

Illinois' Online Gambling Opportunity: Analyzing Tax And Revenue Potential

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Overview

Where Illinois stands

ILLINOIS HAS CONSIDERED LEGISLATIVE ACTION on regulated online gambling for several years, and action on daily fantasy sports for the last two sessions. Springfield was relatively quiet on both fronts in 2017 until the waning days of the session, where a flurry of bills and amendments seeking to advance one, or both, emerged.

That activity culminated in the Senate amending H 479 to include online gambling and DFS and passing the bill on May 31st. The bill now sits in the House, which is technically in “continuous session” as lawmakers attempt to find a solution to Illinois’ budget impasse.

Where online gambling stands

ONLINE POKER OR CASINO GAMES are legal and regulated in three states: Delaware, Nevada, and New Jersey. New Jersey is the largest market and is considered both a regulatory and economic success. Online lottery games are active in four others: Georgia, Illinois, Kentucky, and Michigan. Michigan has the most expansive program of the four and has reported impressive results that do not appear to be coming at the expense of the state’s land-based lottery.

Some six states – most notably California, New York, and Pennsylvania – are considering legislation to regulate online gambling or lottery games in 2017.

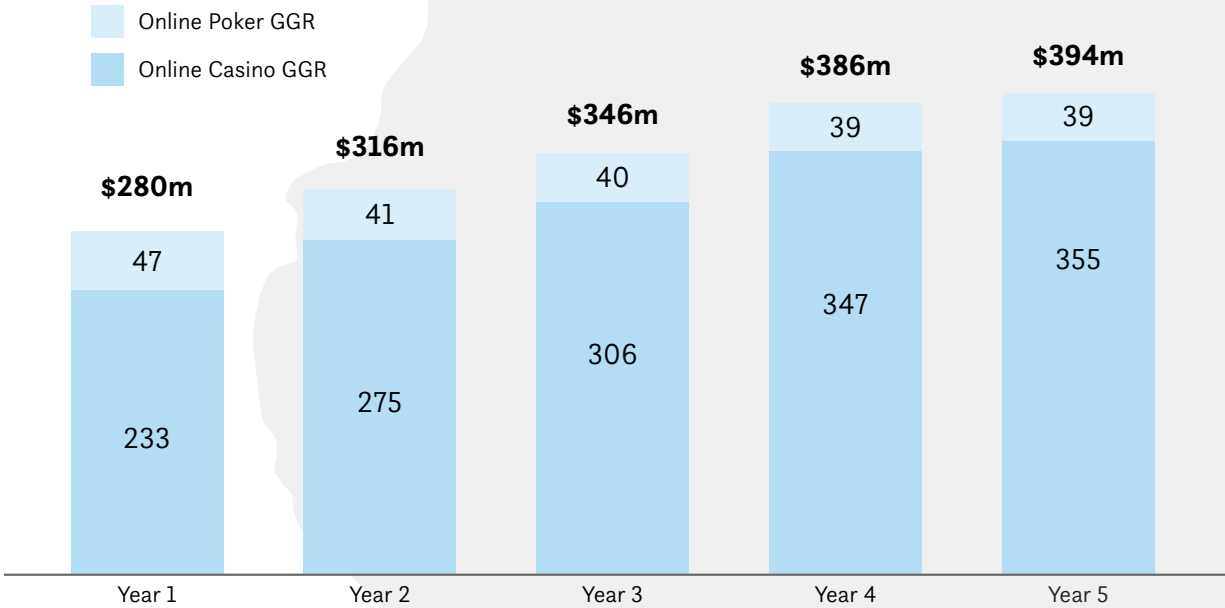
Where DFS stands

DAILY FANTASY SPORTS SITES generally operate in roughly 45 states. The games are expressly legal in 12 states and regulated in 11. Nearly 20 other states have had some legislative movement on DFS in the last two years. Roughly a dozen states have an active legislative effort to legalize and regulate the games as of this report.

Industry revenue projections

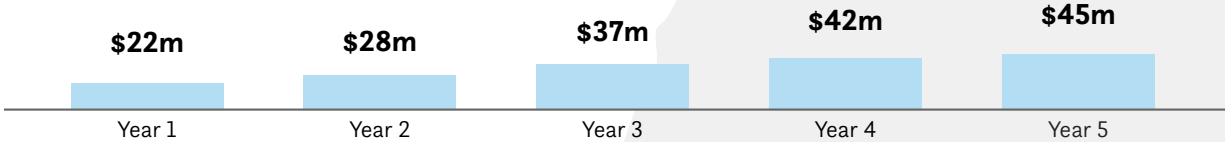
HOW MUCH WOULD OPERATORS GENERATE in terms of gross gaming revenue if Illinois licensed and regulated online gambling and daily fantasy sports?

Illinois: Regulated Online Gambling Revenue Projections



Source: OnlinePokerReport.com

Illinois: Regulated DFS Revenue Projections



Source: OnlinePokerReport.com

See Appendix A for notes on model and assumptions

Benefits for Illinois

Immediate revenue for the state

THE PROPOSED LICENSING STRUCTURE calls for online gambling operators to make a \$10 million tax prepayment as the cost of obtaining a license. That structure provides Illinois with guaranteed, upfront revenue. While the number of licensees could ultimately vary, our analysis – based on the current eligibility conditions described in H 479 – is that Illinois will likely see 13 unique applicants for online gambling operator licenses, resulting in an immediate revenue injection of \$130 million. Other taxes and fees will bring the total first year haul for the state to over \$140 million.

Significant flow of ongoing tax revenue

WHILE THE TAX PREPAYMENT will obviously curtail near-term tax revenue, it won't take long before Illinois is seeing a steady stream of tax revenue, primarily generated by regulated online gambling. New tax revenue will begin to flow in year three, and by year four Illinois will be taking in over \$50 million annually from regulation of online gambling, along with another \$4.5 million from daily fantasy sports.

Support for Illinois' land-based gaming industry

AS NEW JERSEY'S EXPERIENCE has irrefutably illustrated, online gambling creates new revenue and new customers for land-based casinos (more on that in the following section). There's no reason to believe that Illinois would see different results, as the online gambling consumer is simply a different one than the land-based gambling customer. The influx of new customers and revenue will provide critical support for casinos and racetracks.

Kick-starting employment

AN IN-DEPTH ANALYSIS OF NEW JERSEY by independent economists concluded that regulated online gambling has been responsible for the direction creation and indirect support of over 3,300 jobs. Online gambling will bring new jobs in highly skilled fields like technology and compliance to Illinois; support jobs at existing gaming stakeholders such as casinos, racetracks, and technology providers; and fuel the creation and extension of hundreds of jobs in ancillary fields such as legal services, marketing, and media.

Local economic stimulus

REGULATED ONLINE GAMBLING SITES lean heavily on marketing to attract and retain customers, especially in competitive markets. New Jersey operators are believed to spend roughly one-quarter of every dollar in revenue on marketing, spend which flows almost exclusively to local media. Our analysis¹ concludes that regional media have benefited from \$129.8 million in marketing spend by New Jersey's legal online gambling sites since 2014.

1. <https://www.njonlinecasinos.com/gambling-sites/>

State revenue projections

HOW MUCH REVENUE DOES ILLINOIS STAND TO GAIN through taxes and fees associated with the regulation of online gambling and DFS?

Online gambling tax and fee projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Tax from poker (15%)	\$7,050,000	\$6,150,000	\$6,000,000	\$5,850,000	\$5,850,000
Tax from casino (15%)	\$34,950,000	\$41,250,000	\$45,900,000	\$52,050,000	\$53,250,000
Total Fees (excluding operator license fee*)	\$8,250,000	—	—	—	—
Total state revenue from online gambling	\$50,250,000	\$47,400,000	\$51,900,000	\$57,900,000	\$59,100,000

*Operator license fee is a tax prepayment

Source: [OnlinePokerReport.com](https://www.onlinepokerreport.com)

DFS tax and fee projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Tax from DFS (tiered rate from 5%–15%)	\$2,120,000	\$2,970,000	\$3,950,000	\$4,550,000	\$4,880,000
Total Fees	\$250,000	—	\$100,000	—	\$10,000
Total state revenue from DFS	\$2,370,000	\$2,970,000	\$4,050,000	\$4,550,000	\$4,890,000

Source: [OnlinePokerReport.com](https://www.onlinepokerreport.com)

Total state tax and fee revenue projections

	Year 1*	Year 2	Year 3	Year 4	Year 5
Online gambling	\$138,250,000	\$0	\$11,300,000	\$57,900,000	\$59,100,000
DFS	\$2,370,000	\$2,970,000	\$4,050,000	\$4,550,000	\$4,890,000
Total	\$140,620,000	\$2,970,000	\$15,350,000	\$62,450,000	\$63,990,000

*Includes operator license fees, which are tax prepayments

Source: [OnlinePokerReport.com](https://www.onlinepokerreport.com)

Does online gambling help or hurt land-based gambling?

1. NEW JERSEY'S EXPERIENCE WITH ONLINE CASINO

Atlantic City casinos are unanimous: Online gambling drives new customers and new revenue.²

92%

GOLDEN NUGGET EXECUTIVES have revealed that 92% of online customers are new customers. The other 8% increased land-based spend after signing up online.

88%

CAESARS EXECUTIVES have testified that 88% of their online customers are either new or previously inactive customers.

85%

BORGATA EXECUTIVES have stated that 85% of their online customers are either new or previously inactive customers.

80%

TROPICANA EXECUTIVES have said that 80% of online customers are either new or inactive. Of active land-based customers who signed up online, their land-based spend actually grew following online registration.

75%

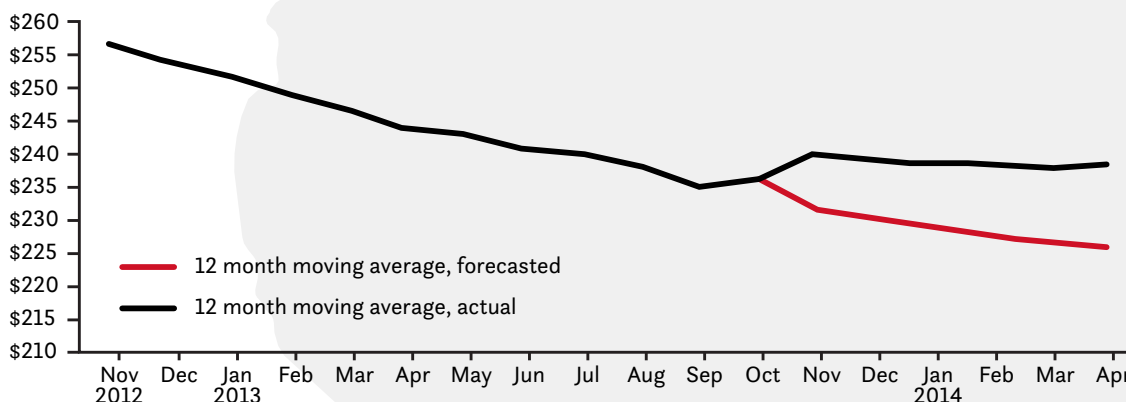
RESORTS EXECUTIVES have said that 75% of online customers are new customers. Executives have further confirmed that they see no decrease in visitation or spend from land-based customers who sign up online.

2. <https://www.onlinepokerreport.com/25201/online-gambling-helping-nj-casinos/>

Analysts credit online gambling with reversing Atlantic City's slide.

THE MAJORITY OF INDUSTRY OBSERVERS believe that online gambling played a critical role in helping Atlantic City snap a decade-long revenue slide. The accompanying chart, presented by the Innovation Group in March 2017 testimony before lawmakers, highlights the dramatic impact of online gambling on Atlantic City casino revenue. The red line shows where Atlantic City revenue was forecast to trend without the introduction of online casinos; the black line shows the actual revenue results for the combined market following the launch of legal online casinos in New Jersey.

Impact Of Legal Online Gambling On NJ Casino Revenue



Source: Innovation Group, testimony to Pennsylvania Gaming Oversight Committee, March 2017

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Atlantic City sees its best month ever for online gambling

AP By The Associated Press
on April 12, 2017 at 4:54 PM

ATLANTIC CITY, N.J. (AP) -- There's no longer much of a debate about it: Internet gambling is helping to save Atlantic City's casinos.

New Jersey's online gambling market had its best month ever in March, registering an increase of more than 40 percent from a year ago as it helped Atlantic City's casinos boost their gambling revenue by more than 9 percent. When the shuttered Trump Taj Mahal is excluded from the calculation, the seven surviving casinos saw an increase of nearly 17 percent last month.

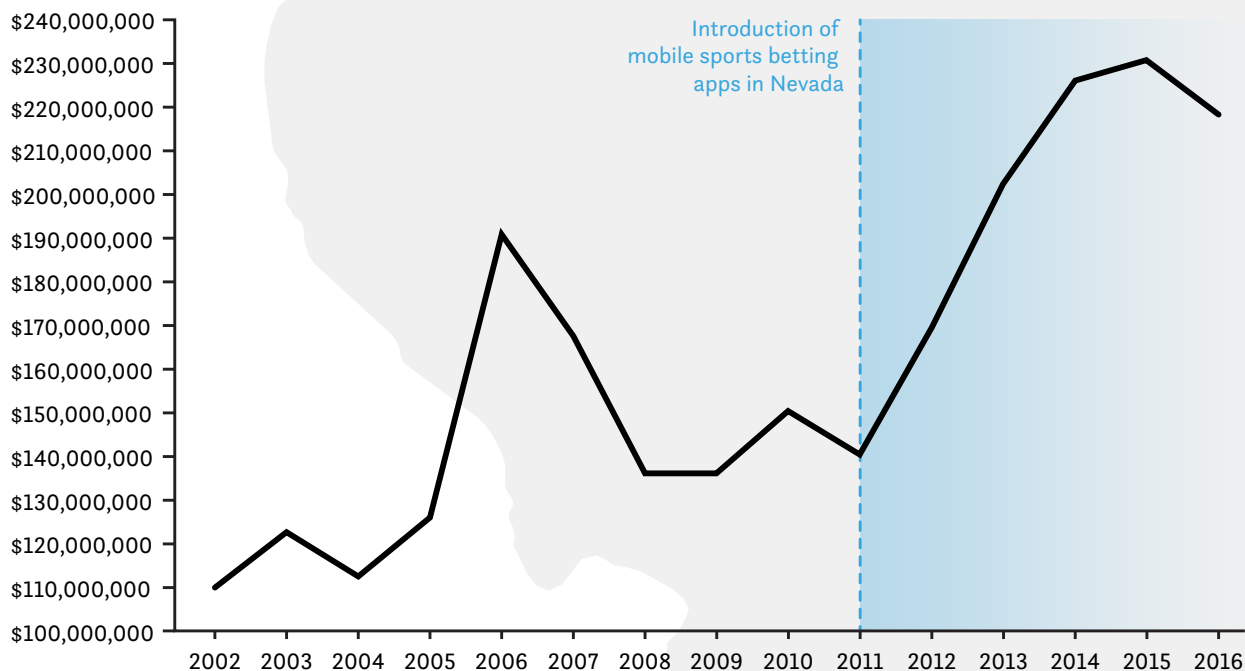
Source: www.nj.com

2. NEVADA'S EXPERIENCE WITH MOBILE SPORTS BETTING

NEVADA PROVIDES another compelling case study for the impact of adding an online component to a land-based gambling product. As the accompanying chart shows, sports betting has enjoyed dramatic growth since the introduction of mobile sports wagering in 2011.

As more and more properties embraced mobile sports betting, revenue continued to rise. There is little reason to believe that mobile sports betting has had anything but a complementary effect on total sports betting revenue in Nevada.

Nevada sports betting win



Source: Nevada Gaming Control Board

Appendix A: Methodology

1. ONLINE GAMBLING REVENUE PROJECTIONS

Model

Our revenue projections are based on the performance of regulated online gambling in New Jersey, with weighted adjustments for the following factors:

1. Population size
2. GDP
3. Median income
4. Internet penetration
5. Online poker participation rates pre-Black Friday
6. DFS penetration rate
7. Estimated percentage of population of gambling age

Assumptions

We relied on the license eligibility, tax rate, license fees and application fees schedule articulated in H 479.

2. DFS REVENUE PROJECTIONS

Model

Our revenue projections are based on a mix of public and proprietary data regarding daily fantasy sports revenue, including publicly-reported data from New York post-regulation, adjusted for:

1. Population size
2. GDP
3. Median income
4. Internet penetration
5. Online poker participation rates pre-Black Friday
6. DFS penetration rate
7. Estimated percentage of population of gambling age

Assumptions

We relied on the license eligibility, tax rate, license fees and application fees schedule articulated in H 479.

3. TAX AND FEE REVENUE

Assumptions

Our projections rely on the license eligibility, license fees and application fees schedule articulated in H 479.

H 479 Tax and fee structure

Online gambling		DFS	Annual revenue level of operator	Fee
License fee (operators – tax prepayment)	\$10,000,000	License fee	\$10,000,000	\$50,000
			\$5,000,000	\$25,000
Application fee (operators)	\$250,000		\$1,000,000	\$15,000
			\$100,000	\$10,000
Application fee (vendor)	\$250,000		\$0	\$1,500
		Application fee	\$10,000,000	\$25,000
			\$5,000,000	\$12,500
			\$1,000,000	\$7,500
			\$100,000	\$5,000
			\$0	\$500
		Renewal fee	\$10,000,000	\$37,500
			\$5,000,000	\$18,750
			\$1,000,000	\$11,250
			\$100,000	\$7,500
			\$0	\$1,125

Our analysis anticipates the following levels of license applications:

Online gambling

13 Operators
20 Vendors

DFS

12–16 Operators



About PlayUSA

PlayUSA.com is an independent resource providing coverage and analysis of the regulated gambling industry in the United States, including land-based casinos, online gambling, fantasy sports, sports betting, and lotteries.

ONLINE POKER REPORT

About Online Poker Report

OnlinePokerReport.com is a leading authority on the market for regulated online gambling in the United States. OPR's research has been cited by outlets such as the Wall Street Journal, CNBC, ESPN, Bloomberg, and NPR. Additionally, OPR's research has been utilized by regulators and lawmakers in states including California, Nevada, New Jersey, and Washington State.