

# Slots: Revenue Overview

February 9, 2017

Presented by:



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# Pari-Mutuel Permit Holders...

- As of June 30, 2016, there were **30 pari-mutuel facilities located throughout the state** where wagering is authorized for thoroughbred horse racing, harness horse racing, quarter horse racing, greyhound racing, or jai alai games.
- As part of the 2004 General Election, Florida voters approved a limited constitutional amendment to legalize slot machines at certain pari-mutuel facilities in Miami-Dade and Broward counties. The amendment further required an affirmative vote of the electors in each county before the slot machines could be actually authorized for that county. Broward's referendum was successful on March 8, 2005, and Miami-Dade's was successful on January 29, 2008. These referenda authorized slot operation at 7 facilities, and Florida law was amended to authorize operation at an 8<sup>th</sup> facility.
- **Slot machine gaming** is currently operating at 8 pari-mutuel facilities in Broward and Miami-Dade Counties.
  - A slot machine license fee is \$2 million annually.
  - There is a required fee of \$250,000 per facility to fund programs for the prevention of compulsive gambling.
  - The tax rate is 35% on specified slot machine revenues.
  - All but Calder Casino & Race Course also have a cardroom.

# Basic Tax Base --- Simplistic Form

**Handle**      -      **Prizes**      =      **Net Win**

*The total of all cash and property, except nonredeemable credits, received by the slot machine licensee from the operation of slot machines.*

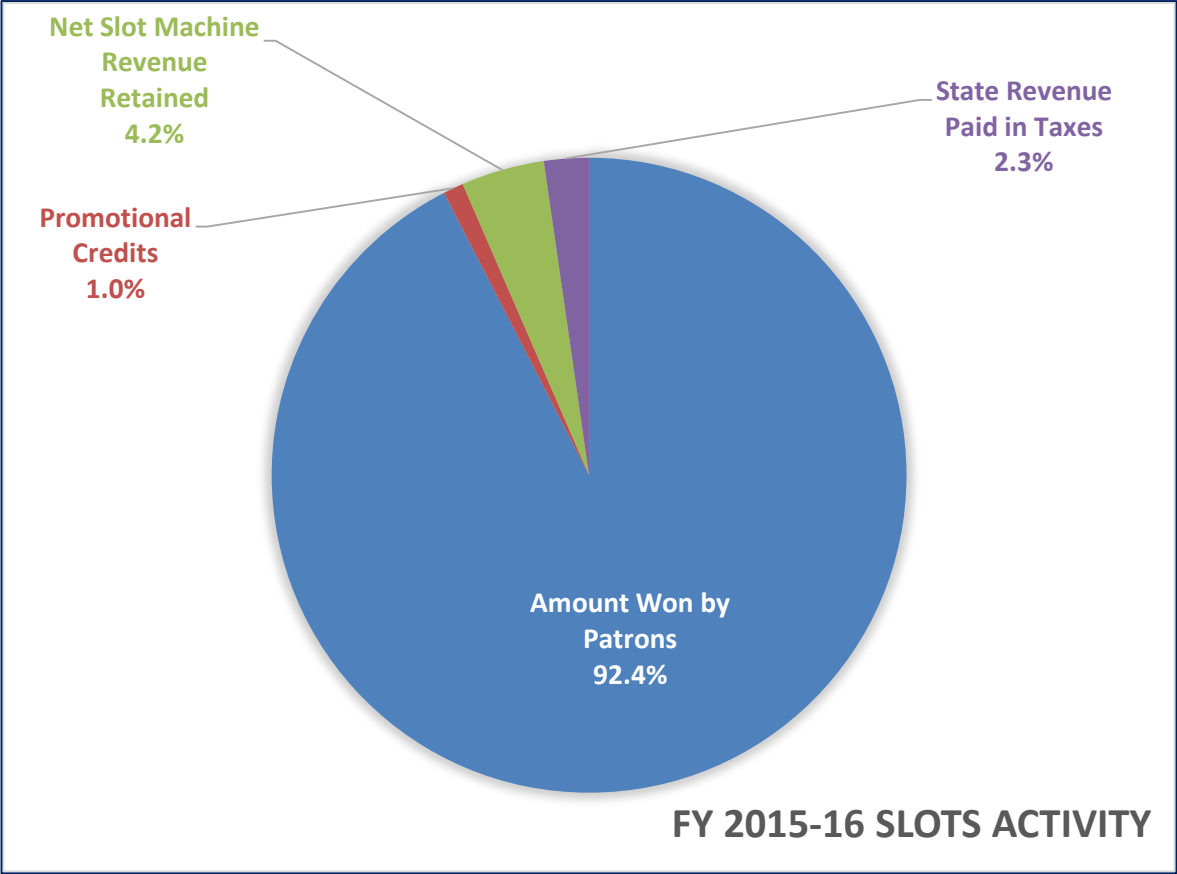
*The amount of cash, cash equivalents, credits, and prizes paid to winners of slot machine gaming.*

*The amount initially retained by the slot machine licensee. Represents the loss to the entire class of gamblers.*



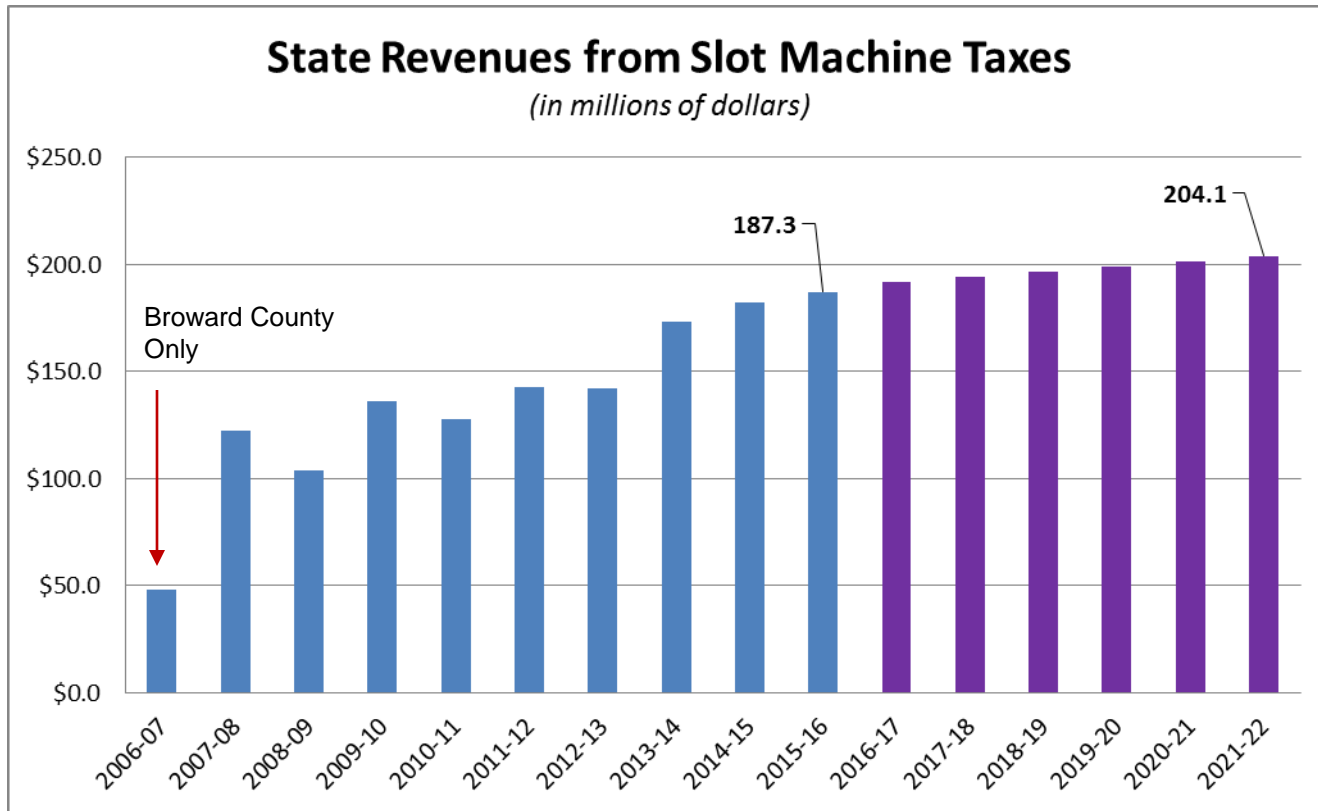
The payout percentage of a slot machine gaming facility is required to be at least 85 percent by law.

**Taxes, Expenses (which can include licenses) and Profits** usually *come out of Net Win, although taxes may be calculated against the handle.*



<b>Amount Wagered in FY 2015 16</b>	<b>8,237,416,807</b>	<b>100.0%</b>
Amount Won by Patrons	7,615,643,054	92.5%
Promotional Credits	85,384,990	1.0%
Net Slot Machine Revenue Retained	349,100,162	4.2%
State Revenue Paid in Taxes	187,977,011	2.3%

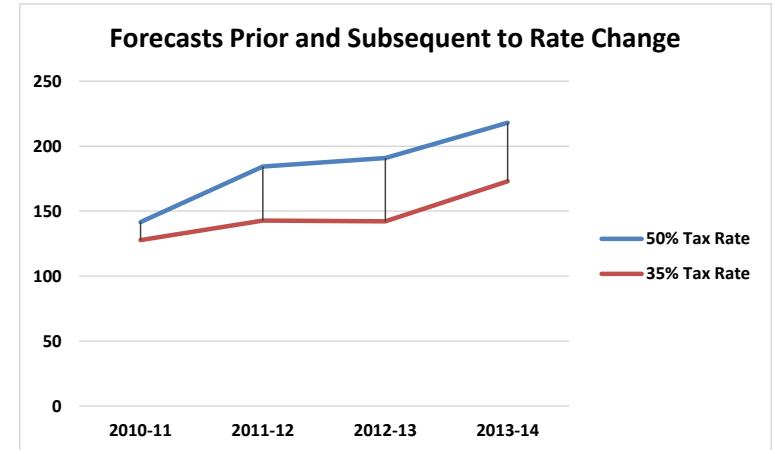
Net Win or  
Net Slot Machine Revenue  
= 6.5%



One-hundred percent of slot machine tax collections go to the Educational Enhancement Trust Fund. The slot machine tax rate was 50% in FY 2006-07 through FY 2009-10, and was reduced to 35% beginning in Fiscal Year 2010-11. The state switched from weekly to monthly collections of slot machine taxes in FY 2012-13, which causes the FY 2012-13 revenues to appear artificially low.

# Tax Rate Change...

During the 2010 Session, CS/SB 622 (Ch. 2010-29, LOF) passed which reduced the slots tax rate from 50% to 35% effective July 1, 2010. The Revenue Estimating Conference developed a new methodology to evaluate the change, assuming a non-recurring loss for three years and then a break-even point in the 4<sup>th</sup> year (meaning tax receipts at 35% in FY 2013-14 would equal the prior forecast for that year at 50%).



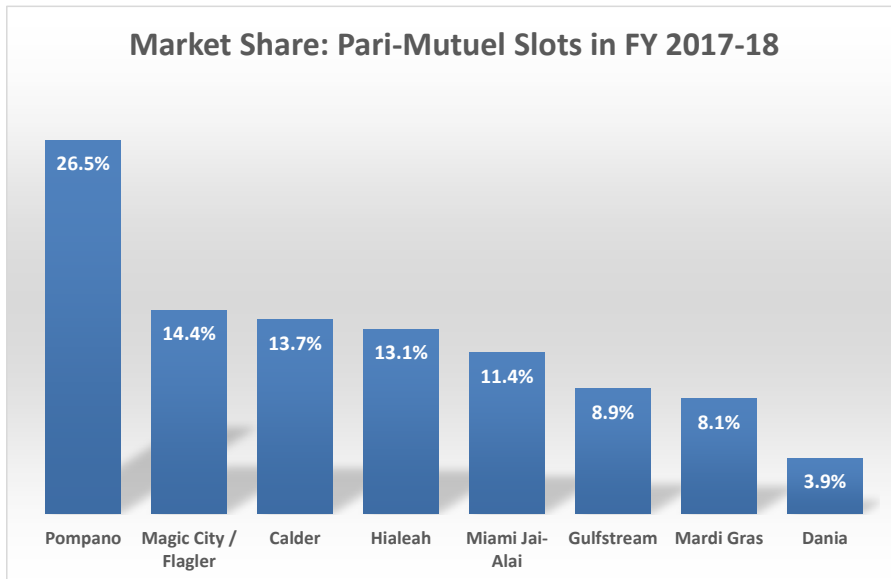
The underlying assumption was that activity would increase to the point where the rate change was revenue neutral by the fourth year—due to greater capital investments, promotions and prizes. Overall, net income would have had to increase by 43% for the change to have been revenue neutral. It did not.

Tax	Feb-10	Impact Rate Chg	Other Changes	Post-Session '10	Actual	Difference
2006-07	48.2	0.0	0.0	48.2	48.2	
2007-08	122.3	0.0	0.0	122.3	122.3	
2008-09	104.4	0.0	-0.3	104.1	104.1	
2009-10	129.6	0.0	0.0	129.6	136.4	
2010-11	166.7	-25.0	0.0	141.7	127.7	-14.0
2011-12	189.4	-14.2	9.1	184.3	142.7	-41.6
2012-13	193.8	-8.7	5.9	191.0	142.2	-48.8
2013-14	199.0	0.0	19.1	218.1	173.1	-45.0

# Revenue Scenarios for 2017-18...

FY 2017-18	35% Tax	30% Tax	Diff	25% Tax	Diff
Pompano	51.4	44.1	(7.3)	36.7	(14.7)
Magic City / Flagler	28.0	24.0	(4.0)	20.0	(8.0)
Calder	26.7	22.9	(3.8)	19.1	(7.6)
Hialeah	25.4	21.8	(3.6)	18.1	(7.3)
Miami Jai-Alai	22.1	18.9	(3.2)	15.8	(6.3)
Gulfstream	17.2	14.7	(2.5)	12.3	(4.9)
Mardi Gras	15.8	13.5	(2.3)	11.3	(4.5)
Dania	7.6	6.5	(1.1)	5.4	(2.2)
	194.2	166.5	(27.7)	138.7	(55.5)

- ✓ The slot machine facilities will have about \$8.5 billion in total wagering activity, of which \$555 million will qualify as taxable slot revenue and generate \$194.3 million in taxes.
- ✓ The average market share among pari-mutuel facilities drops to 11.6% when Pompano and Dania are excluded.
- ✓ The average number of machines per facility is 970, ranging from a high of 1,448 at Pompano to a low of 764 at Gulfstream.
- ✓ Pompano and Magic City / Flagler have the highest income per machine per day and Dania has the lowest.
- ✓ The average tax receipts per facility is \$24.3 million at 35%, or \$17.3 million at 25%.



# Underlying Economic Premises...

- The money for gambling expenditures comes from somewhere; it is not created:
  - *Recreational budget from discretionary income that could be spent on other items.*
  - *Savings or other investments.*
  - *For problem gamblers, dollars essential to subsistence.*
- Some or all of the jobs, wages and tax revenues attributed to gambling enterprises may be simply transferred from elsewhere. In other words, if the money was spent elsewhere in Florida, it would also generate jobs, wages and potential tax revenues from that expenditure.
  - *Moving activity from one place to another is simply churn without overall statewide gain.*
  - *For jobs, a statewide increase only exists to the extent that the individuals are otherwise unemployable or they are moving in from outside the state to take the jobs*
- In terms of the economy, there are different economic effects based on the type of gambler. Generally:
  - *Residents in the normal course of daily activity—displacement (-) or neutral (=).*
  - *Tourists who would have come to Florida regardless—displacement (-) or neutral (=).*
  - *Residents who would have otherwise left the state to gamble—removal of a leakage (+).*
  - *Tourists coming into the state to gamble who otherwise would not have—new revenue (+).*

The various gaming alternatives will have different mixes of gamblers.



# Secondary Premises...

- The specific location of new facilities matters. Pari-mutuel facilities with slot machines typically draw on their nearby market area (i.e., the local resident population).
- A local economic gain doesn't necessarily translate into a statewide gain. Activity may be pulled from another area of the state.
- It makes a difference where equipment and supplies are purchased (in-state or out-of-state).
- It matters where the profits go (in-state or out-of-state).
- Financed capital investment for infrastructure is initially positive as the dollars are infused, but later becomes a drain as repayments of the principal and interest remove dollars.

# Key Concept for Impact Conference...

- Cannibalization—creating demand for one product at the expense of another; substitution of one purchase for another. It can be detected through:
  - The shifting among state revenue sources when the gambling product is a substitute purchase replacing the purchase of another good which would have been taxed in a different manner. (+ or – depending on the difference in tax rates)
  - The shifting among gambling products that are substitutes for each other. (+ or - depending on the difference in tax rates)
  - The shifting between a nontaxable purchase to a taxed gambling product. (+)