



**Congressional
Research Service**

Informing the legislative debate since 1914

Remote Gambling: Industry Trends and Federal Policy

-name redacted-

Specialist in Industrial Organization and Business

July 2, 2014

Congressional Research Service

7-....

www.crs.gov

R42820

Summary

Gambling, once widely outlawed, is now a regulated, taxed activity that is legal in some form—bingo, card games, slot machines, state-run lotteries, casinos, and even online—in all but two states. Like so many other industries, the gambling industry is being transformed by technology that has begun to shift patronage from casinos, bingo halls, or stores selling lottery tickets to desktop computers and tablets connected to the Internet and to mobile devices that may communicate by telephone or direct satellite links. This report discusses remote gambling and the likely implications for the broader gambling industry.

State governments have the main responsibility for overseeing gambling, but Congress historically has played a key role in shaping the industry. The Unlawful Internet Gambling Enforcement Act (UIGEA; P.L. 109-347) of 2006 prevents payments to illegal gambling-related businesses, but does not outlaw all forms of remote gambling. It allows states and Indian tribes to offer remote gambling within their territory if certain conditions are met. A majority of states allow Internet betting on horse racing, and a few now permit Internet lottery ticket games. A number of Indian tribes and gaming companies have created entities to develop remote gambling, and seem likely to expand them rapidly if the legal issues are clarified.

Another major development was the U.S. Department of Justice (DOJ) clarification of the scope of long-standing laws it has used to prosecute Internet gambling, including the 1961 Wire Act. In December 2011, a DOJ interpretation of the Wire Act authorized states to allow online gambling, except for sports betting. Since then, Delaware, New Jersey, and Nevada have implemented online gambling programs within their borders. Several more states are considering whether to legalize online gambling, and some have laws that expressly prohibit online gaming.

Several of the larger casino operators favor expanded remote gambling. Proponents have formed the Coalition for Consumer and Online Protection, which asserts the need for comprehensive national regulation and points to anticipated federal revenue from taxes and registration fees generated by authorized remote gambling sites. In the 113th Congress, bills have been introduced that would allow and tax remote gaming nationwide, and create a new federal department to oversee online gambling, with proposals for either an Office of Internet Poker Oversight in the Department of Commerce or an Office of Internet Gambling Oversight in the Department of the Treasury. An opposing group that also includes prominent casino owners, the Coalition to Stop Internet Gambling, supports the Restoration of America's Wire Act (S. 2159 and H.R. 4301), which would expressly prohibit all online gambling in the United States. Opponents are concerned that a national online gaming market could draw customers away from traditional casino operations, and that remote gambling could result in increased fraud and money laundering. Congress also faces consideration of the balance of federal and state regulation and the possible social costs of expanded gaming, including problem gambling.

Contents

Introduction.....	1
The Evolution of Remote Gambling.....	1
The U.S. Gambling Industry.....	5
Lotteries.....	6
Commercial Casinos.....	7
Tribal Gaming.....	9
Indian Gaming Regulatory Act	11
Financing Uncertainty	12
Pari-Mutuel Betting	13
Sports Betting	13
Regulation of Remote Gambling	14
Problem Gambling.....	17
Gambling as a Government Revenue Source	19
State Action on Remote Gambling	20
Congressional Action on Remote Gambling	23

Figures

Figure 1. Global Internet Gross Gaming Revenues.....	2
Figure 2. Gambling Industries and Casino Hotel Employment.....	6
Figure 3. U.S. Commercial Casino Revenues.....	8
Figure 4. Indian Gambling Revenues	10
Figure 5. Trends in State Gambling Revenue	20
Figure 6. State Online Gambling Legislation	21

Tables

Table 1. Top U.S. Casino Markets, by Annual Gross Revenue	9
---	---

Appendixes

Appendix. A Short History of U.S. Gambling and Lotteries	25
--	----

Contacts

Author Contact Information.....	26
Acknowledgments	26

Introduction

Gambling, once widely outlawed, is now a heavily regulated, taxed activity that is legal in some form in all states except Hawaii and Utah. No federal legislation governing online gambling has been passed in recent Congresses, but there have been major developments at the state level. Three states and the U.S. Virgin Islands allow intrastate Internet gambling.¹ In addition, 39 states permit casino gambling,² and 44 states and the District of Columbia have a state-run lottery.³ While state governments have the main responsibility for overseeing gambling, Congress historically has played a significant role in shaping the industry. Congressional actions date back to 1960s-era anti-racketeering laws, a 1988 statute setting policy for Indian gaming, and a 1992 law banning sports betting in all but four states.⁴

A survey by the American Gaming Association (AGA) found that 3% of U.S. adults who gambled in 2012 did so over the Internet.⁵ Online gambling is expected to account for an increasing share of the overall U.S. gambling market in coming years. The rise of Internet gambling worries certain gambling operators because they fear losing customers at some of their land-based casino operations to online gambling.⁶ Other casino owners disagree, seeing Internet gambling as a significant new revenue source.⁷

The Evolution of Remote Gambling

Like so many other industries, the gambling industry has been transformed by developments in computing and telecommunications. The first online poker site, Planet Poker, was launched from Costa Rica in 1998. Antigua and Barbuda offered the first Internet gambling sites in the mid-1990s.⁸ Online gambling is now legal in about 85 countries. The AGA estimates that 1,700 easily accessible and unregulated websites accept online bets, generating annual revenues of between \$4 billion and \$6 billion.⁹ Many of the most popular sites are licensed in the European Union (EU),

¹ GamblingCompliance, *U.S. Internet Gambling Regulatory Tracker*, May 2014, pp. 2-7.

² American Gaming Association (AGA), *States with Slots*, <http://www.americangaming.org/fact-sheets/states-slots>.

³ The Council of State Governments, "State Lotteries," Capitol Research, June 2013, http://knowledgecenter.csg.org/kc/system/files/cr_lotteries_.pdf.

⁴ CRS Report 97-619, *Internet Gambling: An Overview of Federal Criminal Law*, by (name redacted). Laws include the 1961 Wire Act, 18 U.S.C. §1084; the Indian Gaming Regulatory Act of 1988, 25 U.S.C. §2701, and the Professional and Amateur Sports Protection Act, 26 U.S.C. §3701.

⁵ AGA, *State of the States*, The AGA Survey of Casino Entertainment, 2013, p. 25, http://www.americangaming.org/sites/default/files/uploads/docs/aga_sos2013_fnl.pdf.

⁶ Jon Ralston, "Adelson-Backed Coalition Sends Anti-Online Gaming Missive to AGA Members, Attacks Organization's Claims," *Ralston Reports*, February 10, 2014.

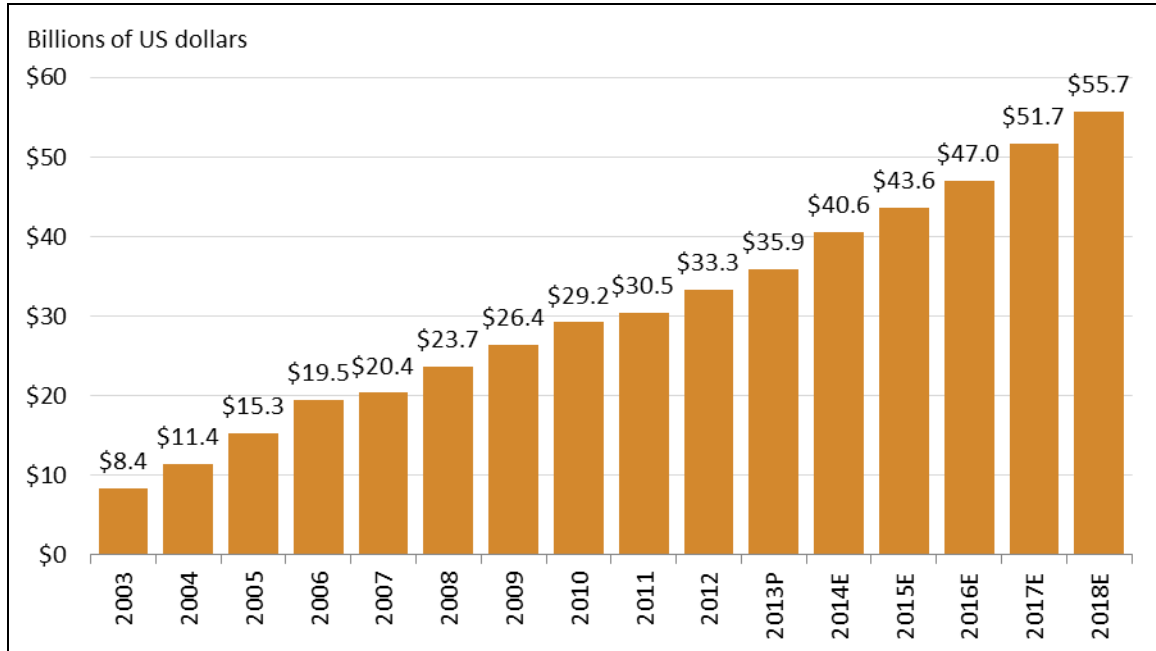
⁷ Chris Grove, "Boyd CEO Demolishes Myth That Regulated Online Gambling Will Cannibalize Land-Based Casino Revenue," *Online Poker Report*, February 17, 2014.

⁸ In 2003, Antigua and Barbuda lodged a complaint against the United States with the World Trade Organization (WTO) because casinos based there could not accept wagers over the Internet from U.S. residents. A WTO panel ruled in favor of Antigua, finding the United States had violated the General Agreement on Trade in Services. The United States is not in compliance with the WTO's Dispute Settlement Body rulings and recommendations, and has not reached a settlement with Antigua and Barbuda.

⁹ Pamela M. Prah, "Does the Country Have Too Many Casinos?," *Stateline*, June 26, 2013, <http://www.pewstates.org/projects/stateline/headlines/does-the-country-have-too-many-casinos-85899486288>.

which accounts for approximately 45% of the worldwide online gambling market.¹⁰ According to private estimates, annual gross global revenue from online, television, and mobile gambling is now around \$40 billion, and is forecast to exceed \$50 billion by 2018 (see **Figure 1**).¹¹

Figure 1. Global Internet Gross Gaming Revenues



Source: H2 Gambling Capital, June 2014. These figures show revenues after payouts of winnings.

Note: P=projection.

Some of the biggest potential markets, including China, Japan, South Korea, and the United States, continue to prohibit many forms of gambling over the Internet.¹² Nonetheless, according to AGA, Americans gambled \$3 billion on foreign gaming websites in 2012.¹³

As online gaming grew, federal officials acted against it under a series of 1960s statutes, including the Wire Act, which makes it a federal crime to use telecommunications to conduct illegal gambling. In one of the best-known cases, Jay Cohen, a co-operator of the Antigua-based World Sports Exchange, was arrested in 1998 and charged with violating the Wire Act for advertising his company's services in the United States and accepting wagers from bettors in

¹⁰ European Gaming & Betting Association, *Manifesto for a Sustainable EU Policy for Online Gambling*, March 2012, p. 1, <https://www.gov.im/media/626813/eugamblingmanifesto.pdf>.

¹¹ H2 Gambling Capital Consultants, data furnished to CRS by email on June 5, 2014. Gross gambling revenue (GGR), which is defined as the amount wagered minus winnings returned to players, measures the economic value of gambling. GGR equals net receipts before taxes, salaries, and other expenses are paid.

¹² Macau is the only place in China with legalized gambling. In 2012, its 35 casinos garnered \$45 billion, which is more than seven times the revenue earned on the Las Vegas Strip.

¹³ U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Manufacturing, and Trade, Written Testimony of Geoff Freeman, President and CEO American Gaming Association, *The State of Online Gaming*, 113th Cong., 1st sess., December 10, 2013, p. 3.

states where such gambling was illegal. Cohen was sentenced to 21 months in prison and fined \$5,000.¹⁴ The U.S. Supreme Court declined to hear his appeal.

In 2003, the U.S. Department of Justice (DOJ) warned media outlets that running advertisements for gambling websites could violate the Wire Act.¹⁵ Microsoft, Google, and Yahoo agreed in 2007 to pay a combined total of \$31.5 million to resolve DOJ claims that they were promoting illegal gambling by running advertisements for certain websites.¹⁶

In 2006, partly in response to the recommendations of a congressionally created commission, Congress passed the Unlawful Internet Gambling Enforcement Act (UIGEA; P.L. 109-347).¹⁷ The law bars gambling-related businesses from accepting payment that is outlawed by state or federal statutes. UIGEA makes it illegal for banks and credit card firms to process payment to online gambling companies.¹⁸ However, UIGEA does not outlaw any specific types of gambling over the Internet, and allows states and tribes to continue or initiate Internet gambling within their borders if they apply certain safeguards.¹⁹ While UIGEA included exceptions for intrastate online betting such as horse racing, “fantasy” sports, and online lotteries, it did not clarify the scope of older laws that DOJ has used to prosecute Internet gambling, such as the Wire Act.

On April 15, 2011, which online poker players have dubbed “Black Friday,” the U.S. Attorney for the Southern District of New York indicted the founders of three major Internet poker websites—PokerStars, Full Tilt Poker, and Absolute Poker/Ultimate Bet—for allegedly using phony corporations and websites to disguise illegal payments to their operations.²⁰ DOJ charged that the companies, which were located overseas but took bets from U.S. players, violated UIGEA, the Wire Act, and other federal laws. In September 2011 DOJ filed a civil suit against Full Tilt Poker, which had an estimated 60% of the global Internet poker market, for allegedly defrauding bettors.²¹ On July 31, 2012, all civil complaints against PokerStars and Full Tilt Poker were

¹⁴ *United States of America v. Jay Cohen*, 260 F.3d 68 (2nd Cir., 2001).

¹⁵ Letter from U.S. Department of Justice, Criminal Division to National Association of Broadcasters, June 11, 2003, http://www.igamingnews.com/articles/files/NAB_letter-030611.pdf.

¹⁶ Elizabeth A. Ritvo and Samantha L. Gerlovin, *Legal Guide*, Massachusetts Broadcasters Association, September 2008, pp. 76-78, <http://www.massbroadcasters.org/wp-content/uploads/2013/05/MBA-Legal-Guide-FINAL-Updated-2008-09.pdf>.

¹⁷ National Gambling Impact Study Commission, *National Gambling Impact Study Commission Final Report, Chapter 5: Internet Gambling*, 1999, <http://govinfo.library.unt.edu/ngisc/reports/5.pdf>. Citing the potential for increased underage gambling and fraud, the commission recommended that the federal government “should prohibit, without allowing new exemptions or the expansion of existing federal exemptions to other jurisdictions, Internet gambling not already authorized within the United States or among parties in the United States and any foreign jurisdiction.”

¹⁸ Violators are subject to criminal fines of up to \$250,000 (or \$500,000 if the defendant is an organization), imprisonment of up to five years, or both.

¹⁹ UIGEA made it difficult for Americans to make certain deposits into gaming accounts. It also forced many online operators to relocate their operations, particularly to the Caribbean. See CRS Report RS22749, *Unlawful Internet Gambling Enforcement Act (UIGEA) and Its Implementing Regulations*, by (name redacted) and (name redacted).

²⁰ U.S. Department of Justice, “Manhattan U.S. Attorney Charges Principals of Three Largest Internet Poker Companies with Bank Fraud, Illegal Gambling Offenses and Laundering Billions in Illegal Gambling Proceeds,” April 15, 2011, <http://www.justice.gov/usao/nys/pressreleases/April11/scheinbergetalindictmentpr.pdf>. Indictment is available at <http://www.scribd.com/doc/53107543/Indictment-DOJ-vs-Scheinberg-Bitar-Tom-et-al>.

²¹ United States Attorney Southern District of New York, “Manhattan U.S. Attorney Moves to Amend Civil Complaint Alleging that Full Tilt Poker and Its Board of Directors Operated Company as a Massive Ponzi Scheme Against Its Own Players,” press release, September 20, 2011, <http://www.justice.gov/usao/nys/pressreleases/September11/amendedfulltiltpokercomplaintpr.pdf>.

dismissed following agreements with DOJ, payments of \$731 million to settle the claims, and the purchase of Full Tilt by PokerStars.²² Fulltiltpoker.com reopened in Europe, but Americans cannot access the Full Tilt website.²³ PokerStars has yet to acquire a license to operate in any state.²⁴

DOJ announced a major shift in its view of Internet gambling in December 2011, when it concluded that the Wire Act of 1961 applies only to sport-related gambling activities. This reversed its long-held assertion that all forms of Internet gambling are illegal.²⁵ DOJ's opinion has been widely interpreted to mean that states can allow online gambling if it does not involve sports.²⁶

A number of states and tribes have taken advantage of the DOJ memo to allow online betting on horse races and Internet lotteries.²⁷ Nevada now permits online poker, and Delaware and New Jersey have authorized all forms of remote gambling (poker, slots, and various table games), with the exception of sports wagering. Internet gambling is also regulated in the U.S. Virgin Islands.²⁸ These state-authorized activities rely on software that uses global positioning technology, Internet addresses, and other data to ensure that gamblers are physically located within the state's borders and are old enough to gamble legally.²⁹ Regulations to implement UIGEA have also made it easier for state lotteries and other legal gaming operators to receive payment via credit cards and other electronic payments.³⁰

With at least some restrictions now lifted, many participants in the gambling industry, from Indian tribes to state lottery commissions to casino operators, have been exploring ways to increase their involvement in remote gaming. Companies not involved in the traditional gaming industry are also interested. Social gaming—games hosted on social networking sites such as

²² United States Attorney's Office, Southern District of New York, "Manhattan U.S. Attorney Announces \$731 Million Settlement Of Money Laundering And Forfeiture Complaint With Pokerstars And Full Tilt Poker," press release, July 31, 2012, <http://www.justice.gov/usao/nys/pressreleases/July12/pokersettlement.html>.

²³ PRNewswire, "Shuffle Up and Deal! Full Tilt Poker Opens for Real Money Online Poker," press release, November 6, 2012, <http://www.marketwatch.com/story/shuffle-up-and-deal-full-tilt-poker-opens-for-real-money-online-poker-2012-11-06>.

²⁴ Roger Shriver, "PokerStars Won't Come Back to the US Until 2016," *U.S. Pokersites*, April 24, 2014.

²⁵ The Department of Justice opinion stems from a 2009 request by Illinois and New York for clarification of whether Internet lottery ticket sales and out-of-state vendors violated the Wire Act. "Memorandum Opinion for the Assistant Attorney General, Criminal Division, Whether Proposals by Illinois and New York to Use the Internet and Out-of-State Transaction Processors to Sell Lottery Tickets to In-State Adults Violate the Wire Act," September 2011, <http://www.justice.gov/olc/2011/state-lotteries-opinion.pdf>.

²⁶ Gambling on sports is unlawful under the Professional and Amateur Sports Protection Act of 1992, although four states that then allowed sports lotteries or pools were permitted to continue allowing intrastate sports betting.

²⁷ GamblingCompliance, *U.S. Internet Gambling Regulatory Tracker*, May 2014, pp. 17-19.

²⁸ The U.S. Virgin Islands (USVI) enacted the Internet Gambling and Enforcement Act, 23 V.I.C. §601, in 2001. Despite the original law and a 2013 opinion letter from the Virgin Islands attorney general confirming that remote gaming is legal within its borders, the territory has yet to launch any online gambling sites. USVI Host and St. Croix Internet Group have been authorized for USVI-licensed online gambling.

²⁹ Geolocation technology is reported to have accuracy rates of between 85% and 98% at the state level and more than 99% at the national level. See Kevin F. King, "Geolocation and Federalism on the Internet: Cutting Internet Gambling's Gordian Knot," *Columbia Science and Technology Law Review*, 2010, <http://www.stlr.org/html/volume11/king.pdf>.

³⁰ Nelson I. Rose, "The New UIGEA Regulations: Opportunities for Operators," June 1, 2010, <http://www.gamblingandthelaw.com/index.php/articles/261-the-new-uigea-regulations-opportunities-for-operators>.

Facebook and Google+—provides venues to play online games in the United States, but not real-money versions.³¹ Internet sweepstakes cafes, where consumers buy phone cards that, as a bonus, include sweepstakes entries and then use the cards to play games that resemble slot machines, are estimated to bring in more than \$10 billion a year,³² but some states have begun to ban them.³³ In 2013, Ohio, Florida, and Mississippi outlawed Internet cafes, and other states may follow.³⁴

The U.S. Gambling Industry

Many traditional forms of gambling, which can require substantial capital investments, could be affected in significant ways by the legalization of additional remote gambling. On the one hand, online gambling could allow land-based casinos to expand their businesses and promote their brands. Yet it could also present a new competitive challenge if fewer customers frequent brick-and-mortar gambling establishments. Casinos that rely heavily on slot machines may face the greatest challenges, especially those that primarily serve day trippers.

Taken together, gambling industries and casino hotels employed nearly 400,000 people nationwide in 2013 (see **Figure 2**). Of these, 132,800 worked in gambling, while 265,800 were employed in casino hotels. More than half of these jobs were located in Nevada or New Jersey. Gambling industry and casino hotel employment fell 2% between 2003 and 2013.³⁵ In 2013, the average wage for gambling industry employees was \$29,679, and casino workers earned an average of \$35,832.

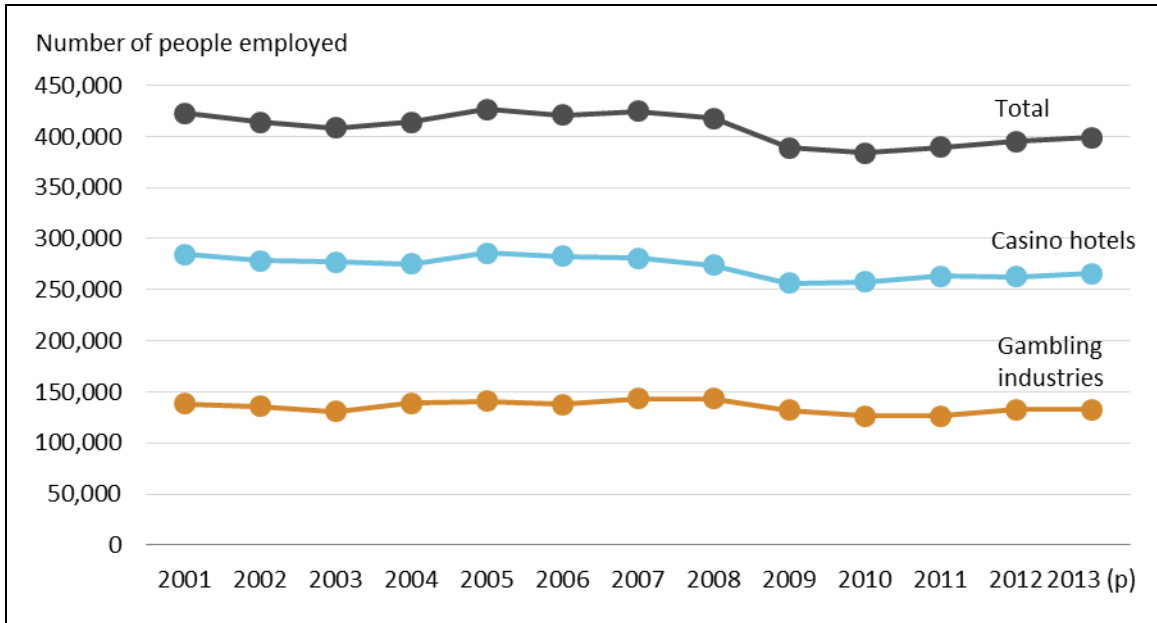
³¹ Michael Gentile, “Zynga Launches Real Money Poker on Facebook,” *Pokerfuse*, January 13, 2014.

³² David O. Stewart, *Internet Sweepstakes Cafes: Unregulated Storefront Gambling in the Neighborhood*, American Gaming Association, October 2013, http://www.americangaming.org/sites/default/files/uploads/docs/whitepapers/internet_sweepstakes_white_paper_103013.pdf.

³³ Pamela M. Prah, “States Battle Illegal Gambling at Internet Cafes,” *USA Today*, March 24, 2014, <http://www.usatoday.com/story/news/nation/2014/03/24/stateline-illegal-gambling-internet-cafes/6829731/>.

³⁴ AGA, *Internet Sweepstakes Cafes*, October 24, 2013, <http://www.americangaming.org/government-affairs/priority-issues/internet-sweepstakes-cafes>.

³⁵ Bureau of Labor Statistics (BLS), Quarterly Census of Employment and Wages, NACIS 7132 and 72112, accessed June 23, 2014. The North American Industry Classification System (NAICS) places gambling industries into NAICS 7132, which comprises establishments primarily engaged in operating gambling facilities or providing gambling services including bingo, off-track betting, slot machine parlors, lotteries, bookmakers, and card rooms. Casino hotels are classified in NAICS 72112.

Figure 2. Gambling Industries and Casino Hotel Employment

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages for NACIS 7132 and 72112. 2013 data are preliminary.

The U.S. market for gambling consists of several distinct sectors, each with its own business model and technology.

Lotteries

Lotteries, generally defined as games of chance with the winner chosen via the drawing of lots, are the most widespread form of gambling in the United States. Regulated by state governments, lotteries are now run in 44 states and the District of Columbia.³⁶ Since New Hampshire reinstated the modern lottery in 1964, state offerings have moved from rudimentary games with preprinted tickets and weekly or monthly drawings to instant scratch-off tickets, lotto games (in which players pick their own combination of numbers), and, in a growing number of states, video lottery terminals, commonly referred to as VLTs, that offer casino-type games such as blackjack and poker.³⁷ States often retain 30%-40% of gross gaming revenues (sales less prizes).³⁸

States have banded together to offer lottery games such as Powerball across state lines, working through the Multi-State Lottery Association and the Mega Millions consortium.³⁹ The two lottery groups in 2010 agreed to cross-sell tickets.⁴⁰ Such mega-games allow states to offer jackpots that

³⁶ In March 2013, Wyoming legalized a state lottery. Alabama, Alaska, Hawaii, Mississippi, Nevada, and Utah do not operate lotteries. See the Council of State Governments, "State Lotteries," June 2013, http://knowledgecenter.csg.org/kc/system/files/cr_lotteries_.pdf.

³⁷ According to NASPL, "Unlike slot machines, video lottery terminals do not dispense money. Rather, a winning player is provided a ticket that is redeemed by the retailer for prizes."

³⁸ NASPL estimates that commissions and bonuses to lottery retailers account for approximately 6% of total sales.

³⁹ Multi-State Lottery Association, <http://www.musl.com>; Mega Millions, <http://www.megamillions.com>.

⁴⁰ Multi-State Lottery Association, MUSL Mega Millions (M2GS) Product Group Rules, last amended June 25, 2013.

can be in the millions of dollars, increasing demand. In 2012, Mega Millions made history with a jackpot of \$656 million.⁴¹ Unlike many other countries, including Ireland, the United Kingdom, and Germany, the United States does not have a national lottery.

Lottery gross gaming revenues were estimated at \$29.4 billion in FY2013, according to NASPL. Those numbers rose 3% from a year earlier, when lotteries generated \$19.5 billion.⁴² In recent years, state lottery administrators have experimented with strategies to improve sales and returns, such as online sales. Illinois was the first state to privatize the management of its lottery in 2011, in the expectation that a private operator might be better able to boost sales while the state would benefit from an up-front payment.⁴³ Since then, Indiana and New Jersey have privatized their lotteries.⁴⁴

Georgia and Illinois already sell lottery tickets online, and several others have considered whether to offer online lottery sales, among them New Jersey and Florida. Colorado has expressly prohibited online lottery sales, and Maryland imposed a moratorium through April 2015 while the issue is studied.⁴⁵ In a three- to four-year pilot program that started in March 2012, the Illinois Lottery is selling Mega Millions tickets on its website, with reported sales of \$36.9 million to date.⁴⁶ A mobile app allows players to purchase tickets using their mobile phones.

Commercial Casinos

According to the American Gaming Association (AGA), in 2012 there were 464 land- or riverboat-based commercial casinos in the United States, along with 49 racinos (gambling venues located at race tracks) and 413 card rooms.⁴⁷ Commercial casinos, owned and managed by private companies without the involvement of Indian tribes, were in operation in 17 states. Racinos operate in 14 states. AGA reports gross revenues for commercial casino operators of \$37.3 billion in 2012 (see **Figure 3**) and employment of almost 332,000 people.⁴⁸

Commercial casinos are regulated by the states. States generally mandate background checks for key employees, specify the level of payouts to players, and require audits and inspections. Many large casino companies, such as Caesars Entertainment, MGM Resorts International, Wynn Resorts, and Las Vegas Sands Corp., are publicly traded on U.S. stock exchanges, making them subject to Securities and Exchange Commission financial reporting requirements.

⁴¹ Mega Millions, Jackpot History, <http://www.megamillions.com/jackpot-history>.

⁴² In FY2013, about \$20 billion of gross gaming revenue was returned to the lotteries' state-designated beneficiaries.

⁴³ Leonard Gilroy and Lisa Snell, *Annual Privatization Report 2013 State Government Privatization*, Reason Foundation, April 22, 2013, <http://reason.org/news/show/apr-2013-state-lottery-privatization>.

⁴⁴ Leonard Gilroy and Lisa Snell, *Annual Privatization Report 2014 State Government Privatization*, Reason Foundation, April 2014, pp. 5-10, <http://reason.org/files/apr-2014-state-privatization.pdf>.

⁴⁵ Jonathan Griffin, *2014 Legislation Regarding Internet Gambling or Lotteries*, National Conference of State Legislatures (NCSL), May 20, 2014.

⁴⁶ Illinois Lottery, "Illinois Lottery Marks Two-Year Internet Sales Anniversary," press release, March 31, 2014, <http://www.illinoislottery.com/en-us/press-releases/PressReleasePages/March2014/IllinoisLotteryTwoYearInternetSalesAnniversary.html>.

⁴⁷ AGA, *2013 State of the States*, pp. 4-5. While Indian casinos are included in the AGA count of total casinos, racinos, and card rooms, the \$37.3 billion industry revenue total does not include Indian gaming. Some video lottery terminal receipts are also counted in state lottery revenue totals.

⁴⁸ *Ibid.*, p. 7. AGA casino revenue and employment figures do not include Indian gaming establishments.

AGA reports that slot machines now account for 70% of revenue on commercial casinos' floors, up from about 40% in the 1970s. The machines are increasingly sophisticated, using electronic screens that display a variety of games, and offering combined jackpots that can run into the millions of dollars.⁴⁹ Commercial casinos in South Dakota and Iowa earn more than 90% of their revenues from slot machines. In Nevada, where table games are more important than in other states, slot machines accounted for more than 60% of gambling revenues in 2012.⁵⁰

Figure 3. U.S. Commercial Casino Revenues



Source: American Gaming Association and state regulatory agencies.

With more than 260 locations grossing more than \$1 million in gambling revenue, Nevada had the largest number of commercial casinos in FY2013.⁵¹ Other major locations with commercial casinos are Atlantic City, the Chicago area (including neighboring parts of Indiana), Detroit, Connecticut, Philadelphia, St. Louis, and the Mississippi Gulf Coast. Each generated \$1 billion or more in casino revenues in 2012 (see **Table 1**). While many casinos, such as riverboat casinos, cater to day visitors, major casinos in Las Vegas, Atlantic City, and other select areas market themselves as vacation destinations, with high-end amenities, convention and meeting facilities, and big-name entertainers. On the Las Vegas strip, gambling revenue accounts for 35%-45% of total revenue of casino hotels, according to an analysis by Standard & Poor's.⁵²

⁴⁹ David Stewart, Ropes & Gray, LLP, *Demystifying Slot Machines and Their Impact in the United States*, White Paper for AGA, July 2010, p.1, http://www.americangaming.org/Publications/AGA_studies.cfm.

⁵⁰ AGA, *2013 State of the States*, p. 3.

⁵¹ Nevada State Gaming Control Board, *Nevada Gaming Abstract*, 2013, p. 1-1, <http://gaming.nv.gov/modules/showdocument.aspx?documentid=8566>.

⁵² Tuna N. Amobi, *Industry Surveys, Lodging & Gaming*, S&P Capital IQ, June 2014, p. 6.

Table I. Top U.S. Casino Markets, by Annual Gross Revenue
in billions of U.S. dollars, 2012

Rank	Casino Market	Gross Revenue
1	Las Vegas Strip, NV	\$6.2
2	Atlantic City, NJ	\$3.1
3	Chicagoland, IL/IN	\$2.2
4	Detroit, MI	\$1.4
5	Connecticut ^a	\$1.2
6	Philadelphia, PA	\$1.2
7	St. Louis, MO/IL	\$1.1
8	Gulf Coast, MS	\$1.1
9	The Poconos, PA	\$0.9
10	Tunica/Lula, MS	\$0.8
11	Kansas City, MO	\$0.8
12	Boulder Strip, NV	\$0.8
13	Shreveport/Bossier City, LA	\$0.7
14	Lake Charles, LA	\$0.7
15	New York City, NY	\$0.7
16	Reno/Sparks, NV	\$0.6
17	Pittsburgh/Meadow Lands, PA	\$0.6
18	Black Hawk, CO	\$0.6
19	Lawrenceburg/Rising Sun/Belterra, IN	\$0.6
20	New Orleans, LA	\$0.6

Source: American Gaming Association and the Innovation Group.

- a. Includes only slot machine revenues from Connecticut's tribal casinos.

Tribal Gaming

According to the National Indian Gaming Commission (NIGC), an independent federal regulatory agency within the Department of the Interior, 237 of the 566 federally recognized tribes⁵³ ran gaming operations in 2012. The 420 Indian facilities generated \$27.9 billion in gross gaming revenue (see **Figure 4**).⁵⁴ Aside from recession-related declines in 2009 and 2010, Indian

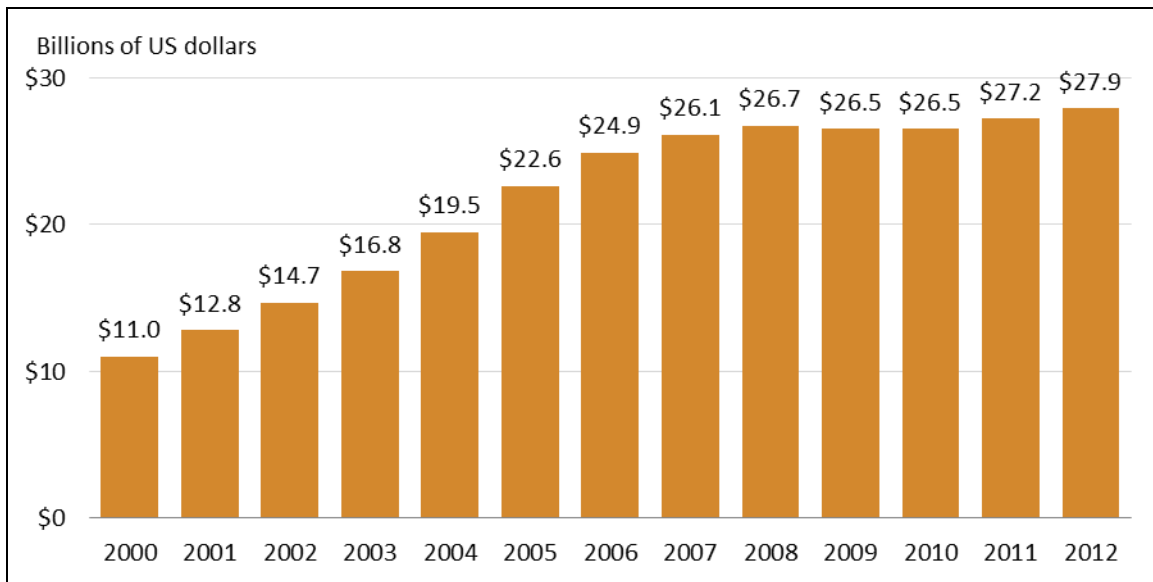
⁵³ Department of the Interior, "Indian Entities Recognized and Eligible to Receive Services from the United States Bureau of Indian Affairs," 78 *Federal Register* 26384-23689, May 6, 2013.

⁵⁴ National Indian Gaming Commission (NIGC), "2012 Indian Gaming Revenues Increased 2.7%," press release, July 23, 2013, <http://www.nigc.gov/Portals/0/NIGC%20Uploads/readingroom/pressreleases/2012Indiangamingrevenuesincreasegraphics.pdf>.

gaming revenues have risen steadily since the Indian Gaming Regulatory Act (IGRA; P.L. 100-497) was passed in 1998.⁵⁵

Many Indian gambling establishments are relatively small,⁵⁶ but tribes also own major casinos such as the Mohegan Sun, operated by the Mohegan Tribal Gaming Authority Management Board, and Foxwoods Resort Casino, owned and operated by the Mashantucket Pequot Tribal Nation. Foxwoods is not only the nation's largest tribal casino, but one of the largest casinos in the United States.⁵⁷ Both are located in Connecticut. The 20 largest Indian gambling operations account for 55.5% of tribal gaming revenues.⁵⁸

Figure 4. Indian Gambling Revenues



Source: National Indian Gaming Commission.

Some tribes are interested in sponsoring online gambling, including California's Alturas Indian Rancheria tribe⁵⁹ and the Cheyenne and Arapaho tribes.⁶⁰ The Tribal Internet Gaming Alliance, which currently includes the Lac du Flambeau Band of Lake Superior Chippewa Tribe and the Bad River Band Chippewa Tribe, was established in 2013 to help shape federal Internet gambling policy.⁶¹

⁵⁵ NIGC regulates Indian casinos under IGRA, which sets rules defining eligible Indian tribes, their relationship with states, and requirements for oversight of gambling operations.

⁵⁶ NIGC, U.S. Department of the Interior, *Strategic Plan for Fiscal Years 2014-2018*, p. 2, <http://www.nigc.gov/LinkClick.aspx?fileticket=gV9TuiUoWuk%3d&tabid=917>.

⁵⁷ Clyde W. Barrow, *New England Casino Gaming: Update 2013*, Center for Policy Analysis, University of Massachusetts Dartmouth, 2013, pp. 4-12, http://www.umassd.edu/media/umassdartmouth/seppce/centerforpolicyanalysis/negu_2013.pdf.

⁵⁸ NIGC, "Proceeds of Indian Gaming," Fact Sheet, <http://www.indiangaming.org/info/pr/presskit/PROCEEDS.pdf>.

⁵⁹ Lucy Brown, "Native American Indian Tribes Explore Online Gaming Options," *TopPokerSites*, February 20, 2014.

⁶⁰ Jennifer Palmer, "Oklahoma Tribe Fold Poker Website That Cost \$9.5 Million," *NewOK*, February 16, 2014.

⁶¹ Tribal Internet Gaming Alliance (TIGA), <http://www.tribalinternetgamingalliance.com/>.

Indian Gaming Regulatory Act

Native American casinos are typically not subject to the same state or local taxes on their revenues as commercial casinos. Under IGRA, tribes are entitled to negotiate agreements with a state, through which they can typically offer any form of gambling that is already legal in that state. Congress passed the law after the Supreme Court held in 1987 that Indian tribes had considerable authority to conduct gaming operations on their land even if they did not comply with all state laws and regulations.⁶² IGRA authorizes three classes of gaming:

- class I social gaming, for prizes of minimal value or in connection with traditional tribal ceremonies, is subject to tribal regulation;
- class II bingo and card games, excluding baccarat and slots, are subject to joint tribal and federal regulation; and
- class III casino gaming is subject to both state and tribal control through a tribe-state compact, which must comply with a federal framework.

For a tribe to offer class II and class III gaming on a reservation or land held in trust, the tribe must be “located in a State that permits such gaming for any purpose by any person, organization or entity.” Federal courts have interpreted this provision to permit tribes to conduct any type of gaming permitted in the state, but without state limits or conditions. For example, tribes in states that permit “Las Vegas” nights for charitable purposes may seek to negotiate a compact with a state that allows for class III casino gaming. On the other hand, the fact that state law permits some form of lottery is not, in itself, sufficient to permit a tribe-state compact allowing all forms of casino gaming.⁶³

There has been controversy regarding so-called “reservation shopping,” in which tribes, often in rural areas, seek to locate casinos on land closer to urban centers in order to attract more customers.⁶⁴ The Secretary of the Interior has authority over tribe-state compacts. NIGC oversees class II gaming, tribal gaming ordinances, and some regulatory issues. Its chairman is appointed by the President and confirmed by the Senate. The other two commissioners are appointed by the Secretary of the Interior.

IGRA places limits on the use of tribal revenues from Indian gaming. Among the permissible uses are education, health care, tribal government and other development activities, and per capita distributions to tribal members.⁶⁵ Because Indian tribes are sovereign nations under federal law, they do not pay taxes on income generated by commercial activities. Tribes pay employment taxes, however, and are taxed on wagering.⁶⁶ In negotiating compacts with state governments, some tribes have pledged to share a portion of proceeds from class III gambling with the state. According to a report on the Indian gaming industry by a private research group, Indian gaming

⁶² *California v. Cabazon Band of Mission Indians*, 480 U.S. 202.

⁶³ CRS Report RL34325, *Indian Gaming Regulatory Act (IGRA): Gaming on Newly Acquired Lands*, by (name redacted). The law requires states to negotiate compacts in good faith.

⁶⁴ Matthew Sturdevant, “Foxwoods Report Details Revenue Erosion, Debt Details, Risks of Increased Competition,” *The Courant*, January 8, 2014.

⁶⁵ NIGC, “Frequently Asked Questions,” http://www.nigc.gov/About_Us/Frequently_Asked_Questions.aspx.

⁶⁶ Internal Revenue Service, *Gaming Tax Law and Bank Secrecy Act Issues for Indian Tribal Governments*, 2008, <http://www.irs.gov/pub/irs-pdf/p3908.pdf>. Income of certain corporations set up as separate and distinct from a tribe can be taxed.

returned \$9 billion to states in the form of taxes, revenue sharing, and other payments including compact revenue agreements in 2012.⁶⁷

Financing Uncertainty

As is the case with commercial casinos, some tribal operations that expanded in recent years have had difficulty meeting or restructuring debt obligations. The Mashantucket Pequot Nation, which operates the Foxwoods casino, defaulted in 2009 and completed the restructuring of its debt of \$2 billion on July 1, 2013.⁶⁸ The Mohegan Tribal Gaming Authority, which refinanced \$1.64 billion of long-term debt in March 2012, announced layoffs involving hundreds of employees at the Mohegan Sun in 2010 and again in 2012.⁶⁹ Because tribes are sovereign nations, there are emerging complications for lenders. For example, the Mohegan tribe's constitution gives its Gaming Disputes Court, made up of a trial court and an appeals court, exclusive jurisdiction over disputes involving gaming. The Mohegan Sun *2013 Annual Report* spelled out some of the potential legal issues:

We, the Tribe and our wholly-owned subsidiaries may not be subject to, or permitted to seek protection under, the federal bankruptcy laws since an Indian tribe and we, as an instrumentality of the Tribe, may not be a "person" eligible to be a debtor under the U.S. Bankruptcy Code. Therefore, our creditors may not be able to seek liquidation of our assets or other action under federal bankruptcy laws. Also, the Gaming Disputes Court may lack powers typically associated with a federal bankruptcy court, such as the power to non-consensually alter liabilities, direct the priority of creditors' payments and liquidate certain assets. The Gaming Disputes Court is a court of limited jurisdiction and may not have jurisdiction over all creditors of ours or our subsidiaries or over all of the territory in which we and our subsidiaries carry on business.⁷⁰

An ongoing dispute between Wells Fargo Bank and Saybrook Investors LLC, and Wisconsin's Lac du Flambeau Band of Lake Superior Chippewa Indians could affect gaming financing. Wells Fargo has sued the tribe over its failure to make monthly payments on a \$50 million tribal bond to consolidate debt and invest in a riverboat casino operation in Mississippi. The U.S. District Court for the Western District of Wisconsin in 2010 found that the bond deal was invalid because it had not been reviewed by the National Indian Gaming Commission, as the court said was required under IGRA.⁷¹ After a remand in September 2011 by the Seventh Circuit Court of Appeals, it may take a few more years and possibly a few more appeals for a ruling on the validity of the bond documents other than the bond indenture.⁷²

⁶⁷ Nathan Associates, "Growth of Indian Gaming Outpaced by Commercial Casino and Racino Segments," press release, March 26, 2014, <http://www.nathaninc.com/news/growth-indian-gaming-outpaced-commercial-casino-and-racino-segments>.

⁶⁸ Clyde W. Barrow, *New England Casino Gaming: Update 2013*, Center for Policy Analysis, University of Massachusetts Dartmouth, 2013, p.7.

⁶⁹ Mohegan Tribal Gaming Authority, Annual Report 10-K, for fiscal year ended September 30, 2013, pp. 49-50.

⁷⁰ Mohegan Sun, *2013 Annual Report*, p. 26.

⁷¹ *Wells Fargo Bank N.A. vs. Lake of the Torches Economic Development Corporation*, United States District Court, Western District of Wisconsin, 677 F. Supp. 2d 1056, January 5, 2010.

⁷² Sam Cohen, "7th Circuit Court of Appeals Voids Tribal Gaming Loan and Asks the NIGC to Promulgate Regulations as to Permissible Financing Agreements for Indian Gaming Projects," *Indian Gaming*, January 2012, http://www.indiangaming.com/istore/Jan12_SamCohen.pdf.

Pari-Mutuel Betting

Legal in 43 states,⁷³ pari-mutuel betting is defined as “player-banked betting with all the bets pooled and prizes awarded from the pool.”⁷⁴ The most common examples in the United States are dog and horse racing and jai alai (a game played on a court with a ball and wicker racket), and other sporting events in which participants finish in ranked order.

In recent years, the industry has developed an extensive system of Internet and off-track wagering. In 2000, Congress approved legislation to amend the definition of “interstate off-track wager” in the Interstate Horseracing Act (15 U.S.C. §§3001-3007). Proponents claim the amendment permits tracks to accept bets online from individuals located in states where pari-mutuel betting is legal (although not necessarily where either off-track or online betting is legal); the Department of Justice disagrees.⁷⁵ A bill introduced in the 112th Congress, H.R. 2702, would have clarified that the Wire Act and other laws do not apply to the Interstate Horseracing Act.

Despite the legal uncertainty, interstate pari-mutuel betting with remote devices is growing through the use of advance deposit wagering (ADW). With ADW, consumers set up accounts with companies such as Twinspires (owned by the Churchill Downs racetrack), XpressBet, or TV Games Network (TGV). They then use the accounts to place bets electronically on races over the phone, on a computer, or with mobile device applications and set-top remote control devices linked to TGV channels that broadcast horse racing. The Oregon Racing Commission, which licenses and audits many of the largest firms taking advanced deposit wagers, reports that online wagering via its licensed companies rose to \$2.5 billion in 2013, from \$830 million in 2003.⁷⁶

Sports Betting

Congress in 1992 passed the Professional and Amateur Sports Protection Act (PASPA; P.L. 102-559) with strong support from the National Basketball Association, the National Football League (NFL), Major League Baseball, the National Hockey League, and the National Collegiate Athletic Association, among others. The law generally barred state governments from licensing, sponsoring, operating, advertising, promoting, or engaging in sports gambling.⁷⁷ It contained exceptions for Nevada, Oregon, Delaware, and Montana, each of which allowed certain types of sports betting at the time of passage.⁷⁸ New Jersey failed to pass legislation in time to qualify for

⁷³ Alaska, Georgia, Hawaii, Mississippi, North Carolina, South Carolina, and Utah are the only states that do not offer legal pari-mutuel wagers. State racing commissions are listed on the USA.gov website at <http://answers.usa.gov/system/templates/selfservice/USAGov/#!/portal/1012/article/4389/State-Racing-Commissions>.

⁷⁴ William N. Thompson, *Gambling in America: An Encyclopedia of History, Issues and Society* (Santa Barbara, CA, 2001), p. 289.

⁷⁵ CRS Report 97-619, *Internet Gambling: An Overview of Federal Criminal Law*, by (name redacted). The language of the Interstate Horseracing Act (P.L. 106-553) was amended to read: “‘interstate off-track wager’ means a legal wager placed or accepted in one State with respect to the outcome of a horserace taking place in another State *and includes pari-mutuel wagers, where lawful in each State involved, placed or transmitted by an individual in one State via telephone or other electronic media and accepted by an off-track betting system in the same or another State, as well as the combination of any pari-mutuel wagering pools.*” 15 U.S.C. §3002(3); §629, P.L. 106-553, 114 Stat. 2762-108 (2000).

⁷⁶ Oregon Racing Commission. Hub Information, Advanced Deposit Wagering Hub Handles, http://www.oregon.gov/Racing/docs/Hub_Data/2013_quarterly_hub_handle_report.pdf.

⁷⁷ All pari-mutuel wagering on horse racing, dog racing, and jai alai is excepted from PASPA.

⁷⁸ A state was exempt from PASPA if it conducted sports betting at any time between 1976 and 1990.

the PASPA exemption. Currently, Nevada is the only state to permit wagers on a full complement of sporting events and leagues.⁷⁹ According to the Nevada Gaming Control Board, casino-goers in Nevada wagered about \$3.5 billion on sporting events in 2012, a rise from \$1.9 billion in 2002.⁸⁰

Delaware, which allowed only limited multi-game or parlay betting⁸¹ on NFL contests at the time the 1992 law was passed, enacted a law in 2009 to create a state sports lottery. The NFL and other sports leagues challenged the law, and the U.S. Third Circuit Court of Appeals ruled that the state was limited to offering narrow betting, similar to what existed in 1992. The U.S. Supreme Court in May 2010 declined to hear an appeal, effectively ending Delaware's effort to expand sports betting.⁸² After its voters authorized sports betting at casinos and racetracks in 2011, New Jersey mounted another court challenge to the constitutionality of PASPA.⁸³ In September 2013, the U.S. Third Circuit Court of Appeals ruled that New Jersey's sports wagering law conflicts with PASPA and should not be implemented.⁸⁴ The Supreme Court may consider whether to hear New Jersey's appeal of the lower court ruling in 2014.⁸⁵

Two bills have been introduced in the 113th Congress related to sports gambling. The New Jersey Betting and Equal Treatment Act of 2013 (H.R. 626), introduced by Representative Frank Pallone, would expressly exempt New Jersey from PASPA. The Sports Gaming Opportunity Act (H.R. 625), by Representative Frank LoBiondo, would amend PASPA to create an exemption from its prohibitions for any state that establishes sports gambling through laws enacted on or after January 1, 2013, and that go into effect no later than January 1, 2017.

Regulation of Remote Gambling

Federal remote gambling legislation could benefit some sectors of the gambling industry more than others, depending on how it is crafted. State lottery officials, for example, have expressed concern that proposals that would give existing gambling establishments preference for online poker licenses could give those businesses an advantage in the market.⁸⁶ By the same token, commercial casinos are worried that under the existing legal framework, online state lottery promotions, such as keno-type games, could encroach on their turf. If the United States passes federal online gambling legislation and all states opt in, which seems unlikely, H2 Gambling

⁷⁹ CRS Report 97-619, *Internet Gambling: An Overview of Federal Criminal Law*, by (name redacted).

⁸⁰ AGA, *2013 State of the States*, AGA Survey of Casino Entertainment, 2013, p. 36.

⁸¹ A parlay bet is a wager that links two or more bets. The bettor wins only if all the linked wagers fall his or her way. The potential payout is higher, but the odds of winning are longer.

⁸² *Office of the Commissioner of Baseball v. Markell*, 579 F.3d 293 (3d. Cir., 2009); Warren Richey, "Supreme Court turns back Delaware bid to expand sports betting," *Christian Science Monitor*, May 3, 2010, <http://www.csmonitor.com/USA/Justice/2010/0503/Supreme-Court-turns-back-Delaware-bid-to-expand-sports-betting>.

⁸³ Christopher L. Soriano, "The Efforts to Legalize Sports Betting in New Jersey—A History," *New Jersey Lawyer*, April 2013, pp. 22-25.

⁸⁴ *NCAA v. Governor of the State of N.J.*, 730 F.3d 208 may be accessed at <http://www2.ca3.uscourts.gov/opinarch/131713p.pdf>.

⁸⁵ Steven Stradbrooke, "New Jersey to Call DOJ Bluff on Sports Betting, Allow Unregulated Sports Bets," *Gambling News*, May 20, 2014.

⁸⁶ Ross Choma, *Don't Bet the House: Online Gaming Ban Faces Uncertain Future*, Center for Responsive Politics, May 12, 2014, <https://www.opensecrets.org/news/2014/05/dont-bet-the-house-online-gaming-ban-faces-uncertain-future/>.

Capital, a consulting firm, predicts a U.S. online gambling market of some \$26 billion five years after enactment.⁸⁷

Interest groups and gaming companies are at odds over remote gambling. One of the strongest proponents of legalized online poker is the Poker Players Alliance.⁸⁸ Caesars Entertainment and MGM are among the large casino operators that have urged Congress to adopt federal legislation to regulate Internet gambling to avoid a patchwork of state regulations and different tax rates. These interests formed the Coalition for Consumer and Online Protection in 2014.⁸⁹ Aligned against them are others, including most prominently the Coalition to Stop Internet Gambling.⁹⁰ The North American Association of State & Provincial Lotteries (NASPL)⁹¹ and the National Conference of State Legislatures (NCSL)⁹² want individual states to have the right to legalize, license, and tax remote gaming.⁹³ The National Governors Association largely echoes this view, and it has called on lawmakers to include state input before moving on any online gaming legislation.⁹⁴

Many Indian tribes have declared their opposition to any federal gaming regime because of its broad waiver of sovereign immunity, although some of the larger tribes are now beginning to reverse their previous positions, viewing online gambling as a possible business opportunity.⁹⁵ The American Indian Gaming Association has a set of conditions it wants to see met in any bill to legalize interstate Internet gambling.⁹⁶ The tribes, as sovereign nations, want to ensure that their Internet gambling revenues are not taxed, that qualified tribal operations are allowed to participate in the online market from the outset, and that existing state-tribal compacts are not undermined. The American Indian Gaming Association has been concerned that some proposals could give commercial casinos and other established businesses early entry into the market, possibly putting tribal operations at a disadvantage.

Even if it leads to the growth of gambling revenues and employment at the national level, federal remote gaming legislation has the potential to cause revenue and employment declines in certain

⁸⁷ H2 Gambling Capital Consultants, data furnished to CRS by email, June 23, 2014.

⁸⁸ Poker Players Alliance (PPA), *PPA Talking Points*, <http://theppa.org/resources/talking-points/>.

⁸⁹ See the Coalition for Consumer & Online Protection at <http://c4cop.com/>.

⁹⁰ The Coalition to Stop Internet Gambling was formed in November 2013 with substantial financial support from Las Vegas Sands CEO Sheldon Adelson. Nearly 40 organizations are part of the coalition; see <http://stopinternetgambling.com/about-coalition-to-stop-internet-gambling/>.

⁹¹ NASPL Resolution opposed to federal legislation that would encroach on the traditional state prerogative to regulate gaming within each state's borders, November 4, 2011; see <http://www.naspl.org/index.cfm?fuseaction=content&menuid=21&pageid=1027>.

⁹² In April 2014, NCSL wrote to Congress expressing its strong opposition to federal regulation of online gambling; see http://c4cop.com/wp-content/uploads/2014/04/NCSL-Letter_-_Oppose-Restoration-of-Americas-Wire-Act.pdf.

⁹³ NCSL Resolution, State Sovereignty in Online Gaming, http://www.ncsl.org/documents/telecommunications/Online_Gaming_Resolution_.pdf.

⁹⁴ Letter from National Governors Association to Senator Harry Reid, Majority Leader U.S. Senate, May 16, 2014, <http://www.nga.org/cms/home/federal-relations/nga-letters/economic-development—commerce-c/col2-content/main-content-list/internet-gaming-2014.html>.

⁹⁵ Pamela M. Prah, "Tribes, States Eye Multibillion-Dollar Online Gambling," *USA Today*, December 11, 2013.

⁹⁶ National Indian Gaming Association, National Indian Gaming Association Resolution on Legislation to Legalize Internet Gaming, October, 20, 2010, http://www.indiangaming.org/info/alerts/NIGA_Internet_Gaming_Resolution_2010.pdf.

locations. These effects may well depend upon the details of whatever legislation Congress passes and the specific actions taken by individual states in response.

Enforcement of remote gaming laws also presents logistical difficulties, including monitoring myriad websites to make sure that minors do not gamble; verifying the geographic location of gamblers on sites that are limited to certain states or territories; and auditing websites and payment systems.⁹⁷ Consumers may experience difficulty resolving disputes with online operators whose physical location may be in countries with weak law enforcement or extreme banking secrecy.

Federal rules to implement UIGEA require financial firms to engage in due diligence to ensure that businesses engaged in Internet gambling furnish proof of legal operating authority and that state or tribal gambling ordinances include requirements verifying the age and geographic location of clients.⁹⁸ Nonetheless, the Department of Justice, the Department of State, and state attorneys general have raised questions about the potential for fraud and money laundering. In September 2013, J. Britt Johnson, deputy assistant director of the FBI Criminal Investigative Division, cautioned that Internet poker could “provide more opportunities for criminals to launder illicit proceeds with increased anonymity,” but that “these methods could be detected and thwarted by a prudent online casino, for example, by blocking software designed to enable online anonymity.” Still, he cast doubt on the ability of the gambling industry to readily identify or deter some sophisticated methods.⁹⁹

The Oregon Racing Commission has addressed some of the regulatory issues in its procedures for licensing firms that provide advanced deposit wagering on horse races. Some ADW firms ran into difficulties after final regulations to implement UIGEA took effect, as several credit card issuers blocked payment to the companies out of concern that they might be linked to illegal gambling operations. Oregon now requires such firms to be licensed and audited by the commission, whether or not they are physically headquartered in the state.¹⁰⁰ ADW firms must provide financial information including resources and detailed projections of revenue, expenditures, and cash flows by month; a list of all personnel; a segregated account with a federally insured bank to hold the funds of its account holders; a \$50,000 security fee; and proof of “an operational presence within the State of Oregon” such as a call center or a subcontract with an existing call center.

The Remote Gambling Association (RGA), a trade association of licensed gambling operators in Europe, has worked with regulators to develop industry standards. In July 2010 the RGA issued anti-money laundering guidelines for the Internet casino industry, designed to supplement laws and regulations.¹⁰¹ The guidelines recommend third-party verification of data, including use of

⁹⁷ PR Newswire, “Internet Poker Vulnerable To: Money Laundering by Terror Groups; Cheating; and Fraud, Warn Four Experts and the FBI,” press release, January 7, 2014, <http://www.undetectedlaunders.com/docs/DearColleagueFBIOnlineGambling.pdf>.

⁹⁸ American Bankers Association, “UIGEA Final Rule, Frequently Asked Questions,” <http://www.aba.com/compliance/documents/6711ed3c0a294287bb1acb329ed409bfuigeafaqs.pdf>.

⁹⁹ Letter from J. Britt Johnson, deputy assistant director, Criminal Investigative Division, FBI to Representative C.W. Young, September 20, 2013, http://www.undetectedlaunders.com/docs/FBI_Online_Gambling_Response_093013.pdf.

¹⁰⁰ Oregon Racing Commission, http://arcweb.sos.state.or.us/rules/OARS_400/OAR_462/462_220.html.

¹⁰¹ Remote Gambling Association (RGA), “Anti-Money Laundering: Good Practice Guidelines for the Online Gambling Industry,” July 14, 2010, http://www.rga.eu.com/data/files/rga_aml_guidance_2010.pdf.

software or approved third parties for “face to face” verification of customer documents; validating a customer’s address; and ensuring that transactions are carried out through recognized credit institutions. In August 2012, RGA published model technical guidelines for the online gambling industry, including responsibilities for credit card payments.¹⁰²

Problem Gambling

As states have expanded legal gambling, several have also created programs—funded through tax revenues or assessments on private companies—for treatment of individuals who are considered problem or pathological gamblers.¹⁰³ The National Council on Problem Gambling (NCPG) estimates, based on previous research, that about 1% of the population can be classified as pathological gamblers and another 3% as problem gamblers.¹⁰⁴ It has estimated that problem gambling affects 6 million to 8 million Americans. Adolescents and males are considered to be at higher risk of a gambling disorder.¹⁰⁵ In April 2012, NCPG released standards for responsible Internet gambling, which are intended to provide guidance to new online operators and regulators.¹⁰⁶

According to a survey by the Association of Problem Gambling Service Administrators, nearly 40 states offer some type of publicly funded gambling addiction service; about 15 states fund employees who work full-time on the issue.¹⁰⁷ Spending ranges from nothing in a dozen states to a high of about \$1.42 per capita in Delaware.¹⁰⁸

NCPG endorsed legislation before the 112th Congress, H.R. 2334, the Comprehensive Problem Gambling Act of 2011, which would have included problem and pathological gambling in federal mental health programs and would have initiated research on problem gambling. A bill on problem gambling has not been introduced in the 113th Congress. Opponents of legislation to expand remote gaming cite the potential for an increase in problem gambling if the ease of online gambling encourages even more people to gamble.¹⁰⁹ As dissenting members of the House

¹⁰² RGA, *Technical Issues: Good Practice Guidelines for the Remote Gambling Industry*, August 31, 2012, http://www.rga.eu.com/data/files/rga_technical_guidelines.pdf.

¹⁰³ According to the National Council on Problem Gambling (NCPG), problem gambling is characterized by an increasing preoccupation with gambling, a need to bet more money more frequently, restlessness or irritability when attempting to stop, “chasing” losses, and loss of control manifested by continuation of the gambling behavior in spite of mounting, serious, negative consequences. The American Psychiatric Association defines pathological gambling as: “Persistent and recurrent maladaptive gambling behavior” that meets at least five of 10 criteria.

¹⁰⁴ NCPG, citing H. Shaffer, M. Hall, and J. Vander Bilt, “Estimating the prevalence of disordered gambling behavior in the United States and Canada: a research synthesis,” *American Journal of Public Health*, vol. 89, no. 9 (September 1999), pp. 1369-1376.

¹⁰⁵ NCPG, “Advancing Health Through System Reform-Problem Gambling,” May 22, 2009.

¹⁰⁶ NCPG, *Internet Responsible Gambling Standards*, April 23, 2012, <http://www.ncpgambling.org/files/faq/Internet%20Responsible%20Gambling%20Standards%20April%2023%202012.pdf>.

¹⁰⁷ Jeff Marotta, Mark Vander Linden, Keith Whyte, *2013 National Survey of Problem Gambling Services*, Problem Gambling Solutions, Inc., prepared for the National Council on Problem Gambling and the Association of Problem Gambling Services Administrators, March 2014, p. 26, <http://www.ncpgambling.org/files/public/2013NationalSurveyofProblemGamblingServices%20FINAL.pdf>.

¹⁰⁸ NCPG, “Funding for Gambling Addiction Falls Short as Gambling Expands,” press release, March 26, 2014, <http://www.ncpgambling.org/files/Advocacy/APGSA%20NCPG%20Release%20National%20Survey%20of%20Gambling%20Services%20March%202014.pdf>.

¹⁰⁹ June Cotte and Kathryn A. Latour, “Blackjack in the Kitchen: Understanding Online Versus Casino Gambling,” (continued...)

Financial Services Committee wrote in opposing a bill in the 111th Congress that would have allowed Internet gambling (H.R. 2906),

[y]oung people are particularly at risk. John Kindt, Professor of Business Administration at the University of Illinois says: “It’s ‘click the mouse, lose your house.’ It puts gambling at every work desk and every school desk and in every living room. It would increase problem gambling rates exponentially.” By approving this bill, the largest expansion of gambling in history, the Committee has taken steps to open casinos in every home, dorm room, library, iPod, Blackberry, iPad and computer in America.¹¹⁰

Because Internet gambling has developed only recently, the scientific literature on its effects on problem gambling is in its infancy. In 2013, the American Psychiatric Association classified problem gambling as an addictive disorder¹¹¹ akin to alcoholism.¹¹² Gambling addiction experts at Washington University in St. Louis found that “based on available research, it is unclear if the Internet contributes to more gambling problems, but we know that those who choose to gamble using the Internet and experience problems are often involved in other forms of gambling as well.”¹¹³ Likewise, a survey of more than 4,500 participants in Internet gambling in Australia found that “online gamblers were not more likely to be classified as problem gamblers than non-online gamblers.”¹¹⁴ Iowa’s Department of Public Health recently studied the potential health issues related to legalizing Internet poker in Iowa. Among other findings, the study said “the literature cannot support a claim that Internet poker will cause people to become problem or pathological gamblers; however, researchers have asserted that Internet gambling has the potential to contribute to problem gambling.”¹¹⁵

(...continued)

Journal of Consumer Research, 2008, <http://ejcr.org/preprints/2009/february/cotte-preprint-feb09.pdf>.

¹¹⁰ H.Rept. 111-656, Part 1, p. 56, <http://www.gpo.gov/fdsys/pkg/CRPT-111hrpt656/pdf/CRPT-111hrpt656-pt1.pdf>.

¹¹¹ Christine Reilly and Nathan Smith, “The Evolving Definition of Pathological Gambling in the DSM-5,” National Center for Responsible Gaming, May 19, 2013, http://www.ncrg.org/sites/default/files/uploads/docs/white_papers/ncrg_wpdsm5_may2013.pdf.

¹¹² Christine Reilly and Nathan Smith, “Internet Gambling: An Emerging Field of Research,” National Center for Responsible Gaming, http://www.ncrg.org/sites/default/files/uploads/docs/white_papers/ncrg_wp_internetgambling_final.pdf.

¹¹³ Jessica Martin, “Gambling Addictions Expert Warns of Dangers of Internet Gambling, Especially on Youth,” Washington University in St. Louis, March 16, 2012, <http://www.sciencedaily.com/releases/2012/03/120316145655.htm>.

¹¹⁴ Sally M. Gainsbury, Nerilee Hing, and Alex Blaczczynski, et al., *An Investigation of Internet Gambling in Australia*, Center for Gambling Education and Research, Southern Cross University, Lismore, NSW, 2011, pp. 7-8, http://epubs.scu.edu.au/cgi/viewcontent.cgi?article=1720&context=tourism_pubs.

¹¹⁵ Melvin G. Gonnerman and Gene M. Lutz, *Internet Poker: A Public Health Perspective*, Iowa Department of Public Health, September 2011, p. 30.

Gambling as a Government Revenue Source

Revenues from lotteries, taxes on commercial casinos, and other gambling represented an average of 2.4% of own-source general revenue raised by state governments in FY2012, according to the most recent numbers compiled by the Rockefeller Institute of Government.¹¹⁶ State gambling revenues rose from \$15 billion in 2000 to \$25.8 billion in 2012, in good part because more casinos, racinos, and lottery products came into the market (see **Figure 5**).

Although minor on a national scale, gambling taxes are extremely important for certain states. In some instances, the state or local tax on casino winnings may be less than 10%, while in others, it can exceed 20%. In Nevada, gaming taxes made up about 24% of the state's general fund revenue in 2013, compared with 31% from sales and use taxes.¹¹⁷ In Delaware, in FY2013, the lottery's contribution to the state's general fund was \$235.3 million,¹¹⁸ which makes it the fourth-largest source of revenue for the state, ahead of corporate income and gross receipts taxes.¹¹⁹ In Indiana, gaming revenue came to \$752 million during FY2013, constituting around 5% of the state's general fund revenues.¹²⁰ In Rhode Island, casino revenue represents the third-largest source of income, behind income and sales taxes, with the state receiving more than \$300 million in revenue from its two gaming facilities in FY2011.¹²¹ Even though Las Vegas is the nation's number one gambling venue, Pennsylvania collected more commercial casino tax revenue (\$1.5 billion) than Nevada (\$869 million).¹²² Tax rates may partly explain the difference. Pennsylvania taxes at a rate of 55% of gross slot machine revenue and 16% of table games revenues, whereas Nevada's rate tops out at 6.75% on gross gaming revenue, with additional county fees and levies.¹²³

¹¹⁶ 2012 calculation based on general revenue data from the Census Bureau's State Government Finances. The Rockefeller Institute provided CRS with total VLT revenues.

¹¹⁷ State of Nevada, Legislative Counsel Bureau, Policy and Program Report, Research Division, Revenue and Budget, p. 3, April 2014, <http://www.leg.state.nv.us/Division/Research/Publications/PandPReport/20-RB.pdf>.

¹¹⁸ Delaware State Lottery, *A Path Forward*, 2013 Annual Report for the Fiscal Year Ending June 30, 2013, p. 5, http://www.delottery.com/pdf/2013_DELott_Annual_Report.pdf.

¹¹⁹ Rob Tornoe, "Gambling on Delaware's Casinos," *The Tornoe Spin*, July 12, 2013, <http://www.newsworks.org/index.php/local/speak-easy-delaware/57219-gambling-on-delawares-casinos>.

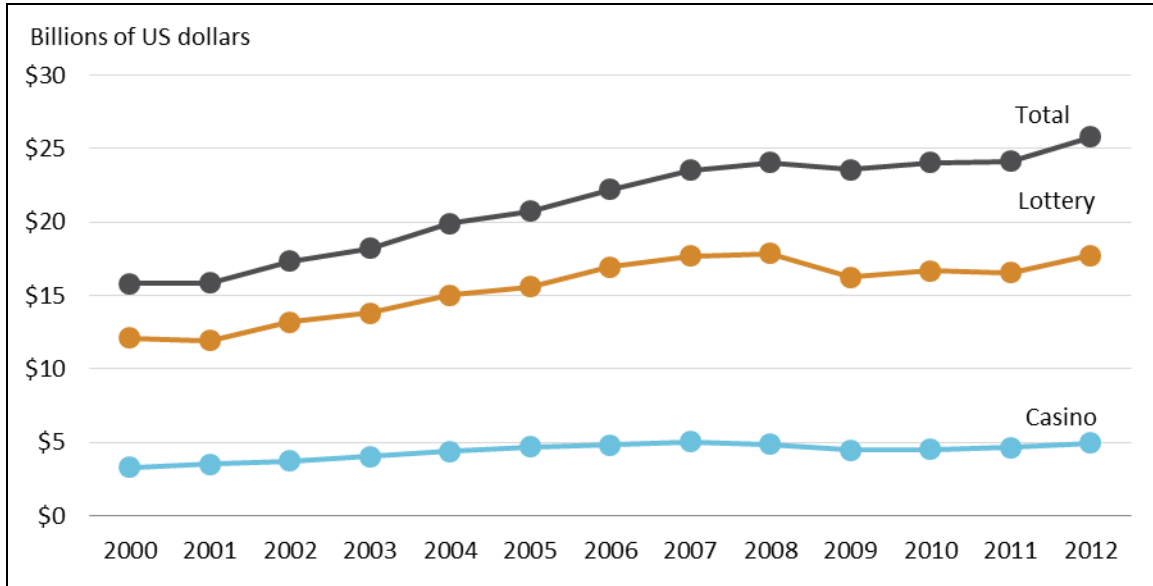
¹²⁰ Ernest Yelton, *Annual Report to Governor Mike Pence*, Indiana Gaming Commission, 2013, p. 10, <http://www.in.gov/igc/files/FY2013-Annual.pdf>.

¹²¹ Rhode Island Public Expenditure Council, *Impact of the Expansion of Gaming on State Finances in Rhode Island*, May 2012, p. 4, <http://www.ripec.org/pdfs/2012-Gaming.pdf>.

¹²² AGA, *2013 State of the States*, p. 6.

¹²³ NCSL, "2013 Casino Tax and Expenditures," January 1, 2014, <http://www.ncsl.org/research/financial-services-and-commerce/casino-tax-and-expenditures-2013.aspx>.

Figure 5. Trends in State Gambling Revenue
FY2002-FY2012



Source: Nelson A. Rockefeller Institute of Government.

Notes: Total also includes pari-mutuel betting and racinos. Totals based on state fiscal years. FY2012 data are the most recent available at the time this report was prepared.

Nationwide, gambling revenues that shrank during the 2007-2009 recession as a result of falling consumer income and state spending have largely recovered. However, the expansion of gambling is not leading to increased revenue for all state governments. The creation of new lottery games and construction of casinos in new locations may be leading to market saturation, especially in the Northeast, where casino revenue in New Jersey fell 6% in 2013.¹²⁴ Harrah's in Tunica, MS, has shut its doors.¹²⁵

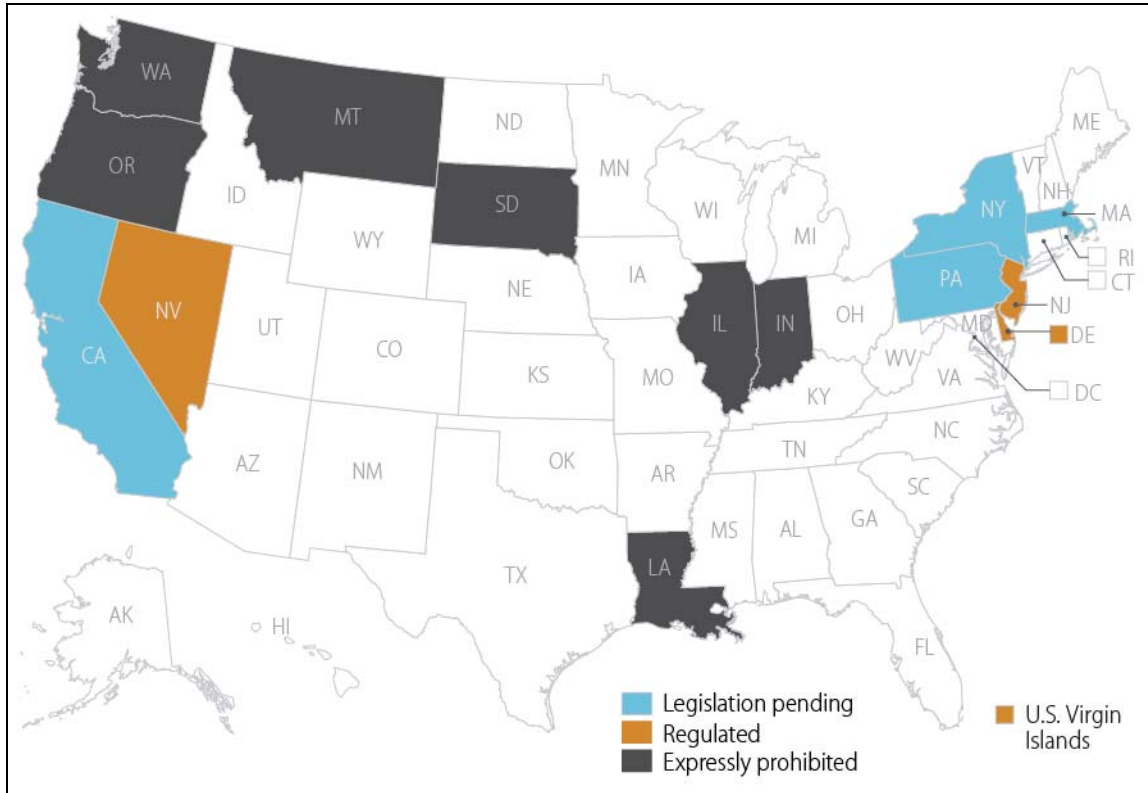
State Action on Remote Gambling

In recent years, a few states have legalized online gambling, others have considered legislation on Internet gambling, and still others have made it illegal (see **Figure 6**).

¹²⁴ New Jersey Office of the Attorney General, "DGE Announces December 2013 Gaming Revenue Results," press release, January 14, 2014, <http://www.nj.gov/lps/ge/docs/Financials/PressRel2013/December2013pressrelease.pdf>.

¹²⁵ Alan Blinder, "Harrah's Tunica Casino to Close, Hinting at Gambling Glut," *New York Times*, May 31, 2014.

Figure 6. State Online Gambling Legislation
Current as of May 2014



Source: Congressional Research Service, based on information from the National Conference of State Legislatures and Gambling Compliance.

Among recent developments at the state level are the following:

- Nevada in 2001 became the first state to develop a regulatory framework for online gambling. It awards online gaming licenses for poker only.¹²⁶ By federal law, online poker games approved in Nevada can only be played within the state. Before any online system can go live, the licensees must “prove their systems are capable of identifying players by location and that players are of legal age.”¹²⁷ Three of Nevada’s 265 casinos currently offer online poker.¹²⁸ From February to April 2014, Internet poker revenue totaled about \$2.5 million.¹²⁹ Analysts

¹²⁶ Nevada licensed UltimatePoker, the nation’s first legal online poker site, in April 2013, followed by the World Series of Poker (WSOP), which is owned by a subsidiary of Caesars Entertainment. Nevada’s gaming statutes and regulations, including Regulation 5A on the Operation of Interactive Gaming, can be accessed at <http://gaming.nv.gov/modules/showdocument.aspx?documentid=2942>.

¹²⁷ Richard N. Velotta, “Nevada Issues First Licenses for Online Poker Within State,” *Las Vegas Sun*, June 2012.

¹²⁸ In Nevada, Caesars Interactive Entertainment (WSOP website), Fertitta Interactive (Ultimate Poker, the first licensed online poker room in the United States), and South Point Poker (RealGaming.com) dominate the state’s regulated Internet poker market.

¹²⁹ Nevada State Gaming Commission, State Gaming Control Board, Gaming Revenue Information, <http://gaming.nv.gov/index.aspx?page=149>.

estimate that Nevada's online poker intrastate market will yield between \$50 million and \$60 million in annual revenue.¹³⁰

- Delaware became the first state to authorize full online casino-style gambling (poker, table games, and video lottery games), legalizing it in June 2012. Full-scale online gambling was launched in November 2013 at the state's three racetrack casinos.¹³¹ The Delaware Department of Finance estimated the law would generate at least \$3.75 million in revenues for the state in FY2013.¹³² Delaware's authorized online casino and poker offerings are operated by a single provider, 888 Holdings.¹³³
- New Jersey's regulations governing online gambling took effect in October 2013, which allows licensed casinos to apply for online gambling permits and to offer poker, table games, and slots.¹³⁴ Seven of the state's 12 casinos offer online gambling.¹³⁵ Each authorized casino has partnered with an online gaming operator, such as Gibraltar-based Bwin.party Digital Entertainment and 888 Holdings, to run its website.¹³⁶ New Jersey's virtual casinos generated \$50.5 million in revenue from December 2013 to the end of April 2014.¹³⁷
- California has debated legislation over the last few years that would authorize Internet gambling within the state.¹³⁸ The state's Native American tribes currently have the exclusive right to offer gaming on video devices, and their opposition in the past has led to withdrawal of Internet-related bills. It has been estimated that legal online poker in California could generate more than \$260 million in revenue the first year. It is uncertain if, or when, California will vote on an online poker bill.
- Pennsylvania is considering a measure to allow Internet poker, slots, and table games, and also a bill that would prohibit them. A May 2014 study commissioned by the state's Joint Legislative Budget and Finance Committee concluded that Internet gambling would either have a small cannibalization effect on traditional

¹³⁰ Joseph M. Kelly, "States and Stakeholders in I-Gaming Regulation," *Gaming Law Review and Economics*, vol. 18, no. 4 (May 16, 2014), p. 394.

¹³¹ Delaware's Gaming Competitiveness Act of 2012 allows the state's three casinos and the Delaware Lottery to offer online versions of slot machines and table games, including blackjack and poker, under the control and monitoring of state lottery officials, [http://legis.delaware.gov/LIS/lis146.nsf/vwLegislation/HB+333/\\$file/legis.html?open](http://legis.delaware.gov/LIS/lis146.nsf/vwLegislation/HB+333/$file/legis.html?open).

¹³² Legislative Analyst's Office, "Authorizing Online Poker in California," April 23, 2014, p. 4, <http://www.lao.ca.gov/handouts/education/2014/Authorizing-Online-Poker-in-California-042314.pdf>.

¹³³ Chris Grove, "Nevada and Delaware Agree to Compact for Online Poker. Who Wins and What's Next," February 25, 2014, <http://www.onlinepokerreport.com/11124/nevada-online-poker-deal-with-delaware/>.

¹³⁴ New Jersey's final regulations on Internet gambling can be viewed at <http://www.nj.gov/oag/ge/docs/Regulations/MasterMergedInternetRegulations031114.pdf>.

¹³⁵ Golden Nugget Atlantic City, the Borgata Hotel Casino & Spa, the Tropicana Casino and Resort, Trump Plaza Hotel and Casino, the Trump Taj Mahal Casino Resort, Caesars Atlantic City, and Bally's Atlantic City offer online gambling.

¹³⁶ New Jersey's Division of Gaming Enforcement lists authorized Internet gambling sites at <http://www.nj.gov/oag/ge/gamingsites.html>.

¹³⁷ New Jersey Division of Gaming Enforcement, Monthly Internet Gross Revenue Reports, <http://www.nj.gov/oag/ge/igrtaxreturns.html>.

¹³⁸ California is currently considering two online poker bills, which would only regulate peer-to-peer online poker and prohibit other online games including slots, video poker, and table games.

offline casino gaming or possibly might complement the state's physical casino industry.¹³⁹

- New York is considering an Internet poker-only bill, which would require operators to purchase a gaming license at \$10 million, and gross gaming revenue would be taxed at 15%.¹⁴⁰ The state's Gaming Commission could issue up to 10 licenses for interactive gambling.¹⁴¹

In addition to these developments, about a dozen states expressly prohibit online gambling, including Illinois (except for lottery ticket sales over the Internet), Indiana, Louisiana, Montana, Oregon (save for pari-mutuel online horse race betting from licensed operators), South Dakota (does not apply to the state lottery), and Washington.¹⁴²

Congressional Action on Remote Gambling

While states are moving forward on a piecemeal basis, recent Congresses, including the 113th Congress, have considered various bills that would either legalize or regulate interstate Internet gambling nationwide or prohibit online gambling. Committees in both houses of Congress held hearings on the subject in 2013.¹⁴³ In 2012, the Senate Committee on Indian Affairs discussed Internet gaming and how it might affect Indian tribes.¹⁴⁴

The congressional Joint Committee on Taxation in 2010 estimated that licensing fees from the Internet Gambling Regulation, Consumer Protection, and Enforcement Act, introduced as H.R. 2267 in the 111th Congress, would have led to a net federal revenue increase of \$283 million over a 10-year period.¹⁴⁵ That legislation would have authorized the Secretary of the Treasury to establish a system to license and regulate Internet wagering, subject to additional oversight and licensing investigations performed by recognized state gaming authorities, with operators paying fees to meet the cost of reviewing license applications and administering the act. The Joint Committee on Taxation also estimated that the federal government would collect an additional \$42 billion over 10 years under H.R. 2230, the Internet Gambling Regulation and Tax Enforcement Act of 2011. That legislation would have imposed a license fee for online gambling operations equal to 2% of all funds deposited by customers into special accounts that could be

¹³⁹ Econsult Solutions, *The Current Condition and Future Viability of Casino Gaming in Pennsylvania*, May 2014, pp. 144-146, http://www.econsultsolutions.com/wp-content/uploads/PA-Gaming-Report-from-ESI_May-6.pdf.

¹⁴⁰ Darren Heitner, "Can Online Poker Become the New King of New York?," *Forbes*, April 23, 2014.

¹⁴¹ New York's proposed interactive gaming bill can be accessed at <http://assembly.state.ny.us/leg/?sh=printbill&bn=S6913&term=2013>.

¹⁴² GamblingCompliance, *U.S. Internet Gambling Regulatory Tracker*, May 2014, pp. 12-14.

¹⁴³ House Energy and Commerce Committee Subcommittee on Commerce, Manufacturing, and Trade, "The State of Online Gaming," <http://energycommerce.house.gov/hearing/state-online-gaming>; Senate Subcommittee on Consumer Protection, Product Safety and Insurance of the Commerce, Science, and Transportation Committee, "The Expansion of Internet Gambling: Assessing Consumer Protection Concerns," July 17, 2013, <http://www.commerce.senate.gov/public/index.cfm?p=Hearings>.

¹⁴⁴ Senate Committee on Indian Affairs, *Oversight Hearing on Regulation of Tribal Gaming: From Brick & Mortar to the Internet*, July 26, 2012, <http://www.indian.senate.gov/hearings/hearing.cfm?hearingID=b7d10740c81221f121fde25595bfdc8b>.

¹⁴⁵ Congressional Budget Office Cost Estimate, *H.R. 2267, Internet Gambling Regulation, Consumer Protection, and Enforcement Act*, September 22, 2010, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/118xx/doc11883/hr2267.pdf>.

used for online wagering, and it would have given states and tribes the option of accepting from licensees, on a monthly basis, an online gambling fee “equal to 6 percent of all deposited funds deposited by customers residing in each State or area subject to the jurisdiction of an Indian tribal government.”¹⁴⁶ The revenue estimate was based on the assumption that no states opted out of the system.¹⁴⁷

In the 112th Congress, Senate Majority Leader Harry Reid and Senator Jon Kyle circulated draft legislation to restrict online gambling in most forms, except for poker, off-track horse race wagering, and certain state lottery sales. The draft called for the establishment of a new regulatory body, the Office of Online Poker Oversight in the Department of Commerce. The bill was never introduced.

In the 113th Congress, the Restoration of America’s Wire Act (S. 2159 and H.R. 4301), introduced by Senator Lindsey Graham and a companion bill by Representative Jason Chaffetz, would amend the Wire Act to prohibit all forms of Internet gambling in the United States, including in the three states where online gambling has already been licensed and regulated. This bill would not make online games themselves illegal, but rather would prohibit use of the communications network to play games like poker or bingo over the Internet, restoring the original interpretation of the Wire Act. The bill contains exemptions for online interstate horse race wagers and state-licensed computer-generated retail lottery sales.

Representative Peter King introduced the Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013 (H.R. 2282), which would create an Office of Internet Gambling Oversight (OIGO) in the Department of the Treasury to oversee state and tribal agencies that license and regulate online gambling operators. Most forms of gambling, except sports betting, would be permitted. The bill includes an “opt-out” provision for any state or tribe that does not wish to participate in the federal licensing system, and would grandfather in any states with laws that permit some kind of online gambling before the passage of the bill. Representative Jim McDermott sponsored a companion bill, the Internet Gambling Regulation and Tax Enforcement Act of 2013 (H.R. 3491), that would impose a 12% tax on any licensed operator that offers Internet wagering. Of that, one-third would go to the federal government and two-thirds to states and tribes that participate in the national regime. A 50% tax would be imposed on all unlicensed operators.

An online gambling measure under consideration in the 113th Congress is the Internet Poker Freedom Act (H.R. 2666), introduced by Representative Joe Barton. Adapted from similar bills in previous Congresses, the measure would allow a state or tribal gambling oversight commission approved by a new Office of Internet Poker Oversight in the Department of Commerce to license online poker sites only. Registered sites would be subject to regulation and inspection to, among other things, prevent minors from playing, stop money laundering, and identify problem gamblers. The bill would prohibit the use of credit cards. Certain established gambling businesses would initially have preference for licenses.

¹⁴⁶ CRS Report RS22749, *Unlawful Internet Gambling Enforcement Act (UIGEA) and Its Implementing Regulations*, by (name redacted) and (name redacted).

¹⁴⁷ Joint Committee on Taxation, letter to Rep. Jim McDermott, October 23, 2009, <http://www.safeandsecureig.org/sites/default/files/InternetGamblingScore.pdf>.

Appendix. A Short History of U.S. Gambling and Lotteries

Government-supported gambling has been part of America's development since the earliest days of colonization, starting with a 1612 London lottery to raise money for the Virginia Colony.¹⁴⁸ While gambling restrictions were imposed in some of the colonies, the Continental Congress used lotteries to raise funds for forces during the Revolutionary War. Lotteries were used to finance public works projects and establish universities, including Harvard, Yale, Columbia, Dartmouth, and Princeton.¹⁴⁹ By 1832, there were more than 400 lotteries in eight states.¹⁵⁰ Annual ticket sales came to 3% of national income and were several times larger than the federal budget.¹⁵¹

Public opinion began to sour due to high-profile scandals and graft in lotteries, and by the time of the Civil War legal lotteries basically had been halted.¹⁵² Some gambling and gamblers moved west with the Gold Rush. During Reconstruction, Louisiana created a special lottery to help rebuild the state, drawing players from around the nation. The Louisiana Lottery continued for years, despite evidence of mismanagement and theft. Congress intervened, passing legislation in 1876 banning the use of mail for lottery advertising. Congress approved a second bill in 1890 to ban the use of mail to sell lottery tickets, and in 1895 banned the transport of lottery tickets in interstate commerce.

By 1910, U.S. legal gambling, with the exception of horse racing, was moribund. State-sanctioned gambling began a comeback during the Great Depression as a means to raise money for charity and government services. States began to legalize bingo games in the 1930s, and Nevada legalized casino gambling in 1931.

Illegal gambling also proliferated, leading Congress in 1950 to investigate organized crime and gambling casinos. In 1951 lawmakers passed the Johnson Act, which barred transport of gambling machines in interstate commerce unless they were being moved to a legal jurisdiction. A second round of congressional investigations (from 1955 to 1960) resulted in a series of laws to combat gambling and racketeering.

In 1964, New Hampshire became the first state to reinstate a lottery, and, in 1976, New Jersey voted to allow casinos in Atlantic City. In 1979, Indian gambling began on the Seminole reservation in Florida.¹⁵³ In 1987, the Supreme Court upheld the right of Indian tribes to offer unregulated gambling on sovereign lands, so long as they did not violate state criminal laws. In response, Congress in 1988 passed the Indian Gaming Regulatory Act (IGRA) providing for Indian gambling to be regulated under compacts negotiated between state governments and tribes. In 1992, Congress passed the Professional and Amateur Sports Protection Act (PASPA) limiting

¹⁴⁸ Many of the dates in this section come from the Chronology of Gambling Events in William N. Thompson, *Gambling in America: An Encyclopedia of History, Issues and Society*.

¹⁴⁹ Roger Dunstan, California Research Bureau, *Gambling in California*, CRB-97-003, January 1997, <http://www.library.ca.gov/crb/97/03/crb97003.html#toc>.

¹⁵⁰ Rex M. Rogers, *Gambling: Don't Bet on It* (Grand Rapids, MI, 2005), p. 31.

¹⁵¹ William N. Thompson, *Gambling in America: An Encyclopedia of History, Issues and Society*, p. 227.

¹⁵² Roger Dunstan, *Gambling in California*.

¹⁵³ 500 Nations, "Brief History of Indian Casinos," http://500nations.com/news/Indian_Casinos/history.asp.

states' ability to offer sports gambling. After viewing the success of Indian gaming, states began approving non-Indian casinos, riverboat gambling, and racinos, which are racetracks with other forms of gambling such as video slot machines. By 2012, 22 states had commercial casinos.¹⁵⁴ State-licensed boat or barge casinos are now permitted in six states, including Mississippi, Louisiana, and Missouri.¹⁵⁵ Online lottery sales are legal in six states, online gambling is allowed in three states, and explicitly outlawed in nine states, including Louisiana, Montana, and South Dakota.¹⁵⁶

Author Contact Information

(name redacted)
Specialist in Industrial Organization and Business
[redacted]@crs.loc.gov, 7-....

Acknowledgments

Suzanne Kirchhoff, Analyst in Health Care Financing, contributed substantially to this report and authored a previous report on this subject, and Amber Wilhelm, Graphics Specialist, prepared the figures and map for this report.

¹⁵⁴ AGA, *State of the States*, The AGA Survey of Casino Entertainment, 2013, p. 2.

¹⁵⁵ Tuna N. Amboi, "Industry Surveys Lodging & Gaming," *S&P Capital IQ*, p. 25, June 2014.

¹⁵⁶ GamblingCompliance, *U.S. Internet Gambling Regulatory Tracker*, May 2014, pp. 4-19.

EveryCRSReport.com

The Congressional Research Service (CRS) is a federal legislative branch agency, housed inside the Library of Congress, charged with providing the United States Congress non-partisan advice on issues that may come before Congress.

EveryCRSReport.com republishes CRS reports that are available to all Congressional staff. The reports are not classified, and Members of Congress routinely make individual reports available to the public.

Prior to our republication, we redacted names, phone numbers and email addresses of analysts who produced the reports. We also added this page to the report. We have not intentionally made any other changes to any report published on EveryCRSReport.com.

CRS reports, as a work of the United States government, are not subject to copyright protection in the United States. Any CRS report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS report may include copyrighted images or material from a third party, you may need to obtain permission of the copyright holder if you wish to copy or otherwise use copyrighted material.

Information in a CRS report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to members of Congress in connection with CRS' institutional role.

EveryCRSReport.com is not a government website and is not affiliated with CRS. We do not claim copyright on any CRS report we have republished.