



GEORGIA STATE SENATE

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THE FINAL REPORT OF THE SENATE GAMING AND PARI-MUTUEL WAGERING ON HORSE RACING AND GROWING GEORGIA'S EQUINE INDUSTRY STUDY COMMITTEE (SR 367)

COMMITTEE MEMBERS

Senator Brandon Beach – Chair
District 21

Senator Tonya Anderson
District 43

Senator Bill Cowsert
District 46

Senator Mike Dugan
District 30

Senator Frank Ginn
District 47

Senator Steven Gooch
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Senator John Kennedy
District 18

Senator Butch Miller
District 49

Senator Freddie Powell-Sims – Ex-Officio
District 12

Senator Nikema Williams
District 39

Ms. Gretchen Corbin
CEO of the Georgia Lottery Corporation

*Prepared by the Senate Research Office
2019*

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COMMITTEE FOCUS, CREATION, AND DUTIES

The Senate Gaming and Pari-Mutuel Wagering on Horse Racing and Growing Georgia's Equine Industry Study Committee (Committee) was created by Senate Resolution 367 to study the potential economic development and fiscal benefits of legalizing gaming and pari-mutuel wagering in Georgia.¹

Senator Brandon Beach of the 21st served as Chair of the Study Committee. The other Committee members included:

- Senator Tonya Anderson of the 43rd;
- Senator Bill Cowsert of the 46th;
- Senator Mike Dugan of the 30th;
- Senator Frank Ginn of the 47th;
- Senator Steven Gooch of the 51st;
- Senator Ed Harbison of the 15th;
- Senator John Kennedy of the 18th;
- Senator Butch Miller of the 49th;
- Senator Freddie Powell-Sims of the 12th;
- Senator Nikema Williams of the 39th; and
- Ms. Gretchen Corbin, CEO of the Georgia Lottery Corporation.

The following legislative staff members were assigned to this Committee: Mr. Andrew Allison of the Senate Press Office; Mr. Ryan Bowersox and Ms. Katherine Russell of the Senate Research Office; Ms. Jinnie Christensen, Legislative Assistant to Senator Beach; and Mr. Jeff Lanier of the Office of Legislative Counsel.

¹ <http://www.legis.ga.gov/legislation/en-US/Display/20192020/SR/367>

BACKGROUND

In Georgia, the various forms of gambling are prohibited with limited exceptions. Under the Georgia Constitution “all lotteries, and the sale of lottery tickets, and all forms of pari-mutuel betting and casino gambling are hereby prohibited; and this prohibition shall be enforced by penal laws.”² The most significant exception to this prohibition was instituted in 1992, allowing the Georgia General Assembly to provide for the operation and regulation of a lottery by or on behalf of the state. Proceeds from the lottery are used to pay for the operating expenses of the lottery, and for educational programs and purposes. Educational programs and purposes eligible to receive lottery proceeds include: “Tuition grants, scholarships, or loans to citizens of this state to enable such citizens to attend colleges and universities located within this state, regardless of whether such colleges or universities are operated by the board of regents, or to attend institutions operated under the authority of the Department of Technical and Adult Education; and Voluntary pre-kindergarten.”³

Utilizing proceeds from the Georgia Lottery, the first HOPE scholarship was awarded in 1994 providing full scholarship to qualifying students, including coverage of fees and a book allowance. Since its inception, the HOPE programs have undergone several necessary cost saving reforms reducing the coverage provided to students. When taking into account the full tuition cost and all identifiable mandatory fees required, the HOPE scholarship currently covers approximately 41 to 65 percent of the full cost of attendance at major universities in Georgia.⁴

The legalization of forms of gambling can have a strong positive impact on state tax revenue and economic development. In 2018, \$41.7 billion in gaming revenue was collected nationwide. This revenue resulted in the collection of \$9.7 billion in gaming taxes alone to state and local governments.⁵ States across the country have opted to legalize a combination of various forms of gambling including sports betting, commercial casinos, and pari-mutuel wagering on horse racing.⁶

Georgia has a strong history of supporting professional and collegiate sport programs. Atlanta is home to such major league sports teams as the Atlanta Braves, Atlanta Falcons, Atlanta Hawks, and Atlanta United FC. Recently, the Georgia Professional Sports Integrity Alliance released a letter expressing their position on the potential of sports betting in Georgia.⁷ The alliance expressed support of the passage of state law legalizing online and mobile sports wagering, provided regulations and safeguards are in place.⁸

Pari-mutuel wagering is a form of gambling where the payoff to winning bettors is made evenly from a pool of all bets placed on the event.⁹ As pari-mutuel wagering is most often associated with horse racing, when legalized, this form of gambling directly impacts a state’s equine industry. Currently, Georgia has a small but promising equine industry. While the state is not one of the top ten states for producing quantity of horses, it is known to have high quality horses and horse facilities. Many well-established trainers have moved their operations to Georgia to take advantage of a climate conducive to horse breeding. There are more than 74,000 horses in Georgia today. The most common breeds are Quarter Horses, Tennessee Walkers, Paints, American Saddles, and Appaloosas. The economic impact for the breeding and care of these horses is in excess of \$750 million a year.¹⁰

² GA CONST Art. 1, § 2, ¶ VIII.

³ *Id.*

⁴ Estimates on HOPE coverage performed by the Senate Research Office using publicly available information on HOPE awards, tuition rates, and mandatory university fees.

⁵ <https://www.americangaming.org/wp-content/uploads/2019/06/State-of-the-States-2019-One-Pager.pdf>.

⁶ https://www.americangaming.org/wp-content/uploads/2019/06/AGA-2019-State-of-the-States_FINAL.pdf.

⁷ Members of the Alliance include the Atlanta Hawks Basketball Club, Atlanta Falcons, Atlanta United FC, and the Atlanta Braves.

⁸ This letter is available at <https://www.sportsintegrityalliance.com/ceo-call-to-action>.

⁹ <https://www.britannica.com/topic/pari-mutuel>.

¹⁰ <https://extension.uga.edu/topic-areas/animal-production/equine.html>.

COMMITTEE MEETINGS

The Committee met and heard testimony from experts and interested parties at four meetings. These meetings were focused on the following topics respectfully: The Georgia Lottery and the HOPE scholarship; legalized sports wagering; casino gaming; and pari-mutuel wagering and Georgia's equine industry. A final meeting was held where no further testimony was received and the Committee met to discuss and adopt a final report.

Meeting 1 – August 27, 2019

The first meeting was held on August 27th at the Georgia Lottery Corporation Headquarters and focused on the Georgia Lottery and the HOPE scholarship. Testimony was provided detailing the history, success, and recent developments of the Georgia Lottery. Additionally, the Georgia Student Finance Commission presented to the Committee regarding the use of Georgia Lottery revenue, specifically focusing on the development and future of the HOPE scholarship. The Committee heard testimony from the following individuals:

- **Ms. Gretchen Corbin**, Chief Executive Officer, Georgia Lottery Corporation
- **Mr. John Heinen**, Senior Vice President of Coin Operated Amusement Machines, Georgia Lottery Corporation
- **Ms. Caylee Noggle**, President, Georgia Student Finance Commission

Meeting 2 – October 8, 2019

The second meeting was held on October 8th at the Georgia State Capitol and focused on the current status of legal sports betting across the country and the potential of legalizing this wagering in Georgia. Testimony was provided focusing on the structure and regulation of sports wagering in other states and potential benefits Georgia is likely to experience from the legalization of sports wagering. The Committee heard testimony from the following individuals:

- **Mr. John Osenenko and Ms. Emily Marsh**, Scientific Games
- **Mr. Robert S. Highsmith, Jr.**, Partner, Holland & Knight

Meeting 3 – October 17, 2019

The third meeting was held on October 17th at the Georgia State Capitol and focused on the potential legalization and development of casino gaming in Georgia. The Committee was provided an overview of a casino development by Wynn Resorts in Boston Harbor, and the benefits experienced by the community. The Committee heard testimony from the following individuals:

- **Mr. Rick Ruskell**, Legislative Counsel, Georgia General Assembly
- **Mr. Chris Gordon**, President, Wynn Development, Wynn Resorts
- **Dr. Robert Wright**, Entrepreneur
- **Mr. Ryan Soultz**, Boyd Gaming
- **Mr. Ed Clark**, President, Atlanta Motor Speedway
- **Mr. Allen Vella**, Chief Executive Officer, Fox Theater; Representative of the Georgia Arts and Cultural Venues Coalition
- **Mr. Les Bernal**, National Director, Stop Predatory Gambling

Meeting 4 – October 29, 2019

The fourth meeting was held on October 29th at the Georgia State Capitol and focused on the legalization of pari-mutuel wagering and growing Georgia's equine industry. Testimony was provided by experts representing other states allowing pari-mutuel wagering on horse racing, and the positive impact of the industry on the state, including their respective equine industries. Further presentation was provided highlighting Georgia's existing resources capable of supporting growth in the equine industry. The Committee heard testimony from the following individuals:

- **Senator Damon Thayer**, Kentucky Senate Majority Leader
- **Mr. Tom Mosley**, Vice President, Indiana Thoroughbred Owners and Breeders Association

- **Mr. Dean Reeves**, President, Georgia Horse Racing Coalition
- **Dr. Jared Williams and Dr. Singen Elliott**, UGA College of Veterinary Medicine
- **Mr. Patrick Connell**, Savannah Law Offices of Boyd & Jenerette
- **Mr. Jack Flowers**, Georgia Hunter Jumper Association
- **Ms. Anna Ford**, Thoroughbred Manager, New Vocations

Meeting 5 – December 18, 2019

The fifth and final meeting was held on December 18th at the Georgia State Capitol to consider and adopt a final report.

The testimony provided by the above groups and individuals assisted the Committee in developing the Committee Findings presented in this report.

COMMITTEE FINDINGS

The Committee heard from experts and interested parties concerning the current status of legalized gambling and its proceeds within Georgia, and the potential of legalizing other forms of gambling. The Committee explored the prospect of legalizing sports betting, casino gaming, and pari-mutuel wagering. With the expansion of gambling, the Committee discussed potential state benefits, including increased state revenue, and economic development resulting from increases in the industry.

The gaming industry, including sports betting, casino gaming, and pari-mutuel wagering, represents a unique economic development opportunity. Unlike other economic development projects undertaken, most of the gaming industry does not require incentives to enter and operate in a state. Economic development and revenue benefits deriving from the industry would not be offset by state tax or other incentives. Along with the Committee's discussion of an expected positive impact, consideration was given to concerns over unintended negative consequences further gambling could bring to Georgia. While legalized gambling can provide a state potential benefits, there is the risk of economic and social costs to a state. Increased gambling brings a danger of individuals succumbing to gambling addiction and the increase in other illegal industries. Additionally, expansion in gambling industries must be done carefully to not threaten other existing industries within a state that may compete to provide similar entertainment.

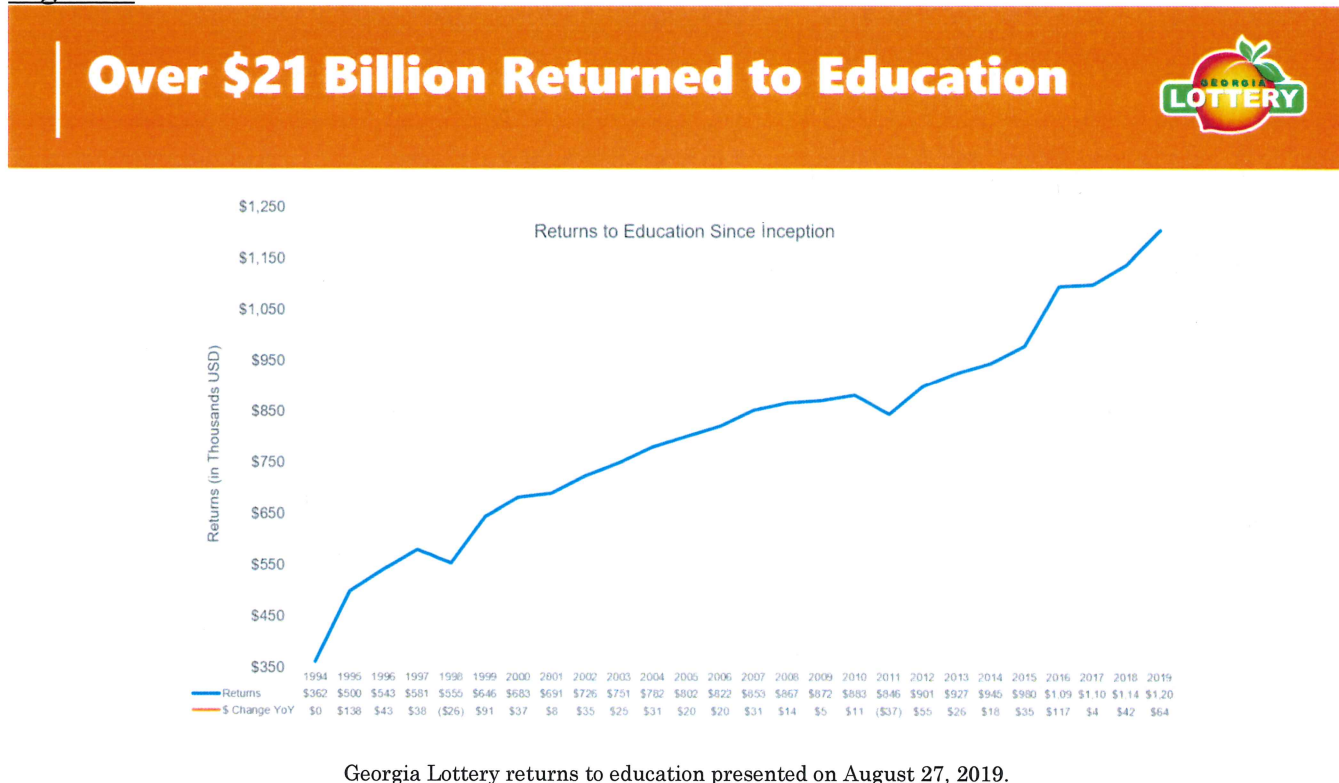
In addition to examining potential benefits and consequences, the Committee heard testimony regarding the process of further legalizing gambling within Georgia. Article I, Section II, Paragraph VIII of the Georgia Constitution addresses gambling and the current exceptions for lotteries operated by the state for the benefit of education programs. To amend this section of the Georgia Constitution, several objectives must be met. According to Article X, Section I, Paragraph I of the Georgia Constitution, a resolution for amendment must originate in either the House of Representatives or the Senate and must pass both chambers by a two-thirds majority vote. Next, the amendment must be presented to the voters in the following statewide election, occurring in even years. A summary of the amendment must be drafted by the Attorney General, the Legislative Counsel, and the Secretary of State and must be published beginning three weeks before the election. If there are multiple amendments, each amendment must be voted on separately. A single vote on separate amendments to allow casino gambling, horse racing, and pari-mutuel wagering would not be allowed.

While casino gambling and pari-mutuel wagering clearly require a constitutional amendment, a legal argument that sports betting may not require an amendment has been discussed. If sports betting was deemed a lottery, it could be allowable under Article I, Section II, Paragraph VIII which permits lotteries for the benefit of education programs. However, there remains uncertainty in the required process as the terms Lottery, Pari-mutuel Betting, and Casino Gambling are not defined in the Georgia Constitution.

Georgia's Lottery and the HOPE Scholarship

In 1992, Georgia voters approved a constitutional amendment to create the Georgia Lottery to increase educational funding. The Georgia Lottery Corporation (GLC) oversees and operates the lottery with a mission of maximizing revenue for the HOPE scholarship and Pre-K. As required by law, GLC transfers lottery proceeds quarterly to the Lottery for Education Account within the state Treasury. Lottery proceeds are then appropriated to the specific lottery-funded education programs. Since the Georgia Lottery's inception, over \$21 billion in funds have been raised for education(as displayed in Figure 1). In 2019, the Georgia Lottery enjoyed its eighth consecutive record year, recording \$1.207 billion. On average, \$3.2 million is raised daily for HOPE and Pre-K programs, while GLC operates with no state funding.

Figure 1



Since its institution, the Georgia Lottery has undergone several significant developments in services offered. The GLC is continually developing and introducing traditional lottery products, such as scratchers and instant tickets. Each month, the lottery introduces approximately four to six new games with approximately 52 to 65 new games a year. In addition to these traditional lottery products, the Georgia Lottery began internet sales in 2012 and introduced a mobile app in 2015.¹¹

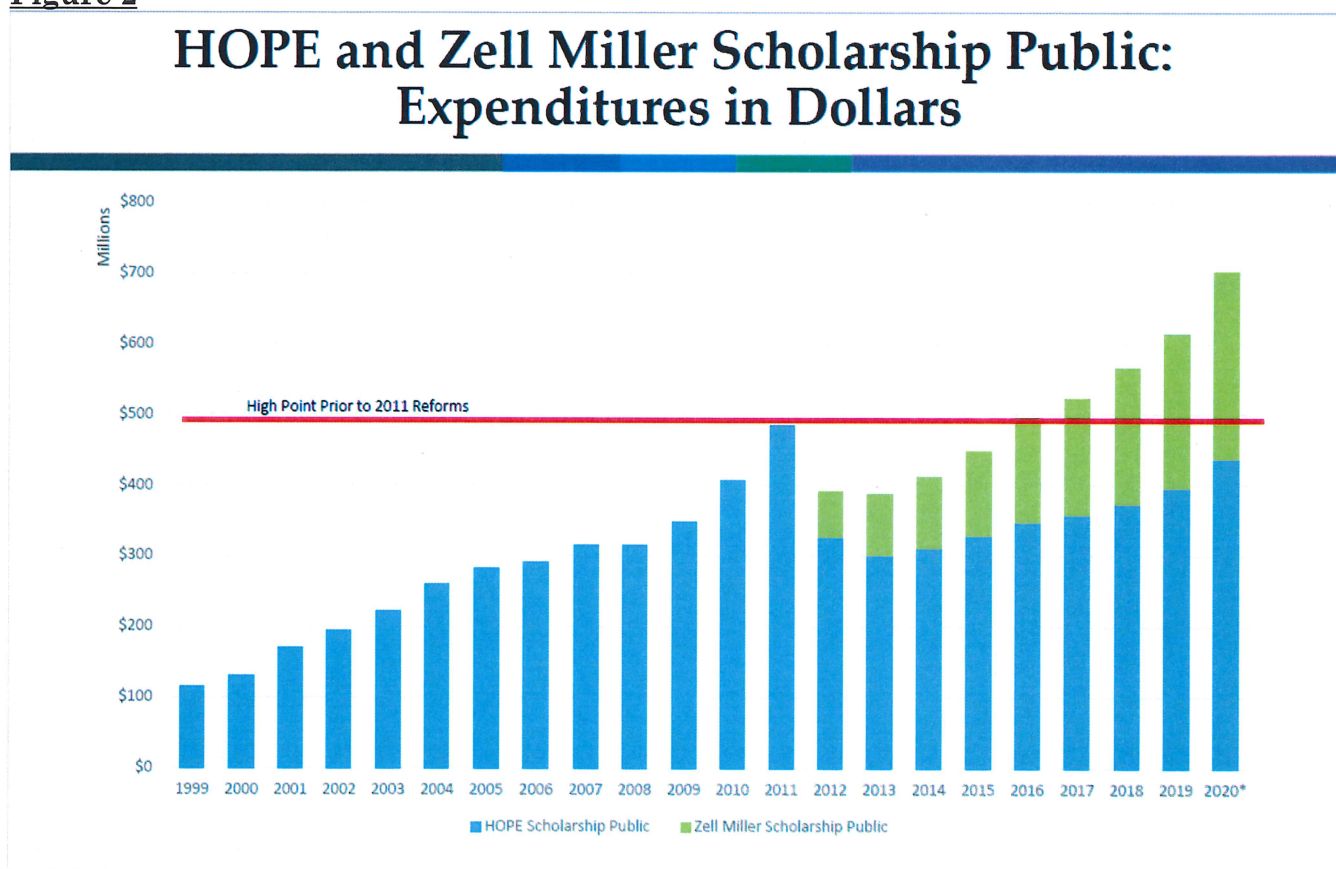
In 2013, following the passage of House Bill 487, responsibility for the administration and enforcement of Coin Operated Amusement Machines (COAMs) was transferred from the Department of Revenue to GLC. A COAM is “a machine used by the public to provide amusement or entertainment whose operation requires the payment or insertion of a coin, bill, other money, token, ticket, card, or similar object and the result of whose operation depends in whole or in part upon the skill of a player.”¹² COAM machines in Georgia are divided into two classes. Class A machines do not allow a successful player to carry over points won on one play to a subsequent play and include machines such as jukeboxes, crane machines, and skee ball. Class B machines allow a successful player to accrue points on the machine and carry over points won on a play to a subsequent play and includes machines such as video “slot machines” requiring skill. Winners on Class B machines may redeem the points or vouchers won only on the premises the game is located on for prizes such as lottery tickets, food and beverage, and store merchandise. Points or vouchers may not be redeemed for items such as cash, alcohol, tobacco, or firearms. GLC is responsible for regulating COAMs including the issuance of licenses to owners, operators, manufacturers, and distributors. GLC also collects revenue from licenses and fees, collects net proceeds from certain machines, and is tasked with enforcement measures related to COAMs. In 2019, COAMs in Georgia resulted in \$66 million for educational purposes.

¹¹ These developments were introduced following a 2011 opinion by the United States Justice Department that the 1961 Wire Act did not apply to state lotteries. In 2019, a new opinion was issued by the Justice Department contradicting the former opinion and causing continued litigation.

¹² GLC presentation on Coin Operated Amusement Machines on August 27, 2019.

The Georgia Student Finance Commission (GSFC) is responsible for administering the HOPE programs. The first HOPE scholarships were awarded in 1994. Following quick growth in lottery proceeds, financial aid programs were expanded in the proceeding years. Since the inception of the HOPE scholarship two sets of reforms were required to control costs of the program. In 2004, award payments for mandatory fees were capped at the 2004 rate, GPA checkpoints were added, and a maximum number of paid hours was established. In 2011, book and fee payments were eliminated, a seven-year limit on eligibility was imposed, and rigor requirements beginning with the 2015 high school graduating class were instituted. Additionally in 2011, the HOPE scholarship and grant was decoupled from the tuition amount and was instead tied to a “factor rate” that is adjusted annually. The Zell Miller Scholarship was established in 2011 which provides full tuition for students who meet increased requirements. The HOPE programs continue to face an uncertain financial future as more students qualify for the Zell Miller Scholarship, and a higher concentration of these students are choosing to attend the highest cost institutions in Georgia (expenditures on these scholarships per year are displayed in Figure 2).

Figure 2



Provided by the Georgia Student Finance Commission on August 27, 2019.

Sports Betting

On May 14, 2018 the United States Supreme Court overturned the Professional and Amateur Sports Protection Act (PASPA) allowing individual states to immediately legislate and effectuate sports betting within their individual boundaries. Thus far, 13 states¹³ have operational sports wagering, while another eight states¹⁴ have authorized sports wagering but are not yet operational.

¹³ Arkansas, Delaware, Indiana, Iowa, Mississippi, New Mexico, Nevada, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, West Virginia.

¹⁴ Colorado, Connecticut, Washington D.C., Illinois, Montana, North Carolina, New Hampshire, Tennessee.

Legalized sports wagering can provide several advantages to a state. Regulating sports wagering reduces illegal gambling and the use of illegal gambling markets in a state, including local bookies and illegal offshore gambling sites. Americans bet approximately \$150 billion each year on illegal websites and apps alone.¹⁵ These and other forms of illegal gambling already operate within Georgia without regulation or safeguards, and pay no taxes. Legalized sports wagering can provide Georgia citizens a convenient and regulated alternative to illegal sources of sports gambling, reducing the use of black market options. Notably, legal online and mobile wagering can be most effective in deterring illegal gambling, because a large portion of illegal gambling is done digitally. Requiring legal sports wagers to be placed at brick and mortar institutions can serve as an obstacle driving consumers to more convenient illegal gambling sources.

Furthermore, correct implementation of a proper regulatory scheme incorporating state-of-the-art technology can assist in providing consumer protections under legalized sports wagering. Legalized and properly regulated sports wagering can enforce proper age restrictions and other responsible gaming measures that illegal sports wagering does not address. Innovative technology, such as geofencing, can ensure that legal bets are only placed within the boundaries of the state.

The legalization of sports wagering, including mobile and online wagering, can also result in increased tax revenue to the state and the retention of funds otherwise being expended in other states. In New Jersey's first year offering mobile sports wagering, the state earned an additional \$25 million in tax revenue.¹⁶ Using an optimal tax rate, a state can provide beneficial tax revenue from the industry without hindering the legal provider's ability to compete, particularly against illegal operators subjected to no effective tax rate. Finally, the legalization of sports wagering in Georgia can retain money that would otherwise be spent in other jurisdictions where sports betting can legally take place. As more states, including Tennessee and other potential neighbors of Georgia, legalize sports gambling, money that could potentially be retained within the state may flow outside of Georgia.

Casino Gaming

Georgia's Constitution prohibits the operation of casino gambling within the state. The legalization and establishment of casino gaming can have a strong positive impact on the economy of a state, increasing the number of quality jobs and career opportunities, driving vocational and educational programs to fill those jobs, and increasing tourism dollars spent across retail and service outlets surrounding the casino. Companies anticipate beneficial outcomes such as urban renewal or development, sustainable economic growth, and a significant expansion of tax benefits for the state.

Casinos can bring other benefits to a community by partnering with existing industries such as tourism entities, arts and culture outlets, sports teams and entertainment venues, and education and training centers. In Boston Harbor, Wynn Resorts worked to improve a brownfield site plaguing the harbor, built a public park, and developed transportation solutions to decrease the traffic impact on the locality. Additionally, significant emphasis was placed on community relations by promoting volunteerism, charitable giving, and sponsorship of special events.

Prior to the construction of the Encore in Boston Harbor, Wynn created a \$2.6 billion development and spent over \$1.5 billion in hard construction costs, and \$65 million in road improvements. Wynn estimates they will spend \$250 million in operational spending, and over \$575 million in licensing over the next 15 years. The first year's tax revenue is estimated to reach approximately \$201 million in revenue to the state.¹⁷

¹⁵ Orrick, Draft Kings, Fanduel letter dated October 8, 2019.

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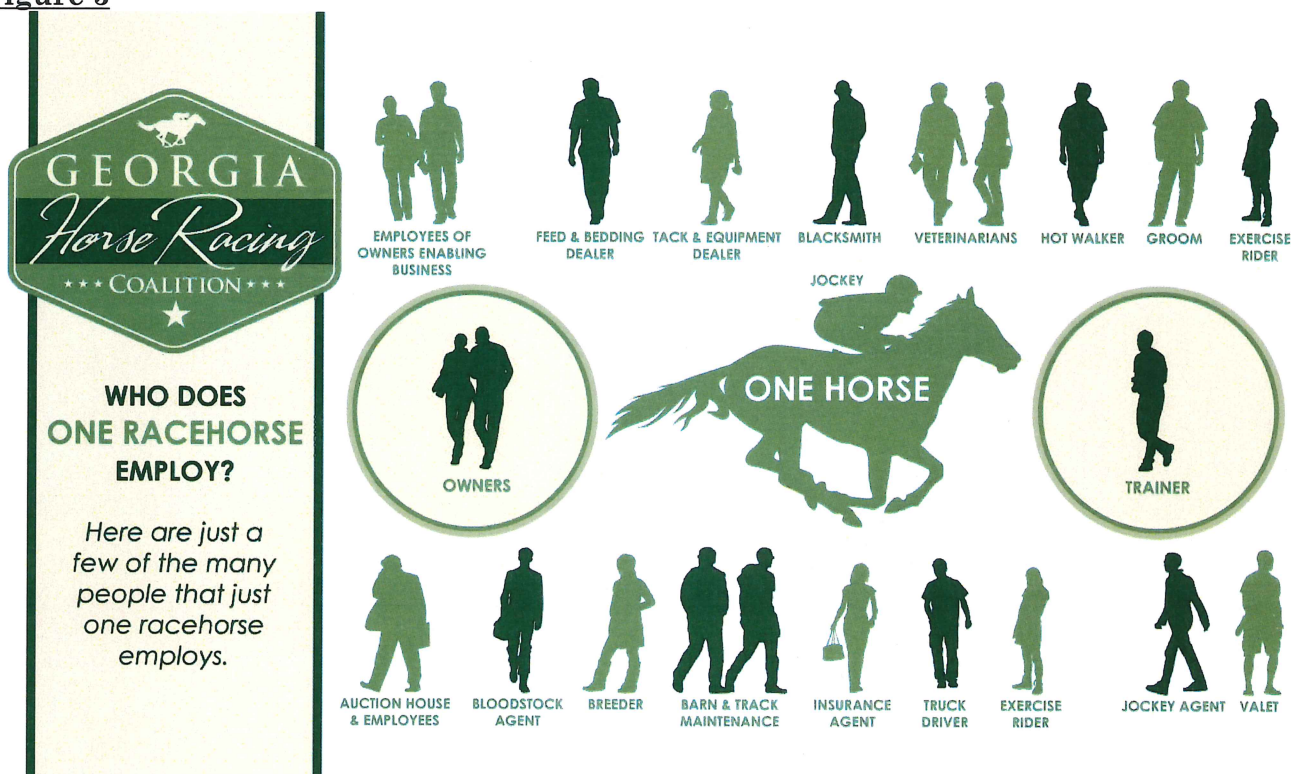
¹⁷ Statistics provided in a presentation by Chris Gordon, President of Wynn Development, on October 17th.

Conversely in Georgia, it is estimated that the state loses \$600 million in gaming revenue per year from Georgia residents visiting neighboring states' casinos in Alabama, Louisiana, Mississippi, Florida, and North Carolina. It is further estimated that a medium size town, such as Macon, could reach projected annual revenues of \$204 million if a casino was introduced to the community.¹⁸

Pari-Mutuel Wagering and Georgia's Equine Industry

The legalization of pari-mutuel wagering within a state can provide many direct and indirect benefits to a state and its citizens. While pari-mutuel wagering can provide additional revenue, the industry can also have a large impact to the state economy. When properly implemented, pari-mutuel wagering can provide valuable economic development - directly benefiting the entire equine industry, boosting rural economies, and providing jobs throughout the state. Successful implementation of pari-mutuel wagering can benefit a state's entire equine industry, providing innumerable jobs (represented in Figure 3). The horse racing industry, driven by the prizes to those competing, can provide valuable economic development directly benefiting rural areas of a state, creating additional farm jobs and funneling money into local rural economies.

Figure 3



Economic development resulting from a single racehorse. Presented October 29, 2019.

The horse industry as a whole has been particularly beneficial to Kentucky where the horse industry ranks as the most impactful industry on Kentucky's economy.¹⁹ The horse industry contributes nearly \$1.6 billion to the state's GDP yearly. When factoring in secondary effects of the industry, including feed, supplies, hospitality and tourism, the horse industry's total economic impact in Kentucky estimates as high as \$5.2 billion. In particular, in 2018, pari-mutuel wagering generated over \$23 million in excise tax for the state. In 2017, over 19,000 licenses were issued to workers at racetrack facilities in Kentucky, requiring a licensing fee to the state.²⁰

¹⁸ Statistics provided in "Economic Impact of Destination Resort Development for Columbus, GA" presented by Dr. Robert Wright on October 17th.

¹⁹ Statistics provided in "The Impact of the Horse Industry on the Commonwealth" presented on October 29, 2019.

²⁰ Workers requiring licenses included trainers, jockeys, exercise riders, mutual clerks, racing officials, farriers, dental technicians, veterinarians, and event staff.

Many horse racing facilities operate to offer services to patrons outside of the hosted live racing events. Across the country horse racing facilities operate under a three prong approach, offering live racing events, simulcast racing of other live horse racing events outside the facility, and access to historical horse racing machines. Historical horse racing machines allow patrons to participate in pari-mutuel wagering on horse racing while no live events are available, by placing wagers on horse races which have already occurred. A large and randomized database of races, all with redacted information, ensure the wagering is not compromised by outside knowledge. A facility offering all three forms of racing to its patrons is placed in the best position to be financially successful.

According to industry experts involved in horse racing operations in other states, Georgia is uniquely positioned for success in horse racing due to its current equine industry, location, and existing resources. Georgia is considered an untapped market, ripe for expansion in horse racing and breeding. Georgia's location and climate make it an ideal location for year round racing and successful horse breeding. The state has a strong agricultural tradition and existing equine industry available for growth. Finally, the University of Georgia is home to a world renowned veterinary school, and equipped to handle increased demands from growth in the equine industry.

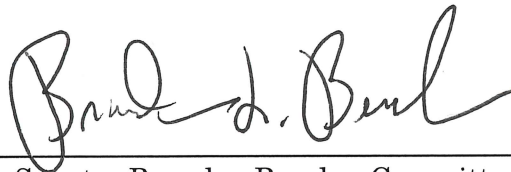
The legalization of pari-mutuel wagering and the creation of a limited number of horse racing facilities could provide Georgia valuable economic benefits. A direct tax on the gaming at these facilities could result in an additional \$915 million in tax revenue over the first five years.²¹ Direct employment of the facilities could introduce approximately 3,775 jobs to Georgia with income totaling \$665 million over the first five years of operation. In total the operations could contribute approximately \$4.49 billion to the state GDP over the first five years.²²

²¹ Estimates based on three potential horse racing tracks in Georgia and a proposed 20% tax. All estimates provided by the Georgia Horse Racing Coalition.

²² Statistics provided in "Georgia Economic Impact of Horseracing" presented on October 29, 2019.

Respectfully Submitted,

**THE FINAL REPORT OF THE SENATE GAMING AND PARI-
MUTUEL WAGERING ON HORSE RACING AND GROWING
GEORGIA'S EQUINE INDUSTRY STUDY COMMITTEE (SR 367)**

A handwritten signature in black ink, appearing to read "Brandon Beach", written in a cursive style.

Senator Brandon Beach – Committee Chairman
District 21