

Modeling the Regional Impacts of Online Sports Gambling Legislation

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Agenda



Introduction & Brief History

Topic Overview

Case

Potential Impacts

Live Model Demo & Results

Conclusion

Q&A

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

- The Economic & Fiscal Ramifications of Gambling Expansions - 2020
 - Describing Sports betting and its impact on the economy and economic trends
- Casino Tax Policy: Identifying the issues that will determine the optimal rate – 2010
 - How state legislatures determine tax rates for casino operations, study finds that the highest rate is not likely to be optimal and could be counter productive
- Using REMI Policy Insight To Forecast The Economic & Fiscal Impact Of Resort Casinos In Massachusetts – 2009
 - Modeling the construction, operation, and government impact on bringing three resort style casinos to the Greater Boston Area

Online Sports Betting: Brief History



How did it all start?

1994

Creation of first online casino thanks to safe transaction software development. Only 18 table games available for players and software download required.

1996

First online sportsbook launched. Allowed players to wager on sporting events on the internet, yet poor regulation and unethical practice by operators was common.

2018

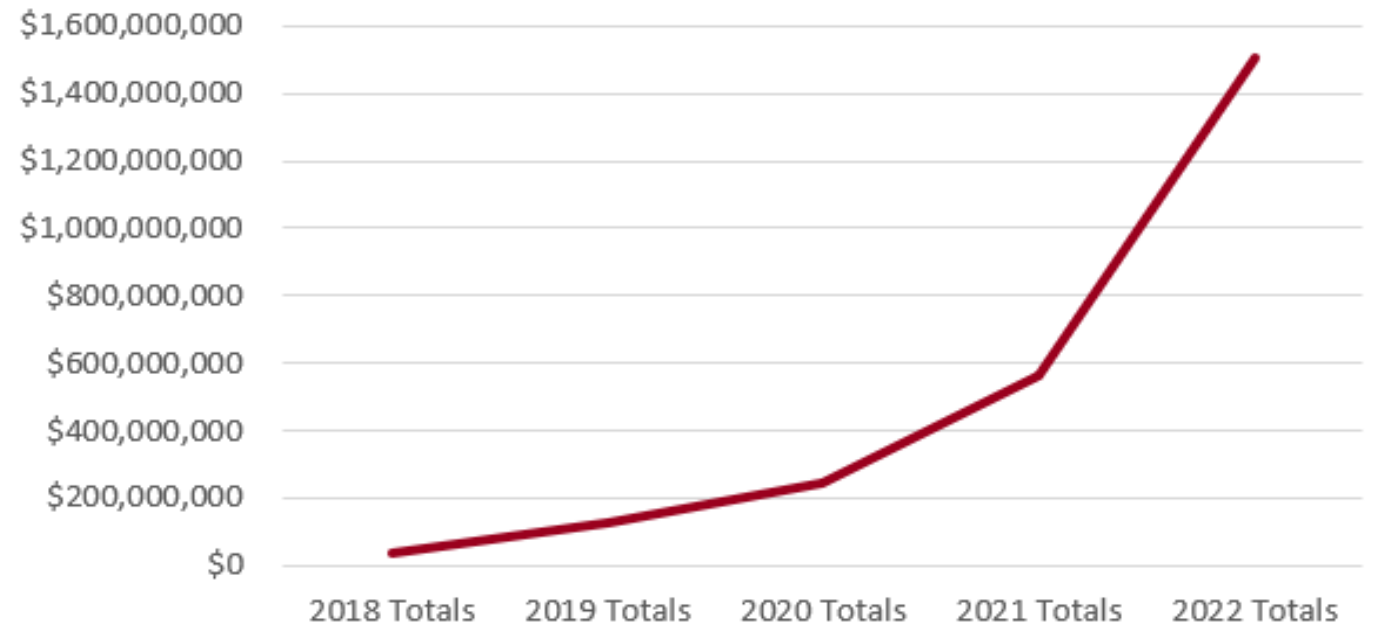
Supreme Court ruled to overturn The Professional and Amateur Sports Protection Act of 1992, online sports betting would be open to state-by-state legislation.

Sports Betting Today



- Online sports wagering is currently legal in over half of US states
- Total US state tax revenue at the end of 2018 was about \$38 million
- Fast forward to end of 2022, states are looking at roughly \$1.5 billion collected from online gaming revenue
- This is a 40x increase!

Total State Revenues from Online Sports Wagering 2018 - 2022



*As of June 2023, total state tax revenues have totaled \$954,982,505 from sports wagering

Tax Revenue Collection – A Slippery Slope



- Tax revenue numbers look great but can be deceiving. Online sports wagering is a low-margin business. The billions of dollars wagered indicates the industry's popularity, not necessarily its success.
- Operators already face high business costs with some major factors including:
 - Typical operation costs
 - New customer acquisition spending
 - Licensure fees and taxes
 - Compliance and responsible gambling requirement costs
- Due to the nature of how states collect tax revenue from operators, they will drive out business if they are not careful
 - Example: New York
 - With an already high Gross Gaming Revenue tax rate of 51%, the effective rate is even higher because they include promotional bets



- The tax on gross gaming revenue in New York is 51% (inclusion of promotional bets makes the true effective rate even higher because revenue that doesn't exist yet is taxed)
- These high rates cause issues like driving business from both operators and players out of New York and into other states with lower rates, like New Jersey
- Since it was made legal, operators in the state of New York suffered considerable profit loss due to the amount of promotional bets given out

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Legalization of Online Sports Gambling in Florida

(as of August 2023)

What's Happening Today?

Mobile sports betting was briefly legal in Florida for approximately five weeks in 2021. However, its legality was swiftly halted by a legal challenge against the Florida Seminole Gaming Compact, leading to a suspension of wagering.

On June 30, 2023, the DC Circuit Court of Appeals overturned the district court's decision to dismiss the compact, creating the possibility for the revival of legal sports betting in Florida.

Should the ruling be upheld, legal sports gambling could potentially resume in Florida before the start of the football season. However, if an appeal is pursued, the final decision could be delayed until 2024 or 2025.

Why This Matters:

- Economic: All income is taxable, including income from online sports gambling. Online sports gambling sites send the IRS a tax form if winnings exceeds \$600.

New York, with a population slightly below Florida, received US\$693 million in tax revenue from sports gambling in 2022 (Online Sports Gambling legalized in NY in January 2022).

- Social: Legalization enables the establishment of a regulated framework that 1) fosters responsible gambling practices and 2) safeguards vulnerable individuals from the adverse effects of unregulated markets.

US Sports Gambling
Market CAGR: 10.4%
(2023-2030)

PROS

Social and Economic Impacts:

- Opens a new revenue stream for states and local governments
 - Increase funding to capital projects to improve roads, transportation systems, schools and universities
- Newly added jobs
- Increased investment in sporting venues

- Social Costs of Gambling (Addiction, Mental Health, Healthcare Resources)
- Attracts money laundering and fraudulent schemes
- May overtake brick and mortar gambling: Loss of Employment and Local Economic Activity

CONS

What can happen going forward?

Potential Opposition

More litigation will follow. Gambling opponents have launched separate federal lawsuits in U.S. District Court in Washington, D.C., following the court ruling.

What might we want to know if online sports gambling is legalized in Florida?

Revenue Generation for the State: Legalized online sports gambling could lead to significant tax revenue for the state.

Job Creation: The introduction of online sports gambling could create jobs in areas such as technology development, customer service, marketing, and regulatory oversight.

Tourism and Hospitality Industry: If Florida becomes a popular destination for sports gambling, it could attract tourists who are interested in placing bets on sporting events.

Consumer Spending: With legalized online sports gambling, consumers might spend more money on betting activities, leading to increased economic activity in related industries.

Sports Teams and Leagues: Legalized sports gambling could potentially increase viewership and engagement with sports events, leading to higher revenues for sports teams, leagues, and broadcasters.

Regulatory and Compliance Costs: There will be costs associated with regulating and monitoring the online sports gambling industry to ensure fair play, prevent fraud, and protect consumers.

Let's Explore the Numbers: Taking a Deeper Dive

- What are the impacts of the legalization of online sports gambling on the Florida economy?
- What are potential fiscal and economic impacts of modeling tax scenarios if online sports gambling is legalized in Florida?
- What are the short-term and long-term effects of tax changes for online sports gambling?



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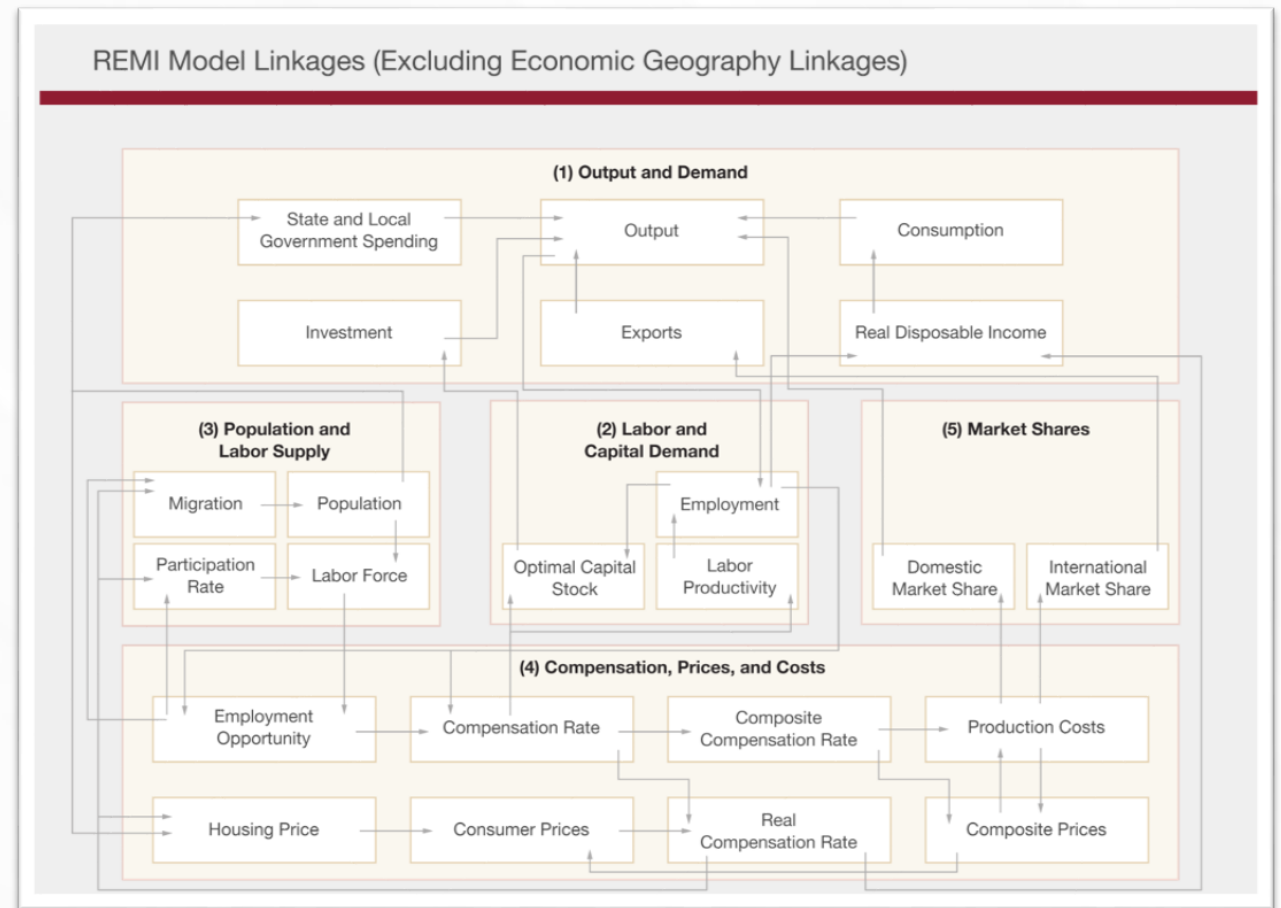
Model Simulation: REMI Tax-PI



Tax-PI

Tax-PI is a ready-to-use dynamic impact model which captures the direct, indirect, and induced fiscal and economic effects of taxation and other policy changes over multiple years.

Tax-PI informs and guides policy decisions based on their economic and fiscal impact, such as: state and local tax changes, state and local fiscal budgets, and education and infrastructure investments.



Modeling an Online Gambling Scenario:

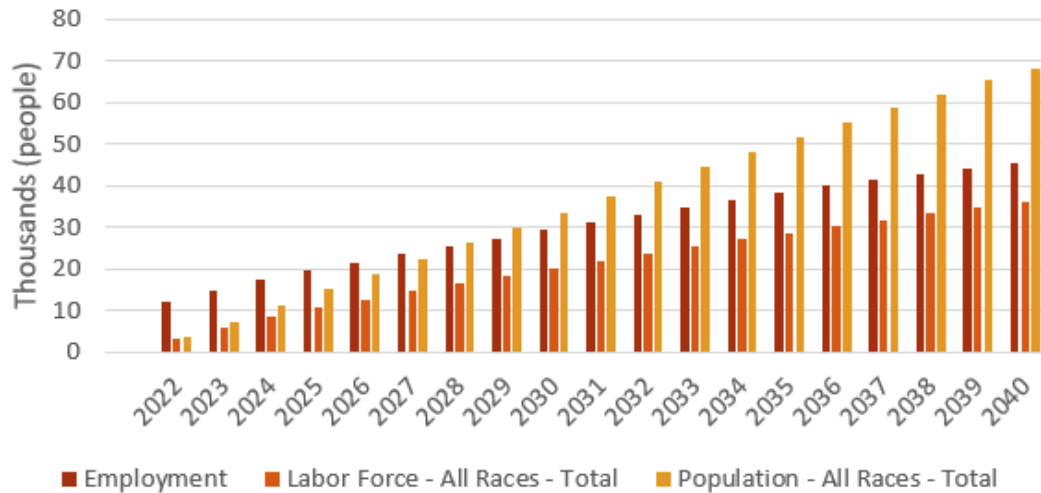


- Control Forecast – Business as Usual
 - Economic forecast
 - Budget Forecast
- Shocking the Control
 - Using Policy Variables
- Adding an Industry
 - Exogenous Final Demand
 - Custom Revenues
 - Other Possible Variables (e.g., Consumption Reallocation, Employment, compensation)

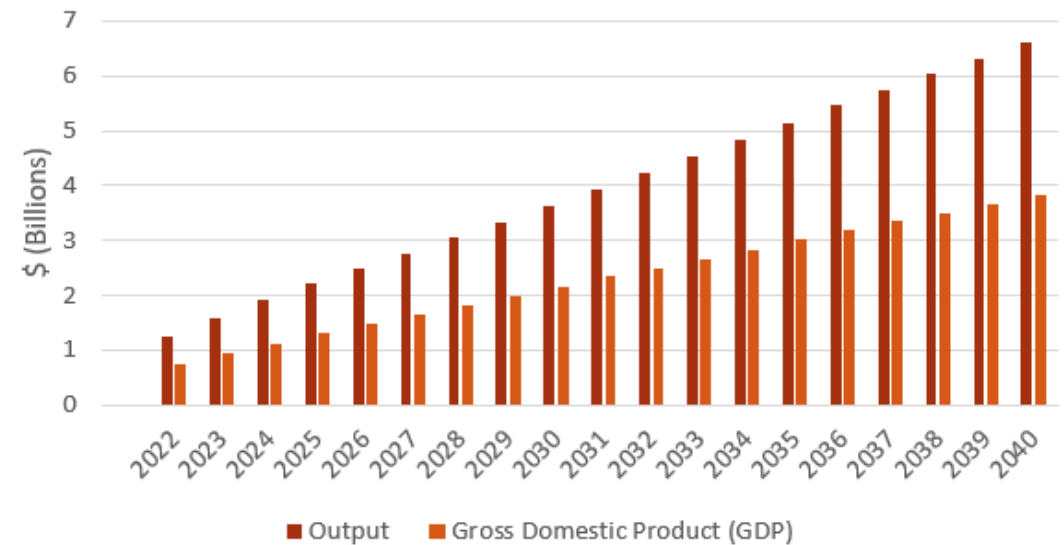
Key Results: Economic Summary



Economic Summary - Population, Employment, Labor Force (000s)



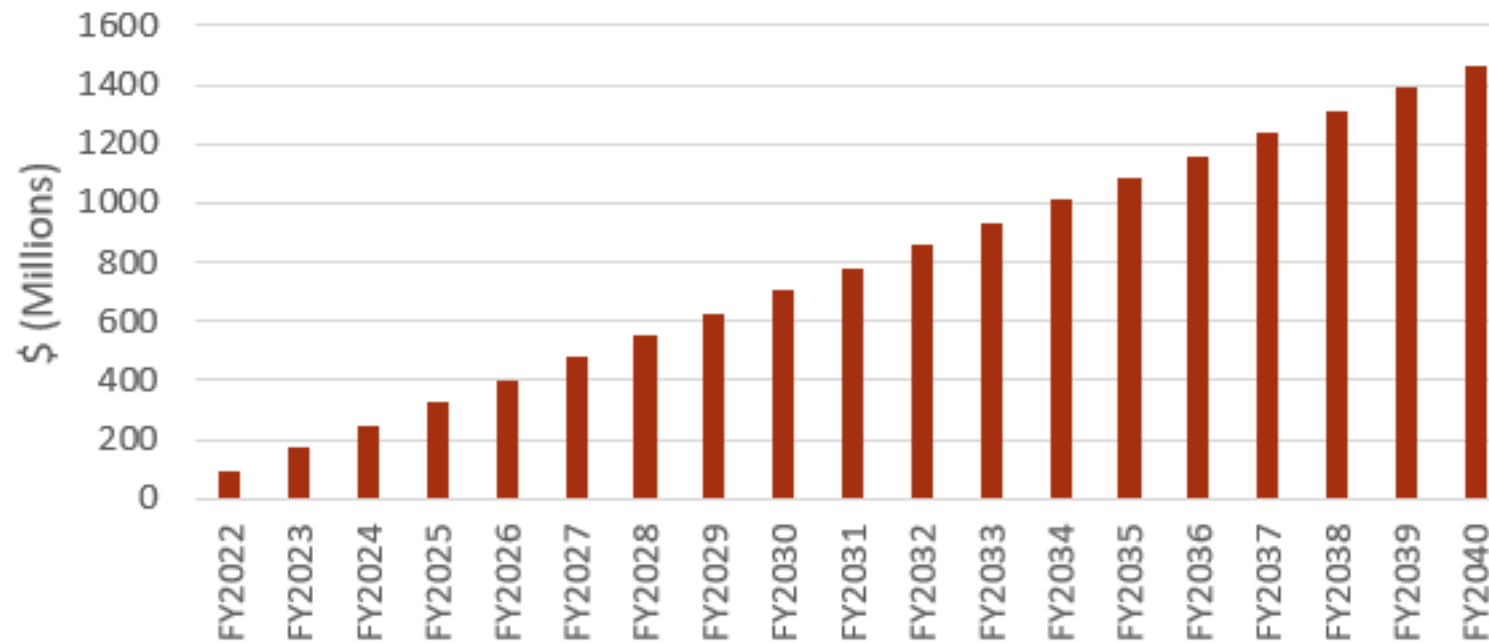
Economic Summary - GDP and Output



Key Results: Gambling Revenue Collection



Forecast - State Gambling Revenue by Fiscal Year

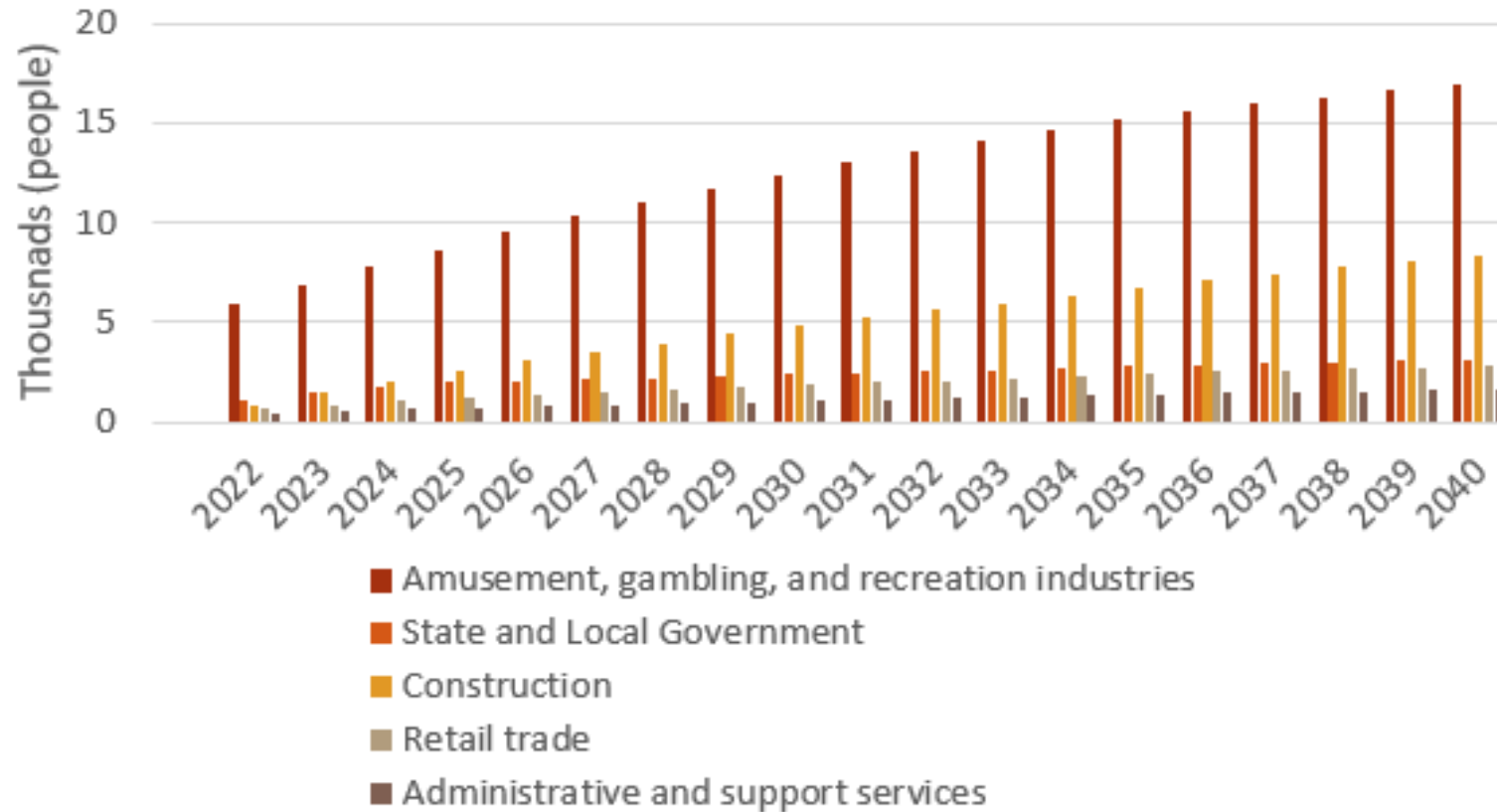


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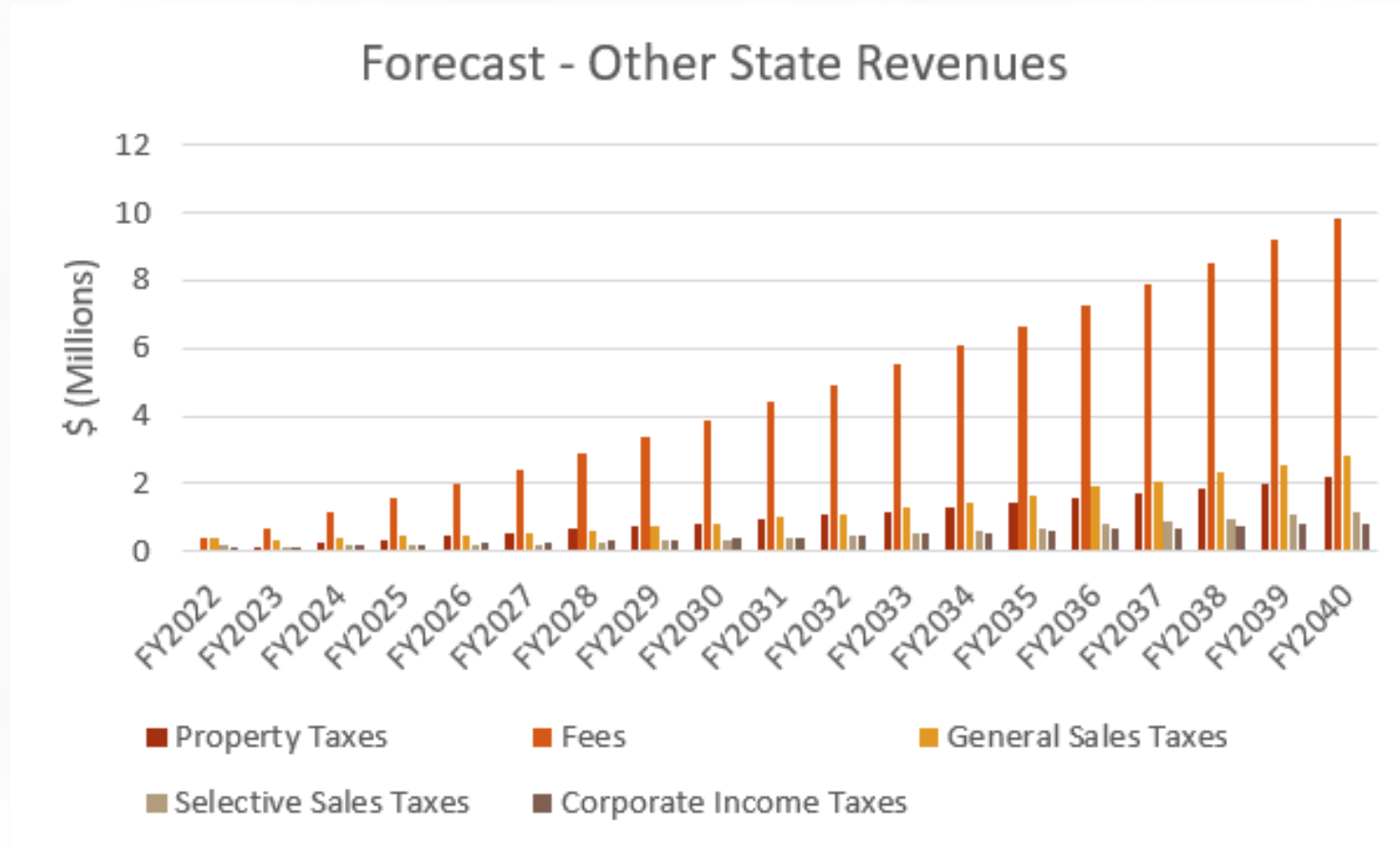
Key Results: Employment By Industry



Top 5 Most Changed - Employment By Industry

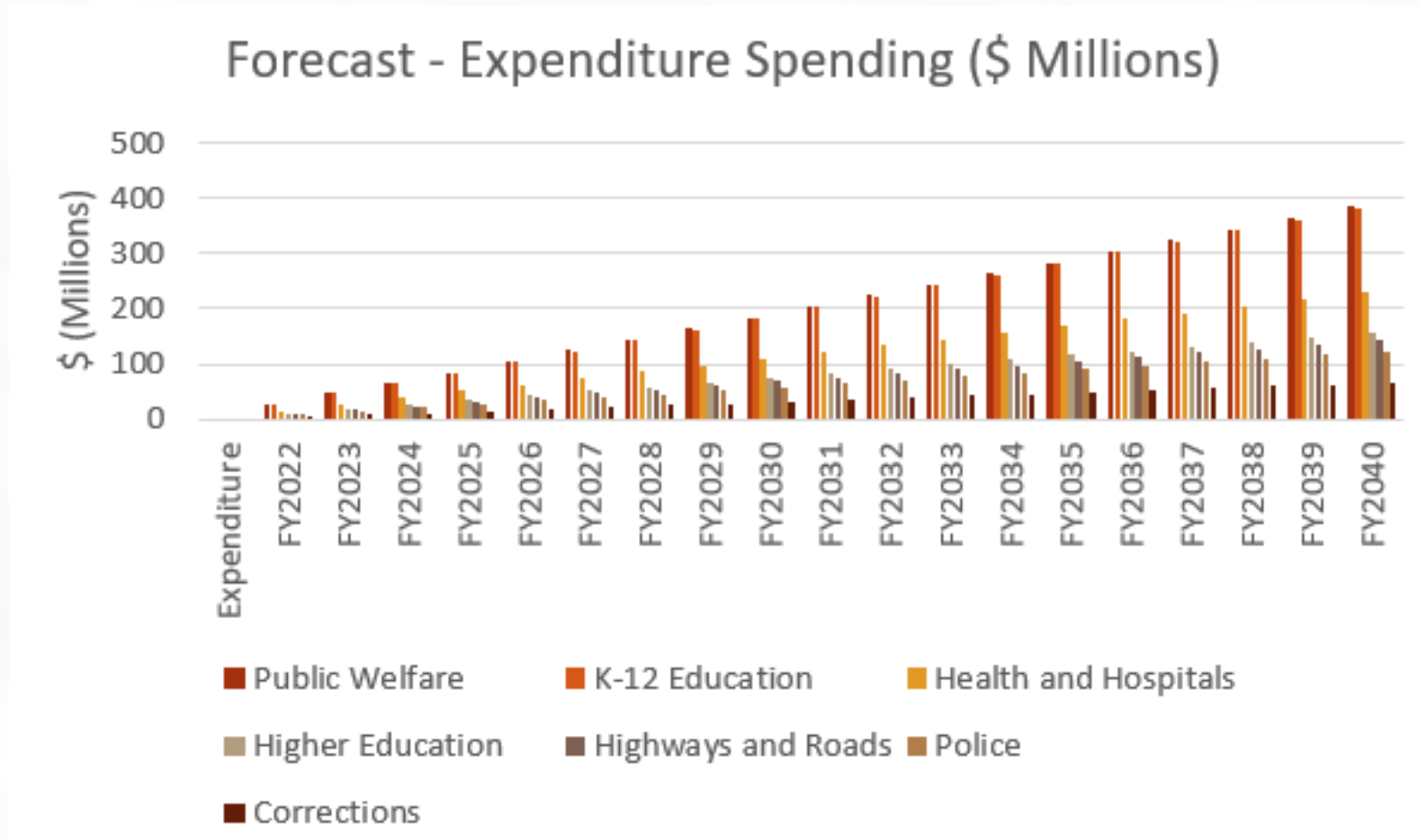


Key Results: Impact on other State Revenues



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Key Results: Impact on Expenditure Spending



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Model Walkthrough

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- Online sports gambling is an exponentially growing industry that is incredibly lucrative.
- It is now highly regulated and there is great opportunity for states that are yet to legalize online sports gambling to collect tax revenue.
- REMI's Tax-PI budget forecasting model not only forecasts the additional revenue of online gross gaming revenue, but it can also show the dynamic effects on the regional economy, namely through new employment, population changes, and new consumer spending.

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Thank you for attending!

For more information, please contact
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