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February 8, 2021

Honorable Ron Stephens
Chairman, House Economic Development & Tourism Committee
226-A Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 86 (LC 36 4498)

Dear Chairman Stephens:

This bill would legalize online sports wagering and subject it to state taxes and regulation. Sports wagering would be considered a lottery game, and its oversight would be placed with the Georgia Lottery Corporation (GLC). Bettors in the state would be allowed to place wagers with a licensee approved by GLC. Each licensee would pay a 16% tax on profits, in addition to application and licensing fees. The fees may be used for GLC administrative costs, but the profit tax and any remaining fee revenue would be transferred to the Lottery for Education account.

As shown in **Exhibit 1**, the net increase in annual revenue to the state would be between \$23.8 million and \$37.9 million in fiscal year 2023, the first year in which sports betting is expected to be operational. Revenue would increase over time as additional licensees are added and sales increase. Due to insufficient data, these estimates do not include decreases in lottery and coin operated amusement machines (COAM) revenue expected to result from a shift in consumer spending. The net revenue assumes a range of administrative costs at GLC due to new responsibilities and additional spending at the Department of Behavioral Health and Developmental Disabilities (DBHDD) for its responsible gaming programs.

Exhibit 1**Lottery and State Fund Impacts**

(\$ in millions)	FY23	FY24	FY25	FY26	FY27
Lottery Revenue					
Revenue	\$28.2 - \$40.7	\$29.6 - \$43.0	\$34.9 - \$49.2	\$36.5 - \$51.9	\$42.0 - \$58.4
GLC Administration	\$1.1 - \$3.6	\$1.1 - \$3.8	\$1.2 - \$4.1	\$1.2 - \$4.3	\$1.3 - \$4.6
Net Lottery Revenue	\$25.5 - \$39.6	\$26.8 - \$41.9	\$31.9 - \$48.0	\$33.4 - \$50.7	\$38.6 - \$57.1
State Fund Costs					
DBHDD Administration ¹	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
Net Revenue to the State	\$23.8 - \$37.9	\$25.2 - \$40.2	\$30.2 - \$46.3	\$31.7 - \$49.0	\$36.9 - \$55.4
¹ An additional \$200,000 is expected from GLC and is included in its administrative costs.					

Impact on State Revenue

New fees and taxes on sports betting would generate additional revenue for the state. As shown in **Exhibit 2**, gross revenue is estimated to be \$28.2 million to \$40.7 million in the first year of operation.¹

Exhibit 2**Gross Revenue Increase**

(\$ in millions)	FY23	FY24	FY25	FY26	FY27
Licensing Fees					
Number of licensees	8	8	12	12	16
Licensing and other fees	\$7.3	\$7.3	\$11.0	\$11.0	\$14.6
Taxes					
Low	\$20.9	\$22.3	\$23.9	\$25.6	\$27.4
Medium	\$25.3	\$27.1	\$29.0	\$31.1	\$33.3
High	\$33.4	\$35.7	\$38.2	\$40.9	\$43.8
Total	\$28.2 - \$40.7	\$29.6 - \$43.0	\$34.9 - \$49.2	\$36.5 - \$51.9	\$42.0 - \$58.4

Licensing Fees

The bill would require fees from licensees approved to accept sports wagers, and GLC indicated vendors and suppliers would pay license fees as well, based on practices identified in other states. The fees are expected to generate \$7.3 million in the first year, growing to \$14.6 million as the market expands and new companies are approved. Under the bill, each licensee would pay an annual license fee of \$900,000, and each applicant would pay a nonrefundable \$50,000 application fee to be credited toward the annual license fee upon approval. The bill specifies a minimum of six licensees, but GLC anticipates approving eight licensees initially. GLC also expects to charge a \$10,000 fee to each supplier and a \$500 fee to each vendor. (Suppliers have direct involvement with the wagers or sports betting platform, while vendors provide ancillary items or services, such as marketing.)

¹ GLC indicated it may receive application and licensing fees in fiscal year 2022, but these would not be recognized until fiscal year 2023, which is expected to be the first year of operation if the bill passes in 2021.

Taxes

The largest source of new revenue is a tax on licensee profits. Under the bill, the state would receive 16% of adjusted gross income, defined as total bets paid in minus winnings paid out. GLC expects the tax to generate \$20.9 million to \$33.4 million in the first year. Estimates shown in **Exhibit 2** are based on per capita sales and profit percentages observed in other states with mobile sports betting. The analysis assumes 6% annual growth in per capita sales and 1% annual population growth.

It should be noted that the estimate's reliability is affected by limited data for sports betting and the variables that could impact it. Prior to a 2018 Supreme Court decision, federal law prohibited sports betting in most states, so comparable programs in other states are relatively new. Sports betting is frequently tied to casinos or other retail locations, while this bill would allow for online wagers only. Additionally, if surrounding states also legalize sports betting, Georgia's revenues could be negatively impacted.

Impacts on Other Revenue

The legalization of sports betting could indirectly affect other state revenue due to a shift in consumer spending, although the overall effect is unknown. Some individuals may shift a portion of their gambling spending from lottery tickets and COAM to sports betting. Consumers may also shift spending from other non-gambling expenses (e.g., entertainment) to sports betting, impacting other sources of state revenue, such as sales tax. There is insufficient information to determine the extent of these potential spending changes or the resulting fiscal impact on lottery revenue or state general fund revenue.

Impact on State Expenditures

The bill would result in increased expenditures at GLC due to new administrative responsibilities and at DBHDD due to anticipated increases in problem gambling.

GLC Administration

GLC would be responsible for sports betting oversight, including the approval of licensees, financial reviews, and compliance monitoring. As shown in **Exhibit 3**, GLC expects administrative expenses to be \$1.1 million to \$3.6 million in fiscal year 2023.² The range would increase to \$1.3 million to \$4.6 million in fiscal year 2027. If GLC utilizes a centralized accounting and reporting system for licensees, as mentioned in the law, expenses would be higher than a system that involved self-reporting. In addition to the operating expenses shown, GLC would incur one-time expenses to implement an online application renewal system (\$110,000) and a reporting system (\$130,000 for self-reporting system or an unknown amount for a centralized system).

² GLC may incur some costs in fiscal year 2022, as it prepares for the launch of sports betting, but these costs are expected to be less than \$300,000.

Exhibit 3**GLC Administrative Costs, FY2023**

	Self-Reporting System	Centralized Accounting & Reporting System
Personnel	\$447,370	\$447,370
Agency Support	\$366,030	\$366,030
Other Operating	\$40,670	\$40,670
Funds to DBHDD	\$200,000	\$200,000
Licensing System	\$15,000	\$15,000
Reporting System	\$10,000	\$1.6 million – \$2.5 million
Total	\$1,079,070	\$2.6 million – \$3.6 million

To perform its oversight responsibilities, GLC expects to hire 18 to 20 additional staff at a cost of \$447,370 in fiscal year 2023. Oversight of licensees, suppliers, and vendors would require support from other government agencies (e.g., Department of Revenue, Georgia Bureau of Investigation), incurring costs of \$366,030. Other operating expenses would cost \$40,670. Each of these costs is expected to increase over time. Additionally, GLC currently provides \$400,000 from lottery and COAM revenue (\$200,000 each) to DBHDD for responsible gaming programs and expects to provide \$200,000 annually from sports betting revenue as well.

GLC would also incur annual costs for licensing and reporting systems. The online application renewal system would require \$15,000 in maintenance costs per year. However, the costs for a reporting system may vary. If GLC utilizes a self-reporting system, it expects to spend \$10,000 in maintenance costs each year. However, a centralized accounting and reporting system would be managed by an external vendor paid based on a percentage of adjusted gross income (bets minus payouts). As a result, system costs would vary each year. Centralized system costs are estimated to be \$1.6 million to \$2.5 million in fiscal year 2023 and grow to \$2.1 million to \$3.3 million in fiscal year 2027. This analysis uses the same low, medium, and high sales scenarios and assumptions discussed in the revenue section and a vendor compensation rate of approximately 1.2% of adjusted gross income.

DBHDD Programs

Expanded gambling access is expected to increase the number of individuals at risk for problem gambling. To address this issue, the bill indicates DBHDD shall provide treatment and prevention services and produce an annual report on program outcomes. As shown in **Exhibit 4**, DBHDD anticipates spending \$1.9 million a year on the new initiatives. DBHDD would add two new treatment programs in each of its six regions at a cost of \$1.1 million, with additional amounts for training on these programs and a program specialist to oversee them. DBHDD would contract with researchers to evaluate program outcomes, at a cost of \$350,000 a year. DBHDD also expects increased call volume to the Georgia Crisis Access Line (GCAL), at an annual cost of \$70,000 and a one-time cost of \$30,000 for reporting enhancements. Finally, DBHDD expects the new programs to increase its indirect costs and would request 3% of direct costs for this purpose.

Fiscal Note for House Bill 86 (LC 36 4498)

Page 5

Exhibit 4**DBHDD Program Costs, FY2023**

	Implementation	Operating
Treatment Programs		\$1,134,000
Training		\$200,000
Evaluation		\$350,000
GCAL	\$30,000	\$70,000
Program Specialist		\$72,847
Indirect Costs		\$55,705
Total	\$30,000	\$1,882,552
GLC Funds		\$200,000
General Fund Increase	\$30,000	\$1,682,552

As noted above, GLC expects to provide \$200,000 from sports betting revenue to DBHDD for problem gambling programs. Appropriations would be necessary to cover additional amounts.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

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