

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1346
 Ways and Means

(Delegate Buckel, *et al.*)

Gaming - Wagering on Sporting Events - Authorization and Implementation

This bill authorizes, subject to a voter referendum, the State Lottery and Gaming Control Commission (SLGCC) to issue a sports gaming license to a video lottery operator or horse racing licensee if the federal Professional Amateur Sports Protection Act (PASPA) is altered or amended in a manner that does not prohibit the State from allowing wagering on sporting events or if a federal court or the U.S. Department of Justice determines that PASPA does not prohibit it. The holder of a sports gaming license may accept wagers on sporting events from an individual physically present at a video lottery facility or a thoroughbred or harness racetrack. A sporting event is a contest, game, or match between individuals or teams sponsored by a professional league or association or hosted by a college or university. **The bill takes effect July 1, 2018, contingent on PASPA no longer prohibiting sports betting, after which it is contingent on passage of a referendum by voters in the next general election.**

Fiscal Summary

State Effect: If PASPA were to no longer prohibit sports betting and sports gaming was authorized in the State, special fund revenues and expenditures increase by \$9.2 million in FY 2020 and by \$7.4 million in FY 2023. General fund expenditures decrease by \$8.4 million in FY 2020 and by \$6.9 million in FY 2023.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$0	\$9.2	\$7.2	\$7.3	\$7.4
GF Expenditure	\$0	(\$8.4)	(\$6.8)	(\$6.8)	(\$6.9)
SF Expenditure	\$0	\$9.2	\$7.2	\$7.3	\$7.4
Net Effect	\$0.0	\$8.4	\$6.8	\$6.8	\$6.9

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: If PASPA was no longer in effect and sports gaming was authorized, local impact grants increase by approximately \$270,000 in FY 2020 and by \$45,000 annually thereafter.

Small Business Effect: None.

Analysis

Bill Summary: If the contingencies of the bill are met, SLGCC must adopt regulations to implement sports gaming. An application for a sports gaming license must include an initial license fee of \$300,000 and the license may be renewed annually, subject to a license renewal fee of \$50,000. The Comptroller must distribute the initial license fee and the renewal license fees as follows:

- 10% to the Problem Gambling Fund;
- 10% to local impact grants; and
- 80% to the Education Trust Fund (ETF).

A sports gaming licensee may not accept wagers on sporting events made by telephone or an electronic device. SLGCC must revoke a sports gaming license if the licensee does not hold a video lottery operation license or a horse racing license. A licensee may not accept a wager from an individual who is under the age of 21.

A sports gaming licensee retains 80% of the proceeds from wagering on sporting events, and the remaining 20% goes to ETF.

Current Law: Chapter 5 of the 2007 special session amended the Maryland Constitution so that after November 15, 2008, the General Assembly may only authorize additional forms or expansion of commercial gaming if approved through a referendum by a majority of the voters in a general election.

Wagering on a contest, event, game, or match between individuals or teams sponsored by a professional league or association or hosted by a college or university is illegal in Maryland.

Chapter 346 of 2012 exempts a specified “fantasy competition” from prohibitions against betting, wagering, and gambling in State law. The law defines “fantasy competition” as any online fantasy or simulated game or contest such as fantasy sports in which (1) participants own, manage, or coach imaginary teams; (2) all prizes and awards offered to winning participants are established and made known to participants in advance of the

game or contest; and (3) the winning outcome of the game or contest reflects the relative skill of the participants and is determined by statistics generated by actual individuals.

Background: PASPA prohibits a government entity from sponsoring, operating, advertising, promoting, licensing, or authorizing a lottery, sweepstakes, or other betting, gambling, or wagering scheme based on one or more competitive games in which amateur or professional athletes participate. Likewise, a person may not sponsor, operate, advertise, or promote a lottery, sweepstakes, or other betting, gambling, or wagering scheme based on one or more competitive games in which amateur or professional athletes participate. States that had sports gambling before PASPA or authorized sports gambling within a year after PASPA became effective may continue to have sports gambling. Thus, Delaware, Montana, Nevada, and Oregon may offer gambling on sporting events, but only Delaware and Nevada currently authorize sports gambling.

New Jersey is challenging PASPA in the Supreme Court in *Christie v. National Collegiate Athletic Association*, arguing that PASPA violates the Constitution by “commandeering” the states into enforcing federal law. The Supreme Court heard oral arguments in December 2017 and is expected to make a decision by summer 2018.

Some states are preparing to authorize sports betting if it becomes legal under federal law. For example, if sports betting is authorized under federal law, Pennsylvania has authorized licensed casinos to apply for a sports wagering license. Pennsylvania’s sports wagering license fee is \$10 million with a renewal fee of \$250,000. The tax rate is 34% with a local share of 2%, 1% to the host county and 1% to the host municipality. All state fees and taxes would be deposited into Pennsylvania’s general fund.

Sports betting accounts for approximately 2% of total gaming revenues in Nevada. The consulting firm Global Market Advisors estimates under a low scenario and a high scenario that sports betting in Maryland could generate \$13.7 million and \$182.1 million in revenues, respectively, if sports betting was legalized.

State Fiscal Effect: Authorizing sports gaming has no short-term fiscal impact because PASPA remains in effect. If the Supreme Court determines that PASPA does not prohibit states from allowing wagering on sporting events, the bill must be approved by voter referendum in the following general election. If voter approval occurs at the 2018 general election, revenues to the Problem Gambling Fund and ETF could increase beginning in fiscal 2020, accounting for an implementation delay. The Department of Legislative Services (DLS) assumes each of the State’s six casinos, along with horse racing licensees at Laurel Park, Pimlico Race Course, and Rosecroft Raceway, will apply for a sports gaming license and pay the \$300,000 initial license fee in fiscal 2020 and pay the \$50,000 annual renewal license fee beginning in fiscal 2021. Additionally, based on sports

gambling revenues in Nevada, DLS estimates that revenues attributable to a sports gaming license could increase by approximately 2% of total gaming revenues in the State.

The Comptroller’s Office must distribute 20% of sports gaming revenues to ETF and, of the license fee revenues, must distribute 10% to the Problem Gambling Fund and 80% to ETF. Thus, special fund revenues and expenditures to the Problem Gambling Fund increase by \$270,000 in fiscal 2020 and by \$45,000 in fiscal 2023. ETF revenues and expenditures increase by approximately \$8.9 million in fiscal 2020 and by \$7.4 million in fiscal 2023. **Exhibit 1** shows the distribution of sports gaming revenue and license fees under the bill. ETF revenues are currently budgeted for the State Foundation program, the State’s largest education aid formula. Thus, any increase in ETF revenues decreases general fund appropriations for the State Foundation program by an equal amount, so general fund expenditures decrease by \$8.9 million in fiscal 2020 and by \$7.4 million in fiscal 2023.

Exhibit 1
Revenue Distribution Under the Bill
Fiscal 2020-2023
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
<u>Sports Gaming Revenues</u>				
ETF Revenues	\$6.73	\$6.84	\$6.94	\$7.04
Licenses	26.94	27.34	27.75	28.17
Total Sports Gaming Revenues	\$33.67	\$34.18	\$34.69	\$35.21
<u>License Fees</u>				
ETF Revenues	2.16	0.36	0.36	0.36
Problem Gambling Fund	0.27	0.05	0.05	0.05
Local Impact Grants	0.27	0.05	0.05	0.05
Total License Fees	\$2.70	\$0.45	\$0.45	\$0.45
 Total ETF Revenues	 \$8.89	 \$7.20	 \$7.30	 \$7.40

ETF: Education Trust Fund

Note: Numbers may not total due to rounding.

Source: Department of Legislative Services

Additionally, general fund expenditures increase by at least \$457,348 in fiscal 2020, which accounts for a one-year implementation delay from the bill's July 1, 2018 effective date if PASPA is lifted and sports gaming is authorized in the State. This estimate reflects the cost of hiring six additional staff at the State Lottery and Gaming Control Agency (SLGCA) to provide oversight for sports gaming. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	6
Salaries and Fringe Benefits	\$424,258
Operating Expenses	<u>33,090</u>
Total FY 2020 State Expenditures	\$457,348

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses. SLGCA may incur additional costs not reflected in this analysis for infrastructure to monitor and regulate sports gaming operations.

Local Fiscal Effect: If PASPA was no longer in effect and sports gaming passes voter referendum at the 2018 general election, local impact grant revenues increase by approximately \$270,000 in fiscal 2020 and by \$45,000 annually thereafter, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Maryland State Lottery and Gaming Control Agency; U.S. Supreme Court; Global Market Advisors; Department of Legislative Services

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