



THE GAME INSIDE THE GAME.

Testimony Before Maryland General Assembly – Ways and Means Committee
House Bills 169 & 225
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Chairwoman Kaiser, Members of the Committee:

My name is Sarah Koch I am Director of Government Affairs at DraftKings Inc. (“DraftKings”). I appreciate the opportunity to testify before this distinguished body today in support of HB 169 and HB 225. DraftKings was founded in 2012 as a daily fantasy sports company with the goal of bringing sports fans closer to the games they love. Since that time, DraftKings has evolved into a global sports entertainment company with more than eleven million customers worldwide

The United States Supreme Court paved the way for states to legalize sports wagering within their borders with a court ruling in May 2018. Since that time DraftKings has processed more than 55 million bets in the eight states in which we’re currently operating. DraftKings’ mobile platform alone has accounted for 30% of the total tax revenue generated by sports betting in New Jersey. As the operator of one of the top mobile sportsbooks in regulated states, we appreciate the opportunity to participate in today’s hearing to discuss the importance of Maryland embracing a competitive, fully mobile sports wagering market.

It is important to recognize that sports wagering is already taking place in Maryland on a massive scale, with an estimated 1.3 million Marylanders betting over \$2 billion in illegal wagers each year.¹ Nearly all the sports wagers in Maryland are placed online through offshore websites in the robust illegal market. Across the country, states are trying to bring this activity into a legal, regulated market. Twenty U.S. states and jurisdictions have already passed sports wagering laws to date including Maryland’s neighbors Delaware, Pennsylvania, West Virginia, and the District of Columbia, while sports betting bills are currently pending before legislatures this year in many other states, including Virginia.

Only those states which include a competitive mobile component in their legislation are likely to capture the full sports wagering revenue that would otherwise go to the illegal market. Today, more than 85% of the wagers placed in New Jersey and Pennsylvania are made via a mobile

¹ See <https://www.americangaming.org/wp-content/uploads/2018/12/AGA-Oxford-Sports-Betting-Economic-Impact-Report1-1.pdf> (noting that approximately 28% of U.S. adults currently bet on sports).

device, and states that have not embraced competitive mobile sports wagering simply are not converting consumers away from the illegal market. HB 225 will effectively combat the illegal market by providing for mobile betting.

Creating a truly competitive market will also be crucial to the success of regulated sports wagering in Maryland. That is why we thank you, Chairwoman Kaiser, and the other sponsors of the bill, particularly Delegate Ebersole, for permitting a qualifying racetrack to partner with an experienced online operator in order to offer mobile sports wagering. Multiple operators will increase the overall economic impact that sports wagering has in the state. More operators mean not only better products and customer engagement, it also means more advertising revenue for local TV, radio and print, more revenue for land-based partners, and more revenue for the state.

It's worth highlighting that sports betting is a low-margin business, and most operators pay out between \$93 to \$95 of every \$100 they take in as customer winnings. When you factor in marketing costs, regulatory costs, state and federal taxes and other fixed costs, legal sportsbooks operate on a very narrow margin. Equally important, legal operators are not just competing with other legitimate entities, they also must remain competitive to pricing from illegal, offshore sportsbooks that do not face the same taxation and regulatory costs. Barriers to market entry, such as high taxes and fees, cut into an operator's profit and reduce their ability to offer competitive pricing, a significant factor for consumers when making the decision on where to spend their money. Therefore, we ask the Committee to consider reducing the proposed tax rate of 20%, which would be in the top three highest rates across the country where sports wagering has been legalized, and we look forward to working with the State Lottery and Gaming Control Commission on establishing a competitive yet fair application fee amount for an online sports wagering operator license.

Contrary to the thriving offshore market, a regulated market will combat underage wagering and problem gambling. At DraftKings, we use "know your customer" technology to ensure underage individuals are not able to create an account, deposit, or wager through our website or application. Additionally, for the small segment of the population that struggles with gambling, we provide safeguards that allow customers to set their own limits and self-exclude from participation should they choose. By tracking wagers placed through the application or online, mobile operators such as DraftKings can identify and flag potentially problematic betting behavior more quickly and accurately than in-person sports wagering.

If Maryland wants to maximize revenue, best protect consumers, and eliminate the thriving illegal offshore sports betting industry, it can best be achieved through the creation of a competitive, fully mobile sports wagering market.

Thank you for the opportunity to testify today. I am happy to answer any questions.