

JFO Sports Betting Revenue Model and Estimates

Sports Betting Study Committee

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Quick Terminology

- *Handle*: the amount wagered over a given period. The total amount of dollars placed by bettors
- *Revenue*: the amount of money retained by the operator out of money wagered, after all winning bets are paid out.
- *Hold*: the amount of revenue retained by the operator as a share of handle
 - I.e., the percentage of handle that is retained by the operator after all bets are paid out.



Sports Gambling Revenue is a function of...

- *The maturity of the sports gambling market:* all else equal, more gambling occurs in more mature markets.
 - Ramp up period from year 1 to year 2 of market.
- *The legal and regulatory structure:* how many operators are allowed in the state? Are they public or private? Are the operators competitive? Online or in person or both?
- *The tax rate or revenue share:* does the state opt for a low tax rate or a high tax rate/revenue sharing agreement?



Maturity of the Sports Betting Market

- Per capita handle is almost always higher in years 2 and 3 versus year 1 of sports gambling markets

| Per Capita Handle by State | | | |
|--------------------------------------|----------------|-------------------------------------|----------|
| State | Date Legalized | Covid-19 Adjusted Per Capita Handle | |
| | | Year 1 | Year 2 |
| Low Tax Rate, Many Operators | | | |
| New Jersey | June 2018 | \$318.26 | \$630.55 |
| West Virginia | August 2018 | \$81.61 | \$244.22 |
| Iowa | May 2019 | \$145.21 | \$402.38 |
| Indiana | May 2019 | \$233.93 | \$448.06 |
| Michigan | December 2019 | \$90.31 | \$476.96 |
| Colorado | November 2019 | \$1,724.22 | \$801.06 |
| Illinois | June 2019 | \$389.33 | \$583.13 |
| Virginia | July 2020 | \$306.68 | \$482.20 |
| Tennessee | April 2019 | \$306.56 | \$520.21 |
| High Tax Rate, Many Operators | | | |
| Pennsylvania | November 2018 | \$65.23 | \$354.50 |
| Rhode Island | November 2018 | \$178.89 | \$323.66 |
| New Hampshire | July 2019 | \$250.82 | \$485.18 |
| Low Tax Rate, Few Operators | | | |
| Mississippi | August 2018 | \$106.31 | \$168.23 |
| Arkansas | November 2018 | \$9.04 | \$19.34 |
| High Tax Rate, Few Operators | | | |
| Delaware | June 2018 | \$162.17 | \$132.62 |
| Oregon | August 2019 | \$56.32 | \$72.86 |
| Montana | May 2019 | \$37.01 | \$43.22 |

Note: Nevada excluded since sports betting has been legal since 1949

For states with more than 4 months but less than 12 months of data in a given year, data were extrapolated for the missing months

Date legalized refers to when legislation was passed

Data updated to Feb/March 2022



Legal and Regulatory Structure

- States make various decisions about how they want to structure their markets:
 - *Number of operators/competition*: how many and how competitive?
 - Many states permit many operators to take bets, or they allow a limited number to take bets but ensure the betting lines are nationally competitive.
 - A handful of states allow limited operators or manage a government-run operator through their lottery systems.
 - *Online vs in-person betting*
 - Usually, those states with many operators allow both online and in-person betting
 - Some states may allow online betting, but only in permitted locations like a casino.



Tax rates and revenue sharing

- Most states apply a tax rate to operator revenue, although the definitions of that base vary.
- In states with limited operators, the “tax rate” is structured as a revenue share.
- States with government-run lottery sports gaming collect the net sportsbook profit.

Table 2: State Tax Rates or Revenue Sharing for Sports Gambling

| State | Tax Rate |
|---------------|----------------------------------|
| Arkansas | 13% or 20% |
| Colorado | 10% |
| Connecticut | 13.75% |
| Delaware | 50% of total revenue |
| Illinois | 15% |
| Indiana | 9.50% |
| Iowa | 6.75% |
| Michigan | 8.40% |
| Mississippi | 8% state, 4% local tax |
| Montana | Net state sportsbook profit |
| New Hampshire | 51% of gross revenue |
| New Jersey | 8.5% or 14.25% if online |
| New York | 10%* |
| Oregon | Net state sportsbook profit |
| Pennsylvania | 34% tax with 2% local option tax |
| Rhode Island | 51% of revenue |
| Tennessee | 20% |
| Virginia | 15% |
| West Virginia | 10% |

*New York expanded online betting, and law states sportsbook must pay at least 50% of revenues

Note: Table is from OLC/JFO report, not all legal markets included



JFO Revenue Model

- At the time of publication, there was no final legislation on how Vermont's sports gambling market would take shape.
- JFO created scenarios based upon simple parameters of a regulatory market:
 - *Many Operators, Low Tax Rate:* Vermont would operate a model similar to NJ, WV, IA, IN, MI, CO, IL, VA, TN
 - *Many Operators, High Tax Rate:* Vermont would operate a model similar to PA, RI, NH
 - *Few Operators, Low Tax Rate:* Vermont would operate a model similar to MS, AR
 - *Few Operators, High Tax Rate:* Vermont would operate a model out of the Department of Liquor and Lottery, like OR, MO, DC



Year 1 Estimated Revenues

| Table 4: Preliminary Potential State Revenues under Differing Frameworks Year 1 of Operations | | | | |
|--|--------------------|--------------------|------------------|--------------------|
| | Many Operators | | Few Operators | |
| | Low Tax Rate | High Tax Rate | Low Tax Rate | High Tax Rate |
| Total Handle | \$198,200,000 | \$124,900,000 | \$37,900,000 | \$57,600,000 |
| Per Capita Handle | \$308 | \$194 | \$59 | \$90 |
| Hypothetical Hold | 8.0% | 7.7% | 11.2% | 9.1% |
| Hypothetical Tax Rate | 10% | 50% | 15% | 50% |
| Potential Revenue | \$1,550,000 | \$4,810,000 | \$640,000 | \$2,610,000 |

- Note: Holds and Tax rates are assumptions. Changing them lead to different revenue estimates
- Estimates updated to March 2022



Year 2 Estimated Revenues

| Year 2 of Operations | | | | |
|------------------------------|--------------------|---------------------|--------------------|--------------------|
| | Many Operators | | Few Operators | |
| | Low Tax Rate | High Tax Rate | Low Tax Rate | High Tax Rate |
| Total Handle | \$313,600,000 | \$267,000,000 | \$66,400,000 | \$51,900,000 |
| Per Capita Handle | \$488 | \$415 | \$103 | \$81 |
| Hypothetical Hold | 7.4% | 8.0% | 13.7% | 9.8% |
| Hypothetical Tax Rate | 10% | 50% | 15% | 50% |
| Potential Revenue | \$2,270,000 | \$10,640,000 | \$1,360,000 | \$2,550,000 |

- Note: Holds and Tax rates are assumptions. Changing them lead to different revenue estimates
- Estimates updated to March 2022



Quick Note on Fees

- Fees vary significantly across states.
- While not strictly the case, fees theory cover the regulatory costs to the state and localities.
- In September 2021, Department of Liquor and Lottery estimated ongoing expenses of \$460,000:
 - Sports betting manager position and two customer service positions
 - Estimated \$55,000 in start up and equipment costs.

Table 6: Licensing Fees for Sports Betting Across States

| State | Fee |
|---------------|---|
| Arkansas | No license fees |
| Colorado | The Master License Fee is \$2,000 and a retail operator and mobile operator fee is \$1,200 each. These are also the renewal fees every two years. |
| D.C. | Up to \$500,000 initial license fee. \$250,000 every five years renewal fee. |
| Delaware | No additional fee for sports wagering. |
| Illinois | Land-based: \$10 million initial license fee. Online: \$20 million initial license fee. \$1 million every four years renewal fee. |
| Indiana | \$100,000 initial fee; \$50,000 annual renewal. |
| Iowa | \$45,000 initial fee; \$10,000 annual renewal. |
| Michigan | \$150,000 licensing fee; \$50,000 application fee; \$50,000 yearly renewal fee. |
| Mississippi | No additional fee for sports wagering. |
| Montana | \$1,000 annual fee for platform operators; \$100 fee per kiosk. |
| New Hampshire | No licensing fees |
| New Jersey | \$100,000 annual fee. |
| New York | No licensing fees |
| Oregon | None |
| Pennsylvania | \$10 million initial license fee. \$250,000 renewal fee every five years. |
| Rhode Island | No licensing fees |
| Tennessee | \$750,000 annual fee. |
| Virginia | \$250,000 3 yr. license; \$200,000 renewal; \$50,000 application fee. |
| West Virginia | \$100,000 fee; renewed every five years. |

Source: "The Early Bets are In: Is Sports Betting Paying Off?"
National Conference of State Legislators, March 1, 2021



Closing Comments

- Vermont is unlikely to operate a *Low Tax Rate, Few Operators* system like Mississippi or Arkansas
 - Vermont has no casinos, nor a tradition of casinos
- Many operators in Vermont may be challenging for firms
 - Vermont's small market might not make it worth it for many operators.
 - For this reason, if the committee establishes a tax rate or revenue share that is high, JFO expects there to be relatively few operators in Vermont if legalized.
- Number of operators isn't necessarily most important from a revenue perspective
 - More important is that the operators that do operate in the state are offering competitive lines and promotions, as if they were operating in a highly competitive market. See RI/NH
- Revenues from sports betting are not a panacea and should not be relied upon for major state spending programs:
 - Like cannabis, revenues in the most mature markets are leveling off (NJ, RI, WV).

