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MEMORANDUM

Date: March 13, 2026
To: All Interested Parties
From: Michael Pollock, Senior Policy Advisor
CC: Juliann Barreto, Chief Operating Officer
Re: Virginia Legislation to Legalize “Skill” Slot Machines

Summary

Proposed legislation to authorize and regulate “skill” games will cannibalize both lottery and casino revenue in Virginia. Based on the experience in multiple states, annual lottery sales would drop by as much as \$288 million in Virginia, while casino gaming revenues face annual declines of as much as \$67 million. The negative impacts will last for multiple years. Other goals – such as addressing problem gambling, attracting capital investment to casinos, promoting tourism and gaming employment – would also be challenged.

Most important, the negative fiscal impacts that can be expected could not be easily undone. Changing the rules under which investment decisions have already been made will clearly make it difficult for casino operators to invest additional capital that could otherwise help grow both gaming and non-gaming revenue.

Introduction

Spectrum Gaming Group (“Spectrum,” “we,” “our” or “us”) has been retained by Virginians Against Neighborhood Slot Machines (“Client”) to offer an expert opinion on the impacts to the Commonwealth of Virginia from legislation (SB661/HB1272) that would convert “skill” games into legal, authorized slot machines.

The two bills differ in some ways. The proposed tax rate in SB661 is 30% of gross gaming revenue (“GGR”); the proposed tax rate in HB1272 is 25%). The bills also differ in the maximum number of authorized devices (up to 15,000 in SB661 and up to 30,000 in HB1272) and as to what agency would regulate the games, but otherwise appear to be relatively identical in their goals and implementation.

Spectrum’s decades of experience in legal gaming – and in analyzing “skill” games for more than five years in multiple states – including Virginia on behalf of the Office of the Attorney General – leads to the clear conclusion that adopting any legislation to authorize such games would be antithetical to Virginia’s fiscal and economic policies and would prove detrimental to other policy goals, including efforts to address problem gambling.

Moreover, we note that the negative impacts of the proposed legislation would:

- Be immediate, and would last for several years, proving difficult and possibly impossible to undo
- Enhance the reputation and revenue potential of “skill” games by granting them the imprimatur

of official approval, without any concomitant benefit to existing forms of legal, authorized gaming. Effectively, the proposed legislation would work against the public interest, as it would:

- Harm the reputation and financial interests of the Virginia Lottery and Virginia’s legal gaming industry, and such harm would include any consideration of future capital investment in gaming facilities, thus undercutting potential expansions in both gaming and non-gaming revenue, as well as in any attendant increase in employment and tourism
- Clearly and significantly cannibalize both casino and lottery revenue

Lawmakers must recognize that capital investment in casino operations rests on confidence that the rules governing the locations, the number of licenses, the tax rates and other variables are set and reliable. If that confidence is eroded because Virginia is proving to be unreliable by authorizing “skill” games, the inevitable result will be less capital investment.

Legal Gaming Offerings Will Be Cannibalized, Adversely Impacted

The fiscal impact statements regarding this legislation that have been put forth are understandably ambiguous regarding the impact on existing revenue streams from both casinos and the lottery. For example, the 2026 Fiscal Impact Statement from the Department of Planning and Budget on HB1272 states: “It is unknown at this time if authorization of this gaming activity will reduce lottery profits and transfers to the Lottery Proceeds Fund. A reduction of transfers to the Lottery Proceeds Fund could result in the need for additional general fund support for K-12 education.”

While the precise level of such potential cannibalization in Virginia cannot be determined, our experience makes clear that every dollar that would be wagered at such devices could otherwise be available for legal, authorized gaming providers.

Reports developed by Virginia’s Joint Legislative Audit and Review Commission (“JLARC”) note that the machine manufacturers self-reported daily net revenue of \$152 per machine to the Virginia Alcoholic Beverage Control Authority (“ABC”) in 2020. Relying on that self-reported number, JLARC estimated that annual tax revenue could reach \$249.66 million with a 30% tax rate and an installed base of 15,000 machines, and up to \$124.8 million with a tax rate of 25% and an installed base of as many as 9,000 machines.

JLARC is understandably cautious in addressing issues related to potential cannibalization of legal gaming and lottery sales, and in recognizing the inherent uncertainty as to the estimated number of such machines in Virginia. For example, JLARC notes that the “Lottery indicates that it is unknown how many electronic gaming devices or machines are in play in the commonwealth, and some estimates are as high as 90,000.”

Estimates made when such machines were not expressly authorized can be expected to grow when such machines receive regulatory and licensing protection. Under those conditions, “skill” machines become a more formidable alternative to the legal lottery and casino gaming experience.

Lottery Sales Will Decline

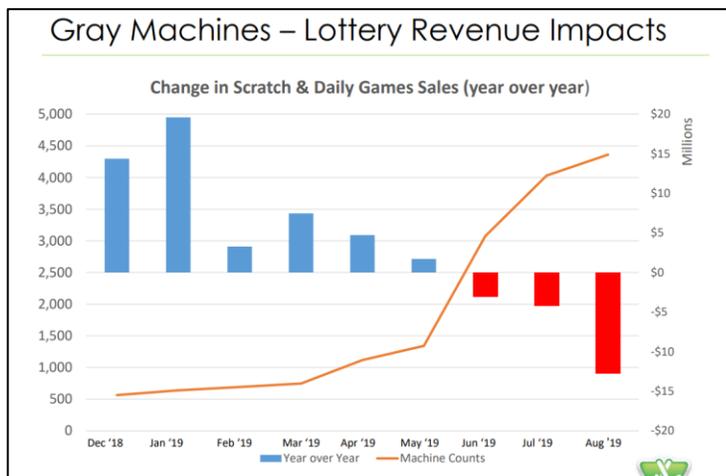
By its very nature, a cannibalization estimate defies precision, and any such analysis must recognize that correlation does not necessarily equate to causation. With that caution in mind, we note that in 2019 the Virginia Lottery estimated that “skill” machines could cost the lottery as much as \$140 million in annual sales.¹

¹ Andy Fox, “A bad bet? ‘Skill machines’ could cost the Virginia Lottery and local schools millions,” WAVY.com, December 9, 2019. <https://www.wavy.com/news/investigative/a-bad-bet-skill-machines-could-cost-the-virginia-lottery-and-local-schools-millions/>

Such estimates assumed that the games would remain unregulated and illegal. The prospect of legal authorization for such games would surely and significantly increase those projections.

Experience demonstrates that the reduction in lottery profits is real and should be anticipated, as “skill” games – in their present illegal, gray status – have already hurt lottery sales. Former Virginia Lottery Director Kevin Hall testified before the Virginia House Appropriations Committee and the Senate Finance Committee in 2019. His presentation included the following chart, which shows a clear correlation between the unregulated slots and lottery sales.

Impact of Unregulated Slots on Virginia Lottery, 2018-2019



Source: Virginia Lottery Briefing for Virginia House Appropriations and Senate Finance committees, September 16-17, 2019

The Pennsylvania Lottery has noted similar experiences and concerns. At a Pennsylvania House budget hearing in April 2023, Lottery Director Drew Svitko noted the impact of cannibalization on scratch-off tickets at retailers that host both unregulated slots and lottery products: “We can prove that we’re losing about \$170 million over the course of the next year,” Svitko said.

In 2022, Kentucky Lottery attorney Jonathan Goldberg testified before Kentucky legislators that “these games are an existential threat to the Kentucky Lottery,” identifying more than 1,100 unregulated machines across more than 60 of the commonwealth’s counties, with the unregulated machines and lottery machines sharing at least 240 locations.² Similarly, in 2022, the Missouri Lottery reported a 4.8% year-over-year decline in lottery sales at retailers that housed unregulated slot machines.³

Based on FY2025 lottery revenue of \$5.77 billion, the experience in other states shows that Virginia could experience declines of as much as \$288 million in annual lottery sales.

Authorized, Distributed Slot Machines Hurt Casino Revenue

Illinois offers an example of how distributed slot machines (known as video gaming terminals or VGTs) in retail establishments that have been granted licensing protection will cannibalize casino sales. A 2020 report by the

² Janet Patton And Bill Estep, “Unregulated slot machines are flooding Kentucky. And police are helping, for a cut,” *Lexington Herald-Leader*, February 6, 2022. <https://www.kentucky.com/news/politics-government/article257134862.html#storylink=cpy>

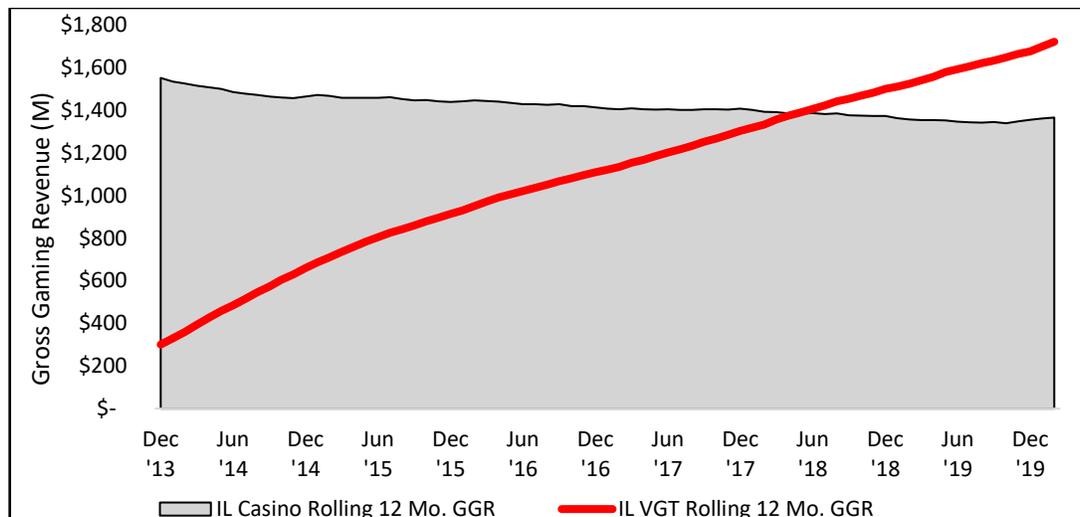
³ Kurt Erickson, “Two Arkansas companies enter Missouri’s unregulated slot machine market,” *St. Louis Post-Dispatch*, June 8, 2022. https://www.stltoday.com/news/local/govt-and-politics/two-arkansas-companies-enter-missouri-s-unregulated-slot-machine-market/article_27687d16-b886-5676-b5a3-2b32ce63db53.html

Illinois Commission on Government Forecasting and Accountability noted:

The proliferation of video gaming across (Illinois) appears to have had a detrimental impact on the casino industry. Since video gaming began in FY 2013, the total AGR of Illinois’ ten casinos have fallen in every subsequent fiscal year: -2.8% in FY 2013; -6.7% in FY 2014; -1.9% in FY 2015; -2.1% in FY 2016; -1.6% in FY 2017; -1.3% in FY 2018; -2.9% in FY 2019, and -30.0% in FY 2020. The falloff was intensified by the suspension of operations in FY 2020 due to the pandemic. Even before the pandemic, however, casino receipts had fallen -17.9% since FY 2012. Only one casino, Rivers Casino in Des Plaines, had experienced an increase in AGR during this six-year period (+11.8%). Excluding Des Plaines, the other nine casinos had fallen a combined 27.3% with all experiencing double-digit losses. While there are other factors that may have contributed to the decline in casino numbers, the increased competition from video gaming is considered the primary cause.⁴

The following chart details the initial experience of video-gaming terminals in Illinois, providing a clear example as to how distributed slot machines will cannibalize casino revenue.

Illinois rolling 12-month casino GGR and VGT GGR, December 2013-February 2020



Source: Illinois Gaming Board

As noted, “skill” machines that do not enjoy the benefits of regulatory and licensing approval are already cutting into sales. The reality is that such impacts will increase if these “skill” machines are licensed. The Illinois experience shows that annual gross gaming revenue at Virginia casinos could decrease by as much as \$67 million, based on 2025 revenue of \$969.1 million.

Problem Gambling, Related Issues Become More Pronounced, Problematic

In any state, the proliferation of “skill” games also presents material challenges to public policy regarding problem gambling and related matters. Spectrum recognizes and supports the position outlined by Dr. Carolyn Hawley, President of the Virginia Council on Problem Gambling and Council Executive Director Willard L. Robertson, who note:

In recent years, calls to the problem gambling hotline have been increasing. For example, both Helpline calls and intakes increased in 2025 from the previous year. Helpline calls were up 39%, totaling 21,983

⁴ Commission on Government Forecasting and Accountability, “2020 Update: Wagering in Illinois,” September 2020. https://cgfa.ilga.gov/Upload/2020_wagering_in_il.pdf

calls. Intakes, which are counted once the caller directly asks for help with problem gambling, increased 50% from 2024 to 1,508. When skill games were legalized, skill games were one of the top three types of gambling reported by helpline callers. The Commonwealth has authorized many new avenues for gambling within a very short period of time, and we're seeing the impact.

While our organization does not take a position for or against legalized gambling, as advocates for those impacted by problem gambling, we believe the lack of controls in a non-casino environment raises serious concerns about minors accessing these devices. Given the ubiquitous nature of skill machines, children will be exposed in their daily lives at convenience stores, restaurants, and gas stations, where enforcement of age limits is tenuous. This is particularly troubling because research indicates that early exposure and participation in gambling can be a risk factor for developing a gambling problem later in life.⁵

That is consistent with previous findings in Virginia. In 2022, "skill games" were third on the list of forms of gambling cited by callers to the Virginia problem-gambling hotline, behind slots at casinos and sports betting.⁶

Conclusion: Proposed Legislation Would Adversely Impact Virginia

Spectrum's detailed work in multiple states – which includes playing "skill" games at various locations in Virginia, Pennsylvania and Kansas – is grounded in longstanding, universally accepted principles:

- A gaming license must be earned by those who affirmatively demonstrate that they possess requisite levels of good character, honesty, and integrity, including disclosure of the beneficial owners involved to ensure transparency.
- Elected and appointed policymakers set the rules for licensure, such as the type of authorized gaming, the location of casinos, and similar guidelines that operators, their beneficial owners, and other investors can trust.
- Licensees – as well as investors, beneficial owners, suppliers, local small businesses, and other third parties – have trusted the rules, and have invested dollars and developed business strategies that are built on that foundation of trust.

Current Virginia law adheres to these principles, and is consistent with laws governing gaming across the United States. The statute notes that "Casino gaming shall be licensed and permitted as herein provided to benefit the people of the Commonwealth. ... The purposes of this chapter are to assist economic development, promote tourism, and provide for the implementation of casino gaming operations of the highest quality, honesty, and integrity and free of any corrupt, incompetent, dishonest, or unprincipled practices."⁷

If the current legislation becomes law, Virginia will be faced with a choice: Either require thousands of small businesses to adhere to strict oversight and licensing requirements, a very costly alternative to such businesses, or Virginia can either relax or pay less heed to its existing requirements – an even more costly choice.

Legislation that overlooks or softens the core principles of licensure does not align with best practices. Importantly, such legislation could potentially affect the reputation and revenue potential of licensed gaming, as well as have negative fiscal implications.

⁵ Jan. 6, 2026, letter from Virginia Council on Problem Gambling to Gov. Abigail Spanberger.

⁶ [2022 Annual Report VCPG.NET](#)

⁷ <https://law.lis.virginia.gov/vacodefull/title58.1/chapter41/>

CV of Michael J. Pollock, Senior Policy Advisor, Spectrum Gaming Group

Michael Pollock's career began in 1978, at the inception of the modern gaming industry. Over that span of more than 45 years, he has pioneered numerous aspects of gaming policy, including:

- Authored the award-winning book "Hostage to Fortune: Atlantic City and Casino Gambling," published by the Center for Analysis of Public Issues in Princeton. The 1987 book examined the impact of casinos on Atlantic City and New Jersey, and was the first national study of its kind.
- In 2002, long before the advent of igaming, Pollock developed an accurate theorem that details the evolution of igaming and ilottery, based on historical precedents such as the impacts of radio and television on private industries, charting how those past trends can predict the emergence of digital gaming.
- As a senior regulator in the 1990s, he played an integral role in the deregulation of gaming in New Jersey, ensuring that public confidence in gaming integrity remained intact during that extensive process.
- He researched and drafted award-winning studies on the evolution of problem gambling and responsible gaming, including how the courts and judicial processes needed to adapt to these issues.
- He has analyzed and testified nationally on issues related to trends in gaming taxation, and the effect of those trends on capital investment, employment, tourism and urban development.
- He has played – and continues to play – a leading role in analyzing and discussing unregulated gambling in multiple states, serving as an expert witness in litigation, in state testimony and in addressing attorneys general across the United States on this issue.

GAMING CONSULTANT

Serving as Senior Policy Advisor to Spectrum Gaming Group, global leader in gaming consulting, starting August 2023, working with clients on various gaming-related projects.

Retired as Managing Director and co-owner of Spectrum (April 1996-September 2023), building that firm into the industry's platinum standard for consulting.

Led many core functions of rapidly growing international firm, including:

- Gaming Policy Studies
- Studies of Emerging forms of Gaming (including sports betting, esports)
- Market studies
- Feasibility studies
- Economic Impact studies
- Conferences
- Founder and publisher of ***Michael Pollock's Gaming Industry Observer*** (now *Spectrumetrix*), an award-winning newsletter and information service
- Served as Executive Director of **National Council of Legislators from Gaming States (NCLGS)**, leading efforts to advance the interests of a national organization dedicated to promoting best practices in gaming among lawmakers

GAMING REGULATOR

Public Information Officer, director of communications for the **New Jersey Casino Control Commission**, the agency that regulates casino gaming in Atlantic City (December 1991-March 1996). Duties

included crafting public-relations strategy, overseeing office of legislative liaison, handling all media inquiries, writing op-ed articles and speeches, and preparing internal and external reports. Wrote congressional testimony. Responsible for maintaining public confidence in the agency during a period of rapid deregulation.

EDITORIAL PAGE EDITOR

The Press of Atlantic City, Editorial Page Editor (December 1990-December 1991), Associate Editorial Page Editor (April 1985-December 1990). Wrote editorials and columns, was a member of the editorial board, served as key opinion maker in Atlantic City region.

AUTHOR

Hostage to Fortune: Atlantic City and Casino Gambling (Center for Analysis of Public Issues, Princeton, 1987). Received grant to study impacts of casino gambling on Atlantic City and New Jersey. Published study as a book that is often cited as authoritative source on history of casino gambling. Award-winning book was unveiled at heavily covered November 1987 press conference at the Statehouse in Trenton.

Casino Tax Policy: Identifying the Issues that Will Determine the Optimal Rate, a peer-reviewed report that was released at the National Tax Association's 103rd Annual Conference on Taxation, held in 2010. The Spectrum white paper focuses on the critical relationship between casino tax rates and public policy, providing detailed examples and insights into how the tax rate impacts capital investment, employment, tourism development, and other factors. That publicly available report was peer-reviewed by the assistant vice president of the Federal Reserve Bank of St. Louis.

Online Gaming from Land-Based Perspective: Observing 15th Anniversary of SIGHT, a 2017 report that analyzed the Spectrum Internet Gaming Heuristic Theorem (SIGHT), originally developed in 2002. This theorem correctly charted the evolving views of the casino industry toward igaming, noting that the views would shift over time from rejection to acceptance to embrace, based largely on the market potential for this new channel.

WRITER

The Press of Atlantic City (February 1979-December 1991). Started as "stringer," worked as beat reporter, feature writer, investigative reporter, theater critic, columnist, editorial writer and eventually rose to the position of Editorial Page Editor. Won awards in all the above categories.

Wrote op-ed articles on Atlantic City for **Detroit News, Cleveland Plain Dealer, Denver Post, Hartford Courant** (as ghost writer), **The (Bergen) Record, Boston Globe, (New Brunswick) Home News**.

Wrote feature articles for **Good Housekeeping, New Jersey Monthly, New Jersey Reporter, Atlantic City Magazine, International Gaming & Wagering Business Magazine, Global Gaming Business Magazine, Fort Lauderdale News & Sun-Sentinel, Sarasota Herald Tribune, Allentown Morning Call, Las Vegas Review-Journal, Crain's Detroit Business**.

Philadelphia Daily News Atlantic City correspondent (May 1982-August 1982). Also provided research assistance and background on Atlantic City and casino gaming for **CBS News** and **Time Magazine**.

AWARDS

Newsletter Publishers Foundation 2003 third-place award for editorial excellence in the interpretive/analytical category for articles analyzing the changing business model of casino operators. (Competitors included newsletters across the nation in various industries.)

Newsletter Publishers Foundation 2001 second-place award for editorial excellence in the interpretive/analytical category for articles analyzing the potential impact of the Borgata casino hotel on Atlantic City. (Competitors included newsletters across the nation in various industries.)

Newsletter Publishers Foundation 1999 first-place award for editorial excellence in the interpretive/analytical category for articles analyzing differences between Las Vegas and Atlantic City. (Competitors included newsletters across the nation in various industries.)

Newsletter Publishers Foundation 1996 first-place award for editorial excellence in the interpretive/analytical category for articles analyzing the impending labor shortage in Atlantic City. (Competitors included newsletters across the nation in various industries.)

New Jersey Press Association, 1991 award for best editorial page, content and design, third place, newspapers over 50,000 circulation. (Shared with one colleague.)

New Jersey Press Association, 1990 award for best editorial, first place for editorial writing, newspapers over 50,000 circulation.

New Jersey Press Association, 1990 award for best editorial page, content and design, second place, newspapers over 50,000 circulation. (Shared with two colleagues.)

Society of Professional Journalists, New Jersey Chapter, 1989 award for editorial writing, second place.

New Jersey Press Association, 1989 award for news column writing, third place, newspapers over 50,000 circulation.

New Jersey Press Association, 1989 award for best editorial page, content and design, first place, newspapers over 50,000 circulation. (Shared with two colleagues.)

Sigma Delta Chi, New Jersey Chapter, 1987 Special Award for “Hostage to Fortune: Atlantic City and Casino Gambling.”

Golden Quill, 1987 award from Press Club of Atlantic City for best column.

Education Writers Association, 1986 national award for editorial writing, third place, newspapers over 75,000 circulation.

New Jersey Press Association, 1986 award for editorial writing, second place, newspapers over 50,000 circulation.

New Jersey Press Association, 1984 award for critical writing, second place, newspapers over 75,000 circulation.

New Jersey State Bar Association, 1984 Media Award for series of articles on compulsive gambling.

New Jersey Press Association, 1983 New Jersey Bell citation for Meritorious Enterprise Reporting for investigation of Atlantic City’s mental health system.

New Jersey State Bar Association, 1982 media award for study of economic and social impacts of gambling on Atlantic City.

Golden Quill, 1982 Press Club of Atlantic City award for best feature.

New Jersey State Bar Association, 1981 media award for series of articles on municipal court system.

EDUCATION

Rutgers University, Camden, NJ. Masters in Business Administration, with high honors (2000).

Rutgers College, New Brunswick, NJ. 1976 baccalaureate in English. Minor in Business Administration.

ACADEMIC EXPERIENCE

Adjunct Professor, **Rutgers University** (2000-2008) Teacher of “Business Communications and Computers” course to graduate students in MBA program.

Adjunct Professor, **Stockton University** (1993-2012) Teacher of “News Media in Society” course to undergraduates.

Adjunct Professor, **New York University** (2012-2013) Teacher of Casino Gaming Policy

MEDIA, PUBLIC SPEAKING EXPERIENCE

Regular interviewee for various print, broadcast media, including **New York Times, Wall Street Journal, Star-Ledger, Detroit News, Associated Press, USA Today, Philadelphia Inquirer, Washington Post** and many others. Has appeared as expert on programs ranging from “**Good Morning America**” to **National Public Radio, CNBC, CNN, MSNBC** and **BBC**.

HAS PRESENTED BEFORE

Attorneys General Alliance

Brazil Chamber of Deputies

International Tribunal, The Hague

U.S. Senate Indian Affairs Committee

U.S. Senate Select Committee on Indian Gaming

U.S. House Congressional Gaming Caucus

Florida House Select Committee on Gaming

Florida Senate Gaming Committee

Illinois Gaming Board

Illinois House Executive Committee

Indiana Gaming Study Committee

International Tribunal, The Hague

Iowa Racing and Gaming Commission

Louisiana House and Senate Joint Criminal Justice Committee

Maryland Lottery Commission

Maryland Sports Betting Summit

Massachusetts Gaming Commission

Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets

Michigan Senate Regulatory Reform Committee

New Hampshire Gaming Study Commission

New Jersey Senate Tourism Committee

New Jersey Assembly Gaming and Tourism Committee

New York Senate Committee on Racing, Gaming and Wagering

New York State Economic Development Council
North Dakota Taxation Committee
Ohio Senate Government Oversight Committee
Ohio House Economic Development Committee
Pennsylvania Gaming Control Board
Pennsylvania House Gaming Oversight Committee

He has also been a speaker at numerous conferences sponsored by trade groups, securities firms and universities, including the National Council of Legislators from Gaming States, the National Tax Association and the National Council of State Governments.