



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

Short Title: Sports Wagering/Horse Racing Wagering.
Bill Number: House Bill 347 (Fifth Edition)
Sponsor(s): Rep. Saine, Rep. Bell, Rep. Hawkins, and Rep. Clemmons

SUMMARY TABLE

FISCAL IMPACT OF H.B. 347, V.5 (\$ in millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Impact					
General Fund Revenue					
Sports Wagering Tax	-	47.7	61.7	70.7	73.8
Sports Wagering Fees	10.3	10.3			
Pari-Mutuel Fees	2.0	3.1	2.9	3.8	4.0
Less Expenditures					
Sports Wagering	1.8	21.9	25.4	28.1	29.0
Pari-Mutuel	No Estimate Available - Analysis Assumes Admin. Costs = Fee Revenue.				
General Fund Impact	8.5	36.1	36.3	42.7	44.8
Special Fund Revenues					
Sports Wagering Tax	-	16.9	21.8	25.6	26.9
Less Expenditures	-	-	-	-	-
Special Fund Impact	-	16.9	21.8	25.6	26.9
NET STATE IMPACT	\$8.5	\$53.0	\$58.1	\$68.2	\$71.6
STATE POSITIONS	0.00	12.00	12.00	12.00	12.00

POSITIONS ASSOCIATED WITH PARI-MUTUEL BETTING ARE NOT INCLUDED ABOVE

FISCAL IMPACT SUMMARY

HB 347(v5) authorizes, regulates, and taxes sports wagering in North Carolina. Gross wagering revenue received by a sports wagering operator would be subject to an 18% tax. The bill creates several fees associated with applying for and maintaining various licenses related to sports wagering. The Lottery Commission would determine the effective date of the licenses, which should be as soon as possible after January 8, 2024 and not later than one year after the enactment

of the bill. For the purposes of this fiscal note, Fiscal Research assumes operations will begin in June 2024.

Fiscal Research estimates total sports wagering tax and fee revenue of \$74.9 million in FY 2024-25, increasing to \$100.6 million in Fiscal Year 2027-28. Tax revenue is earmarked for several purposes. The Lottery Commission is anticipated to incur administrative expenses related to sports wagering of \$1.8 million in Fiscal Year 2023-24 and \$2.7 million in Fiscal Year 2027-28.

The bill also legalizes pari-mutuel wagering on horse racing in North Carolina and creates a license fee and annual fee for licensees. The Lottery Commission would be responsible for issuing licenses and regulating pari-mutuel wagering in North Carolina. Fiscal Research estimates total fee revenue from pari-mutuel wagering of \$2.0 million in FY 2023-24, increasing to \$4.0 million in Fiscal Year 2027-28. At this time, no estimate is available for the Lottery Commission's expenses, and FRD's analysis assumes all pari-mutuel fee revenue received will be used to cover associated administrative costs.

FISCAL ANALYSIS

SPORTS BETTING

Licensing Fees

The bill assesses licensing fees to identified sports wagering providers as detailed in the table below:¹

Frequency	Interactive Sports Wagering License	Service Provider License	Sports Wagering Supplier License
Initial License	\$1,000,000	\$50,000	\$30,000
5-Year Renewal	\$1,000,000	\$50,000	\$30,000

The Commission may issue up to 12 interactive sports wagering licenses. Based on the experience in neighboring states, this analysis assumes all 12 licenses would be issued over a two-year period in equal quantity (i.e., 6 licenses approved in FY 2023-24, and 6 approved in FY 2024-25).

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¹ The bill provides that license applicants whose applications are denied shall be refunded the licensing fee, minus 5% of the licensing fee that the Commission used to offset expenses associated with reviewing the application.

The number of service provider licenses and sports wagering supplier licenses are unrestricted in the bill. Based on the experience in other states, the Commission estimates that approximately 25-50 service provider licenses and 200-250 sports wagering supplier licenses would be issued. This analysis assumes these licenses would be issued over a two-year period in equal quantity at the midpoint of the range of estimates. As a result, this analysis estimates total licensing fee revenue over the next 6-year period as detailed in the table below:

(\$ in millions)

Revenue	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total License Fees	\$10.3	\$10.3	\$0	\$0	\$0	\$10.3

Estimated licensing fee revenue would be first used to cover administrative expenses of the Lottery Commission associated with sports wagering, with any excess revenue deposited in the General Fund. These expenses and any potential excess revenue would be incurred and credited within a single fiscal year.

North Carolina Lottery Commission Expenditures

The bill places new administrative requirements on the Commission, including but not limited to:

- Developing and implementing sports wagering licensing requirements detailed in the bill;
- Reviewing applications and issuing sports wagering licenses;
- Conducting background checks of license applicants;
- Developing and enforcing rules and regulations described in the bill;
- Auditing sports wager operators upon request; and
- Conducting hearings on licensee violations.

The Commission has estimated that the bill would have one-time implementation costs of approximately \$1.8 million with an additional recurring cost of \$2.22 million to implement the requirements of the legislation. This analysis has examined administrative cost estimates regarding sports wagering activities from Virginia² and the income statement from the Tennessee Lottery³ and finds that the Commission’s estimates are reasonable. Therefore, the estimated administrative costs of the Lottery Commission associated with sports wagering are detailed in the table below:

(\$ in millions)

Expenditures	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Lottery Commission	\$1.8	\$2.3	\$2.5	\$2.6	\$2.7

Figures adjusted based on NIPA-Compensation Index projections (Moody’s economy.com – December 2022)

Tax Revenue

² <https://lis.virginia.gov/cgi-bin/legp604.exe?201+oth+HB896FER122+PDF>

³ <https://tnlottery.com/wp-content/uploads/2022/02/FY-2021-Financial-and-Compliance-Audit-Report.pdf#page=20>

The bill levies an 18% tax on each interactive sports wagering operator. The tax would be calculated against gross wagering revenue (GWR), which is defined in this edition of the bill as the total of all wagers received by an interactive sports wagering operator (which includes any wagers funded by promotional credits) less the amounts paid as winnings.⁴ No deductions would be allowed for expenses, fees, or taxes. If the amount of gross wagering revenue is negative for a month, the sports wagering operator may carry forward the negative amount to the return filed in the next month; however, no amount can be carried forward more than 12 months after the month in which the amount carried forward was originally due.

Fiscal Research analyzed information about sports betting performance in other states to estimate potential GWR from online betting, adjusting for differences in disposable personal income and adult population in each state. The bill also authorizes sports facilities and certain associated and proximate properties to accept sports bets. Fiscal Research used information about the estimated number of such facilities, which increased potential GWR by a small amount. Fiscal Research assumed that total wagers from online and in-person betting would grow from approximately \$3.9 billion in the first full year of operation to \$6.6 billion in the third year of operation. In subsequent years, this value was adjusted to account for projected income and population growth. On average, operators are expected to pay out over 91% of the total amount received as wagers as winnings. Fiscal Research adjusted for the impact of the loss carryforward provision using monthly revenue data for individual operators (for states that report that information) and information from a similar carryforward provision in Colorado.⁵

After accounting for the projected timing of tax collections, Fiscal Research arrived at estimated tax revenue shown in the table below.

(\$ in millions)

Estimated Revenue	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Sports Betting Tax	\$0	\$64.6	\$83.5	\$96.3	\$100.6

Statutory Distributions of Tax Revenue

The bill outlines the order by which tax revenues are to be distributed. The Department of Revenue retains \$0.5 million of tax revenue each year to offset the cost of collecting the tax, and the Lottery Commission is reimbursed for any expenses not covered by fee revenue. Assuming sufficient funds are available from tax collections, the remaining amount is distributed annually as follows:

- \$2.0 million to the Department of Health and Human Services for its gambling addiction education and treatment programs;

⁴ In the Fiscal Note for the 3rd edition of H.B. 347, GWR was defined as total wagers. The third edition of the bill contained a privilege tax of 14% that applied against *adjusted* GWR, which was defined as GWR minus the following: winnings and prizes, promotional credits or bonuses (which would be phased out beginning in 2025), uncollectible receivables, and federal excise tax payments.

⁵ https://leg.colorado.gov/sites/default/files/documents/audits/2166p_sports_betting_performance_audit.pdf

- \$1.0 million to North Carolina Amateur Sports for local governments or nonprofits to purchase youth sports equipment or to provide for public facility upgrades or improvements that would benefit youth sports;
- \$300,000 each to 13 University of North Carolina constituent institutions to support college athletic departments;⁶
- \$1.0 million to the North Carolina Outdoor Heritage Advisory Council for grants to assist sports teams with travel expenses and incentive grants to attract sporting events for nonprofessional athletes;⁷
- Of the remaining amount,
 - 20% to be distributed equally among the 13 UNC institutions discussed earlier to support, not supplant, their collegiate athletic departments,
 - 30% to the North Carolina Major Events, Games, and Attractions Fund, and
 - 50% to the General Fund.

The following table shows the estimated annual distributions of collections from the sports wagering tax.

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⁶ In the event these amounts are not met, the amount shall be reduced by the same proportion so that all recipients receive an appropriation of the same amount.

⁷ Section 5.1 of the bill provides that if Senate Bill 22 of the 2023 Regular Session or substantially similar legislation becomes law, the recipient of this allocation will become the North Carolina Youth Outdoor Engagement Commission.

Statutory Distributions of Sports Wagering Tax Revenue (\$ in millions)						
Recipient	Purpose	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
N.C. Department of Health and Human Services	Gambling addiction education and treatment programs	-	2.0	2.0	2.0	2.0
North Carolina Amateur Sports	Grants to nonprofits and local governments to purchase youth sports equipment or provide for public facility upgrades or improvements	-	1.0	1.0	1.0	1.0
Elizabeth City State University	Support college athletics departments	-	1.2	1.4	1.6	1.7
Fayetteville State University		-	1.2	1.4	1.6	1.7
NC A&T University		-	1.2	1.4	1.6	1.7
NC Central University		-	1.2	1.4	1.6	1.7
UNC-Asheville		-	1.2	1.4	1.6	1.7
UNC-Greensboro		-	1.2	1.4	1.6	1.7
UNC-Pembroke		-	1.2	1.4	1.6	1.7
UNC-Wilmington		-	1.2	1.4	1.6	1.7
Western Carolina University		-	1.2	1.4	1.6	1.7
Winston Salem State University		-	1.2	1.4	1.6	1.7
Appalachian State University		-	1.2	1.4	1.6	1.7
East Carolina University		-	1.2	1.4	1.6	1.7
UNC-Charlotte		-	1.2	1.4	1.6	1.7
N.C. Outdoor Heritage Advisory Council	Grants to assist sports teams with travel expenses and to attract non-professional sporting events	-	1.0	1.0	1.0	1.0
N.C. Major Events, Games, and Attractions Special Fund	To encourage and promote the attraction of major events	-	16.9	21.8	25.6	26.9
General Fund		-	28.1	36.3	42.7	44.8

Totals may not sum due to rounding.

PARI-MUTUEL WAGERING

The bill establishes an application fee and an annual licensing fee for pari-mutuel wagering on advance deposit account wager or advance deposit account wagering [ADW] licensees. The application fee is \$1.0 million, and this analysis assumes that four applications would be received over a two-year period in equal quantity (i.e., two applications in FY 2023-24 and two applications in FY 2024-25). The annual fee is 1% of total pari-mutuel wagers placed by State residents that are

accepted by an ADW licensee; fee revenues remaining after Lottery Commission administrative expenses are directed to the General Fund. As the table below shows, FRD estimates the annual fee will generate approximately \$1.1 million in FY 2024-25 and \$4.0 million in FY 2027-28. Because the annual fee is payable after the end of the year, no annual fee revenue is expected in FY 2023-24. These estimates are based on information from Spectrum Gaming Group as well as a review of the pari-mutuel wagering market and takeout (the amounts of wagers minus the costs of administering races) nationally and in individual states.⁸ Estimates of the cost of administering the pari-mutuel wagering provisions of the bill are not available at this time. FRD’s analysis assumes all pari-mutuel fee revenue received will be used to cover associated administrative costs. As such, FRD projects that no pari-mutuel fee revenue would be conveyed to the General Fund, given the uncertainty about the administrative costs related to this component of the bill.

(\$ in millions)

Revenue	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Pari-Mutuel Licensee Fee	-	1.1	2.9	3.8	4.0
Application Fees	2.0	2.0	-	-	-
Total	2.0	3.1	2.9	3.8	4.0

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Colorado Department of Revenue; Connecticut State Department of Consumer Protection; gamblingindustrynews.com; Globalnewswire.com; Indiana Gaming Commission; LegalSportsReport.com; Moody’s Analytics; National Conference of State Legislatures; North Carolina Education Lottery Commission; North Carolina Office of State Budget and Management; Pennsylvania Gaming Control Board; Play Colorado; Play Michigan; Play Pennsylvania; Play Tennessee; Spectrum Gaming Group; Sportsbetlistings.com; Sportsbettingdime.com; Sportsbetting.legal; Tax Foundation; Tennessee Education Lottery; Tennessee Sports Wagering Advisory Council; The Florida Lottery; The Virginia Lottery; usbets.com; U.S. Census Bureau; Virginia Department of Planning and Budget; Zion Market Research.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

⁸ For the purposes of this estimate, FRD assumes all revenues from this fee will be generated from wagers placed on races physically taking place in other states with already-established events, particularly Kentucky.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Brent Lucas, Jonathan Tart, Emma Turner, David Vanderweide.

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
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Signed copy located in the NCGA Principal Clerk's Offices