


Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: November 28, 2018

SUBJECT: Fiscal Impact Statement - Sports Wagering Lottery Amendment Act of 2018

REFERENCE: Bill 22-944, Committee Print circulated on November 27, 2018

Conclusion

Funds are sufficient in the fiscal year 2019 through 2022 budget and financial plan to implement the bill. The bill will increase revenues by \$7.69 million in fiscal year 2019 and \$91.74 million over the four-year financial period. These revenues include a new tax on sports wagering and an increased transfer generated by the Office of Lottery and Gaming's sports wagering regulation and operations. The tax on sports wagering will be dedicated for three specific purposes.

Background

The bill authorizes¹ the operation of sports wagering in the District of Columbia. Individuals will be able to place single-game bets, teaser bets, parlays, over-under, moneyline, pools, exchange wagering, in-game wagering, in-play bets, proposition bets, and straight bets on sporting events. Wagering can occur in person at a sports wagering facility or over the internet using websites or mobile devices. All bets must be initiated and received within the geographic boundaries of the District of Columbia.

The Office of Lottery and Gaming (OLG) will act as a regulator and an operator of sports wagering in the District. As a regulator, the OLG will govern all conduct associated with sports wagering, including sports wagering conditions, consumer protections, internal control systems, and maintenance of financial records. The OLG will also be responsible for issuing licenses to businesses, and their employees, that offer sports wagering to customers. The OLG will establish procedures and

¹ By amending The Law to Legalize Lotteries, Daily Numbers Games, and Bingo and Raffles for Charitable Purposes in the District of Columbia, effective March 10, 1981 (D.C. Law 3-172; D.C. Official Code § 3-1301 *passim*).

guidelines to issue licenses and will monitor each licensee for compliance with the law.² The following table summarizes each license that will be offered by OLG:

License Category		Description	License/Renewal Fee	License Term
Operator	Class A	Private sports wagering facilities located at Capital One Arena, Audi Field, Nationals Park, St. Elizabeths East Entertainment and Sports Arena, or RFK Stadium.	\$250,000 initial fee \$250,000 renewal fee	5 Years
	Class B	Individuals, group of individuals, or entities operating private sports wagering facilities.	\$50,000 initial fee \$50,000 renewal fee	5 Years
Management Services Provider		Individual, group of individuals, or entity that contracts with an operator that manages sports wagering operations.	\$10,000 initial fee \$2,000 renewal fee	1 Year
Suppliers		Individual, group of individuals, or entity that sells or leases sports wagering equipment, systems, or other gaming items necessary to conduct sports wagering	\$10,000 initial fee \$2,000 renewal fee	1 Year
Occupational		All individuals employed in sports wagering-related activities	\$100 initial fee \$100 renewal fee	1 Year
Retail		DC Lottery locations offering OLG-operated sports wagering	\$5,000 initial fee \$5,000 renewal fee	2 Years

In addition to regulating private sector sports wagering, the OLG will contract with a gaming vendor to run its own sports wagering operation. The gaming vendor will supply the gaming systems, terminals, communications networks, and related services that will be used to implement sports betting in the District. The bill allows the OLG to offer sports wagering on a variety of platforms including, but not limited to, the internet, mobile applications, and in-person brick and mortar wagering at D.C. Lottery retailers. Participating D.C. Lottery retailers will be eligible to receive a commission for each sports wager placed in-person at lottery-operated retail facilities. Gross sports wagering revenues generated from the OLG-operated gaming, net of OLG's costs, will be transferred into the General Fund on an annual basis.³

The bill establishes a ten percent tax on private gross sports wagering revenue⁴, or total funds wagered less amounts paid to players. Operators are required to file a return with the CFO and pay this tax on a monthly basis. The net increase in revenue realized from the sports wagering tax is required to be dedicated towards sports gambling addiction programs at the Department of

² The bill grants the OLG with the authority to impose a fines and penalties against sports wagering operators that violate rules and regulations. The OLG can issue a fine of up to \$50,000, revoke a sports wagering license, or suspend a sports wagering license for a period of up to one year.

³ The OLG revenues are collected in an Enterprise Fund that is separate from the District's General Fund. Each year, the OLG transfers its Enterprise Fund revenue to the General Fund.

⁴ Defined as the total of cash or cash equivalents received from sports wagering minus the total of cash paid to players, paid to purchase annuities to fund prizes, and the cost paid by the license holder for any personal property distributed to a player as a result of sports wagering.

The Honorable Phil Mendelson

FIS: "Sports Wagering Lottery Amendment Act of 2018," Bill 22-944, Committee Print circulated on November 27, 2018

Behavioral Health (DBH), the Birth-to-Three for All DC Amendment Act of 2018,⁵ and the Neighborhood Safety and Engagement Fund.⁶

The bill allows Major League Baseball (MLB), Major League Soccer (MLS), National Basketball Association (NBA), National Football League (NFL), National Hockey League (NHL), and Woman's National Basketball Association (WNBA) to register with the OLG to receive royalty fees. These fees will be equal to 0.25 percent of gross sports wagering revenue generated from sporting events conducted by registered sports governing bodies and will be paid in exchange for use of official league data, logos, copyrights, trademarks and images.

Financial Plan Impact

Funds are sufficient in the fiscal year 2019 through 2022 budget and financial plan to implement the bill. The bill will increase revenues by \$7.69 million in fiscal year 2019 and \$91.74 million over the four-year financial period.

The District will collect new revenue from both privately operated sports wagering and OLG operated sports wagering. This revenue originates from three sources: the ten percent gross sports wagering revenue tax on licensed private operators; the gross sports wagering revenue collected from OLG's own sports wagering operation; and licensing fees collected from operators, management services providers, suppliers, occupational staff, and lottery retail locations. The net increase in District revenue collected from privately operated sports wagering will be \$1.94 million in fiscal year 2019 and \$7.65 million over the four-year financial plan. The OLG's sports wagering operation will generate a net revenue increase of \$5.75 million in fiscal year 2019 and \$84.09 million over the four-year financial plan.

The OLG will subtract its operating costs from the gross revenue it collects from its own sports wagering operation before transferring the balance to the District's General Fund. These operating costs include:

- Payments to a sports wagering vendor to operate the OLG's sports wagering operation;
- Commissions to local lottery retail vendors equal to six percent of the wagers placed in-person at lottery retail facilities;
- Payment of a 0.25 percent royalty fee to the governing bodies of MLB, MLS, NBA, NFL, NHL, and WNBA for official use of league data, copyrights, trademarks and images;
- Salary and benefits for seven full-time employees to oversee sports wagering licensing and compliance monitoring; and,
- Consultant fees paid to a vendor to provide start-up operational, financial, technological, and security related expertise to help the OLG implement sports wagering in the District.

The following table shows the revenue generated from sports wagering in the District and the OLG costs over the four-year financial period.

⁵ D.C. Law 22-179, effective October 30, 2018.

⁶ D.C. Code § 7-2413.

Bill 22-944 – Sports Wagering Lottery Amendment Act of 2018					
Total Net Revenue (\$ in 1,000s)					
	FY 2019	FY 2020	FY 2021	FY 2022	Total
Privately Operated Sports Wagering					
Tax on Private Sports Wagering Revenue ^(a)	\$389	\$1,712	\$1,883	\$2,072	\$6,056
Private Operator Licensing Fees ^(b)	\$1,553	\$13	\$13	\$13	\$1,592
Subtotal ^(c)	\$1,942	\$1,725	\$1,896	\$2,085	\$7,648
OLG Operated Sports Wagering					
Gross Sports Wagering Revenue ^(d)	\$12,141	\$53,420	\$56,610	\$61,206	\$183,376
Lottery Retailer Licensing Fee ^(e)	\$825	\$0	\$825	\$0	\$1,650
Operating and Administrative Expenses ^(f)	(\$5,312)	(\$23,371)	(\$24,767)	(\$26,777)	(\$80,227)
Lottery Retailer Commission ^(g)	(\$1,078)	(\$4,741)	(\$5,215)	(\$5,737)	(\$16,770)
Royalty Fee ^(h)	(\$30)	(\$134)	(\$142)	(\$153)	(\$458)
Compliance FTEs ⁽ⁱ⁾	(\$648)	(\$879)	(\$895)	(\$910)	(\$3,332)
Startup Contractor Costs	(\$150)	\$0	\$0	\$0	(\$150)
Subtotal	\$5,748	\$24,295	\$26,417	\$27,628	\$84,088
Grand Total Net Revenue	\$7,690	\$26,020	\$28,313	\$29,713	\$91,737

Table Notes:

- Assumes the 10 percent tax on privately operated sports wagering revenues will start being collected on July 1, 2019. These funds will be dedicated towards certain purposes. (see table below)
- Assumes OLG will issue licenses for 4 Class-A Operators, 10 Class-B Operators, 3 Management Service Providers, 2 Suppliers, and 30 Occupational employees during fiscal year 2019.
- The gross sports wagering revenue tax will be dedicated towards specific purposes. Not included in these figures are royalty fees to be paid to OLG and due to the sports governing bodies.
- Revenues based on a market analysis conducted by the Office of Revenue Analysis. Assumes revenues will start being collected on July 1, 2019.
- Assumes OLG will issue 165 Retail licenses in fiscal year 2019.
- Includes marketing and advertising expenses, platform and trading services and equipment, and vendor commissions.
- Revenue paid to retail licensees for in-person wagering.
- Royalty fee of 0.25 percent of gross sports wagering revenue paid to MLB, MLS, NBA, NFL, NHL, and WNBA for use of official league data, copyrights, trademarks and images.
- Six Grade 12, Step 10 employees and one Grade 11, Step 10 employee. Assumes 24 percent fringe rate, 1.75 percent cost growth, and an employee start date of January 2, 2019.

Revenue collected from the tax on licensed private operators will be deposited into the General Fund and will be dedicated towards certain purposes (see below).

Bill 22-944 – Sports Wagering Lottery Amendment Act of 2018					
Dedicated Tax					
	FY 2019	FY 2020	FY 2021	FY 2022	Total
DBH Gambling Addiction Treatment	\$200,000	\$200,000	\$200,000	\$200,000	\$800,000
Birth to Three for all DC Act	\$94,500	\$756,000	\$841,500	\$936,000	\$2,628,000
Neighborhood Safety and Engagement Fund	\$94,500	\$756,000	\$841,500	\$936,000	\$2,628,000
Total Dedicated Tax	\$389,000	\$1,712,000	\$1,883,000	\$2,072,000	\$6,056,000