



Impact of Unregulated Gaming

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Distributed Gaming Regulation

- Key issue – create a robust, best-in-class regulatory structure.
 - What are the elements of a best-in-class regulatory structure?
 - Leaders in distributed gaming want casino-level regulation and enforcement.
- Current policy discussion is distracted by the type of device.
- Dispel some myths:
 - Game of Skill v. Game of Chance - a distinction without a difference
 - Is one more predatory than another?
 - What is the volume and scope of play?

Unregulated Skill Games



What is gambling? What is a gambling device?

- Three elements of gambling: Consideration/Chance/Prize
- State specific definition
 - Criminal code & regulatory code
- Legal standards are antiquated and out of touch with modern technology
 - Dominant Factor Test
 - Any Chance Test
- What is a gambling device?
 - Class 3 gambling device – a gambling device with a random number generator; VGT and VLT fall in this category
 - Class 2 device – a gambling device based on Video poker, bingo, keno, & electronic bingo games with slot machine interface; electronic pull tab

Games of Skill versus Games of Chance

- Game of Chance: Class III devices/slot machines operate randomly based upon a mathematical algorithm generated by a random number generator (RNG) producing outcomes electronically simulated on the display screen. The pay out percentage is established by the “pay table” that in turn generates a “return to player” (RTP) often at 88% - 92%
- Game of Skill: An electronic game based upon a mathematical “cycle” - a set of spins that produces a series of outcomes generating a set return. The game is coupled with some form of “skill” based function: nudge, “pick a spot”, “choose wild”, “follow me”, “look ahead”
 - These functions take advantage of a definitional loop hole to qualify as a predominately a “game of skill.”
 - But the game will still produce a percentage payout – but no publicly available data!
 - See <https://wizardofvegas.com/articles/skill-games-semi-definitively/>

What is the outcome?

- Publicly available data derived from state-operated central control system demonstrates actual outcomes – consider Illinois structure <https://www.igb.illinois.gov/videoreports.aspx> (2023)
 - 44,950 to 47,047 VGTs in 8200 to 8464 locations
 - Amount Played: \$32,638,417,553.39
 - Amount Won: \$29,754,181,088.92
 - Return to Player: 91.6%
 - Funds In: \$11,130,642,315.41
 - Funds Out: \$8,246,321,352.23
 - Cash on Cash Hold: 26%
 - Net Terminal Income: \$2,884,298,042.63
 - State Tax: \$980,652,668.86 (34%)
 - Retailer: \$951,818,354.07 (33% -- \$112,454.91 per location)
 - Operator: \$951,818,354.07 (33%)

CONCLUSION

- No matter what device you choose, proper regulatory structure is the key to protecting the public.
- Class III devices provide best-in-class device regularly performing within proven regulatory structures throughout the US – **in both casinos and distributed gaming environments**.
- “Skill games” could also operate in this environment **IF** proper regulatory structure in place.
- Publicly available data from state-operated central control system is critical to industry integrity.
- Proper regulatory structure mitigates predatory conduct and keeps “bad actors” out of the gaming space.
- Leaders in distributed gaming want robust regulation and compliance



THE BENEFITS OF *Regulated Gaming Machines*



Regulated gaming provides player protection, fosters stakeholder integrity, combats illegal activity, and generates much needed revenue for state funded programs.

REGULATED GAMING		UNREGULATED GAMING
	RESPONSIBLE GAMING Responsible gaming programs that prevent minors from wagering, encourage consumers to play responsibly, and provide awareness of services available for problem gambling assistance.	
	LICENSING AND BACKGROUND INVESTIGATIONS Licensing and background investigations of business entities, corporate officers, and key employees.	
	CONSUMER PROTECTION Regulatory authority that will resolve consumer concerns and reinforce game play fairness.	
	GAME TESTING Rigorous internal controls and independent laboratory testing of gaming machines.	
	SECURE GAMING EQUIPMENT Operators support the security of machines through a regulatory shipping notification and control process for shipments into a state, out-of-state, and intrastate.	
	ANTI-MONEY LAUNDERING PROTOCOLS Federal anti-money laundering compliance including currency transaction reporting and suspicious transaction reporting to prevent funds from supporting illicit or unlawful activity.	

The Cost of Unregulated Gaming in US

UNREGULATED MARKET	ESTIMATED HANDLE	ESTIMATED REVENUE	ESTIMATED STATE GAMING TAX REVENUE LOSS
Sports Betting (includes Bookies and Offshore)	\$63.8bn	\$3.8bn	\$0.7bn
Online Slots and Table Games	\$337.9bn	\$13.5bn	\$3.9bn
Unregulated Machines in Bars, Taverns, etc.	\$109.2bn	\$26.9bn	\$8.7bn
TOTAL	\$510.9bn	\$44.2bn	\$13.3bn
<i>Estimated Number of Skill/Gray Machines</i>	<i>580,651</i>		

Tax rates for loss estimate are AGA estimates of average tax rates for each vertical across legal states: Sports – 19.4%, Slots and Table Games – 29.1%, Machines – 32.5%

(November 2022). SIZING THE ILLEGAL AND UNREGULATED GAMING MARKETS IN THE UNITED STATES. American Gaming Association.



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