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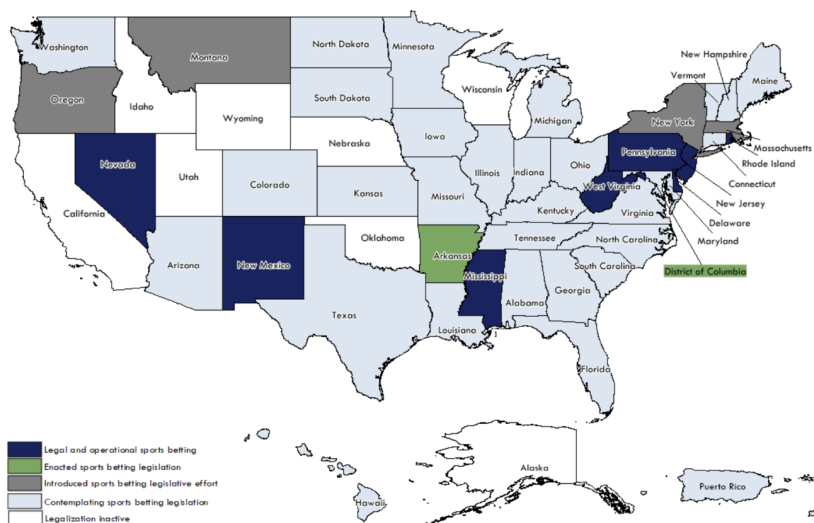
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Studies frame Puerto Rico's future betting market

By *María Miranda* on April 24, 2019



Sports Betting Legislative Efforts in the United States



Source: Global Market Advisors, Legal Sports Report

Find less revenue potential than government figures

SAN JUAN – A new study on sports betting, commissioned by the Puerto Rico Hotel & Tourism Association (PRHTA) and conducted by Global Market Advisors (GMA) to examine the feasibility of a sports betting and online gaming market on the island, highlights six areas that should be considered by stakeholders before “advocacy efforts” begin.

The study, dubbed “Sports Betting and Online Gambling Market Assessment,” notes that the local economy, legislation, regulations, geo-fencing, payment processing, data feeds and consumer protections need to be looked into to create an ideal market.

The new study comes several weeks after Gov. Ricardo Rosselló Nevares announced that he was introducing legislation to authorize sports event betting and online bets.

The legislation states that these kinds of bets could be made at locations allowed by a Gambling Commission, which would be established if the bill is approved, such as casinos, race tracks, lodging establishments and former cockfighting venues, which were recently banned by the U.S. Farm Bill.



The government commissioned two studies to be carried out on the revenue that could be generated if a 6 percent tax is placed on bets made in person and an 11 percent tax is levied on online bets. The Treasury would also receive funds from operating licenses and taxes on prizes and plays.

The study by Spectrum Gaming Group found that \$44 million to \$62 million could be generated. While the study by the Innovation Group estimated government revenue of \$29 million for 2020, \$77 million for 2023 and \$87 million for 2024.

However, the study by GMA, arrived at different results. Under its first presented scenario, of only land-based sports betting, \$5.4 million could be collected during the first stabilized year of operations. Under the second scenario, also land-based, GMA assumed that "patrons could place bets in-person as well as via mobile through proprietary casino operated applications, after physically registering within a casino, providing proof of identification, and funding the account within the casino," some \$7.4 million in revenue could be generated by 2022.

"The variation in revenue between scenarios is largely due to the market's ability to compete with illegal gaming offerings," the study reads. "In Scenario 1, a land-based sports betting offering does not allow for the operators to provide a product that is accessible and convenient for market participants, instead, patrons will likely continue to utilize other illegal gaming options for a majority of their play, as illegal options are available via mobile and online platforms."

The study also found that, overall, the market is expected to generate \$23.4 million in online gaming revenue, and that some \$4.2 million could come from tourists placing bets online.

The study was revealed earlier this week during an event held by the PRHTA at the Sheraton Puerto Rico Hotel & Casino next to the Puerto Rico Convention Center.

In the study, GMA further noted that with the establishment of a sports betting and online gaming market, Puerto Rico must provide gaming platforms that operate under a strict regulatory regime, monitor problem gambling, capture incremental tax revenue, understand the impact on the existing market and allow casino operations to more effectively compete with the illegal market with an improved amenity offering.

GMA Managing Partner Steven Gallaway said the \$44 million to \$66 million the government said could be generated annually is a figure that could not be realistically achieved.

"It's not possible," Gallaway said. "There is no situation I can see where you have sports betting in Puerto Rico that could generate such amount. Projections of up to \$66 million from sports betting revenue just does not add up. These figures are more than a quarter of the New Jersey market, an area which feeds off of the one of the wealthiest and most densely populated corridors of the country, encompassing New York, New Jersey and Pennsylvania. This compares to Puerto Rico, an island of only 3.4 million and a medium household income one-third of the U.S."



Steven Gallaway, GMA managing partner (Courtesy)

Brendan Bussmann, also a GMA partner and director of Government Affairs, said he estimates the Puerto Rico sports betting revenue potential to range from \$5.4 million to \$14.9 million, depending on how the market is crafted.

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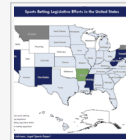
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"Those estimates are based on using the existing regulatory structure, licensees and including mobile to add convenience to the consumer in a strictly regulated environment," Bussmann said. "Sports betting is a high-volume, low-margin business, which means you have to have a reasonable tax rate for it to work. This is illustrated by seeing the success rates with sports betting in New Jersey and Nevada, states with comparatively fair rates, in comparison to Pennsylvania and Rhode Island, states with onerous tax rates."

Bussmann added that GMA has seen how lofty projections do not hold, citing Rhode Island as an example, saying that trying to achieve a revenue number should not be a guideline in crafting policy.



Brendan Bussmann, GMA partner and director of Government Affairs (Courtesy)

"A low tax rate will allow investment in a competitive market that can allow sports betting to grow the existing legal market from our projections to create further jobs, economic development, and tourism in Puerto Rico," Bussmann said.

"In comparison, New Jersey's sports betting percentage of total gaming revenue is at 6.2 percent, which is the highest in the country. The lofty projections from other studies would put that number over 20 percent of Puerto Rico's gross gaming revenue. The numbers just do not make sense."

Meanwhile, Puerto Rico Chamber of Commerce President Kenneth Rivera said the figures offered by GMA, specifically the \$5.4 million to \$7.4 million, do not take into account e-bets.

"Their numbers are based on in-person bets," Rivera said. "Not online bets. However the study mentions that \$23.4 million could be generated in online betting, so that number is not too far off from ours."

The Chamber of Commerce had tasked Innovation Group to carry out its study, which estimated government revenue at \$29 million in 2020 and \$87 million in 2024, and includes bets placed personally at casinos, racetracks, cockfighting venues, paradores, horse-betting parlors and online betting.

"They are talking about bets placed in casinos. We believe that by adding online bets, race tracks, horse racing agencies and cockfighting venues, which are all already regulated, we can reach the higher figures," Rivera added.



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