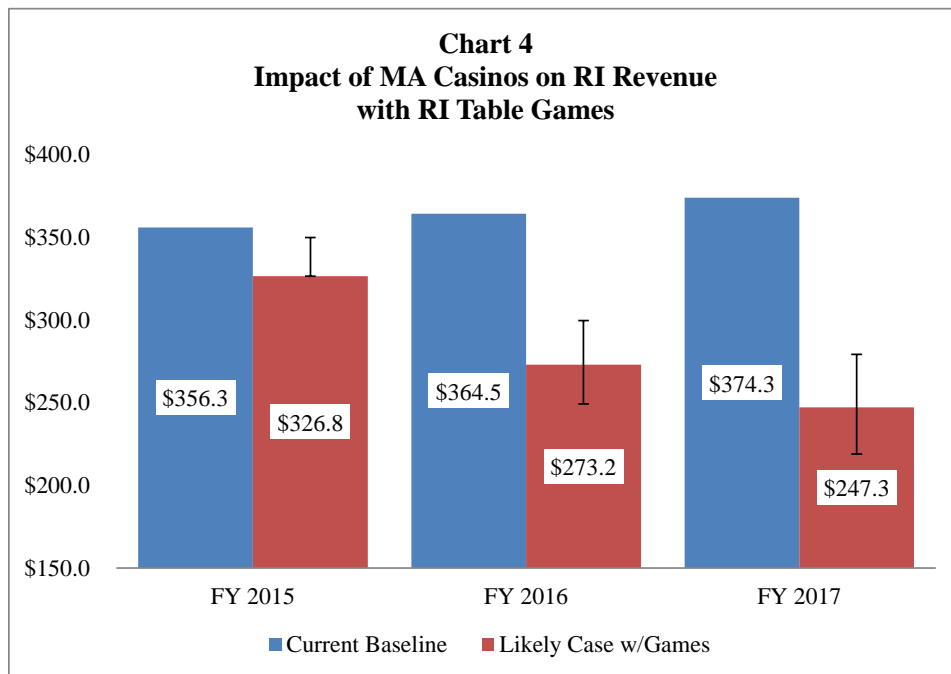
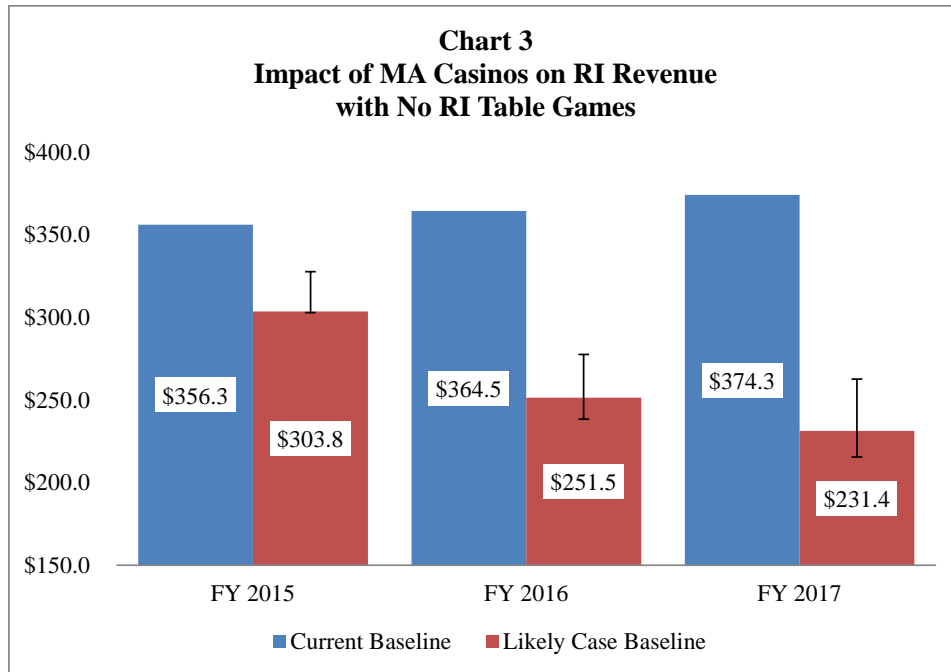
Table 3
Projected State Revenue Impact of Casinos in Massachusetts
(\$ millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Current Baseline	\$335.5	\$347.6	\$356.3	\$364.5	\$374.3
Current + RI Table Games	335.5	379.4	390.1	401.1	407.3
Massachusetts Gaming					
Best Case					
RI Baseline (1A)	\$335.5	\$352.3	\$327.8	\$277.6	\$262.7
RI Games (1B)	335.5	372.5	350.2	299.9	279.5
Worst Case					
RI Baseline (2A)	\$335.5	\$352.3	\$304.5	\$243.8	\$215.3
RI Games (2B)	335.5	372.5	326.8	249.3	219.0
Likely Case					
RI Baseline (3A)	\$335.5	\$352.3	\$303.8	\$251.5	\$231.4
RI Games (3B)	335.5	372.5	326.8	273.2	247.3

NOTES: Revenues have been rebased from the original CCA estimates using revised NTI from the May 2012 Revenue Estimating Conference; figures use CCA state shares, which are 61.80% for Twin River and 61.19% for Newport Grand
Source: Christiansen Capital Advisors LLC, "Gaming Study and Economic Impact Analysis: Final Report, January 17, 2012"; State Budget Office documents; RIPEC calculations

As shown on table 3, there are six possible revenue scenarios outlined by CCA, in addition to their baseline forecast (current conditions with no gaming in Massachusetts), and their baseline forecast plus the addition of table games at Twin River. Under the best case scenario, Rhode Island VLT revenues are projected to decline starting in FY 2015, when the racino is assumed to be in operation (CCA estimates the remaining three casinos will open in FY 2016). In FY 2015, the projected revenue loss ranges from \$5.2 million in the “best case” scenario in which Rhode Island operates table games (1B), to \$51.3 million in the “likely case” scenario with no table gaming (3B). By FY 2017, CCA estimated revenue losses of a minimum of \$91.9 million (scenario 1B) to a maximum of \$155.3 million (scenario 2A).

Chart 3 shows the projected impact of Massachusetts casinos on Rhode Island revenue between FY 2015 and FY 2017, comparing the CCA “current baseline” to the “most likely” case if the state were not to allow table gaming at Twin River (scenario 3A as shown on table 3). The error bars on the chart represent the range in projected state revenues under the “best case” and “worst case” scenarios (1A and 2A on table 3). Chart 4 shows the impact of Massachusetts casinos if the state were to adopt table gaming (the “B” scenarios on table 3), compared to the current baseline. As shown in both charts, although there is no scenario that does not result in a loss of revenue for the state, the addition of table games mitigates the loss under scenario 3B by an estimated \$21.8 million per year.



Rhode Island Table Gaming

In recognition of the negative impact of Massachusetts casinos on both operations at Twin River and on state revenues, the General Assembly included *Article 25 – Relating to Authorizing State-operated Casino Gaming at Twin River, Subject to Statewide and Local Voter Approval* in the FY 2012 appropriations act ([H5894 Sub A](#)). The Article authorized the Secretary of State and the local board of canvassers to submit a question authorizing table gaming at Twin River on the statewide and town of Lincoln November ballots, respectively. The Article also required the

General Assembly to enact “comprehensive legislation during the 2012 legislative session to determine the terms and conditions pursuant to which casino gaming would be operated in the state”.

Twin River Ballot Question

“Shall an act be approved which would authorize the facility known as “Twin River” in the town of Lincoln to add state-operated casino gaming, such as table games, to the types of gambling it offers?”

Newport Grand Ballot Question

“Shall an act be approved which would authorize the facility known as “Newport Grand” in the city of Newport to add state-operated casino gaming, such as table games, to the types of gambling it offers?”

At the time, the city of Newport and Newport Grand had not expressed interest in allowing table gaming; however, the General Assembly passed [SB 2695 Sub A/HB 7543 Sub A](#) in the 2012 legislative session. As with Article 25, the bills authorized the Secretary of State and local board of canvassers to submit a question on the November ballot authorizing table gaming at Newport Grand.

On May 24, 2012, Senators Goodwin, Bates and Felag submitted [SB 3001](#), while Representatives Melo, San Bento, Jackson, Petrarca and Mattiello submitted the companion bill [HB 8213](#). The bills outline the terms and conditions under which table gaming would operate in Rhode Island, including, but not limited to, the state’s share of table gaming revenues and the allocation of NTI to the respective communities and casinos. Table 4 outlines the current and proposed distribution of NTI and table gaming revenue. Under the proposed legislation, the town of Lincoln’s share of NTI would be permanently set at 1.45 percent, reducing the state share of NTI to 61.25 percent. Newport Grand’s share of NTI would increase by 1.5 percentage points, and the distribution of NTI to the city of Newport would increase to 1.45 percent. As a result, the state’s share decreases from 61.86 percent of NTI to 59.92 percent.

The legislation provides for an 18.0 percent transfer to the state of net table game revenue from Newport Grand, with the balance going to the casino. For Twin River, the state’s share is set at 16.0 percent of net table game revenue. However, the legislation requires an additional 2.0 percent revenue transfer from the start of table gaming until such time that net revenues for a full fiscal year are lower than the

**Table 4
Distribution of Casino Net Revenues**

Recipient	Current		Proposed	
	Twin River	Newport	Twin River	Newport
NTI Distribution				
Gaming Facility	27.76%	27.76%	27.76%	29.26%
Technology Providers	7.00%	7.00%	7.00%	7.00%
Communication Providers*	2.37%	2.37%	2.37%	2.37%
Host Municipality	1.26%	1.01%	1.45%	1.45%
Narragansett Indian Tribe	0.17%	0.00%	0.17%	0.00%
Transfer to State	61.44%	61.86%	61.25%	59.92%
Table Games				
Gaming Facility**	-	-	82.0-84.0%	82.00%
Transfer to State**	-	-	16.0-18.0%	18.00%

* Based on FY 2013 projected NTI

** The allocation is 16.0% with an additional 2.0% until such time that NTI for a full fiscal year is less than in the fiscal year prior.

SOURCE: RI Division of Lottery; House and Senate Fiscal Staffs; SB 3001/HB 8213; RIPEC calculations

fiscal year prior. As with Newport Grand, the balance of the revenues – ranging between 82.0 and 84.0 percent – are allocated to the casino.

Estimated Budgetary Impact of Legislation

Table 5 shows the projected state revenues under the CCA assumptions compared to projected state revenues per the proposed legislation (NOTE: VLT revenue projections have been updated to reflect revised NTI from the May 2012 REC). Based on RIPEC calculations, it appears that the CCA analysis assumed a VLT transfer to the state of 61.8 percent from Twin River and a 61.2 percent transfer from Newport Grand. The state’s share of table gaming revenues was assumed to be 35.0 percent in the CCA analysis. The study did not include any revenues from table games at Newport Grand; however, the calculations on table 5 assume FY 2014 table

gaming revenues at Newport Grand of \$5.0 million, that these revenues change at the same rate as revenues at Twin River, and that the state share would also be 35.0 percent per CCA assumptions.

	FY 2014	FY 2015	FY 2016	FY 2017
Most Likely State Share: CCA				
Twin River VLT	\$312.5	\$268.5	\$224.8	\$207.2
Twin River Tables	28.0	29.8	27.5	21.4
Newport Grand VLT	32.0	28.6	21.1	19.0
Newport Grand Tables	1.8	1.9	1.7	1.3
Total	\$374.2	\$328.7	\$275.1	\$248.9
Most Likely State Share: SB 3001/HB 8213				
Twin River VLT	\$309.7	\$266.1	\$222.8	\$205.4
Twin River Tables	14.4	15.3	12.6	9.8
Newport Grand VLT	31.3	28.0	20.7	18.6
Newport Grand Tables	0.9	1.0	0.9	0.7
Total	\$356.3	\$310.4	\$256.9	\$234.4
Difference	(\$17.9)	(\$18.3)	(\$18.2)	(\$14.5)
NOTE: Revenues have been rebased from the original CCA estimates using revised NTI from the May 2012 Revenue Estimating Conference				
SOURCE: Christiansen Capital Advisors LLC; SB 3001/HB 8213; RIPEC calculations				

Using the CCA assumptions under the “most likely” scenario and including table games at Newport Grand, the state would see a total transfer from the two facilities of \$374.2 million in FY 2014. This share is projected to decrease by 33.5 percent to \$248.9 million by FY 2017. Based on the proposed legislation, the state’s share of revenues in FY 2014 is projected to be \$356.3 million, or \$17.9 million lower than in the CCA scenario. By FY 2017, the

state’s share, per the legislation, is projected to decrease by \$121.9 million (34.2 percent) to \$234.4 million. The state’s projected share of revenues in FY 2017 is \$14.5 million lower under the proposed legislation compared to the CCA estimates.

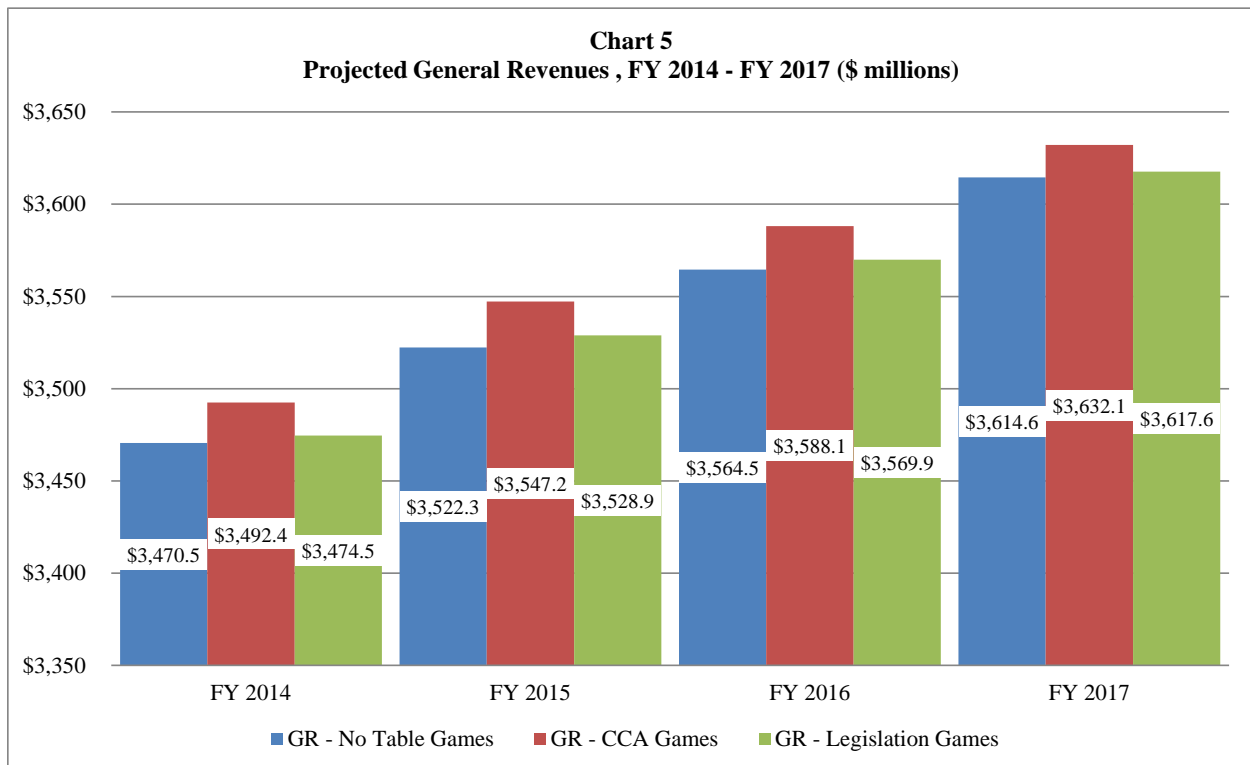
Table games revenue assumptions by CCA are based on an assumption of 65 tables at Twin River, with revenues of \$3,500-\$3,700 per table per day. The House and Senate Fiscal Staffs, and Twin River, note that these projections appear to be high and project lower revenues based on 65 tables with revenues of \$2,500-\$2,700 per table per day. Based on these assumptions, total revenue at Twin River is projected to be \$60.0 million in FY 2014, decreasing to \$45.8 million in

FY 2017. As a result, the state’s share of revenues would decrease relative to the projections on table 5, on average, by \$3.2 million per year.

Chart 5 shows total projected general revenues under three scenarios:²

- The “most likely” case, with no table gaming, used in the state’s original budget projections;
- The “most likely” case, with table gaming, modified to include estimated revenues from Newport Grand; and
- Projected revenues under the “most likely” case based on SB 3001/HB 8213.

The State Budget Office (SBO) out-year general revenue estimates in the FY 2013 budget as proposed increase from \$3,470.5 million in FY 2014 to \$3,614.6 million in FY 2017. As per the state budget, these estimates were based on the “most likely” scenario with no table games in the CCA analysis. Using revenue estimates provided by CCA in the “most likely” with table games scenario, and including casino games at Newport Grand, general revenues would increase from \$3,492.4 million in FY 2014 to \$3,632.1 million in FY 2017. On average, revenue estimates under this scenario are \$22.0 million higher than the rebased SBO projections. General revenue estimates based on the proposed legislation in SB 3001/HB 8213 range from \$3,474.5 million in FY 2014 to \$3,617.6 million in FY 2017. When compared to the original SBO projections, general revenues are, on average, \$4.8 million higher per year under the proposed legislation.



² All revenues have been rebased to reflect changes to NTI in the May 2012 Revenue Estimating Conference.

RIPEC Comments

When considering how the state will allocate potential table gaming revenue, it is important that attention be given to the ability of Twin River and Newport Grand to continue operating in the face of competition in Massachusetts. To answer this question, CCA developed a ballpark estimate for the casino's operating expenses for VLT and table gaming revenue.³ Gross gaming revenues (GGR) and the operator share are consistent with the current legislation, are rebased to reflect the May 2012 REC, and are based on the "most likely" revenue scenario. The analysis estimated marketing and other variable expenses at 5.0 percent of gross gaming revenue (GGR), assumed other non-variable expenses would increase at a rate of 2.5 percent per year, and, for Twin River, interest payments of \$25.0 million per year.

Payroll costs for VLT operations were assumed at 5.1 percent of GGR. Because of the labor-intensive nature of table gaming, payroll expenses necessarily increase relative to payroll costs for VLT operations. While CCA assumed payroll costs would account for 27.0 percent of GGR cost for table game operations, RIPEC used a more conservative 35.0 percent of GGR as presented by the House and Senate Fiscal staffs.

Twin River					
With Games	2013	2014	2015	2016	2017
Gaming Revenue	\$498.2	\$585.7	\$519.5	\$442.2	\$396.3
Operators Share	138.3	206.0	190.3	166.9	144.3
Payroll	(25.4)	(53.8)	(51.9)	(46.0)	(38.5)
Marketing/Variable	(24.9)	(29.3)	(26.0)	(22.1)	(19.8)
Non-Variable	(20.5)	(21.0)	(21.5)	(22.1)	(22.6)
Interest Payments	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)
Net Income	\$42.5	\$76.9	\$65.9	\$51.7	\$38.5
Without Games	2013	2014	2015	2016	2017
Gaming Revenue	\$498.2	\$518.3	\$445.3	\$372.8	\$343.7
Operators Share	138.3	143.9	123.6	103.5	95.4
Payroll	(25.4)	(26.4)	(22.7)	(19.0)	(17.5)
Marketing/Variable	(24.9)	(25.9)	(22.3)	(18.6)	(17.2)
Non-Variable	(20.5)	(21.0)	(21.5)	(22.1)	(22.6)
Interest Payments	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)
Net Income	\$42.5	\$45.5	\$32.1	\$18.7	\$13.1
Newport Grand					
With Games	2013	2014	2015	2016	2017
Gaming Revenue	\$51.0	\$57.3	\$52.0	\$39.5	\$34.8
Operators Share	14.2	19.4	18.0	14.1	12.2
Payroll	(2.6)	(4.4)	(4.2)	(3.5)	(2.9)
Marketing/Variable	(2.6)	(2.9)	(2.6)	(2.0)	(1.7)
Non-Variable	(2.1)	(2.1)	(2.2)	(2.2)	(2.3)
Net Income	\$6.9	\$10.0	\$9.0	\$6.5	\$5.2
Without Games	2013	2014	2015	2016	2017
Gaming Revenue	\$51.0	\$52.3	\$46.7	\$34.6	\$31.0
Operators Share	14.2	14.5	13.0	9.6	8.6
Payroll	(2.6)	(2.7)	(2.4)	(1.8)	(1.6)
Marketing/Variable	(2.6)	(2.6)	(2.3)	(1.7)	(1.5)
Non-Variable	(2.1)	(2.1)	(2.2)	(2.2)	(2.3)
Net Income	\$6.9	\$7.1	\$6.0	\$3.9	\$3.2

SOURCE: Christiansen Capital Advisors LLC; House and Senate Fiscal Staffs; RIPEC calculations

³ CCA notes that these estimates do not include entertainment, food and beverage, or pari-mutuels expenses and revenues.

As shown on table 6, estimated net income for Twin River without table games is projected to be lower than revenues at the facility with table games (under the current legislation). Although revenues for the facility are projected to continue to decrease in the out-years, Twin River revenues without table games decrease approximately 70 percent between FY 2014 (when table gaming was projected to commence) and FY 2017, compared to a 50.0 percent decrease in facility revenues with gaming. The picture is similar at Newport Grand; facility revenues without table gaming are projected to be roughly 40 percent of facility revenues with table gaming, and the rate at which the casino’s revenues are projected to decrease is slower when table games are included.

The American Gaming Association (AGA) publishes an annual survey of casinos, which provides information on the economic impact of casinos along with other key metrics, including gross gaming revenue, gaming tax revenues, and the type of casino operated, by state.⁴ The report also includes information on tax rates, in the case of privately-owned casinos, or the share retained by operators, for states that own gaming machines and make distributions to stakeholders. The AGA notes that there are five states – Delaware, Maryland, New York, Rhode Island and West Virginia – that operate in this manner.

Table 7
State-Run Gaming Facilities and Revenue Share Retained by Operator
(\$ millions)

State	Number	Type of Casino	Operator Share	Gross Gaming Revenue	Tax Revenue	Est. Effective Tax Rate
Delaware	3	Racetrack casino with VLT and table games	43.89%	\$552.4	\$230.2	41.7%
Maryland	2	Land-based, slots-only casinos with VLT	33.00%	\$155.7	\$89.5	57.5%
New York	9	Racetrack casino with VLT	32.86%	\$1,259.0	\$593.4	47.1%
Rhode Island-- Current*	2	VLT casinos	27.76%	\$492.6	\$301.1	61.1%
Rhode Island-- Proposed*	2	VLT casinos with table games	35.05%	\$642.9	\$356.3	55.4%
West Virginia	5	Racetrack casino with VLT and table games	46.99%	\$958.7	\$406.5	42.4%

* Current is based on FY 2011 data; Proposed uses FY 2014 revenues and rates per the proposed legislation

Source: American Gaming Association, "State of the States: The AGA Survey of Casino Entertainment, 2011"; House and Senate Fiscal Staff data; RI Division of the Lottery; RIPEC calculations

When considering how to set distributions to stakeholders: specifically, the state’s share and the casino’s bottom line must be taken into account. If the casino operator’s share is set too low, particularly given the forecasted drop in revenues due to competition across the border, the

⁴ “State of the States: The AGA Survey of Casino Entertainment, 2011”, The American Gaming Association.

casinos may find themselves unable to continue operating, and the state may be in the position of losing a significantly greater share of revenues. As shown on table 7, of the five states with publicly-owned casinos, Rhode Island operators retain the lowest share of total revenues. Based on RIPEC calculations per the proposed legislation, if table gaming were allowed at the two casinos, Twin River’s combined share of GGR would increase from the current 27.76 percent to 36.5 percent. At Newport Grand, the operator share would increase from 27.76 percent to 33.4 percent. With this increase, the casinos would retain a higher share of revenue compared to both Maryland and New York, but lower than Delaware and West Virginia.

When the estimated effective tax rate, that is, the share of GGR retained by the state is considered, the state’s share of 61.1 percent is the highest among peer states. If table games were added, Rhode Island’s share of 55.4 percent would be the second-highest, only behind Maryland. It is worth noting that the tax rate in Massachusetts is set at 25.0-40.0 percent of slot revenue, and 25.0 percent of table game revenue, with a \$25.0-\$85.0 million initial license fee and a \$600 per slot per year annual fee. Under an agreement with the state of Connecticut, Mohegan Sun and Foxwoods make payments of 25.0 percent of slot revenue as long as there is no expansion of legal casino gaming in the state.

Table 8			
Economic Impact of Twin River on RI Economy			
(\$ millions)			
	Employment	Labor Income	Total Output
Current Impact (Baseline)	1,249	\$57.4	\$568.3
MA Casino Impact (no Games)	930	42.8	422.7
MA Casino Impact (w/ Games)	1,450	66.0	507.3

NOTE: Totals are estimated direct, indirect and induced effects; "likely case" scenario
 SOURCE: Christiansen Capital Advisors LLC

The external effects of gaming – specifically the economic impact of casinos – must also be considered. Table 8 shows CCA’s estimates of the economic impact of gaming at Twin River, currently, with Massachusetts casinos and no table games, and with Massachusetts casinos and table games. While the table makes it clear that the outlook is improved with the addition of table games, it is

also clear that gaming itself has a net positive economic impact. If the casino(s) were to go out of business, there would be a clear – and significant – negative impact to the state’s economy and general fund.

The advent of casino gaming in the commonwealth of Massachusetts – under any scenario – will likely negatively impact both revenues for the casino operators in Rhode Island, and the state of Rhode Island itself. While it appears that the opening of casinos in Massachusetts may occur later than originally anticipated, they will open in the next few years, and that Twin River, Newport Grand and the state will all see revenues decline. Allowing Twin River and Newport Grand to operate table games will offset some of these projected revenue losses; however, it is also clear that the state can no longer rely on gaming revenues to support the same share of government services once casinos open in Massachusetts.

Deliberation of the proposed legislation should examine whether the bills provide the operators of Twin River and Newport Grand the opportunity to meet the challenges of increased cross-border competition. In a whitepaper for the AGA, Christiansen Capital Advisors note that “[l]awmakers in every gaming state face a policy choice: maximum tax revenues today, or jobs tomorrow? High gaming tax rates, or full-employment economy?”⁵ Specifically, how the state sets its tax rate and the share retained by the casinos has an effect beyond gaming’s contribution to general revenues. The structure of the agreement will also determine the viability of Twin River and Newport Grand, and whether the two institutions will continue to fully contribute to the Rhode Island economy.

Rhode Island must take a proactive approach with regard to its economic future. The state can ill-afford to jeopardize the survival of the two institutions by imposing an unsustainable effective tax rate that simply boosts revenues in the short-term, while ignoring long-term implications. The state must also take the projected revenue losses into account when evaluating budgetary actions that would increase expenditures without a sustainable revenue source to support them in the out-years. Thoughtful actions taken by the state today will allow Rhode Island to direct its own future instead of reacting to events beyond its control.

⁵ “The Impacts of Gaming Taxation in the United States”, Christiansen Capital Advisors LLC.