



SPORTS WAGERING

A brief overview and history of sports betting legislation, with an emphasis on the May 2018 United States Supreme Court decision, and analysis of the various taxation structures that have been proposed nationwide, including in the State of Iowa.

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A Brief Historical Overview



- Professional and Amateur Sports Protection Act (PASPA), 1992
 - *Purpose: Sponsoring, operating, advertising, promoting, licensing, or authorizing sports betting deemed illegal. However, the Act did not criminalize these actions.*
 - *Grandfathered Provisions and Exemptions:*
 - Nevada
 - Montana
 - Delaware
 - Oregon



Legal Case Study: *New Jersey*



- Option of legalizing sports betting within one year of PASPA effective date.
- Legalization offered as question on 2011 ballot.
 - *60.0% voter approval*
 - *Sports Wagering Act of 2014*
- ***Christie v. NCAA:*** NCAA, NBA, NFL, NHL, and MLB filed litigation in federal district court challenging New Jersey Sports Wagering Act of 2014 on grounds of PASPA violation. District court sides with leagues.
- New Jersey appeals case to Third Circuit Court of Appeals, denied. Appeals to U.S. Supreme Court.
- **May 14, 2018:** SCOTUS sides with New Jersey, leads to repeal of PASPA, citing anticommandeering principles:
 - *10th Amendment, U.S. Constitution*
 - *Limited congressional authority to compel state legislatures to certain orders, actions*
- **June 5, 2018:** Neighboring state Delaware allows full-scale sports betting in casinos and a more limited sports lottery in retail locations.
- **June 14, 2018:** New Jersey goes live with sports betting in casinos.

Sports Betting Legislation in Iowa: 2018 Legislative Session

■ HSB 592

- *Introduced 1/30/2018.*
- *Passes Subcommittee 2/07/2018, passes out of House State Government Committee on 2/15/18.*

■ HF 2448

- *Referred to House Ways and Means Committee on 2/21/2018.*
- *Subcommittee assigned on 2/28/18. Subcommittee recommends passage with amendment on 3/01/2018.*
- *No other action taken on HF 2448 for remainder of 2018 Session.*

A Brief Analysis of HF 2448

- Authorizes sports betting as a legal form of wagering at gaming entities in Iowa.
 - *Defines sports betting*
 - *Amends definition of adjusted gross receipts (AGR) to include language concerning “gambling games” and to include an amount equal to one-third of sports betting net receipts*
 - *Defines sports betting net receipts*
 - *Taxation rate: 22.0%*
 - *Also addresses provisions for advanced deposit wagering (ADW), mobile play, licensing fees, license bond requirements, age restrictions and voluntary self-exclusion procedures*
- Iowa Racing and Gaming Commission (IRGC) acts as regulating authority.



Fiscal Analysis, HF 2448

- **DISCLAIMER:** This estimate is solely based on HF 2448 **as it stood** when passed out of Subcommittee on 3/01/2018. Although an amendment was recommended with the passage out of Subcommittee, no official amendment was presented in Committee. HF 2448 was not taken up in House Ways and Means Committee and did not proceed to floor debate. It should be underscored that this estimate is based on information available at the time of HF 2448's introduction and is therefore **INITIAL** and **PRELIMINARY**.
- The following factors are not accounted for in the initial estimate, but undoubtedly play a role in establishing any sort of final fiscal estimate:
 - *Offset charges and collected revenue*
 - *Costs associated with installing and maintaining mobile and ADW technology*
 - *Costs of background checks and investigations (national and international)*
 - *Salaries and benefits for Department of Public Safety/Division of Criminal Investigation agents*
 - *Salaries and benefits for potential additional regulatory positions at the IRGC to regulate sports betting*
 - *League integrity fees*

Fiscal Analysis, HF 2448, cont.

Assumptions

- 28.0% of all U.S. adults (18 and over) participate in sports betting activity (Global Market Advisors, 2017).*
- The average annual amount wagered per U.S. sports betting participant totals \$1,554 (American Gaming Association, 2017).
- Iowa's population totals approximately 3.16 million people. According to the most recent census data, 72.2% of Iowans are over the age of 21 and eligible to participate in sports betting activities. Extrapolating this data leads to the assumption that approximately 2.28 million Iowans are eligible to participate in sports wagering.
- Generally, 95.0% of the total amount wagered (the **"Handle"**) is paid out to winners, leaving 5.0% to be taxed and distributed.

* In Iowa, gambling of any form is considered to be illegal until the individual participating is 21 years or older.

Fiscal Analysis, HF 2448, cont.

Projecting Taxable Revenue:

[Percent of Population Participating] x [Amount Wagered] = Total Handle

[Total Handle] - [Winnings to Wagerers] = Taxable Revenue

[Taxable Revenue] x [1/3] = Sports Betting Net Receipts

[Sports Betting Net Receipts] x [22.0%] = Tax Revenue to State

Potential Revenue, HF 2448

Participation Assumption	Total Players	Average Amount Wagered Annually	Total Wagered	Taxable Revenue (AGR)	Sports Betting Net Receipts	Iowa Tax Rate	Iowa Tax Revenue
			(Total Handle)	(Handle- Paid Out Winnings*)= AGR	(1/3 x AGR)		(Net Receipts x 22.0%)
5.0%	114,076	\$ 1,554	\$ 177,274,104	\$ 8,863,705	\$ 2,954,568	22.0%	\$ 650,005
7.0%	159,706	\$ 1,554	\$ 248,183,124	\$ 12,409,156	\$ 4,136,385	22.0%	\$ 910,005
10.0%	228,152	\$ 1,554	\$ 354,548,208	\$ 17,727,410	\$ 5,909,137	22.0%	\$ 1,300,010
12.0%	273,782	\$ 1,554	\$ 425,457,228	\$ 21,272,861	\$ 7,090,954	22.0%	\$ 1,560,010
15.0%	342,228	\$ 1,554	\$ 531,822,312	\$ 26,591,116	\$ 8,863,705	22.0%	\$ 1,950,015

*Paid out winnings equal to approximately 5.0% of the total Handle.

Estimated total tax revenue to the State, depending on participation, would range from approximately \$650,000 to \$2.0 Million annually. Should participation levels increase/decrease, tax revenue would change accordingly.

Federal Excise Tax

Gaming entities that offer sports wagering activity are required to pay *a federal excise tax* on the total handle of all sports betting wagers. **The excise tax is set at 0.25%.** Excise tax would be subtracted from revenue kept by the individual gaming entity, not tax revenue collected by the State.

Participation Assumption	Total Handle	Federal Excise Tax	To Feds
5.0%	\$ 177,274,104	0.25%	\$ 443,185
7.0%	\$ 248,183,124	0.25%	\$ 620,458
10.0%	\$ 354,548,208	0.25%	\$ 886,371
12.0%	\$ 425,457,228	0.25%	\$ 1,063,643
15.0%	\$ 531,822,312	0.25%	\$ 1,329,556

Comparison to Other States

- Nevada
 - *Tax Rate: 6.75%*
- Delaware
 - *Revenue Sharing Model through Delaware State Lottery:*
 - Scientific Games: 12.5% of revenue
 - State: 50.0% of revenue
 - Casinos: 40.0% of revenue
 - Horse Racing Industry: 10.0% of revenue (horse purses supplement)
- New Jersey
 - *Tax Rate:*
 - 8.5% on land-based sports betting revenue
 - 13.0% on casino-based online sports betting revenue
 - 14.25% on racetrack-based online sports betting revenue



Comparison to Other States, cont.

- Mississippi
 - ***Tax Rate: 12.0%***
 - 8.0% to state
 - 4.0% to local municipalities
- West Virginia
 - ***Tax Rate: 10.0% of all sports betting revenue***
- Rhode Island
 - ***Revenue Sharing Model:***
 - 51.0% revenue to the state
 - 32.0% revenue to vendors
 - 17.0% revenue to casinos
- Pennsylvania
 - ***Tax Rate: 36.0% on land-based and online sports betting revenue***



August 2018 Comparison:

Nevada, Delaware, New Jersey, and Mississippi

August 2018 Revenue Comparison, Other States			
	Total Handle (in millions)	Total Revenue (in millions)	Revenue Distribution
Nevada	\$ 247.6	\$ 12.6	\$850,000 to state
Delaware	\$ 7.7	\$ 0.8	\$100,000 to Scientific Games, \$400,000 to state, \$320,000 to casinos, \$80,000 to horse racing industry
New Jersey	\$ 95.6	\$ 9.2	\$782,000 from land-based revenue, \$1.2M from casino online revenue, \$1.3M from racetrack online revenue
Mississippi	\$ 6.3	\$ 0.6	\$440,000 to state, \$220,000 to local

Data compiled from Legal Sports Report via www.thelines.com/betting/revenue.

Some final thoughts....

- **Please remember** that all of this information is solely based on **HF 2448** as it stood at the end of the 2018 Legislative Session.
- Any revenue predictions extrapolated out of existing illegal and limited legal markets are **HIGHLY** speculative.
- Currently, sports betting is only fully legal in the state of Nevada and is legal to a limited degree in Delaware, Oregon, Montana, New Jersey, Mississippi, West Virginia, Pennsylvania, Rhode Island, and New York.
- Nevada's market, which is often used to estimate sports betting revenue projections in other states, is a **mature market that is widespread and attracts millions of gamblers annually**. Comparing Nevada's extensive sports betting market to a newly legalized market, such as one in Iowa, can lead to inflated revenue projections that do not account for the fact that it could take several years for a market to gain popularity and significant financial investment.
- The majority of speculative research available does not account for significant sports betting wagering revenue until several years after initial legalization. A September 2017 Eilers & Krejcik study on sports wagering, operating under the assumption that the United States Supreme Court would overturn the Professional and Amateur Sports Protection Act in *Christie v. National Collegiate Athletic Association* in the spring/early summer of 2018, does not begin to accommodate for significant sports betting tax revenue until 2023 at the earliest.

Questions?



Thank you!