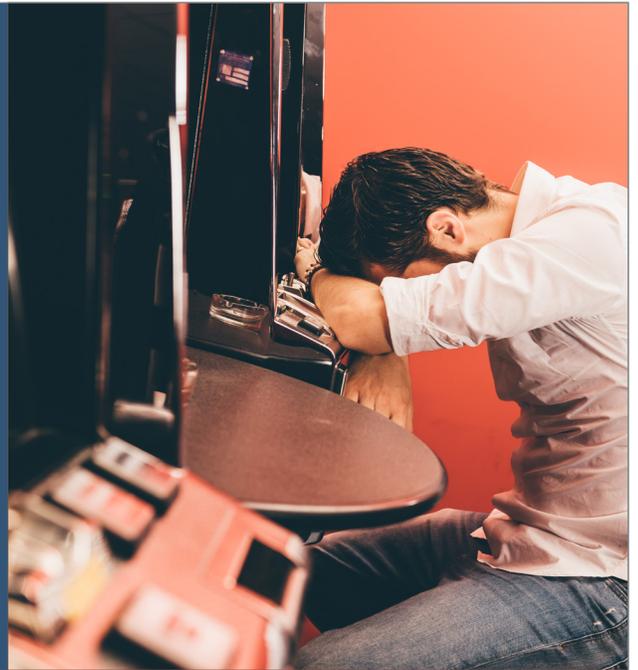


THE TRUE IMPACT OF VIDEO SLOT MACHINES IN WYOMING



BILL HB0284

HB0284 WILL CREATE FREE-FOR-ALL, INVITE CRIME AND CORRUPTION, AND COST TAXPAYERS MILLIONS

The Wyoming House of Representatives is currently considering HB0284, “Video Skill Games,” a bill that attempts to create a regulatory framework to manage the introduction of video slot machines to bars, restaurants, stores, clubs, and truck stops.

Unfortunately, the House bill is unsuccessful. The bill gives responsibility for regulating these thousands of new machines to the Lottery Corporation, but appropriates no funds for establishing or operating this new set of activities – a true Washington D.C. style “unfunded mandate.” We project that protecting Wyoming from the potential negative aspects of distributed slot machines, as described in testimony by Bryon Oedekoven of the well-respected Wyoming Association of Sheriffs & Chiefs of Police, will cost taxpayers as much as \$1.5 million per year.

In addition, the regulation that is envisioned is limited to simply rubber-stamping license

applications and then checking to make sure that any machines in the state have a sticker on them – no attention is paid to verifying proper operation to ensure that players are not being cheated, validating accuracy of financial reports to ensure the state revenue fund isn’t being cheated, or enforcing other rules mentioned in the bill such as age limits. During the House Appropriations Committee hearing, mention was made of employing existing Liquor Division employees to perform these site visits, but this is not included in the language of the proposed statute.

This is classic “ready-fire-aim” legislation, where the rush to pass something – anything – is pushing a bill to the floor that contains substantial

weaknesses likely to be readily exploited by organized crime, well-funded out-of-state gaming enterprises, or both. These concerns are echoed by the Sheriffs & Chiefs of Police.

Affects Over 1,000 Establishments, Nearly 3,000 Machines

The envisioned proliferation of gambling activities would necessitate a substantial expansion of the size and scope of state government by empowering the Lottery Corporation and/or Liquor Division to license, inspect, enforce, and manage the system of rules and regulations for machines, dealers, and host establishments contemplated in HB0284. Recognizing that an influx of

“This would be the BIGGEST EXPANSION of gambling in Wyoming history without knowing exactly how the gambling devices work, and without clear directive on how they should be regulated.”

– Byron Oedekoven, Wyoming Association of Sheriffs & Chiefs of Police

gambling positions is likely to yield a concurrent influx of both organized and small-time local crime, even further involvement is required from the government and law enforcement to address these issues and keep citizens safe, extending government reach yet again.

In addition, if passed, the proposed bill is drafted such that video slot machine vendors and operators stand to reap a windfall in profits that are only lightly taxed, while taxpayers foot the bill of any shortfall in funds required to provide administrative and protective measures. Far from bringing additional funds into state government, the proposed gambling scheme will cost the state while enriching the slot machine owners.

Resource Requirements are Underestimated, Leading to Cost Overruns

The bill under consideration grossly underestimates the resources required to properly license, inspect, audit, and collect fees for thousands of new video slot machines at bars, restaurants, clubs, and truck stops, in towns and on highways across the state's 100,000 square miles.

To properly perform these duties, a staff of 30-40 new individuals will be required, including trained investigators and field staff, experienced forensic accountants, lawyers, IT professionals, and office staff. We project the total cost for such



a program to approach \$2 million, based on an analysis of the costs incurred when Illinois established a similar statewide gaming environment over the past decade.¹

HB0284 currently assumes that these activities will simply be handled by the existing Lottery Corporation – or perhaps the Liquor Division – with no additional funds appropriated to support these activities.

Revenue Shortfalls are Likely, Leading to Tax Increases

Funding a \$2M annual budget solely on tax revenues will be a substantial challenge for this new agency. For instance, fees for slot machine decals are only \$50 per machine – even with 3,000 machines, this yields only \$150,000 per year in revenues. Dealer permits are more expensive (\$5,000 first year, \$2,500 renewals) but there will only be a relatively small number of vendors supplying these machines. The bulk of the revenues would have to come from taxes on the profits that system owners/operators would earn, but the proposed bills have set the tax rates ludicrously low when compared with other states.

The Wyoming proposal calls for a total tax rate of just 10%, while most jurisdictions charge between 30% and 50%. Even neighboring Montana charges 15%.²

Even this 10% tax rate is misleading, as only TWO PERCENT is dedicated to funding regulatory activities. Even the most generous projections indicate that this 2% tax might produce a revenue stream of a few hundred thousand dollars, only a small fraction of the total cost.

Illinois experienced substantial shortfalls from 2013-2017, when fees collected averaged as little as 17% of the total costs incurred, leaving the state to make up the 80%+ difference from other sources.³ With a proposed tax rate of less than 1/3 of what Illinois charges, and plans to split those tax revenues with local jurisdictions and the education fund, Wyoming is likely to experience shortfalls at least as bad as those in Illinois, which would mean dipping into tax revenues at a time when the state can least afford it, or increasing taxes on citizens and businesses – all while ensuring maximum profits flow into the pockets of the slot machine vendors and operators.





“With this much potential income, it will draw the criminal element like moths to a light.” – Byron Oedekoven

SOCIETAL IMPACTS CAN ALSO BE COSTLY

While the data surrounding the link between gambling and crime or other societal ills can be somewhat unclear at times, there are two unavoidable conclusions.

First, although no clear linkage can be drawn between large casinos and criminal activity, recent academic studies do clearly find that introducing decentralized gambling, such as video slot machines in bars and truck stops, **increases crime** in the immediate area surrounding those establishments **by as much as 15%**.⁴

Second, while exact numbers vary, studies show that taxpayers in localities that introduce gambling can typically expect to **spend around \$3** to address increased addiction, crime, and bankruptcy **for every \$1** in revenue to the state.⁵

References

¹ “[Illinois’ gaming] board estimated it would need a staff of 350 to do the job, according to internal agency reports” – Wyoming’s projected number of “gaming positions” is approximately 1/10 the number in Illinois, so we have divided by 10. Illinois spent \$17M on regulating video slot machines in 2017. Again applying the 1/10 multiplier, we expect Wyoming to spend \$1.7M to regulate slot machines alone. (<https://chicago.suntimes.com/news/legalized-video-gambling-illinois-bad-bet-poker-slot-gaming-machines-publica-wbez/>)

² Sources include state gaming agencies and the US Census Bureau. (<https://chicago.suntimes.com/news/legalized-video-gambling-illinois-bad-bet-poker-slot-gaming-machines-publica-wbez/>)

³ Ibid.

⁴ August 2017 University of Illinois study “Can’t Stop the One-Armed Bandits: The Effects of Access to Gambling on Crime” (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3020332)

⁵ Data from National Gambling Impact Study Commission and other academic studies, as reported in https://www.nwintimes.com/business/gambling/illinois-flush-with-video-gaming-but-problems-arising/article_c91643cf-1885-512a-9e6a-fce26eb625f3.html

“This bill has NOT received the scrutiny an issue of this magnitude demands”

– Byron Oedekoven

Conclusions

The gambling bill currently proposed in the Wyoming House, HB0284, is a bad bill. It will promote the expansion of the number of government employees and the state’s annual budget, and promise to line the pockets of video slot machine vendors with laughably low tax rates on gambling revenues, while failing to provide adequate protections against crime and corruption. Sold on the promise of increasing state revenues, in fact the expansion of gambling to every corner of Wyoming will lead to increased costs and government overreach, while enriching video slot machine vendors over Wyoming’s citizens and charities.

This bill is bad for Wyoming.