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State Legislative Update on U.S. Land-Base Gaming

May 2021

In partnership with Truist Securities, Global Market Advisors publishes a monthly legislative update on land-based gaming throughout the United States. This provides insights and commentary on several key aspects of the market and the surrounding political narrative effecting the legalization of land-based gaming and other issues. A link to the full Truist Securities report can found [here](#).

The legislative cycle is coming toward the end of its run for 2021 with only a handful of states remaining that have policy implications other than those states that have full time legislatures. With most focus at this point on Louisiana (the last legislature to go into session this year) and Connecticut on sports betting, a number of land-based opportunities did not materialize into expansion. However, there are options that continue to be discussed across the country that prove that land-based gaming is still very much alive.

Almost every casino is back open in the United States following the Great Shutdown. In several cases, business is currently booming, as seen in the resurgence of the gaming industry that faced its greatest challenge that was imposed by government mandates. Nevada is a prime example of this as it just saw one of the best months it has ever had in generating gaming revenue, surpassing the \$1 billion mark. Destinations such as the Las Vegas Strip are seeing the return of the leisure customer that is excited to be back after over a year of closures. Part of this has been through the continued health and safety measures of the industry, vaccination efforts that began late in 2020, and the relaxation of draconian policies that were not always rooted in evidence-based research.

The Strip looks to jump back into the foray of its bread and butter in the meeting and convention space with the hosting of the World of Concrete show. The long-term recovery will start with the return of MICE but will not fully recover until the international customer can return. The three components of sustained leisure guests, the return of MICE, and the return of the international customer are all key to the long-term success of the Strip. This will also prove whether this trend

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is just a flash, or if it is a longer sustained growth opportunity that also includes diversification of the product further surrounding MICE and technology.

Land-based gaming has and will continue to be focus for operators in existing markets as they look to expansion, new offerings in a market with expanded locations or products, or the very fact of allowing brick-and-mortar facilities in new markets. The regional markets across the U.S. are seeing a continued uptick as the country starts to emerge from the pandemic. While it will be some time before there is a sustained trend, 2020 hopefully will be an asterisk on the books in terms of revenue performance. That same asterisk will also provide deep lessons on the adaptability of the gaming industry, the land-based offering, and how it can grow with the use of technology and expansion into other aspects of gaming, such as sports betting and online gaming to enhance the product, supplement during major events, and promote additional opportunity for revenue growth.

The following provides a summary of other trends and developments in land-based gaming across the United States:

VIRGINIA

- The City of Richmond is down to (Urban) One. After a convergence of interesting dynamics and an interesting process, the City of Richmond made its decision to choose Urban One as its preferred casino partner. This was after the city removed proposals ceremoniously from Wind Creek, Golden Nugget, and the Pamunkey Tribe initially. It further tossed Bally's' proposal out and would not allow it to amend any aspect, likely further stifling the competitive process. This left a choice between Cordish and Urban One with the ultimate decision moving forward with the latter. The next major hurdle in the process is obtaining voter approval on the November ballot.
- Virginia is still in its early stages of the regulatory process, having to go through multiple steps still for the other four locations in Bristol, Danville, Portsmouth, and Norfolk. While some operators were hoping for a temporary license, the Virginia Lottery stated that this would not happen in 2021, which is the correct decision. Some emerging jurisdictions try to rush the process in the desire to generate revenue as opposed to getting it right from the beginning. Virginia's prudence should pay off in the long-term, provided that they take the right steps in probity, licensure, and finalization of the rules. While there is a limited spectrum from which they are operating, hopefully they can take a wise path forward learning from other jurisdictions and customizing to the environment.
- "Skill-based" gaming takes a back seat in the Commonwealth as the Governor removes these machines after a year of accepting these revenues in the name of the pandemic. Small business will begin to look for alternative to this revenue source that they had been



using illegally at first, until becoming temporarily legal. This will likely be a debate for the next session of the General Assembly when it meets in January. Proponents will have to overcome these “skill-based” suppliers that run loosely around regulation as opposed to creating a sustainable model that allows only responsible operators into the process.

NEBRASKA

- The Cornhusker State approved gaming on the ballot in 2021, and the Unicameral put forward a good bill that had become more unclear after two floor debates on two fronts – sports betting and allowing keno on the same playing field. Keno has been a strong legal form of gaming in the state for almost 30 years under the lottery act.
- With the Governor’s signature now on the initial regulatory piece (LB 561), the process will start moving forward on the regulatory front. The new commission will still need to have appointments from the Governor, and the regulatory framework will start to take shape. In reality, this process should take roughly 18 months since it is starting from nothing. However, operators eager to move forward have other plans to rush the process and try to control it. One operator stated in the initial hearing that he was entitled to a license; a statement only made by the naïve who do not want a strict regulatory structure.
- There will likely be a clean-up bill next year to address additional items beyond the initial package for clean-up, criminal statutes, racing, and potential board structure and powers. There will also likely be additional measure to address sports betting, mobile wagering, and other measures surrounding the new sector in the Cornhusker State. Additional studies should be done.
- As the new regulatory structure takes shape, one will have to watch to see how new-to-market operators pass suitability and adhere to a strict regulatory environment that should be similar in structure to Iowa and Indiana that can serve as models. Without a competitive race for operators or locations, this state needs to watch how it establishes this new entity that, if done right, will not launch until late 2022 or early 2023.

NEW YORK

- Hope remains that New York may abandon its RFI process that it initiated last month for the three downstate casino locations. The main obstacle remains the same, in that an RFI process would not likely obtain any meaningful desired result in Governor Cuomo. This is the same administration that believes the state will make more money in a narrow list of operators on sports betting than it will on marijuana.
- The downstate opportunity is one that could generate significant revenue for the state and investment in and around New York City. Even if the process began today, any significant development in New York would be years away, as it will likely be a lengthy process for



selection, local approvals, delays by naysayers, and the eventual construction of a facility. New York is still a five-to-ten-year vision assuming that the process does not make it worse.

ALABAMA

- Gaming did not get done during the regular session of the Alabama Legislature. This would have included a package for lottery, casino gaming, and sports betting. While there may have been a package at the end of the session, time ran out to ensure a complete consensus across both houses and parties.
- There may end up being a special session to solely focus on gaming and put together a package. However, before that happens, education amongst staff and legislators need to occur. This begins with understanding the fundamentals of the market and the actual feasibility in terms of locations, tax rates, and suitability. This also means that not all of the operators today are entitled to a license. Past experience, background, and integrity need to be a part of the conversation.
- Governor Ivey has vowed to let the voters decide on this issue. It will likely happen by 2022 but will require a lot of effort by the legislative branch. Time will tell if they cross the finish line and allow this issue to be heard by the voters. They have made it clear that they want a say; it is a matter of whether the representatives will listen to their constituents.

TEXAS

- Texas, as expected, decided to not push forward with land-based gaming this session. The proposal led by one gaming company was far too heavy to even have legislators consider legislation in the meaningful way. The Texas Legislature has always taken a thoughtful approach to new ideas. They want to understand it before the push forward to make sure it will have the right effect on the state.
- At this point, all eyes look toward 2023 to continue the conversation. While this same gaming company has talked about the long-term commitment needed to get this done, it had the same approach in 2007 – 2011 and did not get it done. While attitudes have changed, which will be helpful, the state still faces an educational challenge over the next two years.
- At best, this is headed for the 2024 ballot, but sports betting seems more likely to reach the voters than a comprehensive package for gaming. This would have been on the 2022 ballot had the land-based effort not interfered last fall. There are seven six reasons (lobbyists) that caused that downfall.

ILLINOIS

- The Chicago RFP has launched and is hoping to attract some of the best operators to the market in what could be a strong location. MGM Resorts is the first operator to have



initially responded to the RFI but appears to now be sitting on the sidelines based off comments made by leadership on the last quarterly earning call. The challenge remains is that a strong brand is necessary for this expansion of gaming in the city, but the biggest challenge is the proposed tax structure and reconciliation fee. In any recent expansion in Illinois, including VGTs, sports betting, and the expansion of licenses that included a Chicago location, the state has not conveyed an understanding of tax rates and market feasibility. The sun, moon, and stars still must align to get this to work. Anything less than a top-tier brand is a swing-and-a-miss for the city and for the state legislature.

- Delays remain on the other 2019 expansion sites, as the Gaming Board continues to push out these selections. At some point, operators may bail if the trend continues on a flawed process. A similar trend is seen in Japan, where operators are opting out of the market over the arduous process and high tax rate; it is not hard to extrapolate a similar situation in Illinois. The Gaming Board did just hire a consultant to assist with this process. However, it may be too late for some that have seen this process delayed. It is time to push forward with these decisions, or Illinois may not have the best operators and proposals available to make this work.
- With the session coming to a close, look for additional antics that may affect land-based gaming. It is Illinois, so the only thing that is guaranteed is chaos.



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