Southern Exposure

Why gaming in the South is one of the last opportunities in the U.S.

By Brendan Bussmann

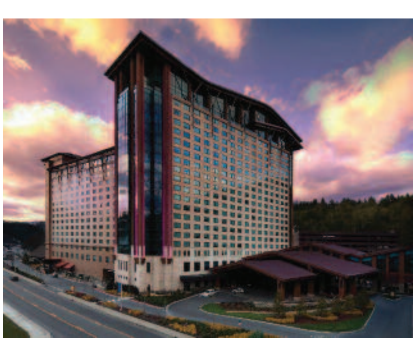
The United States hosts a diverse set of gaming options from coast to coast. The gaming-rich Northeast continues to be dominated by strong regional destination casinos such as Encore Boston Harbor, Mohegan Sun, Borgata and Wind Creek Bethlehem. The Midwest remains the focus of the riverboat gaming. Tribal gaming also prevails across the country from North Carolina to Oklahoma and all along the West Coast.

The southern portion of the United States remains largely untouched when it comes to casino gaming. One of the many reasons for this over the years has been the long-held values and deep religious beliefs within these communities that have had an aversion to casino gaming.

Currently, only three Southern states offer large commercial casino developments in Louisiana, Mississippi, and Arkansas, with two other states, North Carolina and Alabama, that offer only tribal gaming. Florida and Texas, while both part of the southern United States, hold out as their own markets because of their scope and size. This leaves several large states from Virginia to Georgia to Kentucky devoid of casino gaming. However, before one looks at expansion opportunities in the region, one must understand the historical development of the market.

Betting in the Bayou

Louisiana has a total of 25 casinos, including 20 commercial casinos and five tribal casinos with a host of video gaming terminals located across the state. Revenue for the state has been in a slight decline over the previous five years and prior to the Great Shutdown, from $2.6 billion down to $2.4 billion.



From top: Four of the nation's most successful casinos are in the South, and all are owned by tribes—Seminole Hard Rock Casino Hotels in Hollywood and Tampa, Florida, Wind Creek casino, owned by the Poarch Creek Band in Alabama, and Harrah's Cherokee in North Carolina

Louisiana Historical Casino Gaming Revenues						
in USD millions	2015	2016	2017	2018	2019	CAGR
Shreveport/Bossier City	$ 686.1	$ 647.5	$ 634.5	$ 633.1	$ 616.7	-2.6%
Lake Charles	$ 721.7	$ 711.1	$ 720.3	$ 753.8	$ 702.9	-0.7%
New Orleans/Baton Rouge	$ 873.5	$ 834.2	$ 859.2	$ 816.1	$ 789.0	-2.5%
Racetracks	$ 367.3	$ 344.1	$ 347.4	$ 355.4	$ 351.2	-1.1%
TOTAL	**$ 2,648.5**	**$ 2,537.0**	**$ 2,561.4**	**$ 2,558.5**	**$ 2,459.8**	**-1.8%**

Source: Louisiana Gaming Control Board, GMA

Mississippi Historical Casino Gaming Revenues						
in USD millions	2015	2016	2017	2018	2019	CAGR
Central Region	$ 306.8	$ 298.2	$ 289.3	$ 287.4	$ 292.3	-1.2%
Coastal Region	$ 1,135	$ 1,178	$ 1,180	$ 1,220	$ 1,269	2.8%
Northern Region	$ 626	$ 612	$ 572	$ 572	$ 560	-2.7%
TOTAL	**$ 2,068**	**$ 2,087**	**$ 2,042**	**$ 2,079**	**$ 2,122**	**0.6%**

Source: Mississippi Gaming Commission, GMA

Gaming expansion in Louisiana provides challenges on two fronts. The first is that gaming expansion must be approved on the ballot. Expansion was last taken to the voters in 2018, when 47 of the 64 parishes in the state approved fantasy sports. Sports betting will be on the ballot in 2020. This was one of numerous items up for debate in the legislature this year, approved through a host of minor adjustments to the existing gaming law, and the fantasy sports regulations that were approved in an extraordinary session in June.

Mississippi's gaming roots lie both in tribal interests and commercial gaming. After the passage of the Indian Gaming Regulatory Act in 1988, the Mississippi Band of Choctaw Indians opened the Silver Star casino in 1994. The Mississippi legislature would pass the Mississippi Gaming Control Act shortly thereafter to help the state's economy. Mississippi has had a relatively stable source of revenue for the state, with an uptick in the Coastal Region in 2019 that provided a minor uptick in statewide revenue to just over $2.1 billion.

Mississippi was also one of the first states to allow sports betting, but only in a land-based model. The market, which is coming up on its two-year anniversary this fall, has followed a typical cycle of sports wagers, but saw its peak last fall with players that were coming from other states, particularly wagers on the Astros in the World Series. The market has been limited because it has not yet embraced mobile wagering. Mississippi also recently added lottery to its gaming market, after being one of the last states not to have a lottery.

Arkansas has had forms of gaming dating back to its initial adoption of electronic games of skill in 2005. The market has been dominated by the two racetracks, Southland and Oaklawn. The state has gradually grown into a $425 million gaming market, and it continues to grow, especially with the introduction of table games and sports betting after gaining voter approval in November 2018, as well as a third location in Saracen Casino Resort.

The South also has two tribal gaming states dominated by the Eastern Band of Cherokee in North Carolina and the Poarch Band of Creek Indians in Alabama. While gaming revenues for both of these jurisdictions are not publicly available, these tribal entities provide significant resources and revenue not only for their immediate tribal communities, but also for the surrounding communities.

Tribal communities are known for their ability to give back to the communities in which they operate and act as good, strong community stewards. The economic impact multiplies significantly beyond just their immediate gaming revenue generated. The differences between these states is that the Cherokee have a tribal compact and operate Class III gaming, while the Poarch Creek do not currently have a compact and operate Class II gaming. Sports betting is also legal in North Carolina and available for tribes to offer, but it is not yet operational.

While Florida is part of the South, it has evolved into a diverse gaming market of its own. When it comes to casino gaming in Florida, all roads run through the Seminole tribe. As with most tribal gaming, revenue information is not publicly available, but reports have shown that the Seminole tribe nets roughly $2.5 billion annually, with their current revenue share payment set at $350 million.

Even as Florida expanded land-based gaming through racetracks, the tribe has been thoroughly involved in discussions with the state regarding its exclusivity to offer certain Class III games in Florida. The commercial gaming side does not nearly generate as much revenue, due in part to the limitations on the market offering permitted for these facilities.

Florida Racino Slot Revenue Summary						
	2015	2016	2017	2018	2019	CAGR
Gulfstream	$ 48,947,074	$ 47,241,009	$ 49,808,247	$ 53,776,224	$ 43,894,459	-2.7%
Big Easy Casino (Mardi Gras)	$ 48,438,166	$ 45,767,506	$ 30,476,111	$ 17,145,338	$ 32,006,222	-9.8%
Isle Pompano	$ 147,305,794	$ 142,287,479	$ 132,999,905	$ 126,258,384	$ 118,695,281	-5.3%
Magic City (Flagler)	$ 83,505,071	$ 81,070,002	$ 83,795,578	$ 94,926,761	$ 101,753,482	5.1%
Calder	$ 74,479,997	$ 75,734,716	$ 81,769,372	$ 92,140,336	$ 93,203,242	5.8%
Miami Hai Alai	$ 61,291,037	$ 61,782,543	$ 67,639,827	$ 70,276,207	$ 68,707,404	2.9%
Hialeah Park	$ 66,691,830	$ 70,813,899	$ 74,913,438	$ 81,656,575	$ 82,705,840	5.5%
Dania Beach (Dania Hai Alai)	$ -	$ 21,255,639	$ 25,187,170	$ 32,835,852	$ 33,685,640	-
TOTAL	**$ 530,658,969**	**$ 545,952,793**	**$ 546,589,648**	**$ 569,015,677**	**$ 574,651,570**	**2.0%**

Source: Florida Division of Pari-Mutuel Wagering, GMA

Colonial Downs racetrack is part of a network of facilities owned by Peninsula Pacific that offer historic horse racing machines (HHR), but five casinos have been approved for the Old Dominion

The Immediate Road Ahead

While there are pockets of casino gaming throughout the South, the landscape is wide open for its future. This includes developments over the past few years that have moved the needle forward, such as the addition of sports betting in Tennessee, as well as one of the largest and most comprehensive gaming expansion bills in Virginia that, beyond casinos, included sports betting, the temporary legalization of "games of skill," an expansion of historic horse racing (HHR) machines, and online lottery. While these states are still in their ramp-up phase, they will be moving forward with their efforts beginning in the fall.

Tennessee was the first U.S. state to legalize a mobile-only sports market, to be regulated by the Tennessee Lottery. When initially passed, it was viewed by many as a model that could be taken to other states that did not have casino gaming but looked to create a mobile market to effectively compete against the illegal market.

However, the market has become far less than ideal since the initial rules were introduced at the end of 2019. In addition to the annual $750,000 license fee, the regulatory structure mandates a minimum hold percentage of 10 percent for any operator. This is one of the pitfalls of selecting a risk-averse institution in the lottery to regulate a high-volume, low-margin business.

Virginia is on the fast track to move forward with the regulations for casino gaming and sports betting. In the bill approved in April, up to 15 sports betting licenses and five casino locations may be authorized. Sports betting allows for mobile-only licenses, and will be a competitive process with implementation due as per the law by September 15, after rules were only released in mid-July. The lottery, which serves as the regulator, will then have 90 days to move forward with licensure.

Operations are not likely to start until 2021. Casino gaming is also on the fast track, and the five potential locations have largely chosen their partners but still have to be approved locally on the ballot this November. The five locations include Bristol, Danville, Portsmouth, Norfolk and Richmond. Let it also be noted that under the auspices of SARS-CoV-2, Governor Ralph Northam allowed the temporary legalization of "games of skill" to bring in revenue. While these illegal machines are becoming more controversial across the country, most industry experts believe that compliance and revenue projections will not be met.

The Long-Term Forecast

Gaming expansion opportunities are still alive and well in other Southern states, with the most active debates being held in Alabama and Georgia.

While Alabama already has a strong tribal market through the Poarch band, its gaming operation in Wind Creek Hospitality launched a campaign that would expand its operations by seeking a Class III gaming compact while allowing the state to provide a lottery to generate additional revenues.

Alabama Governor Kay Ivy has taken a different path forward with a potential expansion. She launched a study group earlier this year that has since held a handful of meetings and is in the process of assembling its report to the governor. While a submission is not due until the end of the year, it is expected the group will turn a draft around in August or September. This will set up a likely battle for the 2021 legislature, moving forward to Alabama voters soon after.

Georgia has debated gaming expansion for decades. While currently offering only a robust lottery product, the state came very close to finally presenting an opportunity to the voters. Two proposals were considered as part of this effort. The first was to allow sports betting in the state, and was backed by the local sports teams in addition to potential operators.

The second was to allow not only sports betting, but also casino gaming and parimutuel wagering. While Georgia has flirted with this several times, many stakeholders believe that all forms of gaming should be allowed at once, versus piecemealing the process going forward. Georgia, like many states, is facing a financial challenge with the pandemic that only enhanced the shortfall in their HOPE scholarship fund. 2021 will prove to be a pivotal year toward gaming expansion in Georgia.

The Holy Grails of U.S. Gaming

Two Southern states, Texas and Florida, remain the holy grails of potential U.S. gaming development. While both states have some forms of gaming, with Texas being more limited than Florida, they offer striking differences in their makeup and potential future opportunity.

Texas, which many would say is a region of the country in its own right, is notorious for having eight-liner machines dotting the countryside. While they do have a state lottery, parimutuels, tribal gaming and other forms of gambling, Texas remains one of the last states that does not have a robust gaming market after multiple attempts to try to expand the market over the years.

One of the challenges that persists in the Lone Star State is a short legislative session, and it is one of four states that meets only every other year. It is difficult to get major issues such as gaming through the legislature without a sustained education campaign to the legislature and the citizens.

Texas also has been a state where gaming interests between the racetracks, the tribes and other interested parties in the market have not been on the same

Georgia has no casinos, but if proponents play their cards right, Atlanta could become home to one of the biggest casinos in the U.S.

page. This does not include the state's continued opposition to the tribe's operations. Sports betting might be the breakthrough in the effort with a strong pool of pro sports owners of the Dallas Mavericks, Dallas Cowboys and Houston Rockets, all of whom have shown continued interest in gaming.

Sports betting in Florida proves to be a challenge going forward, as it largely surrounds the gaming compact. The Seminoles and Disney championed a ballot initiative in 2018 that created substantial challenges for any expansion to be approved, as it now must be approved by voters at the local level. This put a strong block to prevent further competition against the Seminoles and allowed Disney to secure its family-friendly offerings.

Sports betting does have the ability to be part of a new/amended gaming compact, but this seems far off in the distance based on current politics in Florida, which are some of the most interesting in the United States.

Setting the Standard as States Expand

As states look at the expansion of gaming, governors, legislatures and other stakeholders must consider the potential impact of current and future gaming offerings in the state in terms of economic output, social implications and regulatory structure.

The key to gaming policy is to set the standard for the long term. It should not be viewed as a quick fix to solve a budget crisis or to fill a niche, as many states have been using SARS-CoV-2 as a rationale to allow for the expansion of gaming to fix current deficits.

Crafting sound policy and regulation is essential to the long-term success of a market and allowing the proper level of competition. Illegal gaming activity, whether from within a state's borders or offshore, must also be evaluated for the state to recoup those lost gaming dollars.

Integrity, first and foremost, exists in the laws and regulations that are the cornerstone of any gaming market. As states consider legalizing or regulating other forms of gaming, lawmakers should consider first the existing footprint of legal gaming. Many of these states that do not have robust gaming footprints will need to take these initiatives to the ballot for a constitutional amendment.

While nothing is a given, gaming in the South appears to be headed in the right direction as these states expand beyond the current commercial base of Louisiana, Mississippi and Arkansas. Tennessee and Virginia will be the next two states to go down that path.

The future is bright for further expansion throughout the South, but only time will tell if it happens, how quickly it may happen, and how history can serve as a guideline to help both operators and states to create dynamic markets.

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