

Video Gaming

**City of St Charles
Government Operations Committee
August 17, 2015**



Video Gaming Review

- * Government Operations Committee Meeting
- * August 17, 2015
- * Agenda
 - * Overview from the August 3 meeting
 - * Professional counsel– Maurine Patten, Ed.D., CMC
 - * Social cost and the environment
 - * Direct video gaming cost and revenues
 - * Related Information

Video Gaming Review...

Governed by State Law (230 ILCS 40/)

Video Gaming Act:

Eligibility – 3 types of establishments:

- * Liquor license for consumption on premises
- * Fraternal or veteran's organizations
- * Truck stop facilities (STC has no truck stops)

Limited to placement of 5 terminals per establishment

Video Gaming Review...

VGT's must be segregated and under adult supervision at all times

Illinois Gaming Board has oversight and investigative responsibilities

- * Licensure and Background Checks
- * Violations and Citations
- * Tax Collection and Reporting
- * Ongoing Compliance

Video Gaming Review...

State and municipalities share tax revenues:

30% tax rate on “Net Terminal Income”

- * State retains 5/6ths of tax revenue
- * City receives 1/6th of tax revenue

Tax revenue comes from players' losses

- * Players lose \$2,000,000 for every \$100,000 of City revenue

Long lead time for revenue recognition

Video Gaming Review...

City revenue likely \$175,000 annually at full normalization (3-5 years?)

- * Would require approximately 92 terminals to be placed
- * Approximately 25% absorption – currently 370 VGT's could be placed.
- * Revenue varies with:
 - * Number of VGT's placed
 - * Wagering activity

Video Gaming Review...

Local police jurisdictions with video gaming have not seen increased crime or calls for service

Little evidence of direct impacts to City service levels

* Indirect impacts? – *difficult to quantify*

Video Gaming Review...

Social costs and issues:

- * Addiction and counseling
- * Domestic issues/abuse
- * Homelessness
- * Bankruptcy
- * Reduced resources to allocate to other needs

Video Gaming Review...

Private Economic Benefits

- * Boost to revenues of local businesses
 - * Allows for cost offsets without raising prices
- * Fraternal organizations raise revenue for their purposes
- * Levels playing field with neighboring communities

Video Gaming Discussion Points

- * Definitions: video gaming, addiction and video gaming addiction
- * Video gaming addiction's impact on the brain
- * Video gaming's relationship with alcohol
- * Link between video gaming addiction and location

Definition of Video Gaming, Addiction and Video Gaming Addiction

- * Video Gaming – an electronic game in which players control fast action images on a tv or computer screen (*Merrian-Webster Dictionary*)
- * Addiction – repeatedly pursuing a rewarding experience despite serious repercussions because the brain's reward system becomes flooded with dopamine that travels to the frontal cortex producing euphoric effects (*Scientific American*, Vol 309, Issue 5, "How the Brain Gets Addicted to Gambling," Ferris Jabr, Oct 15, 2013)
- * Gambling Disorder – Persistent, recurring problematic gambling behavior leading to clinically significant impairment or distress, having at least 4 of 9 specified behaviors in the APA 2013 DSM5 "Substance-Related & Addictive Disorder" category (DSMV.org [Diagnostic and Statistical Manuel of Mental Disorders 5], American Psychiatry Association [APA], 2013)
- * Video gaming addiction occurs in the brain as different brain processes are involved, changing parts of the brain over time that affect emotions, decision-making, empathy, moral intuition, judgment, and behavior control (*National Council on Problem Gambling*, 2013)
- * 2-3% (4M-6M)of adults in US have a gaming problem; another 1% ((2M) has a gaming disorder, (Know the Odds.org, Jim Marney, Executive Director, 5/13)

Addiction's Impact on the Brain

- * The pleasure center tells the brain what is important and what behaviors to repeat to survive (*Scientific American*, Vol 309, Issue 5, "How the Brain Gets Addicted to Gambling," Ferris Jabr, Oct 15, 2013)
- * The brain's reward system in the pleasure center is over-stimulated by video gaming negatively affecting emotions, decision-making, empathy, moral intuition, judgment, and behavior control (*Know the Odds Blog: The Insula: Did Scientists Find Part of Brain Linked to Gambling Addiction*, Jim Maney, Executive Director, 4/16/15)
- * Dopamine (neurotransmitter) floods circuits to the frontal lobes producing euphoric, trance-like effects similar to a high or "being in the zone" (*Natasha Schull, Addiction by Design: Machine Gambling*, p. 18-19, 2012)

Video Gaming's Relationship with Alcohol

- Alcohol is a common risk factor (KnowtheOdds.org, Jim Marney, Executive Director, 5/13)
- * Takes significantly less time for addiction to occur with video gaming – less than a year (Chicago Tribune 5/29/15)
- * Video gaming is more similar to cocaine and Meth (Chicago Tribune 5/29/15)
- * Gambling and drugs alter the same brain circuits in similar ways (Scientific American, Vol 309, Issue 5, "How the Brain Gets Addicted to Gambling," Ferris Jabr, October 15, 2013)
- * 1 in 5 with a gaming disorder attempt suicide – twice the rate of other addictions (Chicago Tribune 5/29/15)
- * 1 in 12 adults (20% of US population) addicted to alcohol (National Council on Alcohol Addiction, Alcoholism and Drug Dependence, 2007)

Link Between Location and Video Gaming

- * **Easy access to gaming opportunities increases the odds of problem gambling among women** (Canadian Journal of Psychiatry, University of Manitoba, Community Health Science and Psychiatry Departments, 8/3/15)
- * **Easy access or close proximity to gaming is considered a risk factor for addiction affecting all ethnic groups, married, single, divorced, widowed, male and female regardless of employment and education levels** (KnowtheOdds.org, Jim Marney, Executive Director, 5/13)
- * **“As video gaming venues increase, prevalence of addiction increases”** (Anita Bedell, president of the Illinois Church Action on Alcohol and Addiction Problems [ILCAAAP], 2014)

Social Costs - Quantitative/Qualitative

- * Quantitative

- * “Kindt, a professor of business and legal policy at the University of Illinois Urbana... has studied the effects of gambling for the last 25 years, points to his own research findings that suggest all gambling in the state produces about \$1.5 billion, whereas the "social costs" – drug addiction, bankruptcies and crime – fall between \$3 billion and \$6 billion.”
- * St Charles is included in this value.

Source: Chicago Tribune, *Industry-financed Report Sparks Debate on Merits and Dangers of Video Gambling*, 5/29/15

Social Costs – Quantitative/Qualitative

- * Qualitative

- * *We do recognize, video gaming is here today in our area and SC is not immune to whatever the real social costs may be. SC is a donut hole with State managed video gaming all around us. Further, e-technology permits video gaming today in St Charles. The social costs are here now.*
- * *Social Services agency feedback.*
 - * *No quantitative increase in number of gaming clients, however they are concerned about the introduction of the State managed video gaming in the City.*

Video Gaming Statistics

Amount Wagered = \$17,713,459,876.08

VGT Payouts = \$16,302,292,805.82

Net Terminal Income = \$1,411,167,070.26 (NTI)

Net Terminal Income (NTI) = Amount wagered – VGT payouts

State Payout Ratio = 92.03%

* Payout Ratio =

$$\$16,302,292,806 / \$17,713,459,876 = 92.03\%$$

(Source: Illinois Gaming Board Video Gaming Report Statewide Allocation Summary for 34 month period from September, 2012 to June 2015).

Video Gaming Statistics

Amount wagered in VGT's from July, 2014 through
June, 2015: \$10,004,851,311

(Illinois Gaming Board website – Statewide Allocation Summary Report)

Lottery Sales from the same 12 month period
(unaudited):

\$2,841,400,000

(Illinois Lottery website – History of the Illinois Lottery 2011-2015)

Video Gaming Statistics

* Tax Rate = 30% of Net Terminal Income (NTI)

State retains 5/6ths (83.33%) of taxes generated
Municipalities receive 1/6th (16.67%) of taxes generated at VGT's located in local limits

Sources: Tax Rate per 230 ILCS 40/60 (a.)
Tax Distribution per 230 ILCS 40/60 (b.) and
230 ILCS 40/75 (a.)

Calculations

Based on these amounts,

\$25,094,102.89

would need to be wagered at VGT's
located within City limits to return

\$100,000.00

$$\$100,000 = \$25,094,102.89 \times 0.0797 \times 0.3 \times 0.1667$$

in tax revenue to the City of St Charles.

Calculations

Amount Bet = \$25,094,102.89

State Payout Ratio = 92.03%

Payouts returned to players = \$23,094,102.89

NTI = \$2,000,000

$(\$25,094,102.89 - \$23,094,102.89)$

Players will have lost \$2,000,000 in VGT wagers in this scenario.

Calculations

Tax Rate = 30% of Net Terminal Income (NTI)

NTI = \$2,000,000

Total Tax Liability = \$600,000

$\$600,000 = \$2,000,000 \times 0.30$

State Tax revenue = \$500,000

$\$500,000 = \$600,000 \times 0.8333$

City Tax revenue = \$100,000

$\$100,000 = \$600,000 \times 0.1667$

State retains 5/6ths (83.33%) of taxes generated

City receives 1/6th (16.67%) of taxes generated at
VGT's located in City limits

Distribution of Wagers made...

The example presumes \$25,094,102 of wagering activity. They are distributed as follows:

Winnings returned to players = \$23,094,102

Taxes paid to State of IL= \$ 500,000

Taxes paid to City of St Charles= \$ 100,000

Paid to Terminal Operator= \$ 700,000

$\$700,000 = (\$25,094,102 - \$23,094,102) \times 0.7 / 2$

Paid to Local Licensed Businesses= \$ 700,000

$\$700,000 = (\$25,094,102 - \$23,094,102) \times 0.7 / 2$

Note: 230 ILCS 40/25(c) requires 50% of after tax profits from a VGT to be paid to the Terminal Operator (VGT provider) and 50% to be paid to the local licensed establishment hosting the VGT. Winnings returned to players based on average payout ratio of 92.03%.

How Many Terminals?

Statewide wagering activity since September 2012

\$17,713,459,876.08

Number of months: 34

Average wagers per terminal per month:

\$39,591*

* - The average of each month's average wagers per terminal (Total wager activity / number of terminals for that month) for the 34 month period from September 2012 – June 2015

How Many Terminals?

Average wagers per terminal per month:

\$39,591

Annual total wagers per terminal ($\$39,591 * 12 \text{ mo.}$):

\$475,092

Number of Terminals necessary to generate
\$25,094,102.89 wagered:

53 terminals

Note- 53 terminals may include 11 locations

Note- \$25,094,102.89 is the amount wagered for the City to make \$100,000 in revenue.

How Many Terminals?

Therefore, based on the state average wagering activity, we would need to place

53 VGT's

in the City limits to return

\$100,000 in tax revenue.

Based on these averages and calculations each establishment placing 5 terminals would equate to approximately :

\$9,500 in tax revenue for the City (which equates to \$189,962 in wagering losses annually per site with 5 VGT's)

Impact to Local Businesses

Based on \$475,092 average annual wagering activity per VGT, a local business would expect to receive:

\$13,253 per VGT placed.

If a local business were to place 5 VGT's, it would expect to receive:

\$66,265 per year

Note- $\$475,092 = \$39,591 \times 12 \text{ mo.}$

Distribution of Wagers Placed:

Average wagering activity =	\$475,092
Net Payout Ratio =	92.03%
Returned to Players =	\$437,228
$\$437,228 = 0.9203 \times \$475,092$	
Net Terminal Income (Wagering Losses)	\$37,864
Taxes paid to state =	\$ 9,466
Taxes Paid to City =	\$ 1,892
Paid to Terminal Operator =	\$ 13,253
Paid to Local Host Site =	\$ 13,253

Amounts reflected are per terminal

Comparison to other revenues...

Sales Tax	\$ 15,954,886
Property Tax	\$ 12,413,312
Franchise Fees	\$ 3,485,932
Income Tax	\$ 3,229,295
Hotel Tax	\$ 1,768,106
Alcohol Tax	\$ 1,062,211
Telecomm Tax	\$ 1,037,563
Total Seven Largest	<u>\$ 38,951,305</u>
Total General Fund	<u>\$ 40,673,762</u>

Video Gaming Projections

53 VGT's	\$ 100,000
106 VGT's	\$ 200,000
159 VGT's	\$ 300,000

Note:

During Fiscal Year 2015, the seven largest revenue sources accounted for \$38,951,305 of the total General Fund Revenue of \$40,673,762 (approximately 95.8% of total revenue).

Comparison to other revenues...

Building Permits	\$	257,830	0.63%	Video Gaming Projections
Liquor Licenses	\$	183,250	0.45%	53 VGT's \$ 100,000
Traffic Fines	\$	181,054	0.45%	106 VGT's \$ 200,000
<i>Impound Fees *</i>	\$	123,055	0.30%	159 VGT's \$ 300,000
PPRT	\$	98,355	0.24%	
Admissions Taxes	\$	72,066	0.18%	
Parking Tickets	\$	52,487	0.13%	
Misc Bus. Permits	\$	35,320	0.09%	
<i>Booking Fees *</i>	\$	19,434	0.05%	
<i>Fighting Violations *</i>	\$	8,960	0.02%	
Total General Fund	\$	40,673,762	100.00%	

Notes:

Percentages listed represent the percentage of total General Fund Revenues provided by the line item.

* - Indicates that the revenue source was added during the Strategic Sustainability Initiative undertaken in response to the Great Recession.

Can we “undo” video gaming?

State statutes provide the City with the authority to prohibit Video Gaming. There is nothing in the statute that the City’s authority to do so is in any way affected but it’s allowing it. In other words if the City repeals the prohibition on video gaming it still can prohibit it at a later date. There may be practical problems with winding it down but no legal impediment at least at the present time.

Can we limit video gaming?

- * There are means to limit or control video gaming.
 - * Elgin, Bloomingdale and Bartlett have controls in place.
 - * Tools include:
 - * Minimum floor area of business
 - * Operation for a minimum of one year with a liquor license before a video license is issued
 - * Requirement to have an on-site kitchen

Question/Comments

* 081715 DRAFT slides.pptx