

Rhode Island iGaming and State Revenue Forecast, May 2023 Update

Christiansen Capital Advisors, LLC (CCA) has been retained by the State of Rhode Island Department of Revenue (DOR) to update its forecasts of iGaming revenue. As in other forecasts CCA has produced for the State of Rhode Island,¹ we rely heavily on empirical data from other jurisdictions in constructing our projections. Therefore, we begin the analysis below with a review of the performance to date of iGaming in these other jurisdictions followed by our estimates of the likely performance of similar offerings in Rhode Island.

RESULTS FROM OTHER IGAMING STATES

Nevada

Nevada was the first state to authorize iGaming. In March 2011, the Nevada legislature introduced AB 258, which instructed the Nevada Gaming Commission to adopt regulations for the licensing and regulation of Internet Poker. In December 2011, the Commission adopted amendments to its regulations to make possible the licensing and operation of Internet Poker. In February 2013, Nevada enacted legislation that allowed the pooling of Internet Poker with other jurisdictions where the practice was legal via entering into “compacts” with these other states.

In addition to being limited to Internet Poker only, Nevada does not report statistics due to a provision in Nevada gaming law that prevents the disclosure of individual financial records. Thus, Nevada reports online and offline poker together in its reports.

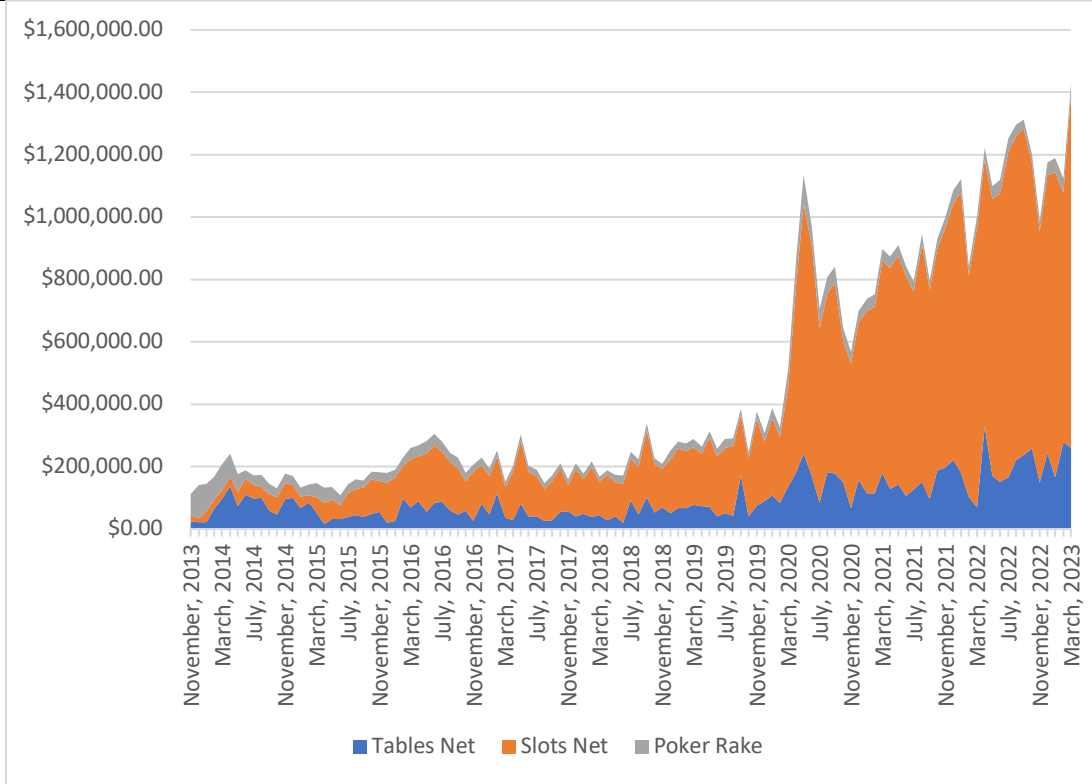
Delaware

On June 28, 2012, Delaware Governor Jack Markell signed the Delaware Gaming Competitiveness Act of 2012, allowing the Delaware State Lottery to operate full-scale casinos online. Their iGaming website was launched on November 8, 2013. The Delaware Lottery controls the entire gaming platform and is currently contracted with Light and Wonder Gaming, Inc. (formerly Scientific Games) and 888 Holdings to operate it. Sites, or “skins,” are provided by the licensed gaming sites (Delaware Park, Dover Downs, and Harrington Raceway) and run on top of that platform. In essence, iGaming in Delaware is a single portal that the licensees feed into. Delaware offers several poker games, as well as roulette, blackjack, and slots. Despite being in operation for eight years, iGaming in Delaware significantly lags most other states even after posting significant gains in 2020 and 2021 due to COVID-19 induced lockdowns. It appears that this single portal structure, delays in implementing mobile iGaming via iOS and Android and a burdensome revenue share for the licensed gaming sites has significantly hampered the performance of iGaming in Delaware (Exhibit 1.1). Specifically, after paying Light and Wonder and 888 for the operation of the platform, the first \$3.75 million of iGaming revenues (26% of the \$14.4 million Delaware iGaming produced over the last twelve months) is transferred to the State general fund. Of the remainder 15.5 % of

¹ Christiansen Capital Advisors, LLC, for the Rhode Island Department of Revenue “Rhode Island Gaming and State Revenue Forecast,” December 1, 2021, March 12, 2019, October 31, 2017, 2015, and 2014.

iTable revenues and 42.5% of iSlot revenues are also retained by the State of Delaware. Additionally, 10% of iSlot revenue and 4.5% of iTable revenues are provided to horsemen in the form of purses. What remains is available for the licensed gaming sites.²

Exhibit 1.1: Delaware Monthly iGaming Revenue



Source: Delaware Lottery

New Jersey

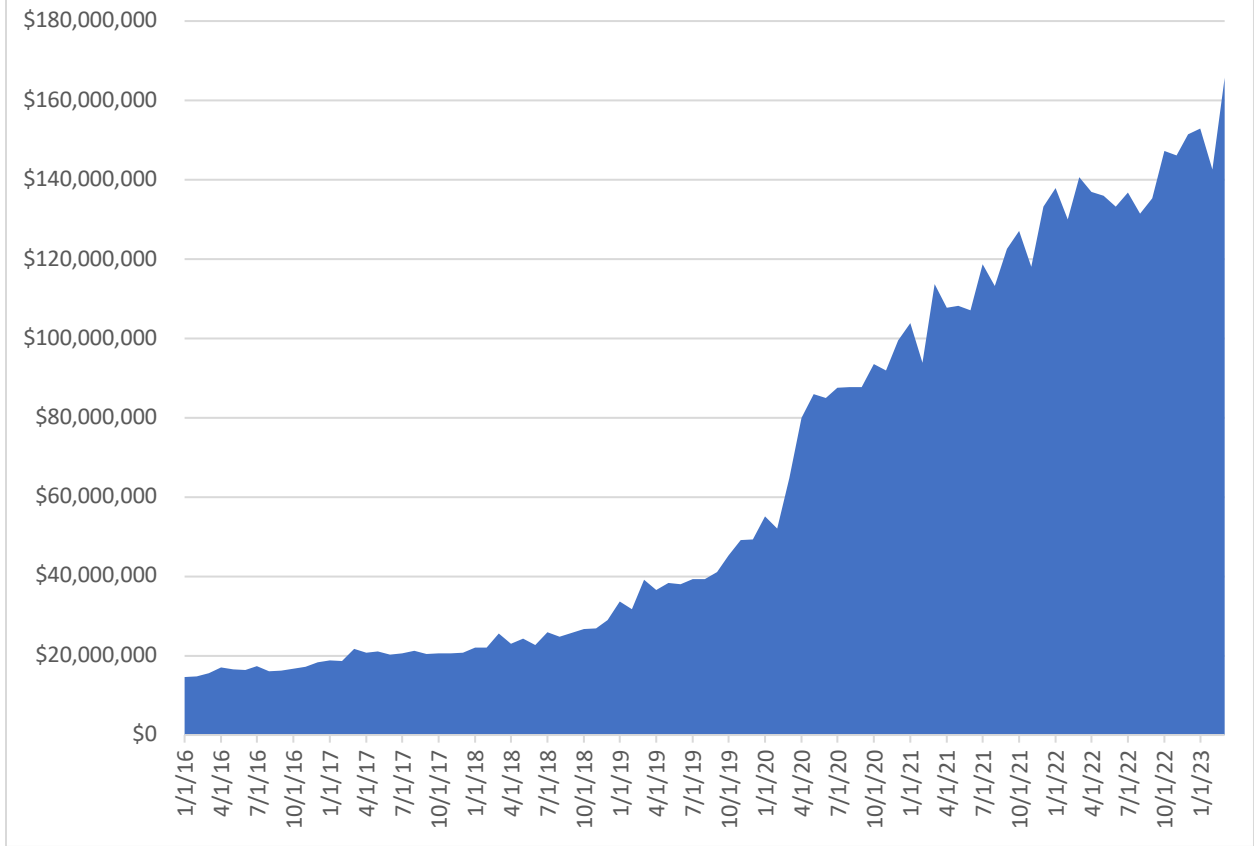
On February 26, 2013, Governor Chris Christie signed an amended version of the New Jersey Casino Control Act, which allowed the licensing and regulation for online poker in the state. The regulations took effect as of October 21, 2013, and the first websites launched on November 26, 2013. iGaming in New Jersey is now generating nearly \$150 million a month in gross gaming revenues (Exhibit 1.2).

² 29 Del. C. §4815(e). “Gross revenue from the Internet video lottery and Internet table games shall be accounted for to the State Treasurer and all proceeds, net of moneys returned to players, shall be placed into a special account known as the State Internet Lottery Fund. From the Fund, the Director shall first pay for the operation and administration of the Internet video lottery and Internet table games. Thereafter, the first \$3,750,000 of proceeds in each fiscal year shall be transferred to the State Lottery Fund for the benefit of the State. After \$3,750,000 of proceeds has been transferred to the State each fiscal year, the remaining proceeds shall be distributed as follows:

- (1) The proceeds from the sales of Internet video lottery games shall be distributed pursuant to paragraphs (b)(3) and (b)(4)b.1 - (b)(4)b.4 of this section, provided that the calculations for such distribution shall be done after netting out the proceeds returned to players and administrative and vendor costs; and
- (2) The proceeds from the sales of Internet table games shall be distributed pursuant to subsection (d) of this section, net of proceeds returned to players, provided that the calculations for such distribution shall be done after netting out the proceeds returned to players and administrative and vendor costs.”

The rates listed by reference above are-Table games: a 15.5% tax on licensees and a 4.5% purse supplement. 29 Del. C. §4815(d). Internet video lottery games: a 42.5% state tax and a 10% purse supplement. 29 Del. C. §4815(b).

Exhibit 1.2: New Jersey Monthly iGaming Revenue

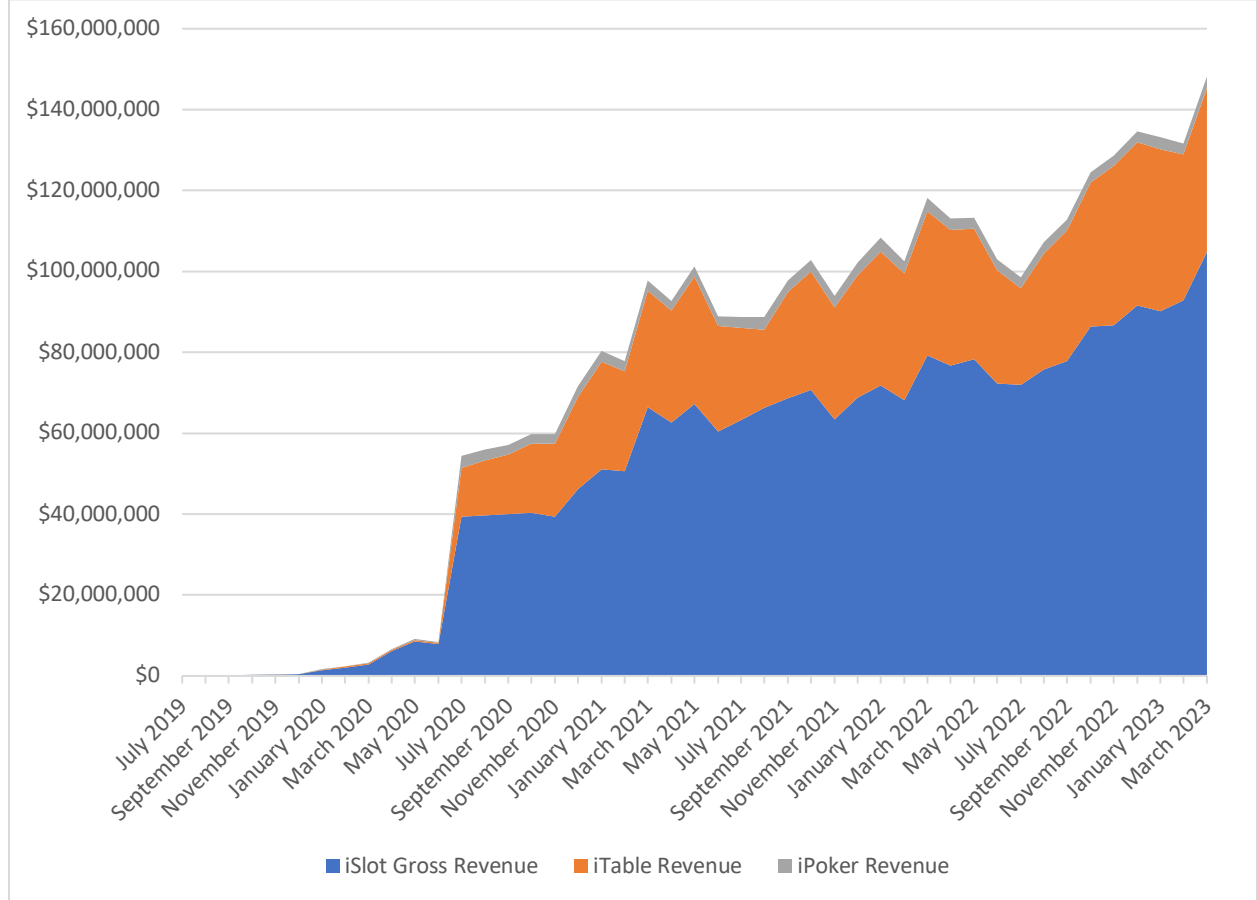


Source: New Jersey Division of Gaming Enforcement

Pennsylvania

On October 30, 2017, Governor Tom Wolf signed House Bill 271. This bill legalized online poker, table games, and slots. iGaming in Pennsylvania is now generating approximately \$120 million a month in gross gaming revenues (Exhibit 1.3).

Exhibit 1.3: Pennsylvania Monthly iGaming Revenue

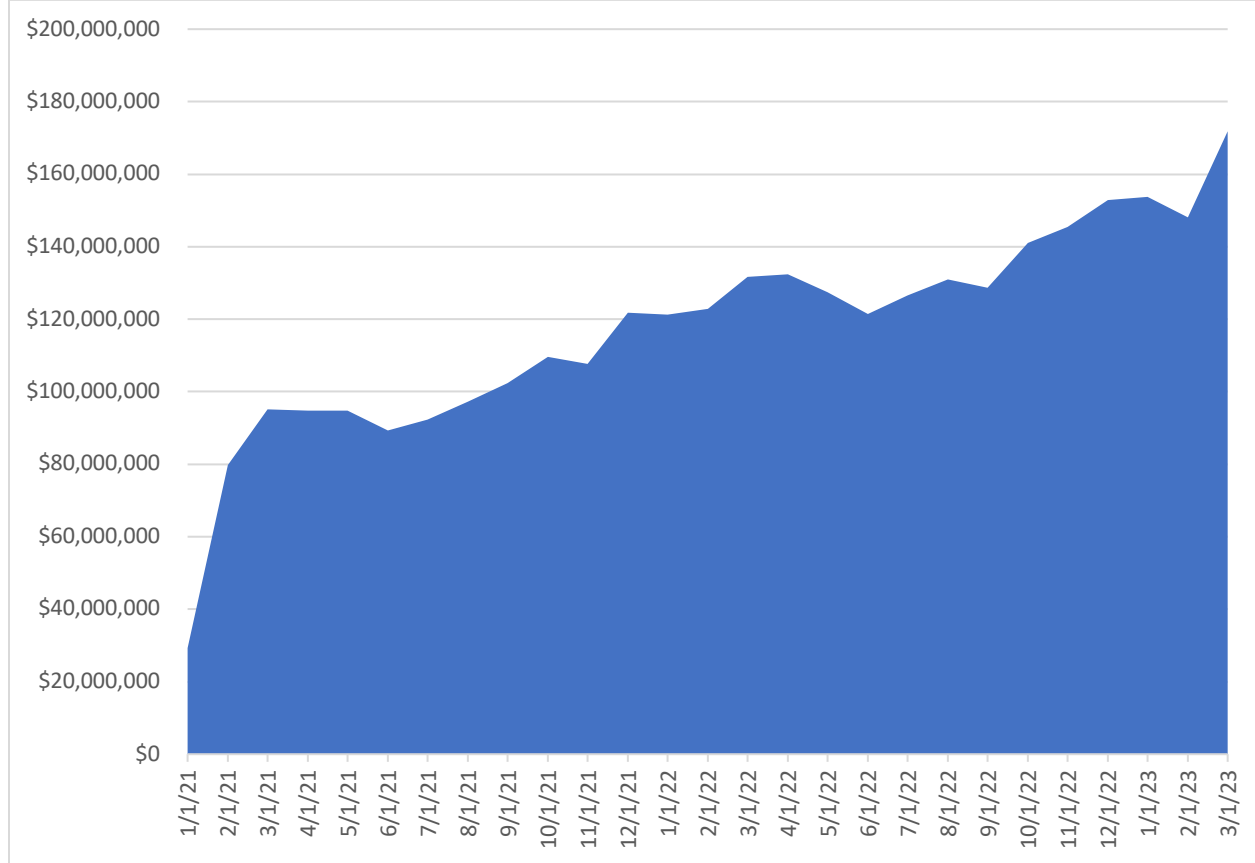


Source: Pennsylvania Gaming Control Board

Michigan

December 20th, 2019, Governor Gretchen Whitmer signed the Lawful Internet Gaming Act into law. This bill legalized online sports betting, poker, and daily fantasy sports. The first sites launched relatively recently on January 22, 2021, and very quickly began generating meaningful revenue. Michigan's 14 iGaming licensees are generating over \$140 million in monthly and are still growing at rapid clip (Exhibit 1.4).

Exhibit 1.4: Michigan Monthly iGaming Revenue

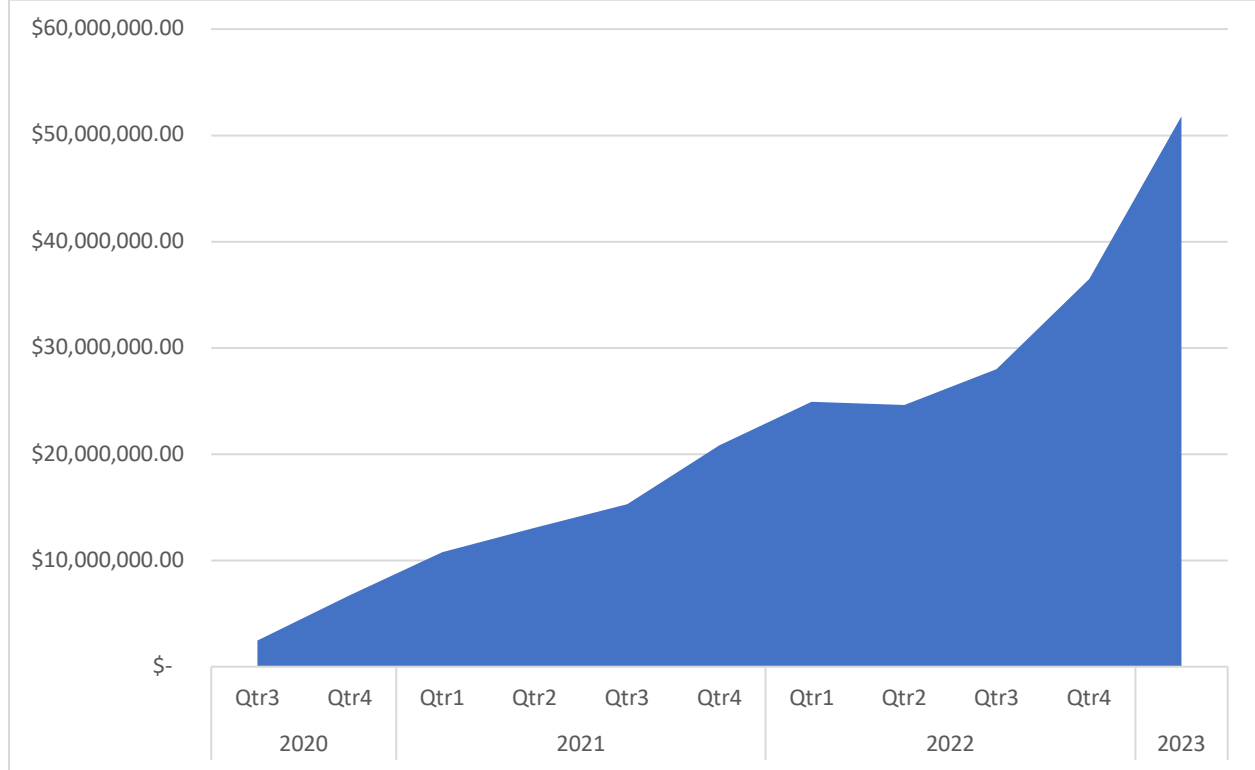


Source: Michigan Gaming Control Board

West Virginia

On March 27, 2019, West Virginia legislators passed the West Virginia Lottery Interactive Wagering Act. The bill went into effect on June 7, 2019, with Governor Jim Justice’s signature. Five interactive wagering licenses are permitted, tied to the land-based casino operators, although these casinos can partner with interactive wagering licensees to conduct interactive wagering. iGaming commenced in West Virginia on July 15, 2020, with the opening of DraftKings casino. The final licensee FanDuel casino did not launch until May 5, 2021. West Virginia reports result weekly. West Virginia iGaming exceeded \$30 million in the 4th quarter of 2022 and is currently averaging approximately \$3 million a week (Exhibit 1.5).

Exhibit 1.5: West Virginia Quarterly iGaming Revenue³



Source: West Virginia Lottery

³ Unlike most states, the West Virginia Lottery reports gambling data on a weekly rather than monthly basis, (which is better for analysis purposes since different months have a different number of days and a different number of weekend days in certain years.)

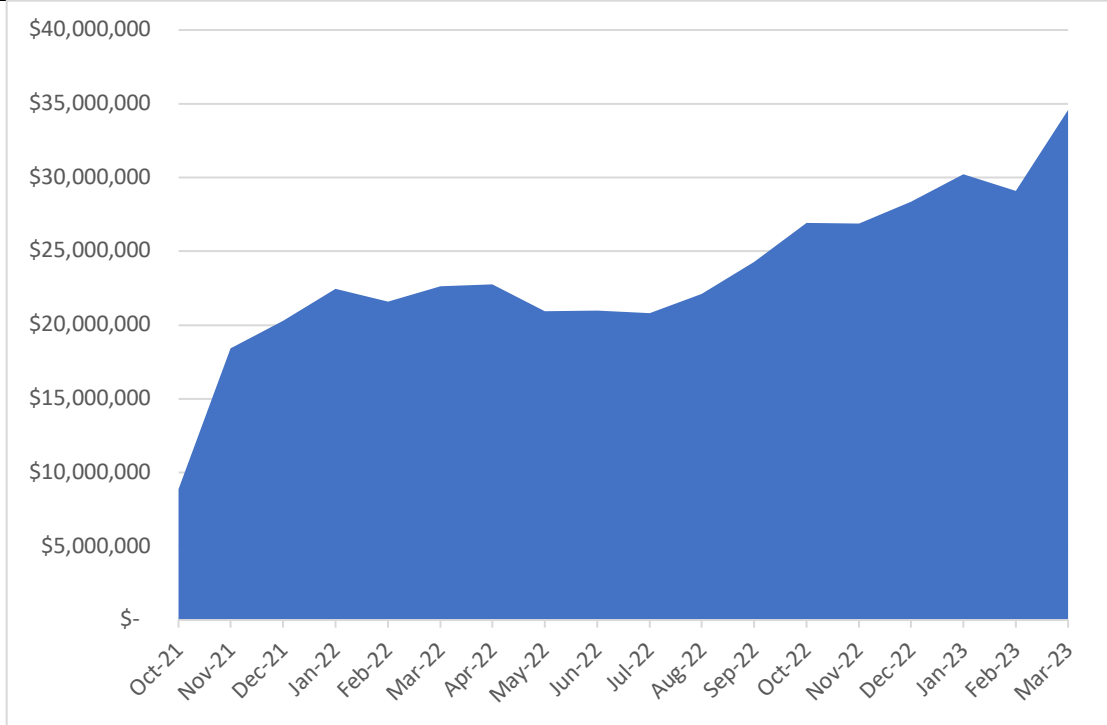
Connecticut

Connecticut legalized online casinos, online poker, and both online and retail sports betting in May 2021. The first Connecticut online casinos launched in October 2021 after the state renegotiated its gaming compacts with two tribal casino operators and passed the accompanying legislation to regulate online gambling. Online sports betting also went live on October 19, 2021.

The two Native American tribes Connecticut, the Mashantucket Pequot, and the Mohegan tribe, exercise a duopoly over casino gambling in Connecticut, which now includes iGaming. In return for this exclusivity, the tribes pay 18% of their gross gaming revenue in taxes on online casino gambling for the first five years. After that the percentage will increase to 20%. The Mohegan Tribe partnered with Draft Kings and Mashantucket with FanDuel for their iGaming product.

iGaming revenue in Connecticut was a little more than \$20 million a month for the first year but appears to have taken a step up in the first few months of 2023 to approximately \$30 million a month.

Exhibit 1.6: Connecticut Monthly iGaming Revenue

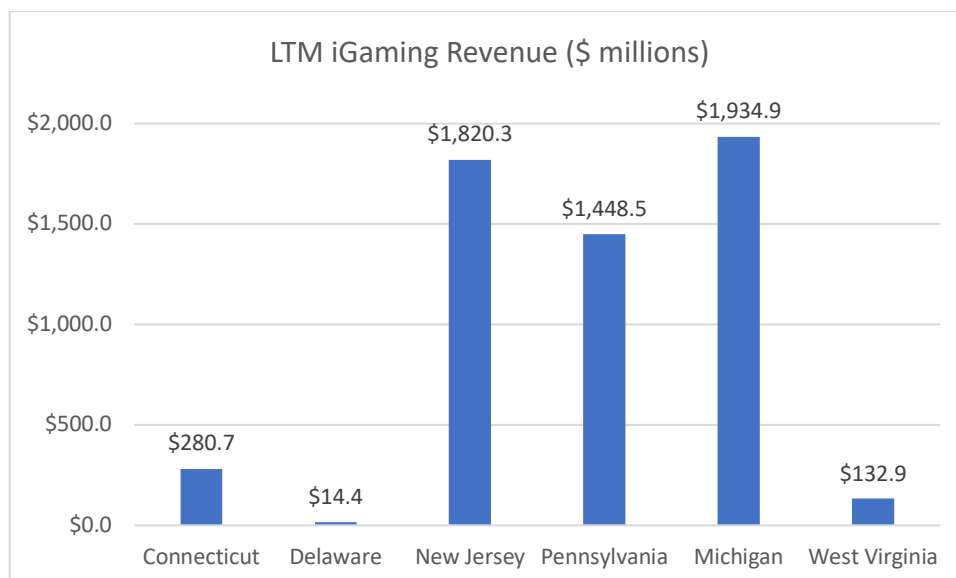


Source: Connecticut Division of Special Revenue

Summary of Results

Exhibit 1.7 summarizes the Last Twelve Months (LTM) of gaming revenue for the above States as of March 2023. New Jersey, Pennsylvania, and Michigan are well on their way toward \$2 billion a year in gross gaming revenues from iGaming and will likely cross that threshold next year, as the growth of iGaming revenue is still near double digits for all iGaming states, large and small. In total these states generated \$5.6 billion in iGaming revenue for the year ended March 31, 2023 (Exhibit 1.7).

Exhibit 1.7 iGaming GGR by State LTM ended March 2023



Source(s): Pennsylvania Gaming Control Board, New Jersey Division of Gaming Enforcement, Delaware Lottery, Michigan Gaming Control Board, West Virginia Lottery, Connecticut Division of Special Revenue

RHODE ISLAND iGAMING FORECASTS

To forecast iGaming revenue in Rhode Island we reviewed and analyzed the results for Delaware, Michigan, New Jersey, Pennsylvania, West Virginia, and Connecticut. In Exhibit 1.8, CCA presents the per adult spending on iGaming in these states for the Last Twelve Months (LTM) through March 2023. On a per adult basis, iGaming spend ranges from a low \$19.10 in Delaware to as much as \$263.05 in New Jersey.

Exhibit 1.8: Per Adult Spending on iGaming, LTM ended March 2023 (\$ millions)

State	Adult Population (millions)	LTM iGaming Revenue (\$ millions)	Per Adult Spending
Connecticut	2.7	\$280.7	\$103.13
Delaware	0.8	\$14.4	\$19.10
New Jersey	6.9	\$1,820.3	\$263.05
Pennsylvania	9.8	\$1,448.5	\$148.17
Michigan	7.5	\$1,934.9	\$258.29
West Virginia	1.4	\$132.9	\$98.28

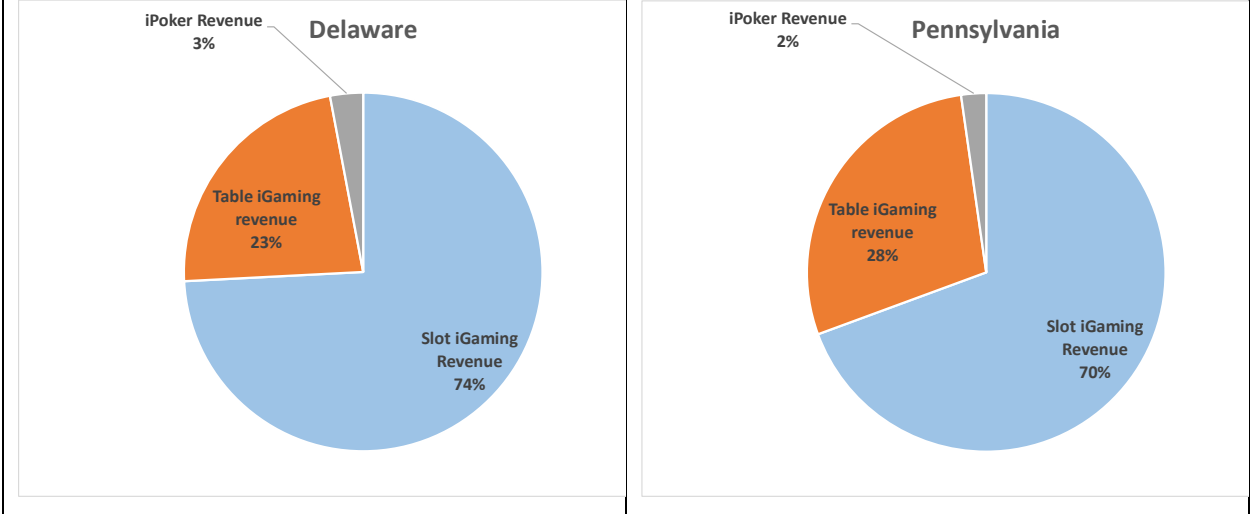
Source(s): Delaware Lottery, New Jersey Division of Gaming Enforcement, Pennsylvania Gaming Control Board, Michigan Gaming Control Board, West Virginia Lottery, U.S. Census Bureau, American Community Survey 1-Year Estimates

Given the rapid growth observed in iGaming, even in lower performing states such as Delaware, that, to date, has shown no signs of abating, these figures are likely to increase in the coming years. Even this limited performance is instructive, however. The evidence to date suggests that a monopoly or limited license models for online gaming such as in Delaware and West Virginia, whether casinos or sports, results in limited performance. The requirement in Rhode Island that all gaming be owned and operated by the State (similar to West Virginia and Delaware) precludes Rhode Island from a diverse iGaming offering akin to the more successful iGaming states like Michigan, New Jersey, and Pennsylvania. Thus, in generating projections for Rhode Island iGaming CCA has relied primarily on the experience of Connecticut (which only has two online casinos) and West Virginia. We have excluded Delaware from the analysis because the results there appear to be anomalous when compared to all other iGaming states for the reasons discussed above.

For the purposes of these projections, we assume that the only state neighboring Rhode Island with iGaming will remain Connecticut, i.e., no iGaming in Massachusetts. We estimate that Year 2 (to allow a year for a ramp up) per adult spending on Rhode Island iGaming as the average of the last twelve months in West Virginia and Connecticut, or \$100.71 per adult. That works out to Year 2 Rhode Island iGaming revenue of \$83.8 million.

Exhibit 1.9 presents the share of iGaming revenue derived from iSlots, iTables and iPoker in those jurisdictions that report these figures (New Jersey breaks out iPoker but not iSlots and iTables). As shown in the exhibit below, iSlots generate between 70 and 74% of total iGaming revenue. For Rhode Island, CCA has assumed the average of Delaware and Pennsylvania, specifically 71.8% iSlots, 25.6%, iTables, and 2.6% iPoker.

Exhibit 1.9: Delaware and Pennsylvania iSlots, iTables, and iPoker % of Gross Revenues



Source(s): Delaware Lottery, Pennsylvania Gaming Control Board

For the Rhode Island’s share of iGaming revenue, CCA has relied on the text of the proposed legislation (2023-S 0948 and 2023-H 6348) or GGR shares for iSlots of 50% and online table gaming of 18%.

Exhibit 1.10 presents CCA’s five-year forecasts of iGaming revenue and the associated share to the State of Rhode Island. Based upon the rapid growth of iGaming in other states, CCA has assumed a growth rate of 15% in iGaming revenues For Year 3, 10% in Year 4 and 5% in Year 5.

Exhibit 1.10: iGaming Revenue Projections and State Share by Year

GGR (in millions)	Year 1	Year 2	Year 3	Year 4	Year 5
iSlots	\$49.7	\$60.1	\$69.2	\$76.1	\$79.9
iTables	\$17.7	\$21.5	\$24.7	\$27.1	\$28.5
iPoker	\$1.8	\$2.2	\$2.5	\$2.8	\$2.9
Rhode Island Gross iGaming Revenue	\$69.3	\$83.8	\$96.4	\$106.0	\$111.3
-Promotional Expenses (15%)	\$10.4	\$12.6	\$14.5	\$15.9	\$16.7
Rhode Island Adjusted iGaming Revenue	\$58.9	\$71.2	\$81.9	\$90.1	\$94.6
Net State Revenue (in millions)	Year 1	Year 2	Year 3	Year 4	Year 5
iSlots	\$21.1	\$25.6	\$29.4	\$32.3	\$34.0
iTables	\$2.7	\$3.3	\$3.8	\$4.2	\$4.4
iPoker	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4
Rhode Island Gov't Revenue	\$24.1	\$29.2	\$33.6	\$36.9	\$38.8

Source: Christiansen Capital Advisors, LLC. estimates

A Word on Cannibalization of Land-Based Casino Gaming

CCA has reviewed the performance of iGaming states in the context of their land-based counterparts. To date, there has been no discernable impacts from iGaming on land-based gaming in Delaware, Michigan, New Jersey, Pennsylvania, West Virginia, or Connecticut. Some commentators have concluded from that fact that iGaming does not impact land-based gaming. That, however, is known as *status quo bias*.

The reality is that the data is just too limited currently to determine the extent of the impact of iGaming on land-based gaming. The pandemic and fiscal stimulus during and after have skewed recent performance data to much to be useful. This picture will likely become clearer two years from now when we can analyze “normal” data.

That said, even though we can’t accurately measure the level of displacement at this point in time, there are a few conclusions we can draw from the experience to date. The first is that iGaming grows the overall market. In other words, a dollar spent online is not simply siphoned off from a land-based casino, that has been definitively proven. The second is that **at these levels** iGaming does not appear to have a measurable impact on land-based casinos. Therefore, CCA feels confident that if the actual iGaming revenues are close to what we forecast above, the impact on Rhode Island land-based casinos should be slight if it is measurable at all. However, that may not be the case (and in CCA’s opinion will likely not be) if iGaming revenues considerably exceed our projections above.