

Best Practices for Setting Up A Government-Sponsored Racino Program

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Many states are debating the issue of whether or not to expand gaming. Most often, the idea of offering gaming at existing racetracks is discussed. Racinos, or racetrack environments with electronic gaming machines, have recently experienced increased popularity in the gaming environment. Racinos offer the ideal mix of age-controlled environments and the ability to provide new streams of revenue to both states and the pari-mutuel industry, without increasing the number of gaming establishments.

Over the past decade, several states have chosen this path with positive results. In the process, significant additional revenues have been generated for the respective states, along with enhanced purses that stimulate greater interest in the pari-mutuel industry and new sources of funding for local communities. Experience has demonstrated that these venues go hand in hand with the other lottery products without cannibalizing existing revenue. What follows is a review of a few key considerations that should be part of the evaluation.

Competitive Tax Rate

When deciding what to tax the gaming machine revenues for an individual jurisdiction, there are a few points that need to be closely considered. A higher tax rate does not necessarily produce more revenue. Currently, there are at least 10 states considering legislation to offer gaming at pari-mutuel venues. The tax rates under consideration range from 20 and 60 percent. Tax rates impact the ability of a pari-mutuel facility to invest in creating an entertainment experience for the players. The level of investment needed to offer an attractive facility, the geographical proximity to competing facilities, and the tax rate of those competing facilities are major considerations that will affect the success of a program.

With the expansion in the gaming industry over the past decade, virtually every state will soon find itself in the vicinity of a competitive electronic gaming facility. Policy makers need to appreciate that simply putting electronic gaming machines under the grandstand of an old racetrack isn't going to create an attractive or competitive entertainment experience. An effective tax rate will allow the venues to invest in amenities and create destination facilities that will maximize revenues. These destination facilities can result in additional employment, capital investment, and create a better experience for customers.

Generally, the tax rate becomes one of the most contentious parts of the policy discussion, with all parties wanting to maximize their revenues. It is difficult to suggest a tax rate that is effective for all markets; any jurisdiction considering an expanded gaming program should carefully review the competitive landscape prior to setting the tax rate.

Multiple Terminal Suppliers

Another factor that helps to create a competitive environment and maximize revenues is the selection of terminal vendors. Competition is one of the keys to a successful video lottery program. Multiple terminal

vendors should be selected to provide a variety of games. In participation based markets such as Rhode Island, Delaware, and New York, vendors place their terminals in exchange for a percent of net revenue. A performance test known as the "efficiency period" is conducted to evaluate vendor performance. Vendor terminals are judged by the proportion of revenue generated relative to market share. Low-performing terminals are replaced by another vendor whose terminals performed well during the efficiency period. The competitive risk of losing gaming terminals motivates the vendor to put the best possible product in place to maximize the revenue per machine.

In an environment where the machines are owned outright by the facility operator, having multiple vendors encourages the suppliers to introduce content that produces top net revenue to maintain their space on the floor. In both situations, multiple vendors provide better gaming options and create a more diverse product mix and a better experience for the player.

Oversight of the program

A key element for a rapid launch is having a knowledgeable regulatory body in place to run the program. Many markets have experienced significant start-up delays while the regulatory body navigates through the details of implementing the program. Choosing a gaming regulatory body that is already in place has significant advantages. The staff is usually familiar with the industry and can implement the new program faster than a group starting from scratch. This ensures that the revenue stream associated with the racino initiative starts to flow as soon as possible. It can also be more cost efficient to incorporate this additional business into the existing agency.

Conclusion

These are just a few of the many issues that should be considered prior to implementing a new or expanded gaming program. Racinos are an expansion concept with a considerable amount of program experience from which to draw on. Many states have experience in establishing an expanded gaming program which gives new markets the benefit of taking the best elements from each to develop the most effective program for their jurisdiction. By focusing on the "best practices" outlined in this article, gaming programs can dramatically increase revenues to local jurisdictions and provide the pari-mutuel industry with a powerful tool to regain its competitiveness with other forms of gaming and entertainment. ♣