

**Interested Party Testimony of
Andrew W. Herf, Executive Director
Ohio Licensed Beverage Association
on SB 176 before the
Ohio Senate Select Committee on Gaming
May 26, 2021**

Vice Chair Manning and members of the Senate Select Committee on Gaming, thank you for the opportunity to testify today. My name is Andy Herf and I am here today representing the Ohio Licensed Beverage Association, which is a trade association of bars and taverns across Ohio.

As I testify today as an interested party, I am encouraged that the Ohio Senate continues to consider the impact of sports gaming on all interested parties. After several conversations, I am also encouraged that there is near universal support for retailers in Ohio to participate in sports gaming through the lottery. We do not believe that under any realistic scenario that the retailers will see an increased windfall from lottery commissions. The true benefit to the retailers I represent will be keeping customers longer to watch entire events.

We respectfully ask that this committee focus on three main objectives when drafting the proposal that comes out of this process. Empower the lottery to offer a game that will be attractive to our customers. Start the lottery game at the same time as the other games. And, please include lottery retailers in the discussion.

With regard to the attractiveness of the game, we are concerned about the pool concept. As I understand the concept, all of the betting would be placed in a pool. The state would take a percentage of the pool off the top in the form of a fee, and the rest would be given back to the winners in equal shares. The amount of the fee is not laid out in the bill, but the analysis contemplated a 10% fee. I am basing this analysis on a straight bet with no line and no odds. Team A over Team B with no consideration for how evenly matched they are. With that understanding, three scenarios are created in the attached chart.

If the betting becomes too lopsided, it can create a scenario where the winners could walk away with less than their original investment. The way to ensure this does not happen is to have a line. The third bet would be more even if the better had to commit that Ohio State would win by 21 points. If the betting is still lop-sided, the line may move to 22 or 23 points. However, without a line there is no way for the better to know what is at stake when they place the bet.

Another problem is the pool concept itself. A pool, or pari-mutuel bet, works well if there are a variety of outcomes available. A horserace with 20 participants has 20 possible winners, and the crowd will place bets across the board. But only one horse will win, so 19 groups of betters will lose money to the one group that picked the winner. There are other types of bets as well, and those bets create even more options to lose money to the winners. This style works because the outcome is not binary.

Now let me drill down to the retail level. If a retailer has 20 customers place \$20 bets totaling \$400, assuming the fee is 10%, the lottery would take \$40. Of the \$40, the Lottery Commission would pay a fee to the retailer, which in other games is 6%. In this scenario, the retailer makes \$2.40—12 cents per bet.

The proposed structure will not create a windfall in lottery sales for the individual retailer, but the retailer can make the economics work if the game is attractive. They could use sports betting as a loss leader to get their customers to buy other things like food and drinks—which is essentially, what we are pushing for. We would propose the following changes to make the product more attractive to the casual player.

1. Change from a pool model to a traditional game model. There are a variety of tools that can be used to mitigate risk—moving the line, limiting the size of bets, and even taking the game off the board. These controls protect the lottery, the players and the integrity of the game. They are also standard and well understood by casinos, sports books, and lottery vendors.
2. Use a line to make the betting even. As the examples above demonstrate the even bet will provide the best payout for players and a fair payout will keep players coming back.
3. Increase the minimum bet size. A higher minimum will keep players watching the entire game.

From the perspective of the on premise retailers across the state, they can make more money off a sports fan who is motivated to stay in an establishment for an entire game because they are invested in the outcome. We believe the suggested changes would help achieve that goal.

The second point we would ask this committee to consider is the start times of the games. Opponents of the lottery product understand, and so do the bar owners, that the first games to market will be the most successful games. In the case of the of the lottery games, the bet limits will be lower—even if they simply track the current Keno betting limits of \$200 per game and no more than \$700 total in all games per week. Millions of players will choose to play on mobile devices, and we support that those games are a great fit for those consumers. However, roadblocks with regard to timing, such as forcing the lottery to wait to promulgate rules after the Casino Control Commission has promulgated rules or requiring an RFP, will cause unnecessary delays. Those delays will not serve the interest of the state; they will serve the interest of those entities who wish to delay a nominally competitive game.

In other words, sports gaming is not a free market anywhere. It is a heavily regulated market. In this case, the regulations can be weaponized to push competition out of the marketplace. If the lottery offers a viable game and if the games all start at the same time, there will be competition amongst lottery retailers to participate in the game.

Finally, I would like to address iLottery. The current lottery retailers have expressed concern over pushing lottery games to mobile devices. As stated earlier in this testimony, our goal is to increase our interaction with customers. We believe the iLottery concept moves in the opposite direction, and we simply ask to be included as the issue is debated further.

Thank you for giving me the opportunity to testify today, I am happy to answer questions.



SB 176 LOTTERY POOL CONCEPT



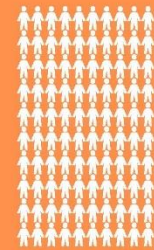
BROWNS

EVEN BET

BENGALS



Bets = \$40k
State = \$4k
Winners = \$36



1,000 x \$20 = \$20K

1,000 x \$20 = \$20K

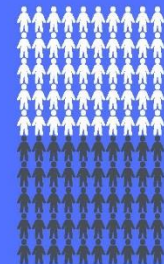
BUCKEYES

HOMETOWN BET

WOLVERINES



Bets = \$30k
State = \$3k
Winners = \$27



1,000 x \$20 = \$20K

500 x \$20 = \$10K

BUCKEYES

UNDERDOG BET

APP STATE



Bets = \$22k
State = \$2.2k
Winners = \$19.80



1,000 x \$20 = \$20K

100 x \$20 = \$2K