

Willapa Bay Enterprises Corporation

"A wholly owned Section 17 Corporation of the Shoalwater Bay Indian Tribe"



VIA E-MAIL TO RULES.COORDINATOR@WSGC.WA.GOV

Ms. Lisa McClean

Legislative and Policy Manager

Washington State Gambling Commission

P.O. Box 42400

Olympia, Washington 98504

RE: Proposal Statement of Inquiry - Sports Wagering License Fees

Dear Ms. McClean,

Please accept our letter in support of the fee reduction request submitted February 27, 2023 by Ernest C. Matthews IV, Vice President/General Counsel of Internet Sports International, Ltd., a licensed sports betting vendor in Washington. A copy of that letter is attached hereto for your convenience.

The high fees make tribal access to potential sports betting suppliers and the casino's own overhead difficult to take advantage of this new gaming activity which was made available to the Washington state tribal casino operations. Tribes in remote locations or surrounded by areas of low population density are hard pressed to participate in providing sports betting services to their respective customers.

Accordingly, please note our approval of this effort to lower the fees.

Sincerely,

WBE Enterprises

A handwritten signature in blue ink, appearing to read "Michael Rasmussen", with a long horizontal line extending to the right.

By Michael Rasmussen

, its CEO

Ph: 360-268-7613
4115 State Route 105-PO Box 95 / Tokeland, WA 98590



February 27, 2023

***VIA E-MAIL TO RULES.COORDINATOR@WSGC.WA.GOV
& POSTAL SERVICE TO¹***

Ms. Lisa McLean
Legislative and Policy Manager
Washington State Gambling Commission
P.O. Box 42400
Olympia, Washington 98504

RE: Preproposal Statement of Inquiry - Sports Wagering License Fees

Dear Ms. McLean:

Please accept this correspondence as the response of Internet Sports International, Ltd. (“ISI”) to the Washington State Gambling Commission’s (WSGC) *Preproposal Statement of Inquiry* regarding the agency’s intent to “review and adjust license fees” for sports wagering vendors. WSR 23-03-078. In sum, ISI supports the WSGC’s pending rule making effort and believes the sports wagering license fees should be significantly reduced. While discussed in greater detail below, the current license fees are (a) not rationally related to the costs incurred by the agency for licensing and enforcement purposes; (b) exorbitant compared to license fees charged to other WSGC-licensed commercial vendors; and (c) so high the fees make sports book operations cost-prohibitive for tribes with smaller venues and/or remote locations in Washington State.

A. ISI Sports. ISI commenced its operations as a research and development Company in 1999, developing self service sports betting kiosks along with technology which was patented for use in that sector. Through a subsidiary, it commenced the

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Las Vegas, NV 89128
www.isiraceandsports.com

distribution of sport betting related equipment and provided risk management in regulated international retail markets in 2005.

Subsequent to the PASPA US Supreme Court decision in 2018, ISI started providing its equipment and risk management/consulting to US based commercial and tribal casinos. Throughout its history, ISI has worked with casino operations of all sizes, although its specialty has been to offer smaller and mid-sized casinos the opportunity to add sports betting to their inventory of gaming services through its more economical cost template.

ISI has worked in a myriad of regulatory environments and is familiar with the variety of licensing requirements in international and domestic markets. It is licensed as both a major and a mid-level sports wagering vendor in Washington State. Accordingly, in addition to special investigation fees paid as part of its initial application process, the company has paid annual license fees of \$65,000 and \$10,000, respectively, a figure which is substantially larger than found in other jurisdictions for retail sports betting operations.

B. Sports Wagering Vendor Fees Should be Significantly Reduced.

The WSGC's sports wagering license fees, particularly the major sports wagering vendor fees, are unconscionably high and appear to exceed the agency's actual cost of licensing and enforcement. Further, at \$65,000 per year, the major sports wagering vendor fee exceeds the next closest commercial vendor fee by 260% *i.e.*, the maximum annual license fee for a gambling equipment manufacturer is \$25,000. While large sports book operations can offset or absorb higher overhead costs and license fees due to the higher volume of customer traffic and larger handle, many mid-size and smaller venues do not have such a luxury. Consequently, the WSGC's fees have contributed to pricing smaller and/or remote tribal venues out of the sports wagering market, something that was probably not considered when sports betting was first awarded exclusively to tribal casino facilities in Washington.

a. *Special Investigation Fees, Annual License Fees, and Tribal Reimbursements.*

The *Preproposal Statement of Inquiry* states, “the costs to the gambling commission for licensing and enforcement must be supported by the fees collected from sports wagering vendors.” However, the WSGC collects various fees to cover agency costs related to its role licensing tribal sports wagering vendors. In addition to the \$65,000 annual license fee, major sports wagering vendor applicants are routinely assessed five-figure special investigation fees as part of the initial licensing process. Special investigation fees are represented as necessary to cover the costs of the WSGC’s licensing investigation, and applicants are required to submit a deposit to cover the agency’s expected special investigation fees.

In addition to the initial special investigation fees assessed sports wagering applicants, the Tribal-State Compacts contain provisions for tribal reimbursement of the WSGC’s initial sports wagering start-up costs associated with tribal sports books in operation as of March 31, 2023. According to a WSGC budget presentation at the January 5, 2023, Gambling Commission meeting, the “estimated tribal reimbursement for SW expenditures and interest” was over \$1.6 million. Regarding ongoing or future sports wagering enforcement, the costs to the WSGC should be minimal given the respective Tribal Gaming Agencies are intended to serve as the primary regulators of the sports wagering activities. The agency’s sports wagering license fees were developed in conjunction with the WSGC’s original regulatory proposal that envisioned a more robust regulatory and enforcement role for the agency. However, the original rules package was modified, and significantly reduced the WSGC’s role regarding regulation of tribal sports book operations.

b. *Major Sports Wagering License Fees are Dramatically Higher Than Other WSGC Licensees.*

The license fee for a major sports wagering vendor is an annual flat fee of \$65,000. (The annual license fees for mid-level and ancillary vendor categories are \$10,000 and \$5,000, respectively.) However, unlike tribal sports wagering vendors, the majority of WSGC license fees are based on a percentage of licensee’s revenue. Consequently, the

license fees for similarly situated commercial vendors are dramatically lower than their sports wagering counterparts. For example, gambling equipment manufacturers represent the next highest WSGC possible license fee category of commercial vendors, and their fees are linked to the volume of their business in Washington. In addition to potential special investigation fees as part of the initial license application, a gambling equipment manufacturer pays an annual base fee of \$1,500 and a quarterly license fee based on 1.43% of the licensee's gross gambling receipts, up to an annual maximum of \$25,000. Consequently, regardless of the volume of their business, all major sports wagering vendor licensees pay a fee of \$65,000, which is 260% higher than that of the closest commercial non-sports wagering vendor.²

c. Higher License Fees Have a Disproportionate Adverse Impact on Some Tribes.

Many tribal casino locations are located in areas with a lower population customer base and/or are in remote parts of the state. Vendors providing the sports betting tools to operate a sports book are faced with these draconian fees in amounts that reduce those companies which could otherwise compete in the market, given high licensing fees and ongoing operational costs imposed by the need for penetration testing and GLI review. In these types of markets it is hard to justify the provision of the services given the lower handle that accompanies the traditional hold in sports betting.

This means that the tribe will have to absorb some of these license fees and costs to secure the necessary services. It is clear that when the sports betting rights were first granted to tribal casino operations in Washington, the thought was that there would be an economic benefit to all tribes, not just those strategically linked to large population centers. A major reduction in the ongoing fees and costs is mandated to give all tribes the right to participate in the provision of sports betting to their respective customers. This reduction can occur as well given the limited risks associated with this retail activity requiring the wagerer to be on site.

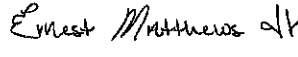
² House-banked cardrooms, operating as a commercial stimulant retail business, pay an annual base fee of \$10,000 and quarterly rate of 1.462%, up to an annual maximum of \$40,000.

February 27, 2023

Thank you in advance for your assistance. We look forward to working with you and the WSGC staff on how best to lower the sports wagering vendor license fees. Please let us know if you have any questions or need more information.

Sincerely,

INTERNET SPORTS INTERNATIONAL, LTD.

DocuSigned by:

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Ernest C. Matthews IV
Vice President/General Counsel