

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1132 (Delegates Buckel and Hornberger)
 Ways and Means

State Lottery and Gaming Control Agency - Sports Wagering Operations

This bill requires the State Lottery and Gaming Control Agency (SLGCA) to conduct a sports wagering operation in the State. The Director of the State Lottery and Gaming Control Agency must supervise and administer sports wagers in accordance with regulations and this bill. The director may, with the approval of the State Lottery and Gaming Control Commission (SLGCC) and subject to procurement law, contract for the operation of sports wagering in the State. A video lottery operator or horse racing licensee may apply for a sports wagering license, which authorizes the holder to accept wagers on sporting events while the license is effective. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: Special fund revenues and expenditures increase by \$30.9 million in FY 2020 and by \$30.3 million in FY 2024. General fund expenditures decrease by \$30.1 million in FY 2020 and by \$29.2 million in FY 2022. Future year general fund expenditures reflect ongoing administrative costs.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$30.9	\$29.3	\$29.7	\$30.0	\$30.3
GF Expenditure	(\$30.1)	(\$28.8)	(\$29.2)	\$0.5	\$0.5
SF Expenditure	\$30.9	\$29.3	\$29.7	\$30.0	\$30.3
Net Effect	\$30.1	\$28.8	\$29.2	(\$0.5)	(\$0.5)

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

Local Effect: Local impact grants increase by approximately \$270,000 in FY 2020 and by \$45,000 annually thereafter.

Small Business Effect: None.

Analysis

Bill Summary: A sporting event is a contest, event, game, or match between individuals or teams sponsored by a professional league or association or hosted by a college or university.

SLGCC must adopt regulations to implement sports wagering. 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).

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 receives 20% of the licensee's gross receipts from sports wagering events as commissions, and the remaining proceeds go 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. However, it is unclear as to whether a sports wagering operation conducted by SLGCA could be implemented without approval by voter referendum.

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: The federal Professional Amateur Sports Protection Act (PASPA) made betting on sports illegal under federal law but exempted certain types of sports betting in states that authorized it before the PASPA or within a year after the PASPA became effective. As a result, Delaware, Montana, Nevada, and Oregon could offer betting on sporting events, although only Delaware and Nevada did so. However, betting in Delaware was limited to a professional football sports lottery, which consisted of parlays and selected-off-the-board wagers, not single-game wagers.

A recent U.S. Supreme Court ruling in *Murphy v. National Collegiate Athletic Association* struck down the federal ban on sports betting and, as a result, there has been a rush of legislative activity in states hoping to capture a new source of gaming revenue.

Less than one month after the *Murphy* decision, Delaware became the first state outside of Nevada to offer single-game sports betting. On the heels of Delaware, New Jersey's sports betting operations went live on June 14, 2018, and betting began in Mississippi and West Virginia coinciding with the start of the regular professional football season that September. New Mexico, Pennsylvania, and Rhode Island also started offering sports betting in 2018. The District of Columbia passed legislation in January 2019, pending Congressional approval, which authorizes online and in-person sports betting.

The Department of Legislative Services (DLS) notes that sports betting revenues in Nevada are approximately 2% of Nevada's total gaming revenues. However, authorizing mobile sports betting could significantly increase revenues. Oxford Economics, a global economics forecasting firm, estimates that sports betting revenues would more than quadruple if sports betting became conveniently available at casinos, racetracks, lottery retailers, and online in Maryland. Likewise, Global Market Advisors, a consulting firm with a focus on the gaming industry, estimates that sports betting revenues could increase tenfold. New Jersey reported \$184 million in total wagers for the month of September 2018, 56% of which (\$104 million) was generated from online and mobile betting.

State Fiscal Effect: Assuming that sports betting could be administered by SLGCA without approval by voter referendum, DLS assumes that sports wagering will be operational before the start of the professional football season in fiscal 2020 and that 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 80% of sports gaming and license fee revenues to ETF and distribute 10% of license fee revenues to the Problem Gambling Fund. Thus, special fund revenues and expenditures to the Problem Gambling Fund increase by \$270,000 in fiscal 2020 and by \$45,000 in fiscal 2024. ETF revenues and expenditures increase by approximately \$30.6 million in fiscal 2020 and by \$30.2 million in fiscal 2024. **Exhibit 1** shows the distribution of sports gaming and license fee revenues 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 through fiscal 2022. However, pursuant to Chapter 357 of 2018, 100% of ETF revenues must be used for supplemental education funding beginning in fiscal 2023. Thus, general fund expenditures decrease by \$30.6 million in fiscal 2020 and by \$29.7 million in fiscal 2022.

To the extent that online sports betting is offered, sports wagering revenues would likely double. This analysis assumes online sports betting is not offered within the next five years.

Exhibit 1
Revenue Distribution under the Bill
Fiscal 2020-2024
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
<u>Sports Wagering Revenues</u>					
Licenses	\$7.11	\$7.22	\$7.32	\$7.39	\$7.46
Education Trust Fund	28.46	28.87	29.30	29.56	29.86
Total Sports Wagering Revenues	\$35.57	\$36.09	\$36.62	\$36.95	\$37.32
<u>License Fees</u>					
Education Trust Fund	\$2.16	\$0.36	\$0.36	\$0.36	\$0.36
Problem Gambling Fund	0.27	0.05	0.05	0.05	0.05
Local Impact Grants	0.27	0.05	0.05	0.05	0.05
Total License Fees	\$2.70	\$0.45	\$0.45	\$0.45	\$0.45
Total Education Trust Fund Revenues	\$30.62	\$29.23	\$29.66	\$29.92	\$30.22

Note: Numbers may not total due to rounding.

Source: Department of Legislative Services

Additionally, general fund expenditures increase by at least \$476,002 in fiscal 2020, which accounts for the bill’s July 1, 2019 effective date. This estimate reflects the cost of hiring

six additional staff at 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	\$442,912
Operating Expenses	<u>33,090</u>
Total FY 2020 State Expenditures	\$476,002

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: 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; Maryland State Lottery and Gaming Control Agency; ESPN; Oxford Economics; Global Market Advisors; Department of Legislative Services

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