

House Study Committee on the Preservation of the HOPE
Scholarship Program



**Final Report of the House Study Committee on the Preservation of the
HOPE Scholarship Program**

The Honorable Matt Ramsey
Chair
State Representative, District 72

The Honorable Chuck Martin
State Representative, District 49

The Honorable Howard Maxwell
State Representative, District 17

The Honorable John Meadows
State Representative, District 5

The Honorable Calvin Smyre
State Representative, District 135

The Honorable Ron Stephens
State Representative, District 164

The Honorable Brian Strickland
State Representative, District 111

House Study Committee on the Preservation of the HOPE Scholarship Program

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House Study Committee on the Preservation of the HOPE Scholarship Program

Introduction

House Resolution 827 created the House Study Committee on the Preservation of the HOPE Scholarship Program. This study considered the strain that lottery revenues have experienced in recent years in trying to maintain program funding levels. The Georgia Lottery funds the HOPE scholarship program and Georgia's Pre-K program, which have provided accessibility and enhanced the education for thousands of Georgians. Maintaining and expanding lottery funded initiatives such as the HOPE Scholarship program and Georgia's Pre-K program for future generations of Georgians is essential to the continued development of a well-educated state workforce and sustained economic growth. Due to the success and expansion of these lottery funded programs, significant pressures on the current funding framework exist. The study committee explored potential supplemental sources of revenue to preserve the HOPE scholarship program in the long-term focusing, specifically, on previously introduced legislation proposing the legalization and taxation of casino gaming and pari-mutuel wagering on horse racing.

Representative Matt Ramsey from House District 72 serves as the chair of the committee and authored the legislation that allowed its creation. Other members of the study committee include: Representative John Meadows, Representative Calvin Smyre, Representative Ron Stephens, Representative Howard Maxwell, all co-sponsors of the resolution, Representative Chuck Martin and Representative Brian Strickland.

The committee held four joint meetings with the Senate Study Committee over the course of the year. Although the committee is not a joint committee by way of resolution, they met jointly to hear hours of testimony from all sides of the issue. The purpose of this report is not to offer a specific recommendation on any of the legislative proposals studied by the committee but, rather, to provide a summary of the testimony provided over the course of these meetings. Many of the handouts, books, and slideshows provided to the committee are available online via the Georgia House of Representatives website. The chair of the committee will be happy to provide copies of these materials as well upon request.

Hearing Chronology and Witness List

The committee held four public meetings.

First Meeting

Date: September 14, 2015

Location: Coverdell Legislative Office Building, Room 606

Focus: Provided an overview of the goals of the Georgia Lottery Corporation, a history of the HOPE Scholarship Program and an understanding of how the Georgia Student Finance Commission uses the HOPE Scholarship to provide educational opportunities for Georgia students.

Witnesses:

- Debbie Alford, President, GLC, Sharman Lawrence, Senior Vice President - Finance, GLC, and Lucas Gangone, Director of Product Development, GLC
 - Representing the Georgia Lottery Corporation (GLC), the above individuals discussed the operation of the Georgia Lottery, performance trends of the Lottery, and how consumer tastes have impacted their profits.
- Tricia Chastain, President, GSFC and Marc Peevy, Vice President of Research, GSFC
 - Representing the Georgia Student Finance Commission (GSFC), the above individuals discussed GSFC's role in managing state and lottery-funded scholarships, grants, and loan programs and the current financial state of the programs.
- Whitaker L. Askew, Vice President of Government Relations, American Gaming Association
 - Representing the American Gaming Association, Mr. Askew discussed the economic and societal impacts of legalized gaming from the perspective of the industry's trade group.

Second Meeting

Date: September 15, 2015

Location: Coverdell Legislative Office Building, Room 606

Focus: Presentations provided perspective from gaming industry and horse racing advocates on the potential of legalized gaming in Georgia.

Presenters:

- Louis Frillman, Founder & President, Marquette Advisors and Brent Wittenberg, Vice President, Marquette Advisors
 - Representing Marquette Advisors – a leading financial advisor and market consultant for the casino gaming industry, the above individuals discussed the potential economic impact of casino gaming in Georgia and the policies necessary to provide such benefits.
- Bill Lerner, Founder, Union Gaming
 - Representing Union Gaming – a boutique investment bank and advisory firm focusing on the casino gaming industry, Mr. Lerner discussed how Georgia could maximize the economic benefits of casino gaming through the proper legislative and regulatory policies.
- Jim Murren, Chairman & CEO, MGM Resorts International

- Representing MGM Resorts International, Mr. Murren discussed MGM's casino development strategies, current casino developments around the country, and how Georgia could benefit from the legalization of gaming.
- Dean Reeves, President, Georgia Horse Racing Coalition
 - Representing Georgia Horse Racing Coalition (GHRC), Mr. Reeves discussed the unique characteristics – in terms of geography and existing equine infrastructure – that make Georgia an ideal place for horse racing.
- Alex Waldrop, President & CEO, National Thoroughbred Racing Association
 - Representing the National Thoroughbred Racing Association, Mr. Waldrop focused on both the national and global appeal of horse racing and echoed the potential economic benefits to the state.
- Mike Rodgers, President – Racing, Stronach Group
 - Representing the Stronach Group- the largest owner and operator of racetracks in North America, Mr. Rodgers discussed the portfolio of racetracks which his group owns as well as the economic impacts of those tracks.
- Michele Fischer, Director of National Sales, Sportech
 - Representing Sportech – a sports entertainment company with a focus on off-track pari-mutuel wagering facilities, Mrs. Fischer discussed the structure and design of their off-track wagering facilities in states like Connecticut.
- Dr. Charlene Dukes, President, Prince George's Community College and Joseph Martinelli, Interim VP for Workforce Development and Continuing Education, Prince George's Community College
 - Representing Prince Georges Community College, the above individuals discussed their college's partnership with MGM Resorts in supplying MGM's future destination casino at National Harbor with a skilled workforce.

Third Meeting

Date: November 2, 2015

Location: Armstrong Center Auditorium, Armstrong State University

Focus: Presentations covered perspective from gaming industry and horse racing advocates as well as opponents of legalized gaming.

Presenters:

- James Gagliano, President and CEO of The Jockey Club
 - Representing the Jockey Club - the breed registry for Thoroughbred horses in the United States, Canada and Puerto Rico, Mr. Gagliano discussed the horse racing industry and his organization's role in improving Thoroughbred breeding and racing.
- Mike Pollock, Managing Director of Spectrum Gaming Group
 - Representing Spectrum Gaming Group - an independent research and professional services firm serving state, tribal and national governments, casino operators, regulators, developers, etc, Mr. Pollock discussed the importance of gaming tax rates to investment and development.
- Professor John Kindt, Emeritus Professor of Economics, University of Illinois-Urbana
 - Representing himself, Professor John Kindt discussed the negative fiscal and socioeconomic implications of casino gaming and gaming policy with specific focus on Illinois' current fiscal crisis.

- State Representative Rusty Kidd, 145th District.
 - Representing himself, State Rep. Kidd spoke before the committee advocating for the allocation of gaming revenue to health care rather than the HOPE Scholarship program.
- Keith Smith, President & CEO, Boyd Gaming
 - Representing Boyd Gaming – a regional casino operator with properties in Las Vegas, Mississippi, Kansas, etc, Mr. Smith discussed the correlation between gaming tax rates and investment.
- Jay Dorris, President & CEO, PCI Gaming and Arthur Mothershed, VP of Business Development, WCH
 - Representing Poarch Creek Subsidiaries Wind Creek Hospitality (WCH) and PCI Gaming, the above individuals discussed the Poarch Creek Indians’ interest in one of the proposed commercial casino licenses and expressed support for the proposed gaming tax rate.
- Mike Griffin, Georgia Baptist Convention
 - Representing the Georgia Baptist Convention (GBC) – an autonomous association of Baptist churches in Georgia, Mr. Griffin emphasized his strong moral objection to the casino gaming.
- Virginia Galloway, Regional Field Director, Faith and Freedom Coalition of Georgia
 - Representing the Faith and Freedom Coalition of Georgia, Mrs. Galloway discussed her organizations opposition legalized gambling and offered alternative measures to contain the cost of the HOPE Scholarship.
- Jim Allen, Chairman of Hard Rock International and Chairman of Seminole Gaming
 - Representing Hard Rock Entertainment – a subsidiary of the Seminole Tribe of Florida, Mr. Allen discussed Hard Rock’s global brand penetration and how gaming comprises a portion of the group’s profitability.
- John Damico, Founding Partner of MDD Forensic Accounting /Treasurer of Georgia Horse Racing Coalition
 - Representing the Georgia Horse Racing Coalition, Mr. Damico discussed the potential economic impact of horse racing on Georgia through jobs, tax revenue, and tourism.
- Kevin Mullally, Vice President of Government Relations, Gaming Laboratories International
 - Representing Gaming Laboratories International, Mr. Mullally broadly discussed how best to tailor regulation and policy for the casino gaming industry.
- Kelly Duncan, Jones Walker LLP
 - Representing Jones Walker, Mr. Duncan – the head of the firm’s Gaming practice – focused on the regulation of gaming and the need for regulation to evolve over time. Specifically, Mr. Duncan spoke in favor of rewarding licensees and encouraging self-reporting.
- Tanya Ditty, Concerned Women of America
 - Representing Concerned Women of American for Georgia, Ms. Ditty discussed her opposition to legalized gaming based on the dangers it poses to the culture and families of Georgia.
- Cyndy Hartman, Concerned Citizen

- Representing herself, Ms. Hartman, a native of Atlantic City, NJ and resident of Georgia for twenty-nine years, offered words of warning based on her and her families experience with Atlantic City casinos.
- Reverend Tommy East, Pastor, Bible Baptist Church of Savannah, GA and member of Citizen Impact and Reverend Dale Montgomery
 - Representing Citizen Impact, the above individuals testified regarding their strong moral and religious objections to casino gaming and their belief that it destroys families and undermines a good work ethic.

Fourth Meeting

Date: December 10, 2015

Location: Coverdell Legislative Office Building, Room 606

Focus: Presentations covered proposed legislation, academic and religious perspectives.

Presenters:

- Rich Baldwin, Managing Director, Global Head of Union Gaming Analytics, Las Vegas
 - Representing Union Gaming, Mr. Baldwin focused on the relationship between the optimal policy and regulatory structure – including tax rate – and maximizing casino investment and economic impact as well as the importance of a competitive RFP and licensing process.
- State Representative Ron Stephens, 164th District
 - Representing himself, Rep. Stephens presented his bill, HB 677, introduced during the 2015 Legislative session, which would legalize casino gaming in Georgia and provide for a maximum of six casinos throughout the state. Rep Stephens also emphasized the significant economic impact of legalized gaming.
- Doug Walker, Professor of Economics, College of Charleston
 - Representing himself, Dr. Walker presented the findings of several of his studies on gaming that covered the economic, social, and consumer impact of casinos.
- State Senator Brandon Beach, 21st District
 - Representing himself, Senator Beach presented an overview of his bill which would legalize horse racing and pari-mutuel wagering in Georgia.
- State Representative Stacey Evans, 42nd District
 - Representing herself, Rep. Evans spoke to committee on the increasing inequality between those who can afford to go to college and those who cannot. Rep Evans focused specifically on students' inability to work their way through school and the declining percentage of tuition that HOPE pays.
- Reverend Willie J. Webb, Pastor, Foundation Baptist Church
 - Representing himself, Reverend Webb testified on the importance of education for Georgia's children and how education determines a child's future quality of life.

I. State of Play: The Georgia Lottery and HOPE

Since its inception in 1993, Georgia's HOPE Scholarship and Grant Program has served as a national model for success in providing scholarships and grants to eligible students seeking to obtain a traditional four-year college or technical college degree. Heralded by Governor Zell Miller in his 1992 State of the State Address as a means to ensure a better-educated workforce and invest in the state's economic future, HOPE has been funded entirely through the profits of the Georgia Lottery Corporation (GLC) since it sold its first ticket in 1993. An unprecedented \$8.1 billion in lottery proceeds have been distributed between 1993 and 2015 to provide 1.7 million Georgians an unparalleled opportunity for a higher education. However, as has been the case across the country, the continued success of the HOPE program has strained the lottery revenue available to cover college costs for eligible students. In short, the growth in eligible HOPE students has outpaced the growth in HOPE funding.

The Georgia Lottery Corporation:

Georgia Lottery Corporation boasts one of the most successful lottery programs in terms of national per capita sales, growth in profit, and returning profit to the HOPE program. While GLC has maintained an impressive record of increasing revenue consistently for years, its profit – and therefore the percentage it devotes to HOPE – has declined in response to consumer-driven market forces. Specifically, the GLC has witnessed a decrease in profit margins from 36% in FY 1995 to 24.8% in FY 2015 driven predominantly by a decline in the popularity of “draw” games and an increase in the popularity of “scratcher” games. While Lottery officials indicate this shift is not necessarily dangerous– given that draw games' revenue is more volatile – scratch games have a smaller profit margin. For its part, the GLC reaffirmed its commitment to driving the growth of its profit margin, focusing specifically on: increasing sales of draw games - which currently account for only 32% of products sold – deploying mobile technology to expand access to games, and focusing on quality distribution and inventory optimization.

The HOPE Program

In 2011, the HOPE Scholarship and Grant Program underwent significant reforms in order to stabilize and preserve a reliable stream of funding for future students. Among the changes – which included the elimination of book and fee payments and the institution of a seven year time limit on eligibility – HOPE award amounts were decoupled from tuition amounts and, instead, tied to a standard “factor rate” or percentage of what HOPE paid the previous year. While originally set at 90% of the HOPE award for 2011, from FY 2014 to 2016, Governor Nathan Deal set the factor rate at 103% allowing for HOPE awards to grow 3% annually. Today, the HOPE Program currently consists of six separate scholarship or grant programs: the HOPE scholarship, the Zell Miller Scholarship, the HOPE Grant, the Zell Miller Grant, the HOPE GED Grant, and the Strategic Industries Workforce Development Grant (SIWDG).

In the wake of these reforms, Georgia has seen the following changes to the landscape of its higher education system:

- Since 2011, there has been a decline in the number of students receiving both HOPE Scholarships and HOPE Grants. While a portion of this decline can be attributed to the 2011 reforms, it should be noted that the improving economy and declining unemployment rate is predominantly responsible for the decline in students covered – especially for the HOPE Grant.
- Given the current factor rate at which HOPE awards are set, across institutions – both traditional and technical colleges – there is a percentage of tuition currently not covered by HOPE Scholarships or Grants. While HOPE awards have grown since 2011, these awards are paying less and less each year as a total percentage of each student’s total tuition cost. It should be noted, however, that both the Zell Miller Scholarship and Zell Miller Grant cover a qualifying student’s full tuition costs.

I. Casino Gaming

The Study Committee heard from numerous representatives from the gaming and casino industry as well as individuals who have interacted with the gaming industry in states around the nation. Across presenters, there was widespread belief among industry representatives that Georgia, and in particular metro Atlanta, would be an incredibly successful market for resort-style casino gaming. The Committee heard “destination, resort-style casino” constantly throughout witness testimony. Chairman and CEO of MGM Resorts International, Jim Murren, indicated such casinos are defined by their non-gaming amenities and suggested that actual gaming typically comprises less than ten percent of the resort’s total gross area. Mr. Murren and other casino executives suggested that these types of facilities are more financially viable in the long-term because of their diversified revenue streams, which include gaming and non-gaming.

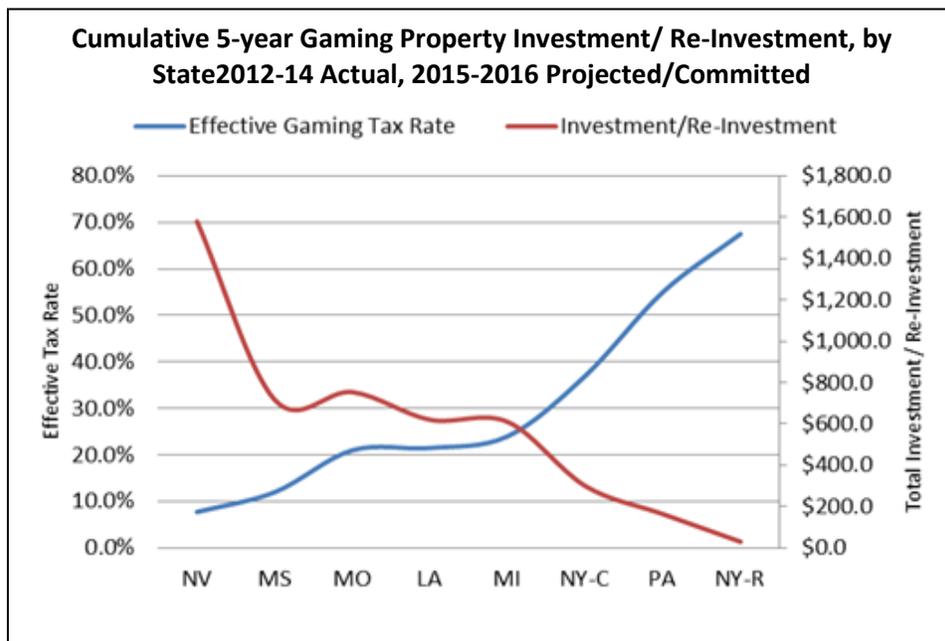
Viewed from both the perspective of an destination-style resort in Atlanta as well as the smaller regional casinos that have been proposed throughout the state, presenters emphasized that Georgia was a strategically sensible location for gaming in terms of population density, the accessibility of Atlanta, current and future tourism potential, and the abundance of cultural and entertainment venues already existing throughout the state. When viewed regionally, it was acknowledged that only Florida could possibly compete with Georgia for a billion dollar commercial casino gaming project.

However, while demographics, infrastructure, and existing amenities make Georgia an attractive site, witnesses before the committee cautioned that, should Georgia choose to pursue casino gaming, policymakers should be certain to consider the short and long-term implications of policies setting tax rates, licensure, and the types of gaming permitted. Within the southeastern region, Georgia would face gaming competition from casinos in Louisiana, Mississippi, Alabama, North Carolina, and Florida. According to research provided to the committee by Marquette Advisors, a consulting firm specializing in the analysis of hospitality and casino gaming projects, Georgia is currently losing an estimated \$346 million to these nearby casinos. This estimate is likely to rise to near \$470 million once the Cherokee River Valley Casino in North Carolina opens.

While one of the overarching goals of the legislative proposals to legalize gaming would be to recapture this lost revenue, committee members heard consistently that their policy actions could make or break this objective.

- Tax Rate:** While no ideal tax rate was ever brought before the committee, members consistently heard that a gaming tax should be on par with that paid by regional, competitor casinos in order to allow Georgia’s gaming industry to gain market share. As of the publication of this report, the gaming tax rate proposed under Rep. Ron Stephens’ HB 677 is set at 12%. While this rate was discussed at some length, the committee expressed some skepticism that it was the proper number. According to Marquette Advisors, the Stephens 12% proposal would generate nearly \$300 million per year in gaming tax revenue. Additionally, they estimated \$200 million in sales tax revenue, \$29 million in property tax revenue, and \$9.3 million in hotel tax revenue from HB 677.

Warning of the negative implications of too high a gaming tax rate, representatives of the gaming industry did cite numerous examples, predominantly from northeastern states, where tax levels were set prohibitively high – reaching levels near 70% -- and had impeded states from capturing the full benefits of gaming in terms of initial investment, long-term redevelopment investment, tourism, economic development, and tax revenue. One presenter, Union Gaming, provided the following graphic to demonstrate the inverse relationship between the tax rate and investment:



Marquette Advisors echoed the implications of the gaming tax rate on investment stating, “a Georgia gaming tax rate well in excess of those as established in nearby jurisdictions would result in greatly diminished interest among gaming companies,

facilities would be smaller, drawing a more localized customer base, having a dilutive effect on the benefits that would otherwise accrue to the Georgia economy from larger resort facilities.” As Michael Pollock of Spectrum Gaming stated, if the goal of legalizing casino gaming is to encourage the maximum amount of economic investment and development, then it is best to optimize the benefit of the low tax rate.

- **Licensure of Casinos:** Across the board, presenters were wary to endorse any policy of licensing an unlimited number of casinos. The challenges of demand for an “unlimited” number of casinos notwithstanding, witnesses testified that such policy would not necessarily maximize revenue and would likely dissuade gaming investment. While no specific number of gaming locations was endorsed, it was noted that such decisions must be based on demographics, population centers, and regional competition. Boyd Gaming executive Keith Smith discussed how these factors are evaluated through the gaming industry’s eyes. According to Mr. Smith:

“Each project must be carefully designed and developed to fit the needs and wants of the community it serves, and complement the unique fabric of that community. In addition, the regulatory and tax system in place has a significant impact on our investment and development decisions as well. We operate in jurisdictions such as Nevada, New Jersey and Mississippi with tax rates that range between 7 and 12 percent, but also have very few restrictions on the number of casino gaming properties that can be developed. We also operate in states that have a limited number of casino licenses and restrictions on where licenses can be located – an in turn, command higher tax rates to compensate for limited competition. The level and quantity of our amenities, and the total amount of investment we make in each property we build, is influenced by these factors.”

- **Permitted Gaming:** It was noted that, in some cases, states have sought to limit the format of games allowed at casinos – for example, favoring video gaming over table games. Witnesses counseled against this strategy as it limits consumers choice and will drive them to competitor locations.

Within each of these categories, it was evident that, as with any business, the gaming industry sought long-term certainty in terms of tax rates, the number of casinos licensed, and the policies by which they were governed and regulated. It was apparent that unforeseen changes in gaming policies would create a business environment in which casinos would be less willing to re-invest, impacting both economic development and tax revenue for the state.

Controlling for the final policies that might govern legalized gaming in Georgia, representatives of the gaming industry also focused significant attention on the job creation and economic

development potential of casinos. There was little disagreement that a casino development would lead to significant job creation in terms of construction jobs, permanent casino and resort positions, and tourism-related jobs. While projections ranged from several thousand to tens of thousands of jobs, it is of note that the majority – nearly two-thirds – of casino positions would be in non-gaming positions (i.e. hotel, entertainment, restaurant, and management). Marquette Advisors provided the sole estimate for the total economic impact of casino gambling in Georgia: \$5 billion. Whatever the actual economic impact, should Georgia legalize casino gaming, Bill Lerner of Union Gaming made note of the fact that such benefits would be realized without the use of taxpayer dollars through tax incentives, credits, or subsidized industry support programs. All such economic benefits would arise from private capital investment alone.

One of the committee's questions was the extent to which casino or pari-mutuel gaming would "cannibalize" existing lottery revenues. Various presenters, such as College of Charleston Economics Professor Dr. Doug Walker, opined that the reduction of lottery sales by casino gaming would be minimal – by his estimate a 2-3% loss in lottery sales. However, Dr. Walker further testified that the gaming tax revenues would more than offset this loss. Regardless of these estimates, the committee believes wholeheartedly that policymakers should ensure that any expansion of gaming will more than compensate for any potential loss by the lottery.

II. Horse Racing

Members of the Study Committee also heard from representatives and proponents of the horse racing industry on the viability of horse racing and pari-mutuel wagering in Georgia. Similar to casino gaming advocates, horse racing advocates emphasized the economic development potential that makes Georgia a logical site for horse racing. As with the casino gaming initiative, any efforts to legalize horse racing and pari-mutuel wagering in Georgia would be done so without the use of public incentives or taxpayer funding.

According to proponents, geographically, Georgia is ideally situated to host horse racing as it is the largest metropolitan area in the United States without a racetrack and boasts a robust equine industry. With the exception of states like Florida, Kentucky, and Louisiana, regionally, pari-mutuel wagering is non-existent offering Georgia an opportunity to capitalize on the horse racing industry. Coupled with the fact that Georgia already maintains a well-developed equine industry, horse racing, it was argued, could only benefit the state. For reference, according to the University Of Georgia College Of Agriculture, Georgia maintains more than 74,000 horses statewide and the equine industry contributes over \$750 million to the state economy each year.¹

Furthermore, positioning Georgia as a leader in horse racing offers the opportunity to not only recapture revenue leaving the state to be wagered at regionally competitive horse tracks but also capture out-of-state gambling revenue. According to horse racing advocates, it is estimated

¹ <http://extension.uga.edu/agriculture/animals/horses/>

that an astounding 87% of all pari-mutuel wagering comes from out-of-state, online participants. Currently, pursuant to the Interstate Horseracing Act of 1978, horse racing is the only sport specially permitted by federal law to offer online gambling and interstate betting.

Across the United States, pari-mutuel horse race wagering occurs in 43 states with live horse racing occurring in 33 of those. With annual wagering totaling over \$10 billion in the United States and \$90 billion worldwide², the potential of horse racing in Georgia to provide additional revenue for the HOPE Scholarship and Grant Program deserves consideration.

III. Opposition to Gaming

The study committee heard from advocacy groups, religious organizations, academics, and concerned citizens about the negative impact of allowing gaming and pari-mutuel betting in Georgia. A common theme among anti-gaming advocates is the expected increase in crime, addiction, bankruptcies, foreclosures and general changes in the character of communities in which gaming facilities are located. Without question, the fear of increased incidences of gambling addiction in Georgia has been a cornerstone of opponents' arguments against gaming expansion, and industry representatives acknowledge that a small percentage of gaming participants do become problem gamblers. Citing research from the University at Buffalo's Institute on Addictions, representatives from Concerned Women for America of Georgia informed the committee that over 80% of Americans gamble every year and between 3-5% of Americans have a gambling problem.

Opponents also suggested that those with gambling addiction are often at risk for other risky behaviors such as depression, tobacco use, alcohol addictions, drug dependencies/addiction, domestic violence, family neglect and various financial problems. Although many of these concerns are difficult to monetize, the need for treatment has been acknowledged by the gaming industry which is working with the National Council on Problem Gambling to promote corporate social responsibility for gambling-related problems. Regardless, many opponents, including Mike Griffin of the Georgia Baptist Convention, are not swayed by such actions. In plain terms, Mr. Griffin testified that should legislators enact any of these gaming proposals, they would be violating their moral responsibility to the citizens of Georgia.

In addition to gambling addiction, gaming opponent and retired University of Illinois Professor John W. Kindt warned the committee of the dangers of overly favorable gaming policies to state revenues. Citing Illinois specifically, Kindt summarized that the state had lost anywhere from \$35 to \$100 billion in potential tax revenue thanks to overly favorable tax rates and licensing fees for casinos compared to competitor states. In less than veiled terms, Kindt blamed the gaming industry for robbing the Illinois of much needed revenue to adequately fund state priorities such as pension and benefits programs for teachers and other government employees. Furthermore, Kindt emphasized what he believed to be the socioeconomic costs of casino

² Data presented by Alex Waldrop of National Thoroughbred Racing Association

gaming. Taking into account crime, addiction and bankruptcy, according to Kindt, the cost of gaming outweighs the economic benefits three to one.

In addition to discussing the reasons behind their moral and economic objections to legalized gaming in Georgia, Faith and Freedom Coalition’s Virginia Galloway also provided the committee with suggestions for alternative policy measures to protect the HOPE Scholarship program. Specifically, Mrs. Galloway emphasized cost-containment measures rather than revenue generation suggesting that the committee recommend tuition reduction measures, implement more stringent SAT/ACT requirements, and limit the majors that qualify for full tuition assistance.

IV. Gaming Policy across the United States

Today, thirty-nine states in the United States have some form of casino gaming – whether it be a commercial casino, tribal casino, horse racing track, or card room.



According to the American Gaming Association (AGA), in 2014, the U.S gaming industry supported 1.7 million jobs, contributed \$240 billion to the U.S. economy, and generated \$38 billion in tax revenue – \$21 billion of which went to states and municipalities in the form of state/local taxes and state/local gaming taxes.⁴ Such numbers are not surprising given that, since the Great Recession, consumer spending at gaming establishments has been on the rise.⁵ As

³ From the American Gaming Association’s 2013 State of the State Report: https://www.americangaming.org/sites/default/files/research_files/aga_sos2013_rev042014.pdf

⁴ Data from American Gaming Association: <https://www.americangaming.org/newsroom/press-releases/groundbreaking-new-research-reveals-impressive-magnitude-us-casino-gaming>

⁵ Data from American Gaming Association’s 2013 State of the State Report: https://www.americangaming.org/sites/default/files/research_files/aga_sos2013_rev042014.pdf

Georgia considers the merits of both casino gaming and horse racing, this section will survey the varying gaming policies around the country in hopes to provide stakeholders with an unbiased assessment of the how best to structure gaming policy should it come to Georgia.

For the purposes of this section, we will focus on the twenty-three states which operate commercial casinos with varying gaming tax rates, regulatory structures, and legalized forms of gambling. According to AGA's State of the State Report for 2013 – the most recent with numbers focusing exclusively on commercial casinos – across the board, the majority of states have seen a growth in gross gaming revenue and tax revenue from the gaming industry. Those states that experience decline – such as New Jersey and Delaware – can attribute at least a portion of their losses to increased regional competition.

Tax Rates⁶

While gaming tax rates vary widely across states, it is common practice for states to set rates based on the revenue earned by the casino or racetrack, the type of game responsible for the gaming revenue, or the type of gaming installation (i.e. casino, racetrack, or riverboat). For example, while Colorado sets graduated gaming tax rates – ranging from 0.25% to 20% – based on revenue, Pennsylvania sets varying flat gaming tax rates based on the type of game (i.e. slot machine vs. table game), which range from 16% to 55%. In addition, many states have also instituted a local gaming tax that goes to municipal governments. In Mississippi, both state and local governments collect a graduated gaming tax, while in Kansas the state collects a flat 22% and local governments collect at least 3%. Without question, we see some of the highest gaming tax rates in states like Delaware, Maryland, and Rhode Island where tax rates can approach almost 70%.

Given what we know about tax rates, what is the correlation between tax rates and gaming tax revenue? According to the AGA's State of the State Report for 2013, discounting Nevada's 7% gaming tax on one of its top industries, states grossing some of the highest tax revenues – Pennsylvania, New York, Indiana, Louisiana, Illinois, Missouri, and West Virginia – all of which had tax revenues exceeding \$400 million, have flat or graduated tax rates of at least 15% depending on revenue and game type that can reach as high as 55%, in the case of Pennsylvania's tax rate on slot machines. To be sure, however, higher tax rates do not necessarily guarantee higher tax revenues either. In the same AGA report, states like Delaware, Maryland, Kansas and Colorado – all of which have gaming tax rates that range from a top graduated rate of 20% in Colorado to a flat rate of over 67% in Maryland - have much weaker gaming tax revenues.

From a southeastern regional perspective, Mississippi offers a low graduated tax rate peaking at 8% plus a maximum 4% local tax. In contrast, Louisiana boasts much higher rates of 21.5% for

⁶ Data from American Gaming Association's 2013 State of the State Report:
https://www.americangaming.org/sites/default/files/research_files/aga_sos2013_rev042014.pdf

riverboat casinos with additional taxes going to local governments, 18.5 % for land-based casinos, and 18.5% state and 4% local tax for so-called racinos, or racetrack casinos. It should be noted that while both Mississippi and Louisiana's gross gaming revenue exceeded \$2 billion in 2013, Louisiana collected nearly double the tax revenue of Mississippi given their rates.

As Georgia considers the revenue potential of casino gaming and horse racing, policymakers should be wary of any attempt to solely tie a state's gaming tax rate to its ability to maximize gaming tax revenue. The above analysis would indicate that numerous factors – whether they be demographics, regional competition, or the number of gaming locations in each state – contribute to a state's ability to maximize revenue and investment.

Gaming Regulation

Under current proposals to legalize casino gaming and horse racing in Georgia, centralization of all regulatory and oversight responsibilities would be vested within the Georgia Lottery Corporation. When considering nationwide regulatory trends in casino gaming, only five states – Maryland, West Virginia, Delaware, New York, and Rhode Island – centralize regulatory authority of commercial casino gaming under their state's lottery or lottery regulatory body. For example, both casino gaming and the state's lottery are overseen by the New York Gaming Commission while Rhode Island's Lottery – a division of the Department of Revenue – oversees casino gaming. The remainder of states, including those that have casino gaming but no lottery, have created a separate gaming commission to oversee commercial gambling and/or horse racing and pari-mutuel wagering. For those states that maintain only tribal casinos, oversight is left to the tribes themselves; however, states typically provide some assistance in enforcing regulations.⁷

Focusing specifically on public policy and regulatory efficiency, the committee heard from Kevin Mullally with Gaming Laboratories International, who, prior to his current role, served as Executive Director of the Missouri Gaming Commission. Mr. Mullally testified that regulatory efficiency is comprised of three pillars: agency resources, regulated community resources, and state authority. Effective regulation, according to Mullally, should involve stakeholders from the outset, clearly communicate expectations and responsibilities to regulated populations, and provide compliance education when needed. When asked his opinion of separating the gaming and lottery regulatory commissions, Mr. Mullally responded that a choice like that was at the discretion of the state because every jurisdiction has unique needs.

V. Legislative Proposals

A. House Bill 677

⁷ Data from American Gaming Association's 2013 State of the State Report and Get to Know Gaming site: https://www.americangaming.org/sites/default/files/research_files/aga_sos2013_rev042014.pdf
<http://www.gettoknowgaming.org>

House Bill 677 as authored by State Representative Ron Stephens of the 164th District, seeks to amend the Official Code of Georgia by adding a Casino Gaming Commission and a Georgia Problem Gaming Fund to the Georgia Lottery Corporation. As currently established the Georgia Lottery Corporation operates by marketing entertainment products to raise educational funding for the Pre-K program and the HOPE Scholarship. This bill seeks to establish the provisions, terms, changes, prohibition of certain conduct and provide penalties relating to crimes and offenses in establishing and keeping a gambling facility.

Summary of Legislative Intent

- Following voter approval of a constitutional amendment in the 2016 election cycle, this bill would permit casino gaming in the State of Georgia with the aim of preserving the HOPE Scholarship program and other educational programs.
- Casino gaming will only be allowed in those counties and municipalities that approve, by public referendum, the establishment of licensed resort facilities. As such, a local referendum may not be held more often than once every three years in the same county or municipality.
- Licensed resort facilities would be subject to a 12% annual tax on their gross gaming revenue but would not be subject to coin-operated amusement machine regulations or taxation.

Analysis of Proposed Georgia Lottery and Casino Gaming Commission

Georgia Lottery Corporation would be renamed the Georgia Lottery and Casino Gaming Commission and would be vested with regulatory authority of casino gaming in the state. The Commission will be subject to open records and open meetings requirements; however, the Commission may determine certain information to be confidential and, as such, not subject to open records and open meetings requirements. The chairman of the Commission's board must appoint a Casino Gaming Advisory Board, comprised of ten members, to advise the board on various aspects of the casino gaming industry and present the concerns of casino gaming licensees, vendors, and other interested parties throughout the state.

Duties of the Commission

The Georgia Lottery and Casino Gaming Commission shall have jurisdiction over the licensing of casino gaming in the state. In addition, the Commission is required to visit, investigate, and be given free access to the place of business of any licensee. Additionally, the Commission can compel the production of any books, documents, records, or memoranda of any licensee. Other duties of the Commission shall be:

- Promulgating rules and regulations relating to casino gaming, including a requirement that licensees post a sign bearing a phone number for compulsive gambling assistance;
- To compel any licensee to file data with the Commission, including financial statements;

- Entering into agreements with government entities to exchange information or help ensure proper regulation of casino gaming;
- Subjecting any licensed resort facility to inspections to ascertain compliance and seizing any evidence of a violation;
- Inspecting the premises where gambling devices are manufactured, sold, or distributed in the state,
- Seizing equipment or supplies for examination from licensed resort facilities;
- Analyze the business of casino gaming and make recommendations to the governor and General Assembly regarding regulation;
 - Analyzing the scope of illegal gaming activities in the state;
 - Analyzing problem gaming;
 - Auditing former licensees; and
 - Issuing subpoenas and compelling witness attendance.

- Only when the Commission awards and issues a casino gaming license may a person construct, establish, own, or operate a resort facility in the state.
- The Commission may suspend or revoke any license or fine the holder a maximum of \$250,000 if it has reason to suspect noncompliance; however, the Commission must hold a hearing upon 15 days notice before such action.
- The Commission has the power to review a licensee's ownership structure, to require any new partner of an existing licensee to apply with the Commission, to require a proposal if an applicant desires to takeover an existing licensee, and to revoke a license in any acquisition of an existing licensee without prior approval. The Commission can also apply for an injunction if it suspects a violation.
- The Commission can regulate the periodic inspection of casino gaming operations at licensed resort facilities in the state; it can also regulate the assessment of minor civil penalties of violators. The Commission must adopt a rule that restricts participation in casino gaming for those over 21 years old.
- The Commission can talk to host areas for the purpose of discerning support or opposition in hosting a prospective casino resort applicant. If a prospective applicant promises certain benefits to the host community in the event the application is approved, the Commission can draw a negative inference against those applicants, as locals are not allowed to enter agreements that obligate the state.
- The Commission is authorized to enact a wide range of rules and regulations related to casino gaming in the state, including disputes between patrons and casinos, credit instruments, and inter-casino linked games, among other areas.

Analysis of Proposed Casinos

This bill creates five licensing regions throughout the state within which a maximum of six casinos may operate statewide. Even in the absence of a license in any given region, the allotted licenses for each Region may not be increased. The Commission can permit certain

officers, directors, members, partners, and stockholders of licensees, as well as other persons likely to have significant influence over the casino gaming operations of such licensees. Casino staff may also be permitted, as may vendors.

Analysis of Proposed Licensing

Any person wanting to construct, establish, own, or operate a resort facility in the state must file an application with the Commission, which must include a variety of information as required by statute and rules of the Commission. Notably, the Commission can require information it deems appropriate regarding the character, background, and responsibility of the applicant and related parties. Each application must be accompanied by a nonrefundable application review and processing fee capped at \$500,000 – although the Commission will set the fee according to its expected expenses associated with reviewing and processing the application. A financial deposit equal in amount to the licensing fee for the Region must also accompany any license application; upon approval, the deposit will be credited toward the casino gaming licensing fee. Should a license application be denied, the deposit must be refunded; if a denied applicant chooses to appeal the licensing decision, it forfeits the deposit to the Commission. The Commission must deny license applications in counties and municipalities in which gaming has not been approved by public referendum; it must also deny those applications if issuing a license to the applicant would not be in the best interest of the state or it would reflect poorly on the honesty and integrity of the gaming industry.

In approving an application, the Commission must apply set criteria, including:

- The applicant's adequate capitalization;
- If a stock corporation, the applicant has fully paid and non-assessable stock;
- The applicant submits the Georgia jurisdiction;
- The applicant's plans and specifications meet minimum total investment levels, and the applicant has a demonstrated history of meeting such total investment levels;
- The applicant has a demonstrated history of excellence in resort design and architecture, and the plans submitted are complimentary to existing area architecture;
- The applicant has a demonstrated history of excellence in developing resort facilities with high-quality, non-gaming amenities;
- The applicant has a demonstrated history of excellence in the development, management, and operation of high quality resort facilities for casino gaming;
- The applicant has a demonstrated history in valuing the principles of environmental stewardship at LEED Gold level standard or higher;
- The applicant has a demonstrated history of job creation, employment partnerships, and initial and ongoing training programs in the development and operation of resort facilities;
- The applicant has a demonstrated history of matching existing infrastructure capabilities of the areas surrounding such facilities;
- The applicant has a demonstrated history of promoting tourism in the state and increasing engagement of out-of-state residents;
- The applicant has a demonstrated ability of generating substantial casino gaming revenue in differing economic environments;

- The applicant has a demonstrated history of brand recognition and tourism-generating partnerships;
- The applicant has a demonstrated history of generating substantial tax proceeds;
- The applicant has a demonstrated history of running facilities that have a positive impact on economic development and business growth around such facilities; and
- The applicant has a demonstrated history of local support, community partnerships, and socially responsible behavior at the communities where it has developed, managed, and operated resort facilities for gaming.

The Commission must also consider the support of the area’s elected officials. Upon approval of a license, the licensee must pay a casino gaming licensing fee, varying based upon the licensing region. The license fee will be credited against the licensee’s application deposit. If an application is denied, the decision is appealable to the Superior Court of Fulton County within seven days.

Term of Initial License

An initial license term is 15 years, subject to five-year reviews within the term. Licensees can file a notice of intent to renew the license one year before its expiration; if the licensee is considered in good standing at the time of the renewal application, the Commission must automatically renew its license. If the licensee is not in good standing at the renewal time, the Commission can offer an opportunity to remedy any issues.

Analysis of Proposed Casino Gaming Education Account and Revenue Distribution

The Casino Gaming Education Account, a separate account created in the state treasury, will be the sole repository of revenue and proceeds derived from the following sources:

- Casino gaming licensing fees;
- Forfeited financial deposits of unsuccessful casino gaming license applicants;
- Civil penalties levied against licensees and other parties regulated by the Commission;
- Proceeds generated by the taxation of gross gaming revenue of licensed resort facilities; and
- All other permitting or regulatory fees collected by the Commission in accordance with any rules or procedures it promulgates.

Funds held in the CGEA may only be dispensed to the following purposes, and the Governor’s budget proposal and General Assembly appropriations must follow the provided funding guidelines:

- Funding of educational programs and purposes;
 - Minimum 90% of Casino Gaming Proceeds, dispensed to **HOPE**, other college financial assistance, Pre-k, and educational shortfall reserves. **HOPE** must be fully funded before allotting funds to the other purposes.

- Payment of operating expenses associated with the regulation of casino gaming by the Commission;
 - Maximum 5% of Casino Gaming Proceeds.
- Funding of state resources for the treatment of problem gaming issues; and
 - Maximum 2% of Casino Gaming Proceeds.
- Financial support of counties and municipalities hosting licensed resort facilities for casino gaming.
 - Maximum 4% of Casino Gaming Proceeds.

Analysis of Proposed Georgia Problem Gaming Fund

The Georgia Problem Gaming Fund is funded by the 2% allotted from the CGEA to award grants to state entities or organizations to provide programs for prevention and treatment of problem gaming. The Commission can use a maximum 10% of the Funds' money to administer the Fund itself. The Advisory Committee on Problem Gaming is tasked with reviewing grants for prevention and treatment of problem gaming, recommending grant awards to the Commission, setting criteria for grants, monitoring grant awards, and determining local community needs. The seven members, all appointed by the Governor, will be comprised of two current casino gaming licensees, two individuals who work in the area of mental health, one individual representing the Georgia Department of Education, and two individuals representing organizations that provide assistance to individuals who are problem gamblers.

Analysis of Proposed Georgia Licensed Resort Facility Host Community Fund

The Georgia Licensed Resort Facility Host Community Fund is funded by the 4% allotment from the CGEA to provide local impact grants to hosts of licensed resort facilities. The Commission can disburse such grants for:

- Infrastructure and transportation improvement projects within a five-mile radius of the host area;
- Funding school construction projects and educational programs in the host area;
- Funding economic and community development projects in the host area;
- Funding public safety projects and police, fire, and emergency service activities within a five-mile radius of the host area;
- Funding sanitation projects within the host area; and
- Funding all other projects that the General Assembly otherwise designates.

Analysis of Criminal Activity

A number of activities relating to casino gaming are criminalized, including defrauding a game or altering the outcome, operating without a license, manipulating a gaming device, and counterfeiting, among others.

B. SR 135: To Provide for Pari-Mutuel Wagering on Horse Racing (LC 29 7749ER)

SR 135, as authored by Senator Bandon Beach of the 21st District, seeks to authorize and provide for the regulation and operation of pari-mutuel wagering on horse racing in the state of Georgia.

Summary of Legislative Intent

- Upon adoption of the constitutional amendment by the General Assembly, it must be ratified by electors in the 2016 November elections. The act would become effective January 1, 2017.
- It should be noted that the siting of a racetrack or satellite facility must be approved by referendum by the county or municipality in which it is to be located.
- This legislation would provide for a maximum of **three** licenses for horse racetracks in affect at any time as well as a maximum of **fifteen** licenses for satellite facilities.

Establishment of the Division of Horse Racing (DHR) within the Georgia Lottery Corporation (GLC)

DHR would be vested with the power to promulgate rules and regulations governing the licensure and operation of horse racing and would be funded entirely by permit fees paid by the individuals and entities involved. The GLC board would be tasked with appointing a director of DHR with no less than 10 years' experience in horse racing and whose position shall be subject to confirmation by the Senate. DHR employees will be prohibited from having any direct or indirect financial interest in any horse racetrack, satellite facility, or horse.

DHR responsibilities would include:

- Jurisdiction over licensure and supervision of horse racing as well as the promulgation of applicable rules and regulations.
- Visit and investigate licensees and permit holders and may compel them to produce records and documentation to their satisfaction.
- Providing for background investigations and fingerprinting of all license holders, employees of DHR, etc.
- Promulgation of regulations governing simulcast horse racing at licensed tracks and satellite facilities.
- Promulgation of regulations governing advance deposit account wagering.
- Audit and report to the Governor and General Assembly annually.
- Appoint Stewards, Veterinarians, Inspectors, and other employees necessary to the supervision of horse racing.

DHR License Application Process

Those wishing to operate a horse racetrack or satellite facility where pari-mutuel wagering is permitted must apply for a racetrack owner or satellite facility owner's license. Such an application must include: name and address of applicant, whether they are qualified to do business in Georgia, the name and address of each stockholder or member of such corporation

who controls a 5% or greater ownership or security interest, location and description of the racetrack or satellite facility, and any other information deemed appropriate for the determination of approval. No applicant will be considered unless they demonstrate a track record of successfully managing and operating no less than five race tracks and a **handle** (total pari-mutuel betting from all sources) of \$2 billion. Once applicants are considered, no more than three licenses will be in effect at any one time.

Applicants may be denied a license should the applicant make false statements or deliberately fail to disclose information, be found guilty of any illegal, corrupt, or fraudulent act, have had a license to hold a horse race meeting denied or suspended in any other state or country, or not be qualified to do business in Georgia.

Approved racetrack owner applicants would be licensed to operate their facility for a period not less than twenty years subject to review every three years. License holders would be authorized to hold races at their facility for no more than 14 days per calendar year. Licenses for advance deposit account wagering and the operation of a satellite facility would be issued for a period of five years subject to annual review.

Permitting of Horse Racing Participants

All participants in horse race meetings or pari-mutuel wagering including, but not limited to, horse owners, trainers, jockeys, veterinarians, agents, grooms, exercise riders, pari-mutuel employees, concessionaries, etc must possess a permit from DHR. These permits are not transferable and will be subject to a fee prescribed by DHR. These permits are valid for one year and can be denied in cases where the applicant is found to have made false statements, been found guilty of misconduct in horse racing, etc.

Handle, Takeout, & Distribution

- **Handle:** total amount of pari-mutuel wagering from all sources
- **Takeout:** the percentage of the Handle deducted by the racetrack prior to distribution to the bettors.
- The distribution of the takeout, as a percentage of the handle, of all pari-mutuel pools offered on races by track and satellite licensees:
 - 5% - Purses for live races
 - 3% - Allocated to the GLC for HOPE and needs based scholarships
 - 1% - Local governing authority of racetrack/satellite facility within its jurisdiction
 - 0.5% - Breeders awards as incentive to grow GA equine industry
 - 0.1% - To UGA School of Veterinary Medicine
 - Balance will go to cover racetrack/satellite facilities operating expenses

DHR Permit Fee Schedule

- The following amounts are “not to exceed” and are subject to annual review by DHR.
 - Racetracks: \$150,000
 - Advance Deposit Wagering Operations: \$150,000
 - Satellite Facilities: \$15,000
 - Non-thoroughbred Racing Facilities: \$15,000
 - Associated Business Entities: \$5,000
 - Employees: \$500
 - Owners and Trainers: \$100

Interstate Compact on Licensure

The Interstate Compact on Licensure seeks to simplify and standardize the rules and regulations governing the licensing of horse racing with pari-mutuel wagering across participating states. This legislation would authorize DHR to participate in such a compact in order to avoid duplicative processes and reduce costs across states. Such a compact would be negotiated by a representative from each participating state – appointed by the Governor – as part of a “Compact Committee” but would only come into force should at least four states enact such a compact.

Criminal Provisions

Examples of criminal penalties include:

- 1-10 years in prison and/or \$100,000 fine for those guilty on conducting pari-mutuel wagering or horse racing without a license. (Felony)
- 1-10 years in prison and/or \$100,000 fine for those guilty of forging a license or permit. (Felony)
- 1-10 years in prison and/or \$100,000 fine for those guilty of transmitting information or results of horse racing for illegal betting. (Felony)
- 1-10 years in prison and/or \$100,000 fine for those guilty of attempting to influence the results of a horse race by promising or offering participants items of value. (Felony)
- 1-3 years and/or \$25,000 fine for those guilty of altering the outcome of a race by administering a prohibited substance to or using an unauthorized device on a horse. (Felony)

House Study Committee on the Preservation of the HOPE
Scholarship Program

Signatures:

The Honorable Matt Ramsey
Chair
State Representative, District 72

The Honorable Chuck Martin
State Representative, District 49

The Honorable Howard Maxwell
State Representative, District 17

The Honorable John Meadows
State Representative, District 5

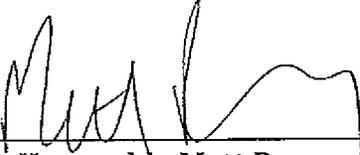
The Honorable Calvin Smyre
State Representative, District 135

The Honorable Ron Stephens
State Representative, District 164

The Honorable Brian Strickland
State Representative, District 111

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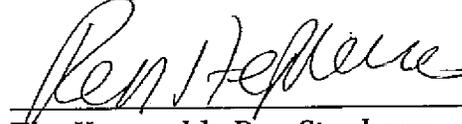
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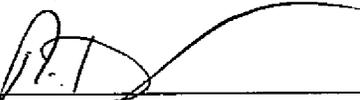
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