

MEMORANDUM

To: State Representatives Brigid Kelly and Dave Greenspan
Cc: Members of the House Finance Committee
From: iDEA Growth
Date: May 20, 2019
Re: The Value of Multiple Skins for a Robust, Competitive Sports Betting Market in Ohio

Thank you for the opportunity to submit recommendations on the pending sports betting legislation in Ohio, H.B. 194. The following comments are submitted on behalf of the iDevelopment and Economic Association (“iDEA”). iDEA is an unincorporated association seeking to grow jobs and expand online gaming entertainment business in the United States through advocacy and education. iDEA’s members represent all sectors involved in the growing industry of internet gaming and entertainment, including technology, marketing, payment processing, law, operations, and development. iDEA’s members share the goal of expanding American consumers’ access to secure and regulated online gaming. As part of its mission, iDEA studies the effects of online gaming in jurisdictions that have permitted or expanded it.

Our members’ experience and our group’s empirical studies have shown that online gaming operators—including sports book—will self-regulate to an efficient market size that maximizes operator and state revenue. To do so, however, requires licensees to have the flexibility to partner with other game providers to operate multiple skins. As such, iDEA submits that H.B. 194 should clarify either that license holders should be permitted to partner with multiple online sports book operators or online operators should be permitted to apply directly to the state to offer online sports book without requiring a partnership with an Ohio land-based casino.

Either of these solutions will help support a robust, competitive online sports betting market in Ohio that will benefit consumers and state tax revenue. As explained below, the legislation could either provide expressly for a multiple skins or direct application process or could create the foundation for these solutions that the state regulators could implement at their discretion. In either event, it is critical that the legislature not foreclose a multiple skins or multiple online sports book operator environment as doing so would limit customer engagement and stymie Ohio's sports betting market.

I. The New Jersey Case Study: The Multiple Skins System For Online Gaming And Now Online Sports Book Shows That A Robust, Competitive Industry Benefits Players And The State.

New Jersey, a leader in U.S. online gaming and sport book, provides an illustrative example of the value of a multiple skins environment. Now in its fifth year, interactive gaming in New Jersey produces ten percent of casino revenue and has introduced new customers that were not reachable through brick and mortar casinos. Although during initial rollout, New Jersey permitted operators to use only one platform provider “to facilitate the completion of all the required licensing and technical reviews,” it swiftly expanded that limit to allow each licensee to operate five “skins.” *See* David Rebuck, Letter Re: New Jersey Internet Gaming One Year Anniversary, Jan. 2, 2015, attached hereto as Exhibit 1. That model has proven its worth, resulting in increasing revenues and market innovation. New Jersey currently has five online gambling licensees operating through 17 skins, including casino and third-party brands.

A recent study commissioned by iDEA proves the value of the multiple skins environment. *See generally* Eilers & Krejcik Gaming, *Analysis: How the Multiple-Brand Model Impacts State-Regulated Online Gambling Markets* (May 2019), attached hereto as Exhibit 2. In reviewing the

growth of online gaming in New Jersey, the study found year-over-year growth for online gaming after the state introduced the multiple skins model. Specifically, the study found:

- An estimated boost of 50% in revenue for the industry with the multiple skins model, resulting in additional tax revenue to the state, *see id.* at 2 and 22;
- Additional revenue to the state in the form of licensing fees for the additional skins, *see id.* at 22;
- Better platform pricing for land-based operators due to increased competition among the platform suppliers, *id.* at 24; and
- Overall growth of the gaming industry in the state, as shown by continual annual growth in gaming revenue as more brands entered the market, *see id.* at 13 (Fig. 2.2 showing annual growth between 20% and 36% after New Jersey implemented the five skins model).

As New Jersey shows, a rising tide lifts all boats: The more brands allowed to operate online gaming in the state in the multiple skins model, the more the land-based operators, online-operators, consumers, and state benefitted.

Learning from that experience, New Jersey has approved three skins per land-based sports book, including both retail operations at casinos and sports books operated at the state's racetracks. In total, there are 42 skins potentially available in the New Jersey market, increasing access and choice for consumers, competition in the industry, and tax revenue opportunities for the state. In the less than a year since launch, this environment has already been a boon for the land-based casinos and racetrack license holders across the state. *See e.g., John Brennan, Monmouth Park Operator After Partnering with TheScore: "I Didn't Ask for Three Skins", NJGamblingOnline.com, Dec. 19, 2018, <https://www.njonlinegambling.com/monmouth-park-third-skin-thescore/> (explaining that land-based operators are finding themselves in advantageous position with many online operators seeking partnerships).*

Limiting operators to a single skin would act as a limit on competition. Limiting skins would effectively pick winners and losers in the Ohio market and hand the market to the state's largest land-based casino operators (that are willing to enter the market). Further, smaller casinos will find themselves at a significant disadvantage when it comes to marketing budgets, which constitutes a much more significant cost for online sports book and gaming than it does for traditional, land-based casinos.

By allowing multiple skins per license, Ohio will encourage robust competition among operators. That competition will result in increased content for consumers and would incentivize operators to produce and provide new and innovative games. For example, to compete with larger casinos, smaller casino operators might partner with a traditional-style online sports book and also one of the unique online sports books that specialize in spread betting or other new forms of wagering. Without the availability of multiple skins, they would be unable to do so. That competition and innovation will result in higher revenue for the state and greater satisfaction for players.

II. Economic Projections For Sports Betting Indicate That Convenient Access To Online Sports Betting Will Encourage Players To Use Legal, Regulated Sites, Which Benefits State Tax Revenue.

While the sports betting industry in the U.S. is still in its nascent stages, Oxford Economics completed a study in May 2017 based on other legalized jurisdictions evaluating the various rollouts that would most benefit states. The study concluded that a rollout that allow for “convenient” availability of sports betting to consumers, which included retail and online sports betting, would provide the greatest economic impact for states, including tax revenue and job growth. See Oxford Economics, *Economic Impact of Legalized Sports Betting*, at 5 (May 2017)

(chart demonstrating that convenient access to legal, regulated gaming provided the most gains in tax revenue and potential job growth based on economic modeling), attached hereto as Exhibit 3.

Specific to Ohio, the study found that providing gaming with limited availability at a tax rate of 6.75% would bring in annual state and local revenue of approximately \$27 million. However, by providing more convenient availability at the same tax rate, Ohio stands to realize over \$96 million in annual tax revenue. *Compare id.* at 43 and *id.* at 50.

By making legal, regulated sports betting more readily available, it is easier to convert consumers to legal sites from black market sites. This benefits the state through tax revenue and consumers by ensuring customers are drawn to and playing on online platforms that are appropriately licensed and regulated.

III. A Multiple Skins Environment Will Ensure That Ohio Develops A Thriving Sports Betting Industry.

To achieve the economic benefits discussed above, iDEA strongly recommends Ohio adopt the multiple skins system that has already proven a success in New Jersey, the most sophisticated online sports betting jurisdiction in the United States. The multiple skins environment creates competition in the industry that fosters innovation and customer engagement. With this engagement from both the industry and players, Ohio will be best positioned to realize its tax revenue potential.

In the alternative, if a multiple skins environment is not the ideal solution for Ohio, we would recommend the state adopt direct licensing. This would allow online operators to apply to the state for licensure without requiring a commercial relationship with the land-based casinos. Such an arrangement provides the same benefits as a multiple skins ecosystem, including competition, better options for consumers, and increased tax revenue for the state. Should state

lawmakers worry about inundating regulators with licensing requests, they could allow the regulators discretion to manage the application process as needed to ensure an efficient rollout of online sports betting. The direct application process has been extremely successful in jurisdictions across Europe and has most recently been adopted in Tennessee.

While sports betting is new to the United States, it is not a new product worldwide. Our members' experience in New Jersey and around the world has shown that competition is vital to developing a thriving sports betting industry that maximizes customer engagement and tax revenue. This competition can only be realized by creating opportunity for multiple operators to enter the market through a multiple skins environment or through direct licensing.

The pending legislation in Ohio should ensure that this open market is realized by specifying that Ohio will adopt a multiple skins or direct application process. Critically, further details would not be necessary in any enacting legislation. Rather, the legislation should merely specify that such a model is to be adopted and leave further discretion to the regulators (*i.e.*, the exact number of skins available per land-based licensee), who will surely be working with the industry to ensure a successful roll out of sports betting in Ohio.

To ensure Ohio capitalizes on this opportunity to create a thriving, regulated market for sports betting, the pending legislation should ensure that gaming operators are motivated to innovate and invest in Ohio and its players. Adopting a multiple skins or direct application process is key to this and will allow Ohio to become a leader in this growing industry.