

ECONOMIC AND FISCAL IMPACTS OF LEGALIZING SPORTS GAMBLING

REMI WEBINAR
AUGUST 9, 2018

Agenda



Overview

Background

Model
Methods

Simulation

Q&A

Introduction



- May 2018, The Supreme Court ruled against PASPA, allowing states governance over sports gambling
- Sports gambling can provide a new revenue stream for states, but what other economic and fiscal impacts might it have?
 - ▣ The REMI Tax-PI model can provide rigorous insights

Key Terms



- **Handle:** The amount wagered, or amount bet
- **Gaming revenue:** Also referred to as gross gaming revenue, net win, or GGR, refers to the amount retained by the sports betting operation after payment of prizes

Legal History of US Sports Gambling



- Professional and Amateur Sports Protection Act of 1992 (PASPA)
 - Federal law outlawing sports betting for 46 states
 - Sports lotteries in Oregon, Delaware, and Montana and licensed sports pools in Nevada were exempt
- *Murphy v. National Collegiate Athletic Association* 2018
 - May 14, 2018: The Supreme Court determined PASPA was unconstitutional in a 6-3 decision

Legal Sports Betting Industry



- Nevada Gaming Control Board announced \$248.8 million in state revenue for 2017, with a record \$4.8 billion circulated in sports betting
 - Nevada GGR averages to \$42 per Las Vegas local
 - These revenue gains can cover highway construction, social security payments, and infrastructure repairs



*what does **REMI** say? sm*

Source: American Gaming Association,
May 2017
Legal Sports Report, January 2018

Illegal Sports Betting Industry



- In 1999, the National Gaming Impact Study Commission estimated \$80 - \$380 Billion being wagered
- Gross gambling revenue (GGR) of \$4.8 - \$22.8 Billion for sports betting bookies and websites
- Ernst & Young consumer survey in 2015
 - 28% of US adults (69 million people) bet on sports
 - Average of \$1,554 per bettor annually
 - Estimate of \$107 Billion of sports betting wagers

Sports gambling in the UK



- Compared to the US
 - ▣ UK has retail and online gaming, and a tax rate of 15% on GGR
 - ▣ More accepted gambling culture by the general public than in the US
- Currently regulated under the 2005 Gambling Act

Source: USA Today, 6/8/2018

Sports gambling in the UK (cont.)



- Additional Metrics from the UK Gambling Commission
 - Total online gambling population in the UK is estimated at 2.1 million customers
 - Nearly \$20 billion wagered and 1.039 billion in tax revenue (\$2017 US)
 - UK sports betting has a 15% tax rate on GGR and sports betting GGR is approximately \$45 per adult

Takeaways



- Sports betting now legal in the US, but analysis of it's effects is a complicated issue
- Not a large enough number of states to approximate a national value
 - The states with legal sports gambling face many confounding factors, like gamblers from other states
 - Delaware and Nevada are very different states
- Other countries have wildly different laws and tax rates

Takeaways (continued)



- We are left with lots of rollout questions
 - ▣ Will sports gambling take away from other gambling markets?
 - ▣ What will happen to states that legalize gambling? To those that don't? Interaction effects?
 - ▣ Where will state revenues from gambling be invested? Where will the money be the most effective?
- To answer these questions, we need a common framework for our discussion

Simulation Overview



- Increased sales in Gambling & related sectors
 - ▣ More GGR can accrue within the state
 - Less spending leaving the state/country
 - ▣ Part of measured increase already exists illegally in-state
 - E.g., bookies, office pools
 - ▣ Increase in sports betting activity (E&Y '16)
 - Some reallocation of spending away from other goods
 - ▣ Increase in sales for sporting events, food, hotels
- Increased state revenue, allows increase in spending
 - ▣ Tax on GGR

Modeled Scenarios



Scenario 1: Low convenience, low tax rate

- Betting permitted only in Brick and Mortar casinos
- GGR is taxed at 6.75%



Scenario 2: Moderate convenience, base tax rate

- Brick and Mortar locations extended to gas stations and convenience stores
- GGR is taxed at 10%



Scenario 3: High Convenience, High Tax

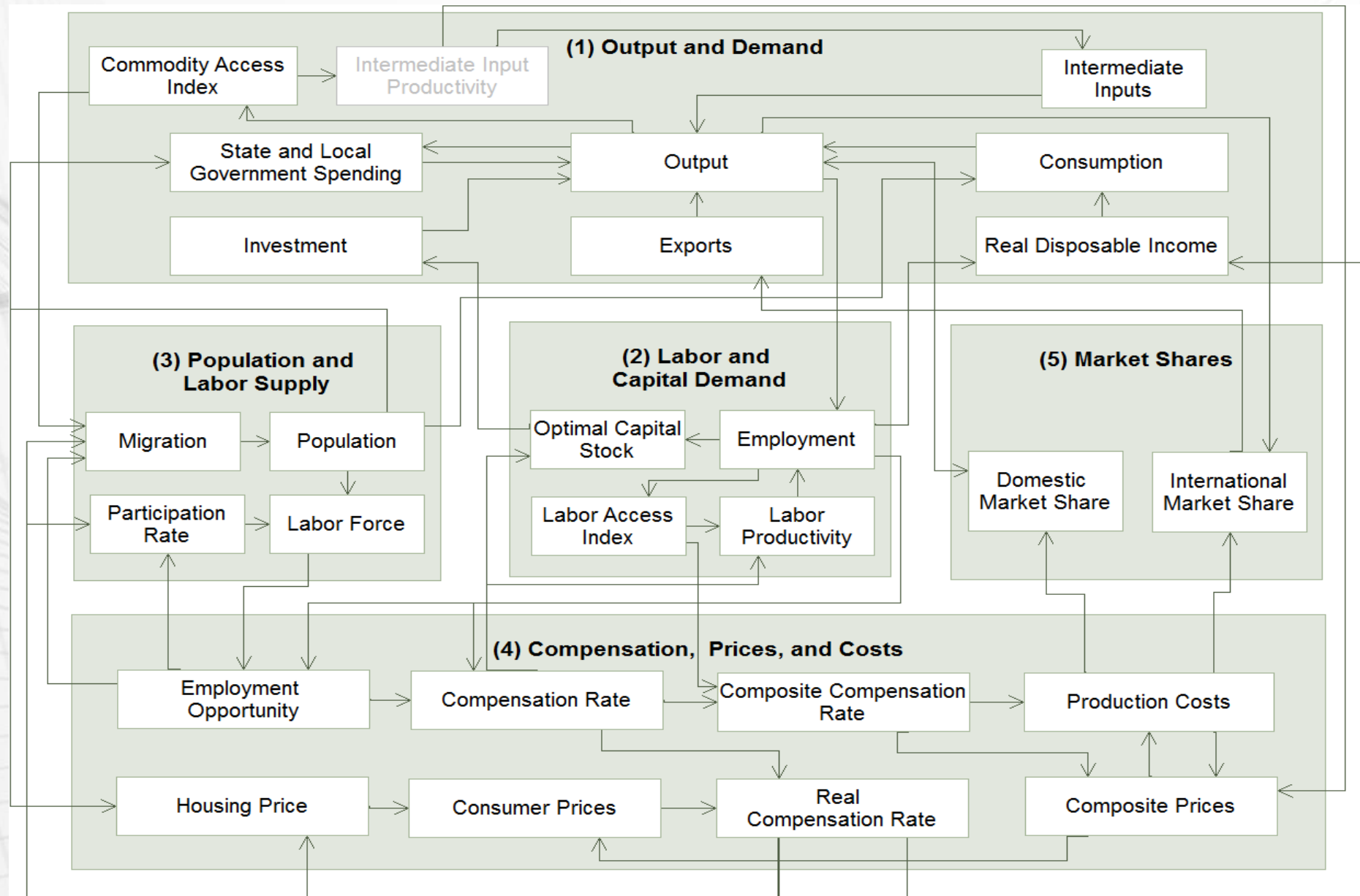
- Brick and Mortar and online betting
- GGR is taxed at 15%

Simulation Overview



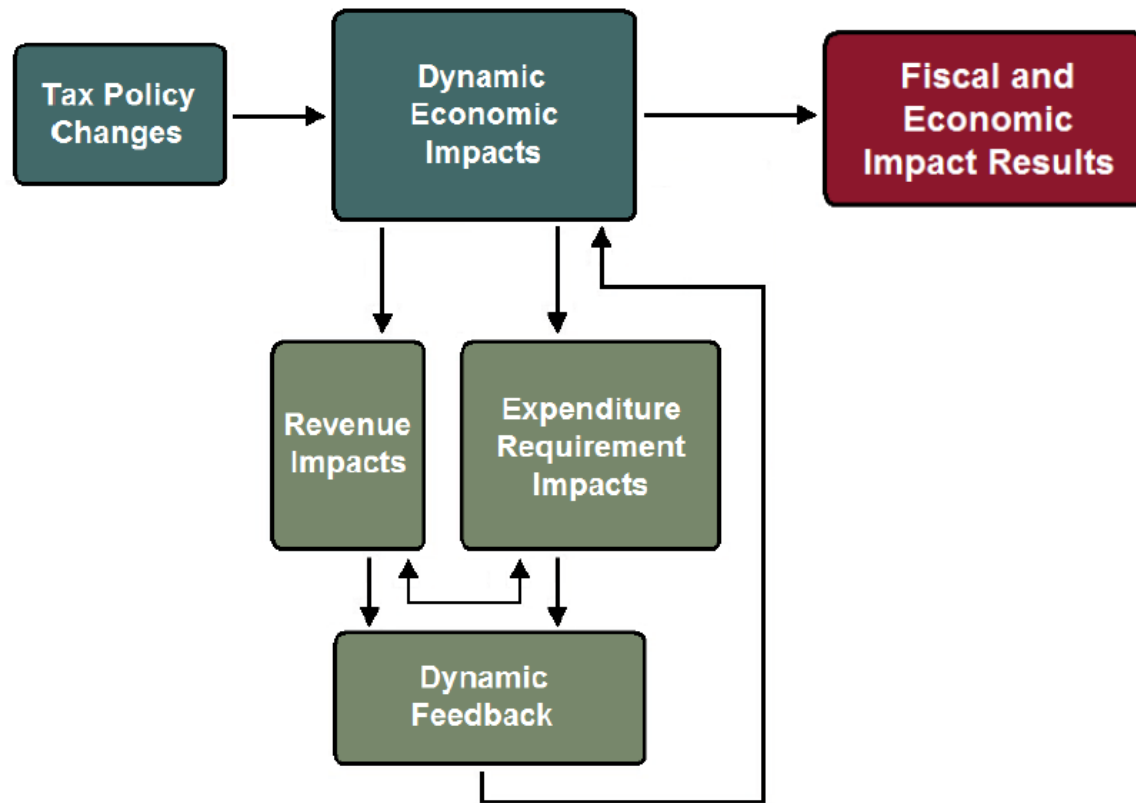
- Analyze 10-year period
- Will show:
 - ▣ Economic impacts
 - ▣ Dynamic revenue impacts
 - ▣ Total government spending impacts
 - Use Tax-PI balanced budget tool

Comprehensive Model Structure



Tax-PI Structure

Tax-PI Model Structure Overview



Two Examples



- Kentucky – “No casino” State
- Connecticut – “Casino” state

Kentucky



Infrastructure

- ❑ Six horse race tracks with legal gambling
- ❑ State Lottery
- ❑ Illegal to Build Casinos



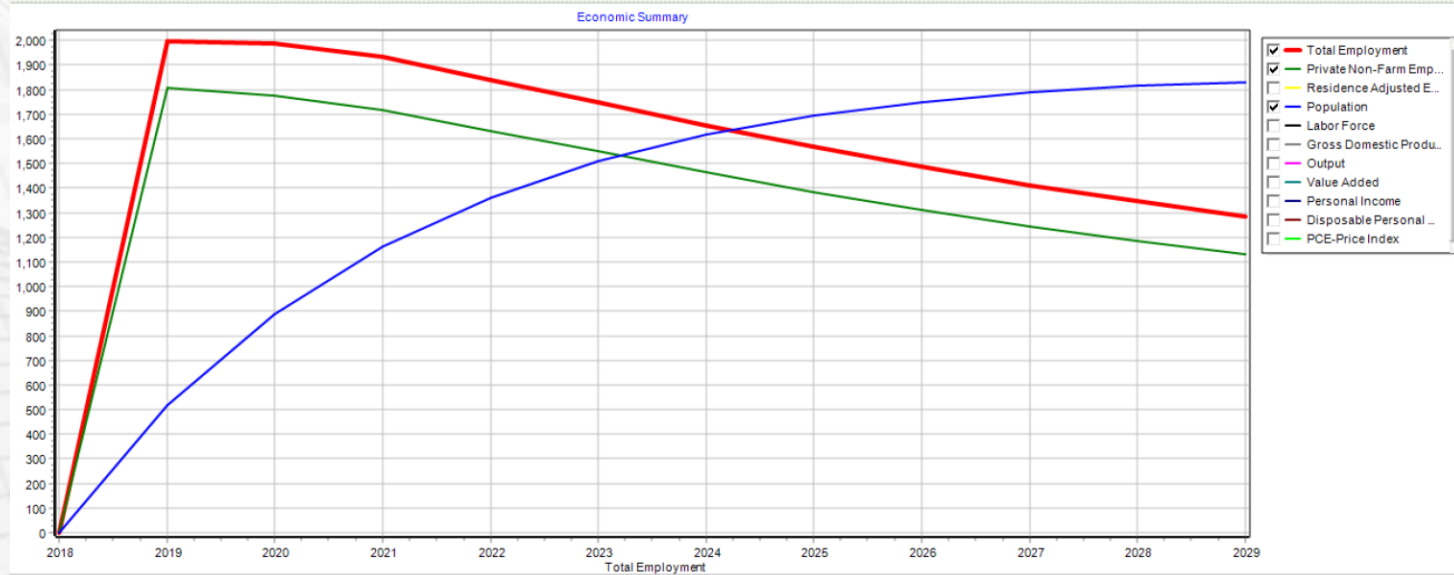
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Kentucky – Moderate Convenience: Population & Employment Impacts



- Brick and Mortars, Gas Stations, Convenience Stores
- ▣ \$93.6 million increase in GGR, 10% tax rate

Category	Units	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Employment	Individuals (Jobs)	0.000	+1996.864	+1989.806	+1932.021	+1840.238	+1747.945	+1655.882	+1566.630	+1486.275	+1412.725	+1345.627	+1286.091
Private Non-Farm Employment	Individuals (Jobs)	0.000	+1808.381	+1777.734	+1719.374	+1633.396	+1548.381	+1464.637	+1384.034	+1311.748	+1246.038	+1186.208	+1133.203
Residence Adjusted Employment	Individuals	0.000	+1866.772	+1853.454	+1806.438	+1729.417	+1652.566	+1574.987	+1498.754	+1429.695	+1365.710	+1306.668	+1253.695
Population	Individuals	0.000	+517.581	+886.867	+1160.918	+1361.386	+1509.126	+1617.614	+1695.405	+1751.025	+1789.910	+1815.454	+1830.616
Labor Force	Individuals	0.000	+493.076	+788.592	+972.045	+1078.222	+1129.173	+1147.445	+1146.330	+1131.461	+1109.783	+1083.393	+1055.402
Gross Domestic Product	Millions of Current Dollars	0.000	+142.627	+155.548	+158.227	+157.943	+156.336	+154.130	+151.475	+148.985	+146.844	+145.188	+144.082
Output	Millions of Current Dollars	0.000	+203.749	+233.310	+238.556	+238.064	+234.943	+230.549	+225.718	+221.226	+217.302	+214.251	+212.129
Value Added	Millions of Current Dollars	0.000	+123.625	+141.687	+145.026	+145.005	+143.435	+141.108	+138.262	+135.569	+133.162	+131.237	+129.825
Personal Income	Millions of Current Dollars	0.000	+63.482	+73.404	+80.075	+84.413	+87.406	+89.530	+91.153	+92.552	+93.891	+95.258	+96.936



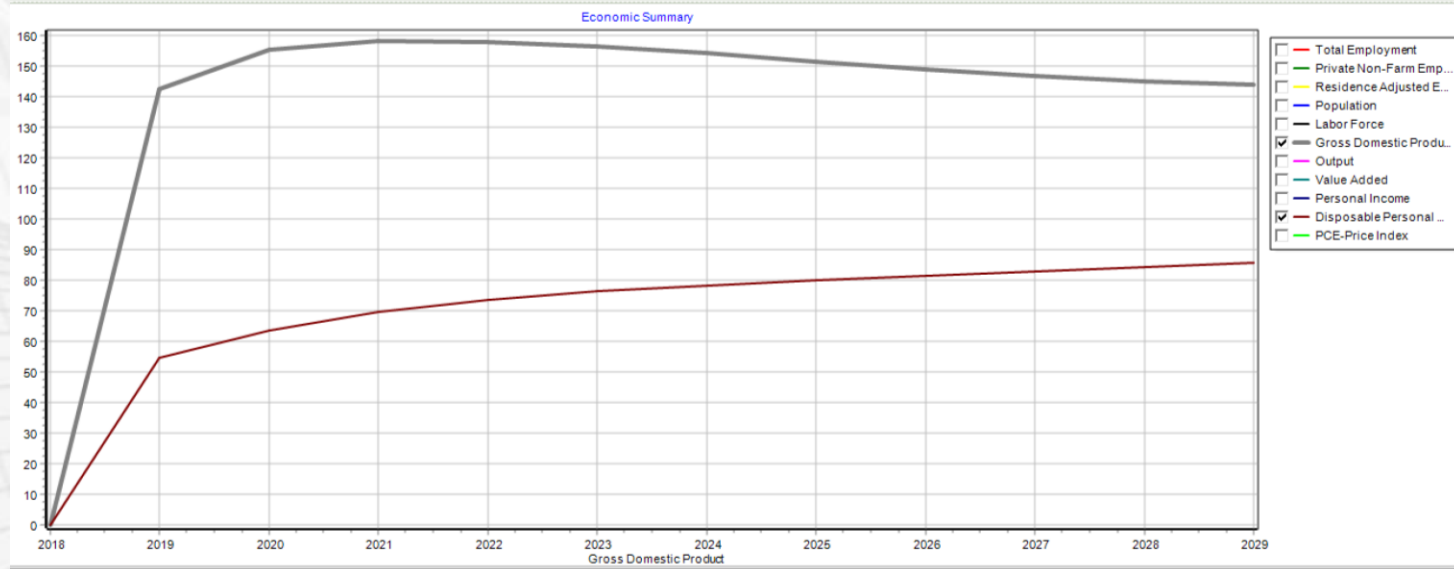
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Kentucky – Moderate Convenience: GDP & Disposable Income Impacts



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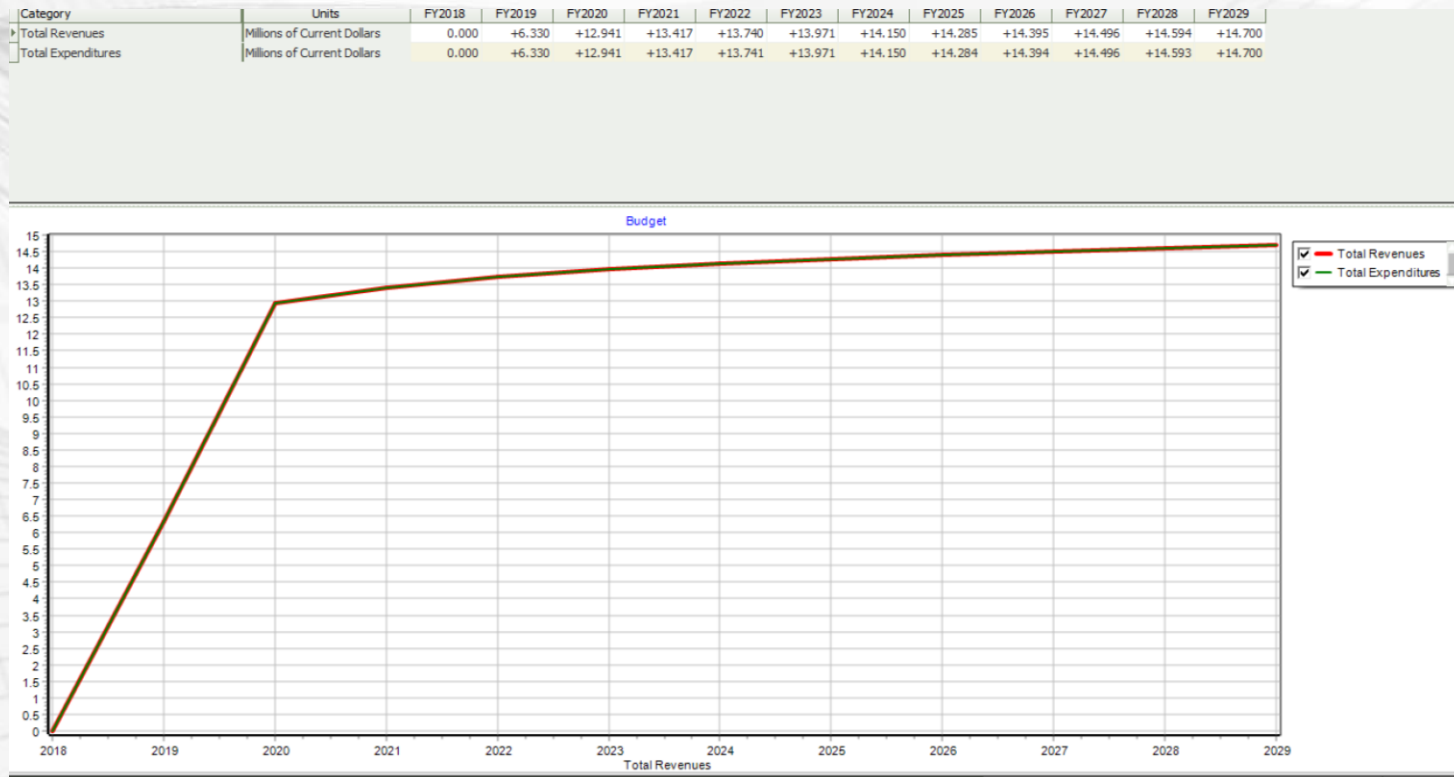


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Kentucky – Moderate Convenience: State Budget Impacts



- Brick and Mortars, Gas Stations, Convenience Stores
 - ▣ \$93.6 million increase in GGR, 10% tax rate



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Connecticut



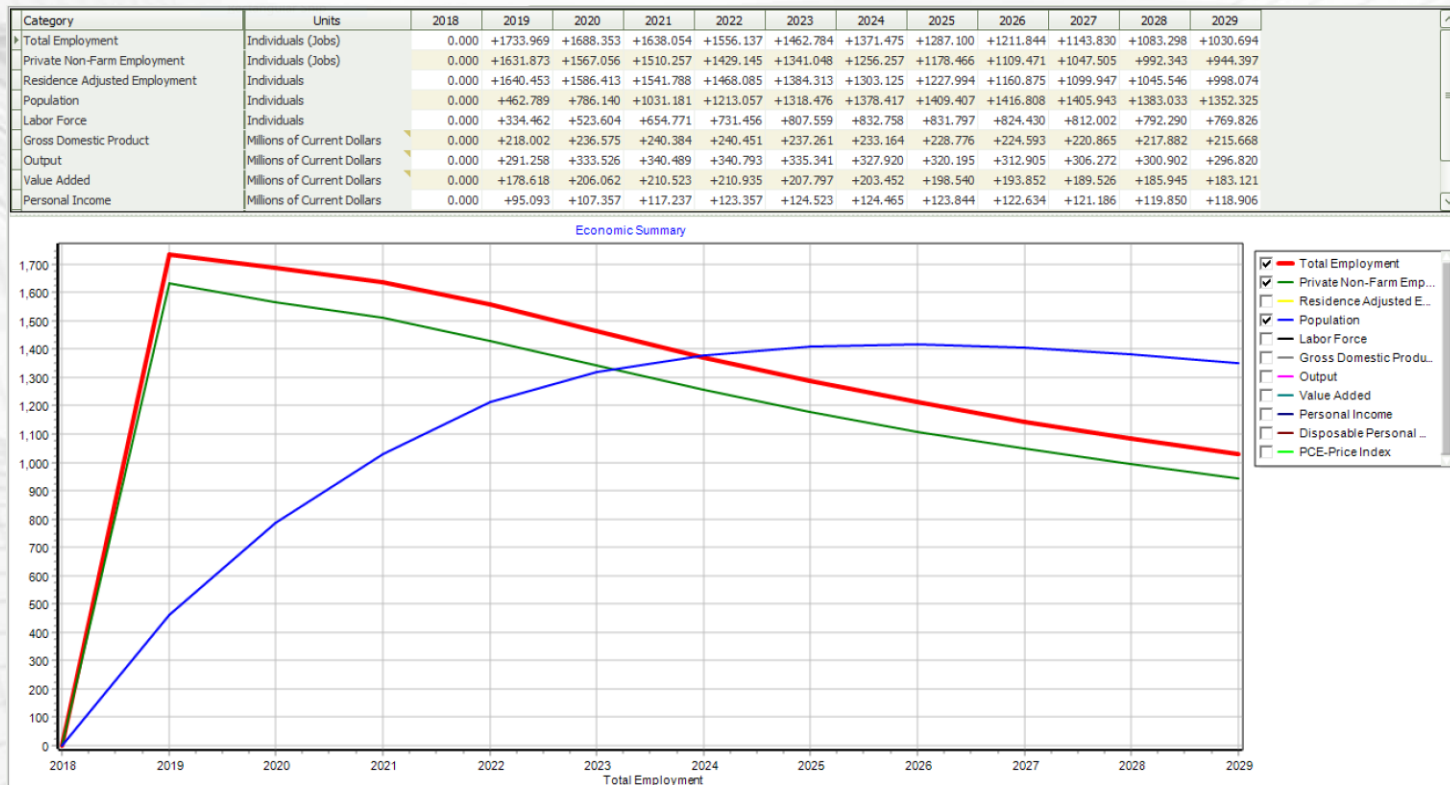
Infrastructure

- Two Native American Casinos
 - ▣ Foxwoods: 2nd largest casino in the US
 - ▣ Mohegan Sun: 3rd largest in US
- State Lottery

Connecticut – Low Convenience: Population & Employment Impacts



- Brick and Mortars only
- ▣ \$139.5 million increase in GGR, 6.75% tax rate



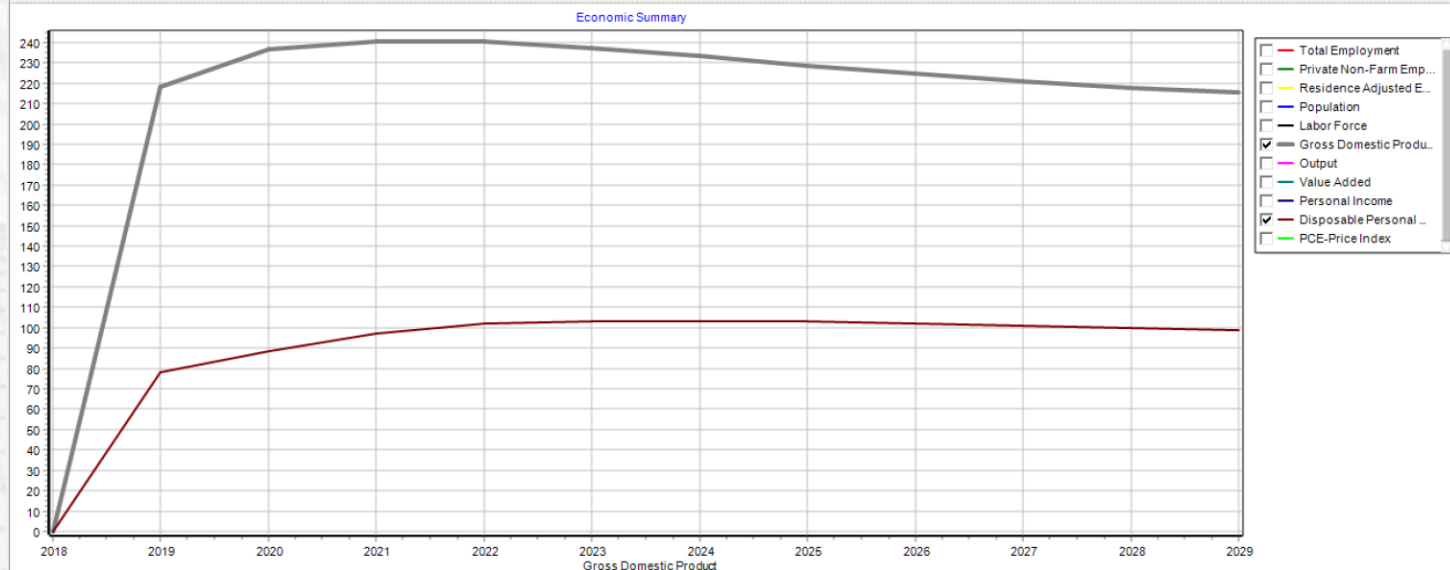
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Private Non-Farm Employment	Individuals (Jobs)	0.000	+1631.873	+1567.056	+1510.257	+1429.145	+1341.048	+1256.257	+1178.466	+1109.471	+1047.505	+992.343	+944.397
Residence Adjusted Employment	Individuals	0.000	+1640.453	+1586.413	+1541.788	+1468.085	+1384.313	+1303.125	+1227.994	+1160.875	+1099.947	+1045.546	+998.074
Population	Individuals	0.000	+462.789	+786.140	+1031.181	+1213.057	+1318.476	+1378.417	+1409.407	+1416.808	+1405.943	+1383.033	+1352.325
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Value Added	Millions of Current Dollars	0.000	+178.618	+206.062	+210.523	+210.935	+207.797	+203.452	+198.540	+193.852	+189.526	+185.945	+183.121
Personal Income	Millions of Current Dollars	0.000	+95.093	+107.357	+117.237	+123.357	+124.523	+124.465	+123.844	+122.634	+121.186	+119.850	+118.906

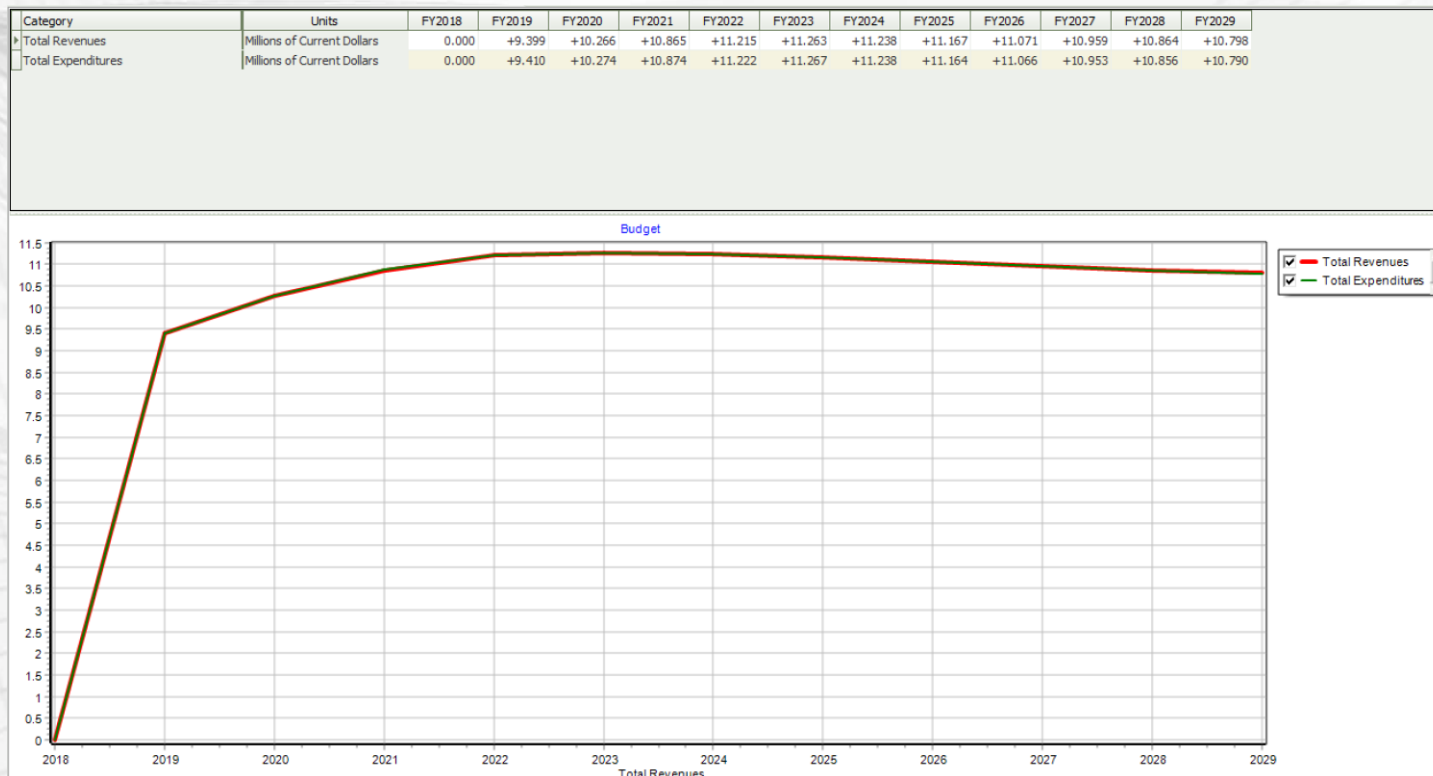


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Connecticut – Low Convenience: State Budget Impacts



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Conclusions



- Increased GGR for in-state gambling establishments is main driver of positive economic impacts
- Increased economic activity in the private sector raises state revenues over and above direct GGR tax
 - By 38-57% in KY scenario, up to 20% in CT scenario
- Tax-PI allows state-specific expenditures to rise given total revenue increase
 - These expenditures generate increased growth as they are fed back into the economy

Additional Questions



- Economic impact of online sports betting
- Market cannibalization among different gambling types?
- To what extent will people switch from illegal to legal gambling?



Regional Economic Models, Inc.

Headquarters:
433 West Street
Amherst, MA 01002
(413) 549-1169

District Office:
1717 K Street NW
Suite 900
Washington, DC 20006
(202) 469-7861

www.REMI.com

Prepared by:
Michael Owens – Economic Assistant
Gregory Pandise – Economic Assistant

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