

# The New Pot of Gold: Sports Betting, US State Governments, Rationales and Revenue Expectations

Richard McGowan

Boston College

and

John Mahon

University of Maine

# Introduction

- US states originally proposed sports betting in 1980s
- However Professional and Amateur Sports Protection Act (PAPSA) banned sports betting
- Federally illegal except for Nevada before *Christie v. NCAA*
- Stakeholders are:
  - State and Federal Governments
  - Big Four Sports Leagues (NBA, MLB, NFL, NHL)
  - Consumers

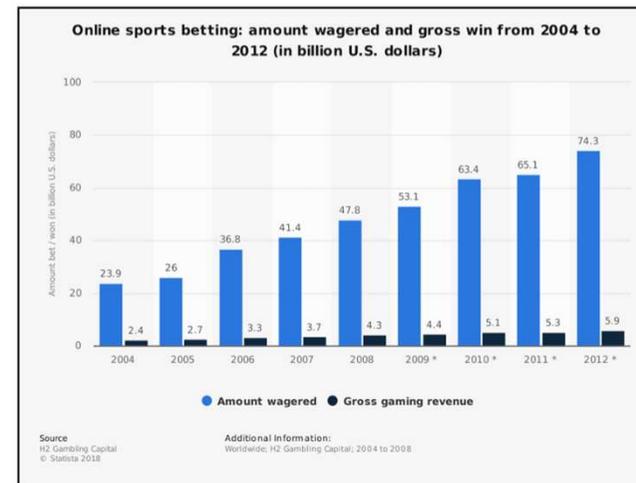
## 3 Regulatory Goals for the States

1. Raise revenue- We will project with the most conservative forms of sports betting (no online betting).
2. Eliminate the Black Market by establishing tax rates low enough for consumers to spurn illegal sports book
3. Control consumption by addressing compulsive sports gambling

# Arguments Favoring Sports Betting

- Economic growth-300% growth from 2004 to 2012
- Daily fantasy sports \$3B industry
- Leads to job growth, especially in rural parts of America

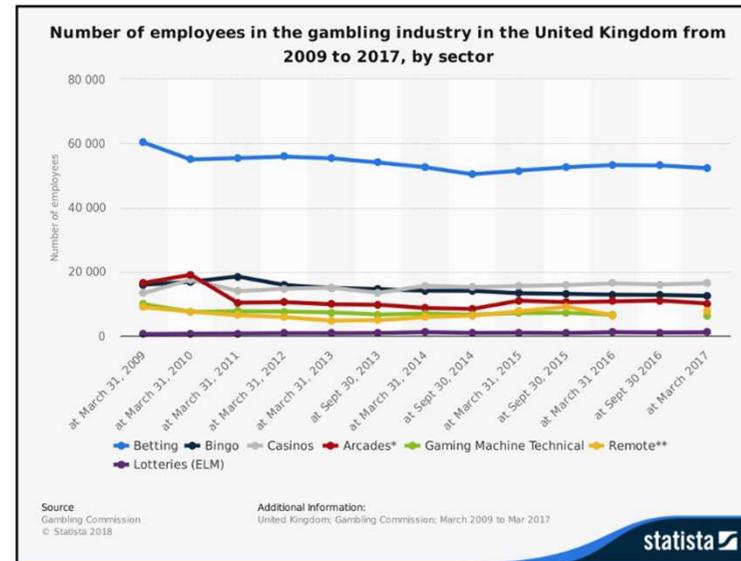
Exhibit A: Online Sports Betting: Amount Wagered and Gross Win from 2004 to 2012 - in billion U.S. dollars (Statista, H2 Gambling Capital)



# Arguments Favoring Sports Betting

- UK market has roughly 50,000 people employed from sports betting
- Legalization increases winnings for successful gamblers
- This in turn can be reinvested into the economy as consumed goods

Exhibit B: Employees in the UK Gambling Industry (Gambling Commission, Statista)

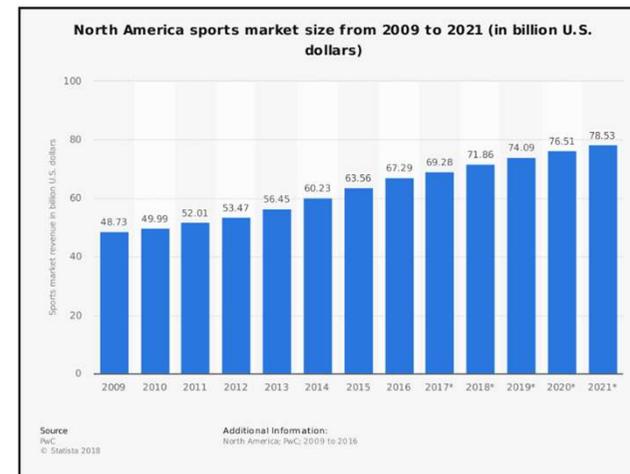


# Arguments Favoring Sports Betting

- Massive tax revenue generator for states; Casino tax revenues are stagnant (0.1% in 2015)
- American Gaming Institute estimates \$150B spent on sport betting, only \$250M legal
- North American sports market experiencing high levels of growth, with media rights and ticket sales generating \$74B annually
- Legalization places greater regulatory oversight on a formerly illegal industry
- Gambling addiction only 0.5%-2.0% of population, constant with total prohibition

Exhibit C: North America Sports Market Size from 2009 to 2021 - in billion U.S. dollars

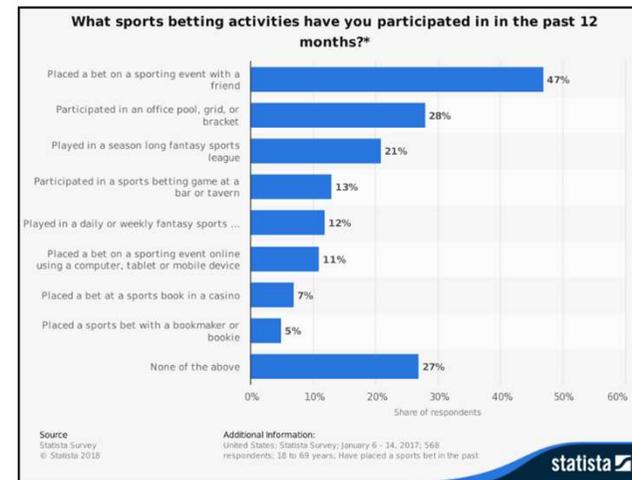
(PwC, Statista)



# Arguments Favoring Sports Betting

- Before 5-4 SCOTUS decision in favor of legalization in *Christie v. NCAA*, voters in NJ overwhelmingly approved of Sports Betting
- In 1992 many voters opposed Sports Betting, worrying about the integrity of professional sports
- A 2014 survey found people are more accepting, likely due to the penetration of the internet (48% vs. 39% in 2010)
- 50% of Americans admitted to some type of Sports betting in the past year

Exhibit D: Percentage of Sports Betting Activities U.S. Consumers Participated In - past 12 months in 2017 (Statista Survey, Statista)



# Argument Opposing Sports Betting

- Legalization morally “accepts” gambling as entertainment
- 0.5%-2.0% do become addicted
- Could affect the integrity of sports
- Some believe potential revenue is overstated
- Studies such as that of the Rockefeller Institute have cast doubt on the job growth potential of gambling

# Ethical Analysis: Utilitarian vs. Deontological

- Past government: values order, force individuals to sacrifice
- Legalization proponents: utilitarian
- Utilitarian view: tax revenue, reinvesting winnings into the economy
- Opponents-deontological
- Most significant costs: Addiction, Integrity of the leagues
- Deontological view: social harms, ends don't justify means

Exhibit E: Recommended Ethical Model

	Liberty	Order
Tolerance	No regulation	Some regulation
Sacrifice	High regulation	Prohibition

# Regression Analysis

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.991 <sup>a</sup>	.983	.982	229408771.6	.983	843.529	11

**Model Summary<sup>b</sup>**

Model	Change Statistics		
	df2	Sig. F Change	Durbin-Watson
1	160	.000	2.194

a. Predictors: (Constant), Trend, Population, Per Capita Gambling, Wealth Income Per Capita, Payout %, % Population Black, % Population Hispanic/Latino, Household Transfer Income Per Capita, % Population White, Earnings Income Per Capita, Income

b. Dependent Variable: Revenue Projections

- Regression predicts the Lottery Revenue using data from period of 2012 to 2016 on a state-by-state basis in 44 states with active lotteries
- Variables: population, median income, per capita gambling, population by race percentage, payout percent, transfer, wealth, and earning income per capita, trend
- Variables tested for multicollinearity, which was not present

# Regression Analysis

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	-501198340	265747718.4		-1.886	.061
	Population	37.995	4.893	.165	7.765	.000
	% Population White	663171.446	812513.120	.013	.816	.416
	% Population Black	-4055744.553	2469951.121	-.021	-1.642	.103
	% Population Hispanic/Latino	-2930263.233	2118078.170	-.018	-1.383	.168
	Per Capita Gambling	2628452.568	204510.461	.208	12.852	.000
	Payout %	21563217.83	1362101.200	.180	15.831	.000
	Income	2.041	.060	.771	33.963	.000
	Household Transfer Income Per Capita	-122624.154	25581.406	-.069	-4.793	.000
	Wealth Income Per Capita	31197.779	14269.700	.036	2.186	.030
	Earnings Income Per Capita	-24624.766	7476.991	-.059	-3.293	.001
	Trend	43087905.54	25878536.89	.028	1.665	.098

# Regression Analysis

- Regression indicates a multitude of factors predict the revenue of the lottery
- Because of the diversity in US states in key variables, the regulation to maximize revenue does not follow a “one-size-fits-all-approach”
- Revenue maximized in wealthy, populous states, which is somewhat intuitive. Notice sports gambling does NOT prey on the poor.
- Higher payout percent also leads to greater revenue. MA Lottery has come to the same conclusion.
- Each state should look internally at demographics in setting policy

# Policy Framework: Legalizing Sports Betting

- High regulation-stringent policy, greater liberalization for consumers
- Regulated on state-by-state basis
- 80% of Americans believe sports betting should be legalized or left to the states
- Tax at a rate that produces high revenue, but does not drive consumers to the black market (theoretically 6.75%)
- Should help fund addiction and “self-exclusion” lists

# Policy Framework: Legalizing Sports Betting

- Major sports leagues must collaborate with the Federal government
- Ex. NBA hired a VP of Fantasy and Gaming
- Must create private regulatory models for gambling
- Leagues are exploring royalty models for betting
- Must ensure that consumers are protected from fraud, fair playing environment
- Must prevent minors from participating in games

# Conclusion

- States want to raise as much revenue as possible-should find the “sweet spot” of taxation
- Taxes should be high enough to raise revenue, but low enough to eliminate the black market
- States should project revenue by looking at key factors that make their state unique demographically
- States should establish protections against compulsive gaming and illicit activity
- The Leagues must protect the integrity of the game not government