



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 28, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 118 (LC 43 0586)

Dear Chairman Powell:

The bill would regulate and tax fantasy contest operators who offer games to the general public. It would require operators to pay an annual registration fee of \$5,000 or \$15,000 annually, depending on the company's annual gross revenue generated in Georgia. Operators must also pay a 6% tax on gross revenue generated in the state, with the first payment due upon issuance of the operator's initial registration and based on revenue generated in the preceding 12 months. Gross revenue from Georgia is defined as the total entry fees paid by contestants, less the cash prizes awarded to the winners, multiplied by the share of entry fees paid by Georgia residents. The bill does not specify an effective date, so an effective date of July 1, 2017 is assumed for purposes of this fiscal note.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would generate between \$700,000 and \$1.0 million in FY 2018 (Table 1). In FY 2022, the additional state revenue is estimated to be between \$300,000 and \$1 million. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of the Fantasy Contest Act

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Estimate	\$1.0	\$0.7	\$0.8	\$0.9	\$1.0
Low Estimate	\$0.7	\$0.4	\$0.3	\$0.3	\$0.3

Impact on Agency Costs

The Department of Revenue (DOR) stated that it would be able to fulfill its requirements found in the bill without additional state funds.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a horizontal line extending from the end.

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is written in a cursive style.

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The fantasy contests market is made up of many types of fantasy sports competitions, and not all types generate revenue in the form that the proposed bill contemplates taxing. Daily fantasy sports (DFS) are fantasy sports competitions where contestants enter into day, week, or sometimes season long competitions to win cash prizes. DFS companies generate revenue from the difference in the total amount of entry fees paid by contestants and the amount of cash prizes awarded. Other types of fantasy sports generate revenue from other sources or structures that would not be subject to the bill and are thus not included in this analysis.

Registration and annual renewal fee tiers are as follows:

- \$15,000 for companies making \$3 million or more in gross revenue in Georgia
- \$5,000 for all companies making less than \$3 million in gross revenue in Georgia

High and low case projections are based on the following data and assumptions:

- High and low DFS gross revenues are based on market projections created by Eilers and Krejcik Gaming, a market research firm, and assume average annual growth rates for the market of 18.2% and -7.0% respectively. The spread for projected growth for the market is large because of the uncertain future in regards to the pending merger of the two largest operators (together comprising over 90 percent of the DFS market and planning to merge by the end of calendar year 2017), the legality of the market, and future player demand.
- Next, the estimate for total DFS revenue was shared down to Georgia based on information from industry sources that Georgia's share of the market is estimated to be about 2.1 percent of the total DFS market.

Resulting Georgia DFS gross revenue projections are as shown in Table 2. Also in Table 2 is the total state revenue generated at the 6 percent tax rate on DFS gross revenue in Georgia. Table 1 tax revenues include collections of tax at the time of operators' registrations on the prior 12 month's gross revenues.

Table 2. Projected Gross Revenues from Daily Fantasy Market in Georgia

(\$ millions)		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Gross Revenue	High	\$8.0	\$9.5	\$11.2	\$13.2	\$15.7
	Low	\$5.6	\$5.2	\$4.8	\$4.5	\$4.2
6% Tax	High	\$0.9	\$0.6	\$0.7	\$0.8	\$0.9
	Low	\$0.7	\$0.3	\$0.3	\$0.3	\$0.3

Finally, the estimates for the DFS market in Georgia in Table 2, along with estimates of the relative market shares of the top 4 DFS companies, were used to estimate firm-level gross revenues in Georgia for likely operators in the state for FY 2018-22. This allowed for estimates of registration and annual renewal fee revenues. The projected gross revenues for the top 4 companies (FanDuel, DraftKings, Yahoo, and Fantasy Draft) and all other companies combined are presented in Table 3.

Table 3. Projected Gross Revenues from Daily Fantasy Market in Georgia, Per Company

<i>(\$ thousands)</i>		CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
FanDuel	High	5,020	5,934	7,014	8,290	9,799
	Low	3,108	2,890	2,688	2,500	2,325
DraftKings	High	3,388	4,004	4,733	5,595	6,613
	Low	2,097	1,950	1,814	1,687	1,569
Yahoo	High	153	181	214	253	299
	Low	95	88	82	76	71
Fantasy Draft	High	46	55	65	77	91
	Low	29	27	25	23	21
Other	High	81	96	113	134	158
	Low	50	47	43	40	38

Registration and renewal fees for the top 4 companies were estimated from the Table 3 gross revenue projections, assuming in the low case that the proposed merger occurs as planned. For the remaining firms included in the “other” line in Table 3, lower and upper bounds were set at a maximum of 12 and a minimum of 2 additional smaller companies operating in the market. These numbers were found by taking the high and low number of small firms that have entered the market in other states where a similar bill has passed (5 such states). The summary of estimated registration fees can be found in Table 4.

Table 4. Projected Registration Fees from the Fantasy Contest Act

<i>(\$ thousands)</i>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High	\$100	\$100	\$100	\$100	\$100
Low	\$40	\$40	\$40	\$40	\$40