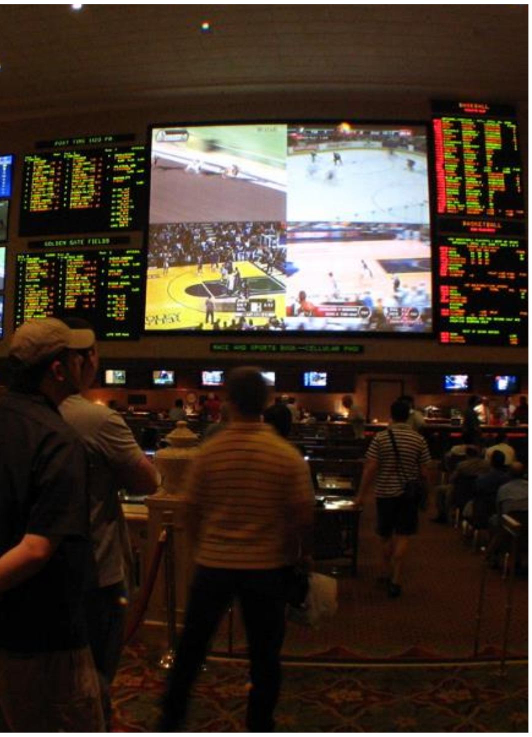
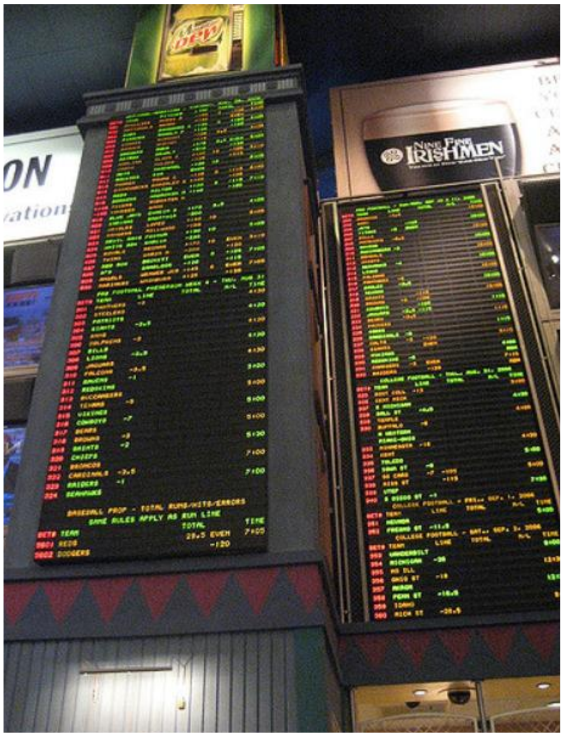
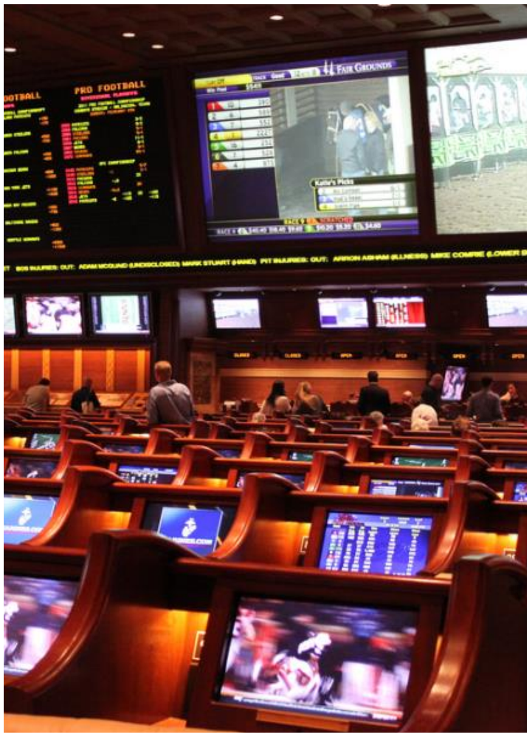
February 5, 2019







Legalizing Sports Betting in Illinois

Evaluating Policy Options and Fiscal Impacts

Frank Manzo IV, MPP
Policy Director
Illinois Economic Policy Institute

Robert Bruno, PhD
Director
Project for Middle Class Renewal
University of Illinois at Urbana-Champaign

A Higher Road for a Better Tomorrow
ILLINOIS ECONOMIC POLICY INSTITUTE
ILEPI

Project for Middle Class Renewal
Labor Education Program
School of Labor and Employment Relations

Executive Summary

After the landmark *Murphy v. National Collegiate Athletic Association* Supreme Court decision in May 2018 paved the way for sports betting across the United States, Illinois lawmakers have debated whether to legalize, tax, and regulate sports betting. As of January 2019, a total of 10 states have passed legislation to legalize sports betting.

Two bills, both called the Sports Wagering Act, were filed in the Illinois General Assembly in 2018. Senate Bill 3432 was introduced by Democratic Senator Napoleon Harris, Ill– who played linebacker in the National Football League– and House Bill 5186 was introduced by Republican Representative Tim Butler. In addition, Governor J.B. Pritzker said during his campaign that Illinois should consider legalizing, taxing, and regulating sports betting.

If Illinois were to legalize sports betting through the Sports Wagering Act proposed last year, net revenues for the gaming industry would increase by $400 million and about 1,800 new jobs would be created at between 30 and 75 licensed locations. The proposed bills would also raise state tax revenue by between $50 million and $120 million per year. However, due to relatively high tax rates, the proposals in the Illinois General Assembly would result in nearly half of all sports betting activity remaining in the black market.

In this report, the Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign, evaluates several proposals to legalize, regulate, and tax sports betting. If the General Assembly chooses to move forward on this concept, a balanced framework that combines the United Kingdom's 15 percent tax on gross gambling revenues, a $100,000 annual license fee for sportsbooks and related establishments, and a small 0.05 percent "integrity fee" on wagers to ensure compliance and prevent fraudulent activity may offer a way forward.

A balanced sports betting legalization framework would have positive effects on the Illinois economy. It would:

- increase gaming industry revenues by $565 million annually;
- create more than 2,500 new jobs at nearly 90 licensed locations in Illinois;
- shrink the illegal black market for sports betting;
- enhance state tax revenues by $100 million annually; and
- fund programs that treat gambling addiction and fund public investments in education and infrastructure.

Allowing Illinois residents and visitors to gamble on sports would spur economic activity, shrink the black market, and generate new state tax revenues. However, the tax revenues from sports betting will not solve Illinois' fiscal issues and should be weighed against the potential costs of gambling addiction.

Table of Contents

About the Authors

Frank Manzo IV, M.P.P. is the Policy Director of the Illinois Economic Policy Institute (ILEPI). His research focuses on labor market analysis, prevailing wage laws, economic development, infrastructure investment, and public finance. He earned his Master of Public Policy from the University of Chicago Harris School of Public Policy and his Bachelor of Arts in Economics and Political Science from the University of Illinois at Urbana-Champaign. He can be contacted at fmanzo@illinoisepi.org.

Robert Bruno, PhD is a Professor at the University of Illinois at Urbana-Champaign School of Labor and Employment Relations and the Director of the School's Labor Education Program. He also directs the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign. His research focuses broadly on working-class, middle-class, and union studies issues. He earned his Doctor of Philosophy in Political Theory from New York University and his Master of Arts in Political Science from Bowling Green State University. He can be contacted at bbruno@illinois.edu.

Introduction

In May 2018, the U.S. Supreme Court overturned a 1992 federal law that banned commercial sports betting in most states in the landmark *Murphy v. National Collegiate Athletic Association* decision. The ruling cleared the way for sports betting in all U.S. states, enabling the legalization and taxation of an estimated $150 billion in illegal sports betting that Americans make every year (Liptak & Draper, 2018). In 2017, bettors placed $4.7 billion in wagers on the Super Bowl alone, with 97 percent of that wagered illegally. Another $10 billion in illegal betting is estimated to have occurred in March on the NCAA Basketball Tournament (Isabella, 2018).

Sports bettors, previously forced into the black market using offshore wagering or illicit bookies, can now place bets at sportsbooks in casinos and related establishments, online, and on mobile devices if states enact legislation legalizing the activity.

For example, New Jersey Governor Phil Murphy signed a sports betting law in June 2018 that allows bets to be placed in person at casinos and racetracks and will soon allow for online betting. Gross revenue is taxed at 8.5 percent from on-site wagers, 13 percent from online wagers, and 14.25 percent from online wagering run by racetracks (Gouker, 2018). In the first two weeks of legalization, two casinos and a racetrack in New Jersey took in $16.4 million in sports bets. The casinos retained 7.8 percent of the amount wagered on completed events, or approximately $1.2 million in new revenue (Parry, 2018). Monmouth Park Racetrack generated $8.2 million in sports bets within the first 17 days after legalization, equating to about $194,000 in state taxes (Edelson, 2018).

As of January 2019, 10 states have legalized gambling on sports either in-person and online or at limited locations (Rodenberg, 2018). An additional 20 states have introduced at least one bill to legalize sports betting– including Illinois, where Senate Bill 3432 has been introduced by Democratic Senator Napoleon Harris, III and House Bill 5186 has been introduced by Republican Representative Tim Butler (ILGA, 2018a; ILGA, 2018b). During his campaign, Governor J.B. Pritzker said that Illinois should consider legalizing, taxing, and regulating sports betting (Riopell, 2018).

While some legislators and constituents are concerned about gambling addiction if Illinois were to legalize and tax sports betting, others say the benefits outweigh the costs. Billions of dollars are already bet illegally in Illinois, proponents note, so legalizing sports gambling would simply allow the State of Illinois to regulate the activity while collecting new tax revenues. While this report by the Illinois Economic Policy Institute and Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign focuses on the economic and tax revenue impacts of legalizing and taxing sports betting in Illinois, the estimated effects should be weighed against the potential costs associated with gambling addiction.

Review of the Research on Gambling

Gambling in many different forms has established itself as a major economic presence in the United States. Legalized gambling has become an accepted form of entertainment in every state except Hawaii and Utah. States have adopted legalized betting in casinos, lotteries, and horseracing tracks. Sports wagering has recently become the latest state-sanctioned form of gambling to expand.

The expansion of gambling has always been controversial. Gaming activities have historically been adopted to stimulate economic development, counter fiscal stress, lift lagging job growth, and increase general tax revenues. However, claims of financial benefits are often accompanied by concerns over the costs of gambling addiction and bankruptcy. In trying to estimate the impact of sports wagering in Illinois, it is worth surveying the sizeable research that has already been published on gaming activity.

The sum of that research since the 1980s is decidedly mixed. Gambling has undoubtedly become an important source of revenue for states (Dadayan & Ward, 2009). Studies have demonstrated that there are direct and indirect positive revenue impacts from casinos– such as job creation, increased wages, and more tourism– that are taxed by state and local governments (Madhusudhan, 1996; Eadington, 1999; Landers, 2009). The biggest employment impacts from casino openings have been found to occur in rural areas (Garrett, 2003). In addition, research has shown than rural home values are raised by casinos (Wenz, 2007).

While tax revenue from legalized gambling is high in many states, researchers have pointed out that this "does not necessarily mean that legalized gambling has contributed to a net increase in overall state revenues" (Walker & Jackson, 2011). A critical issue is whether people spend less on other goods and services when they increase spending on gambling activities. An analysis of multiple forms of gambling concluded that casinos and greyhound racing are associated with decreases in a state's net government revenue– diverting money away from other taxable sources like amusement establishments (Walker & Jackson, 2011; Anders et al., 1998; Popp & Stehwien, 2002). On the other hand, lotteries and horse racing were associated with an increase in a state's government revenue (Walker & Jackson, 2011). Moreover, casinos and lotteries can also ''cannibalize'' each other, effectively resulting in no net-positive fiscal impact (Siegel & Anders, 2001; Elliott & Navin, 2002; Fink & Rork, 2003; Walker & Jackson, 2008). Other studies have indicated a neutral impact of legalized gaming. Researchers have found an association between gambling and modest increases in county government revenues and expenditures, but they further determined that "casinos did not have a statistically significant impact on per capita government expenditures and revenues" (Nichols et al., 2015).

Studies of interstate gambling competition have become more relevant as legalized gaming has expanded. A state without legalized gambling that borders another state with a nearby casino risks residents gambling out-of-state, losing business activity and tax revenue to the neighboring state but incurring the costs of gambling addiction (Garrett & Nichols, 2005). Concurrently, for the state with gambling, revenue is threatened by competition from neighboring states. In a study of Pennsylvania, Delaware, and New Jersey, the empirical evidence revealed that the introduction of gambling in Pennsylvania actually decreased the overall volume of gambling in each state (Condliffe, 2012). Additionally, a study that analyzed tax receipts from eleven states from 1991 to 2012 found stagnated growth "partially due to a saturation point being reached with regard to casino gaming" (Srinivasan & Lambert, 2016). The study included the "border effect" on Illinois, since casinos only operated in the neighboring states of Iowa, Missouri, and Indiana. Tax receipts for Illinois' existing establishments decreased in a number of years.

Finally, a 2019 analysis by *ProPublica Illinois*, *WBEZ Chicago*, and the *Chicago Sun-Times*, found that previous gaming expansions have generated less revenue than expected (Grotto et al., 2019). The report found that, while Illinois now has more locations to legally place a bet than Nevada, video gambling companies have reaped hundreds of millions of dollars in profits while tax revenue failed to meet expectations– primarily because the machines were not allowed to be installed in Chicago and because lawmakers did not consider regulatory costs. The report found that Illinois had only generated $1.4 billion in state tax revenues from video gambling between September 2012 and November 2018, or about $220 million per year. This is $1.1 billion below the $2.5 billion expected to be generated by elected officials (Grotto et al., 2019). The investigative report should be a reminder to both lawmakers and voters that assumptions matter in forecasting economic activity and tax revenue. The study is also a reminder that gaming expansions are not panaceas that can resolve Illinois' fiscal issues.

Although the economic research on sports betting is limited, it is nevertheless important to understand the extensive field of literature examining other forms of legalize gambling. The following prospective assessment of the economic and fiscal impacts of legalized sports wagering provides estimates based on different assumptions, which are grounded in economic data and real-life examples. The estimates in this report, however, should be considered in the context of these other empirical studies.

Estimating the Market for Sports Betting in Illinois

In May 2017, the American Gaming Association commissioned Oxford Economics, based in England, to assess the economic impact of legalized sports betting. In that report, researchers estimated the size of the U.S. market for legal sports wagering based on industry revenue in Nevada, Delaware, and five European nations where sports betting is legal. The analysis found that, if sports betting were legal across the United States both online and on-site at casinos and related locations, approximately $287.4 billion would be wagered, generating $18.7 billion in gross revenue for the gaming industry (Sacks & Ryan, 2017).

Figure 1: Employment, Weekly Earnings, Total Labor Income, and Estimated Sports Betting Market, 2018

Economic Metric and Market Analysis	United States	Illinois	Share*
Total Employment (in Millions)	144.56	5.91	4.1%
Average Weekly Wage	$1,152	$1,241	+7.7%*
Annual Earnings of All Workers (in Billions)**	$8,660	$381	4.4%
Estimated Sports Betting Market (in Billions)	$273.0	$12.0	4.4%

Source(s): BLS, 2018a; Sacks & Ryan, 2017.
*7.7 percent is the *difference* between the average weekly wages in Illinois compared to the average weekly wages for all U.S. workers– meaning that Illinois workers earn, on average, 7.7 percent more than the average U.S. worker.
**Annual earnings of all workers are the total employment multiplied by the average weekly wages and by 52 weeks per year.

Figure 1 uses payroll data from the Bureau of Labor Statistics (BLS) at the U.S. Department of Labor to adjust Oxford Economics' values to estimate the total market for sports betting in Illinois.[1] As of the first quarter of 2018, there are 6 million employees in Illinois, comprising 4.1 percent of total U.S. employment. On average, Illinois workers earn 7.7 percent more ($1,241 per week) in pre-tax income

[1] The BLS data is derived from summaries of employment and total pay of workers covered by unemployment insurance (UI) legislation, representing 96.4 percent of all civilian wage and salary employment (BLS, 2018a). It is considered a "virtual census… of employees on nonfarm payrolls" (BLS, 2018b).

than the average U.S. worker ($1,152 per week). As a result, Illinois accounts for 4.4 percent of total U.S. labor income. With a total U.S. sports betting market of $273 billion– based on a conservative assumption that discounts the Oxford Economics finding by about 5 percent– it is estimated that about $12 billion would be wagered on sports in Illinois if the activity was legal in the state (Figure 1).

A Black Market for Sports Betting Would Still Exist

The $12 billion estimated market in Illinois assumes that sports betting will be made legal and widely available, both in-person and online, at tax rates comparable to those in Las Vegas, Nevada. However, legalization, regulation, and taxation will not eliminate the black market for sports betting entirely. A small share of gamblers may continue to choose to bet illegally. One reason is that bettors must have the cash on hand to place a bet legally. In the illicit market, some bookies allow bettors to rack up liability without paying upfront. Poor individuals with little or no savings and compulsive gamblers may thus continue to place wagers illegally even if sports betting is legalized, regulated, and taxed in Illinois.

Another consideration is the availability of sports betting. If sports betting is legalized in Illinois but only offered on-site at casinos and racetracks, a vibrant black market will continue to exist among bettors who place wagers online or on their cell phones. Any limitations to specific physical locations would reduce potential state tax revenues from sports bettors who either cannot get to casinos and racetracks due to time and transportation costs or prefer the convenience of placing bets at home. Permitting online and mobile sports betting, on the other hand, would significantly decrease illicit and underground activity.

Similarly, some bettors may still gamble on sports in the black market to evade tax payments on their winnings. While the legalization and taxation of sports gambling is attractive to enhance state budgets, a tax rate that is too high would drive bettors back to the black market from the legal, regulated space and limit potential tax revenues. Policymakers should thus consider the *effective rate* of taxation that includes all taxes and fees on wagers by consumers (i.e., the “handle”), industry revenue, and gambling winnings to make sure it minimizes the appeal of the black market (Buhl, 2018).

High “Integrity Fees” Would Prompt Bettors Back to the Black Market

Professional sports leagues such as the National Basketball Association (NBA) and Major League Baseball (MLB) have proposed a 1 percent “integrity fee” to profit off the proliferation of sports betting. The fee would transfer money from the sportsbooks directly to the leagues. The purpose of the integrity fee, according to the leagues, is to compensate for additional risk to the leagues of “match-fixing” and to pay for the cost of monitoring betting patterns and ensuring compliance.

There are two primary problems with an integrity fee. The first is that billions of dollars have been bet illegally in the black market for years. Leagues already partner with companies to monitor betting patterns. In Las Vegas, there is no integrity fee passed onto sports leagues. Instead, private sportsbooks in Las Vegas have their own internal processes for monitoring bets and reporting suspicious activity. Conversely, as legalization brings more bettors into a state-regulated market, it will increase the chance of catching match-fixers (Trost, 2018).

The second problem with an integrity fee is that the leagues are advocating for 1 percent of the total amount wagered (i.e., the “handle”). Casinos and sportsbooks currently only retain between 5 percent and 6.5 percent of the handle as gross revenue (Trost, 2018; Sacks & Ryan, 2017). A 1 percent integrity fee would act as a high tax for sportsbooks that would be passed onto gamblers in the betting odds, which would further stack the odds against bettors and drive them back into the illegal market. As an example, suppose a gambler wanted to bet on the Chicago Bears to win a game. If the black market odds are that a bet of $110 will win $100 (plus his or her money back) but the legal odds are that it takes $120 to win $100 due to a high integrity fee, the bettor has an incentive to turn to the black market. Thus, an integrity fee, if enacted, would reduce potential state revenue from the legal market while serving as a corporate subsidy that would enrich already wealthy professional sports leagues (Klebnikov, 2018).

Analysis of the Sports Wagering Act: Senate Bill 3432 and House Bill 5186

On February 16, 2018, two bills called the Sports Wagering Act were filed in the Illinois General Assembly. Senate Bill (SB) 3432 was introduced by Democratic Senator Napoleon Harris, Ill– who played linebacker in the National Football League (NFL) for eight seasons– and House Bill (HB) 5186 was introduced by Republican Representative Tim Butler. Although both bills have the same title, there are significant differences in each.

SB3432 proposed a 12.5 percent state tax on gross gambling revenue and a $10,000 initial licensing fee for facilities offering sports betting with a $5,000 annual renewal fee. SB3432 also included a 1 percent "integrity fee" on the handle. SB3432 did not stipulate how the state must spend the new revenue generated from sports betting.

HB5186 proposed a 30 percent state tax on gross gambling revenue and a $250,000 initial licensing fee for facilities offering sports betting but did not include an integrity fee. HB5186 also stipulated that all money from the tax on gambling revenue be deposited into Capital Projects Funds for infrastructure investments and that 25 percent of the funds from licensing revenue be appropriated to the Department of Human Services for programs that treat compulsive gambling and addiction.

Figure 2 provides results from a statistical model– based on the sources in the previous market analysis for sports betting (Figure 1) and using an industry-standard economic impact modeling software called IMPLAN (IMPLAN, 2018)– on the estimated annual impacts of SB3432 and HB5186. The impacts include revenue from licensing fees, which are relatively small in SB3432 and are a one-time cost under HB5186.

State Senator Harris' SB3432 bill would impose a 33.3 percent effective tax on gross gambling revenues (Figure 2). This tax burden is increased significantly by the 1 percent integrity fee collected and paid to professional sports leagues– a tax rate on the overall handle that is four times as high as that collected by the federal government (0.25 percent). Due to the relatively high effective tax rate, IMPLAN modeling suggests that Senator Harris' Sports Wagering Act would result in an estimated $6.8 billion in sports bets placed in the legal, regulated market per year. The rest of the handle– $5.2 billion (43 percent)– would remain in the illegal black market.

In total, business revenues at sportsbooks, casinos, and related establishments would increase by $411 million annually due to SB3432. Under tax rates in the bill, the result would be $51 million in new state tax revenue, $17 million in new federal tax revenue, and $68 million in integrity fee collections paid to professional sports leagues. Due to the inclusion of the integrity fee, private sports leagues would receive more money from Illinois bettors than the state government. Senator Harris' proposal, however, would create just over 1,800 new jobs just under 70 licensed locations in the legal, regulated economy.

State Representative Butler's HB5186 bill would levy an even larger effective tax on gross gambling revenues of 34.2 percent, after accounting for the federal tax on the handle (Figure 2). Consequently, Representative Butler's Sports Wagering Act would result in $6.6 billion per year in sports gambling in the legal, regulated market. The rest of the handle– $5.4 billion (45 percent)– will remain in the illegal black market.

Figure 2: Estimated Annual Economic and Tax Impacts of SB3432 and HB5186

Estimated Policy and Estimated Impacts	Senate Bill 3432	House Bill 5186
Proposed Tax on Gambling Revenue	12.5%	30%
Proposed Integrity Fee as Percent of Handle	1%	--
Federal Tax as a Percent of Handle	0.25%	0.25%
*Effective Tax on Gambling Revenue**	*33.3%*	*34.2%*
Estimated Impacts		
Total Market for Sports Betting	$12.0 billion	$12.0 billion
Handle (Amount Wagered)	$6.8 billion	$6.6 billion
Share of Betting Activity in Black Market**	43.0%	45.4%
Gambling Revenue***	$410.6 million	$393.6 million
State Gambling Tax Revenue	$51.3 million	$118.1 million
Federal Handle Tax (0.25%)	$17.1 million	$16.4 million
League Integrity Fee Collections	$68.4 million	--
Direct Employment in Legal Market	+1,866 jobs	+1,789 jobs
Estimated Licensed Locations****	68	34
One-Time Licensing Revenue (First Year)	$0.7 million	$8.5 million
Annual Licensing Revenue	$0.4 million	$0.5 million

*The effective tax on gambling revenue includes state taxes on gross gambling revenue, the federal handle tax, and any league integrity fees on the handle.
**The share of betting activity in the black market is 100 percent minus the estimated handle (at the given effective tax rate) divided by the estimated total market for sports betting in Illinois ($12.0 billion).
***Gambling revenue assumes a 6.0 percent revenue "hold percentage" as a percent of the handle.
****Based on an IMPLAN economic model. Note that in Nevada, there are 26.2 employees per establishment in the "other gambling industries" sector that includes casinos and bookies. A 5.0 percent annual business churn rate is assumed to estimate annual licensing revenue per year.

HB5186 would produce nearly $394 million in annual operating revenues for the gaming industry but generate $118 million in state gambling tax revenues. HB5186 would bring in significantly more tax revenue than SB3432 because it had a higher tax rate and did not transfer money to professional sports leagues through an integrity fee. HB5186 would create nearly 1,800 new jobs in the legal, regulated economy. Due to the higher initial licensing fee of $250,000 in HB5186, fewer smaller businesses would apply to offer sports betting and the activity would primarily occur at larger sportsbooks. As a result, it is estimated that only 34 licensed locations would be open for business.

If Illinois were to legalize sports betting through the Sports Wagering Act, as written last year, it would raise total state tax revenue by between $50 million and $120 million per year and increase employment by about 1,800 new jobs. The current proposals, however, impose a high effective tax on gambling revenue in excess of 30 percent. This would discourage many bettors from placing bets at licensed sportsbooks and result in nearly half of all activity remaining in the black market (Figure 2). If a goal of legalized sports betting is to bring those who already place bets illicitly into a legal, regulated market, there are alternative options that lawmakers could consider.

Alternative Options: Nevada and New Jersey Models

One alternative is for Illinois to adopt the system that is currently in place in Nevada, where sports betting has been legal and regulated for decades. In Nevada, the state collects a tax of 6.75 percent on gross gambling revenue from sportsbooks. This tax rate has essentially set the market across the United States, including in the illegal black market where bookies have often adopted betting lines that are established by professionals in the Las Vegas sportsbooks.

Adopting the approach taken by Nevada would have the largest impact on the Illinois economy, but would yield less revenue for the state government (Figure 3). Adopting Nevada's system would essentially eliminate the black market for sports betting and produce more than $720 million in annual revenue for the gaming industry, which would create more than 2,900 jobs at more than 110 locations. However, state tax revenues would only be $49 million per year if Illinois adopted a Vegas-style sports betting law.

Figure 3: Estimated Annual Economic and Tax Impacts of Nevada and New Jersey Models in Illinois

Estimated Policy and Estimated Impacts	Nevada's System	New Jersey's System
Proposed Tax on Gambling Revenue	6.75%	12%†
Proposed Integrity Fee as Percent of Handle	--	--
Federal Tax as a Percent of Handle	0.25%	0.25%
*Effective Tax on Gambling Revenue**	*10.9%*	*17.0%*
Estimated Impacts		
Total Market for Sports Betting	$12.0 billion	$12.0 billion
Handle (Amount Wagered)	$12.0 billion	$10.0 billion
Share of Betting Activity in Black Market**	<0.5%	16.4%
Gambling Revenue***	$720.5 million	$627.6 million
State Gambling Tax Revenue	$48.6 million	$72.3 million
Federal Handle Tax (0.25%)	$30.0 million	$25.1 million
Integrity Fee Collections	--	--
Direct Employment in Legal Market	+2,911 jobs	+2,738 jobs
Estimated Licensed Locations****	111	94
Annual Licensing Revenue	$0.0 million	$0.9 million

*The effective tax on gambling revenue includes state taxes on gross gambling revenue, the federal handle tax, and any league integrity fees on the handle.

**The share of betting activity in the black market is 100 percent minus the estimated handle (at the given effective tax rate) divided by the estimated total market for sports betting in Illinois ($12.0 billion).

***Gambling revenue assumes a 6.0 percent revenue "hold percentage" as a percent of the handle.

****Based on an IMPLAN economic model. Note that in Nevada, there are 26.2 employees per establishment in the "other gambling industries" sector that includes casinos and bookies.

†12 percent is used for simplicity because the average of New Jersey's tax on on-site gross revenue tax (8.5 percent), online gross revenue tax (13 percent), and online via racetracks gross revenue tax (14.25 percent) equals 11.92 percent.

Illinois could also look to New Jersey's new sports betting law, passed after the state won in the landmark Supreme Court decision which permitted legalized sports gambling. In New Jersey, gross revenue is taxed at an average rate of about 12 percent and licensed locations are subject to a $100,000 annual fee (Figure 3). An economic simulation using IMPLAN reveals that this system would result in an estimated $628 million in new revenue for the gaming industry each year and more than 2,700 new jobs in Illinois at more than 90 private establishments. Total state tax revenues would increase by over $73 million per year after including licensing revenue. New Jersey's system would create more jobs than SB3432 and HB5186.

Striking the Right Balance

If Illinois chooses to legalize, regulate, and tax sports betting, it should do so in way that is easy for bettors to use, grows the economy, generates new tax revenues, and funds programs that treat compulsive gambling and addiction. Applying this standard, each of the existing sports betting proposals and state models have some flaws. SB3432 provides substantial taxpayer subsidies to wealthy owners of professional sports teams by including the 1 percent integrity fee. HB5186 creates an environment where about half of all wagering in Illinois will occur in the black market. The Nevada model may not generate enough state tax revenues to fund treatment programs and the New Jersey system is complicated in that it has different tax rates for different platforms. Lawmakers in Illinois may want to consider a different proposal to strike the right balance.

An example of a balanced framework, based on rates currently levied in the United Kingdom, would be 15 percent tax on gross gambling revenues applied on all licensed platforms (online, mobile, and on-site) and at all licensed locations (sportsbooks, casinos, racetracks, stadiums, and related establishments). This would ensure wide availability tax of sports betting to Illinois residents and visitors. The 15 percent tax rate on gross gambling revenues has proven effective in the United Kingdom, which has a vibrant sports betting market (Sacks & Ryan, 2017).

A balanced proposal might also include a small 0.05 percent "integrity fee" that is held by the state– rather than transferred to professional sports teams– to monitor sports betting activity in Illinois. This limited integrity fee revenue could be used by the State of Illinois to directly employ investigators and regulators to ensure compliance, prevent fraud, and promote the new legal betting market. Including a 0.05 percent state integrity fee would bring the total tax on the handle, including the 0.25 percent federal tax, to 0.30 percent (Figure 4).

Taken together, this framework would result in a 20 percent effective tax on gross gambling revenues. The vast majority of gamblers would place bets in licensed facilities and on licensed platforms, with an estimated $9.4 billion wagered on an annual basis. It would also boost gaming industry revenues by $565 million annually and create over 2,500 new jobs at nearly 90 licensed locations in the Illinois economy (Figure 4).

This U.K.-style framework would improve the State of Illinois' budget by $89 million annually through new gambling tax revenue and integrity fee collections for state regulators (Figure 4). An additional $9 million could be collected in revenue from licensing fees for facilities and online platforms to legally offer sports betting at an annual cost of $100,000 per year– which is the annual fee levied in New Jersey and would essentially constitute a compromise between SB3432 and HB5186. Note that these budget estimates do not include additional revenue from income taxes paid by winning bettors or from workers who are newly employed as a result of the legalization of sports betting. Thus, this more balanced framework would improve state tax revenues by *at least* $98 million– nine times as much revenue as combined tax collections on pari-mutuel bets ($5.6 million) and off-track betting ($5.1 million) from racing activities in Illinois (Illinois Racing Board, 2017).[2]

Figure 4: Estimated Annual Economic and Tax Impacts of a Balanced Sports Betting Framework in Illinois

Estimated Policy and Estimated Impacts	Balanced Framework
Proposed Tax on Gambling Revenue	15%
Proposed Integrity Fee as Percent of Handle	0.05%
Federal Tax as a Percent of Handle	0.25%
*Effective Tax on Gambling Revenue**	*20%*
Estimated Impacts	
Total Market for Sports Betting	$12.0 billion
Handle (Amount Wagered)	$9.4 billion
Share of Betting Activity in Black Market**	21.5%
Gambling Revenue***	$565.3 million
State Gambling Tax Revenue	$84.8 million
Federal Handle Tax (0.25%)	$23.6 million
Integrity Fee Collections	$4.7 million
Direct Employment in Legal Market	+2,570 jobs
Estimated Licensed Locations****	88
Annual Licensing Revenue	$8.8 million

*The effective tax on gambling revenue includes state taxes on gross gambling revenue, the federal handle tax, and any league integrity fees on the handle.
**The share of betting activity in the black market is 100 percent minus the estimated handle (at the given effective tax rate) divided by the estimated total market for sports betting in Illinois ($12.0 billion).
***Gambling revenue assumes a 6.0 percent revenue "hold percentage" as a percent of the handle.
****Based on an IMPLAN economic model. Note that in Nevada, there are 26.2 employees per establishment in the "other gambling industries" sector that includes casinos and bookies.

This balanced framework integrating features from sports betting systems in the New Jersey and United Kingdom would spur higher economic activity, create more jobs, and shrink the black market further in Illinois than the Sports Wagering Act bills currently proposed in the General Assembly. It would also generate more state tax revenue than a Nevada-style system.

Potential Public Investments

New state tax revenues collected from legalized sports betting could be used to fund important public investments. For instance, the revenue from licensing fees could be appropriated to the Department of Human Services to fund programs that treat compulsive gambling and addiction, boosting funding for these programs by $9 million per year. Additionally, taxes collected from gambling revenue could be

[2] Illinois lawmakers could also enact a more limited sports betting law that continues to prohibit online wagering but allows wagers to occur in-person through the Illinois State Lottery. However, an in-person-only system through the Lottery would result in a substantial black market from bettors who prefer the convenience of online wagering. Though not shown, an economic simulation shows that a limited system operated by the Lottery would capture an estimated $5.2 billion of the $12 billion market for sports betting in the state, meaning that 57 percent of the activity would remain in the black market. The limited Lottery framework would generate under $50 million in state tax revenue.

distributed to fund infrastructure investment or public education investments. As an example, if Illinois adopted the U.K.-style tax rate of 15 percent on gambling revenue and distributed 50 percent of that revenue to Monetary Award Program (MAP) grants, approximately $42 million would be generated to help students pay for their college education. In the 2019 fiscal year, MAP grant funding was $401 million (ISAC, 2018). Dedicating half of all tax revenues produced by sports bets to higher education tuition assistance would allow the State of Illinois to increase annual MAP grant funding by more than 10 percent.

Conclusion

After the landmark *Murphy v. National Collegiate Athletic Association* decision in May 2018 paved the way for sports betting across the United States, 10 states legalized sports betting. Illinois lawmakers have also considered legalizing, taxing, and regulating sports betting, and bills authored by both Republicans and Democrats have been filed in the General Assembly. Moreover, Governor J.B. Pritzker has voiced his support for legalization in Illinois.

Billions of dollars are already bet illegally in Illinois. Legalization would allow state to regulate the activity while collecting new tax revenues. A balanced framework that combines the United Kingdom's 15 percent tax on gross gambling revenues, a $100,000 annual license fee, and a small 0.05 percent "integrity fee" on the total amount wagered to ensure compliance and prevent fraud may offer a way forward. This framework would increase gaming industry revenues by $565 million annually, create more than 2,500 new jobs in Illinois, and enhance state tax revenues by nearly $100 million annually– revenue that could fund programs that treat gambling addiction and fund public investments in education and infrastructure.

Allowing Illinois residents and visitors to gamble on sports would spur economic activity, shrink the black market, and generate new state tax revenues. However, the modest tax revenues from sports betting will not solve Illinois' fiscal issues and should be weighed against the potential costs of gambling addiction.

Sources

Anders, Gary; Donald Siegel; and Munther Yacoub. (1998). ‘‘Does Indian Casino Gambling Reduce State Revenues? Evidence from Arizona.’’ *Contemporary Economic Policy*, 16(3): 347-355.

Buhl, John. (2018). *States Taxing Sports Betting: Lessons From Other Revenue Streams*. Tax Foundation.

Bureau of Labor Statistics (BLS). (2018). (a). “County Employment and Wages News Release.” August 22, 2018. U.S. Department of Labor Statistics.

Bureau of Labor Statistics (BLS). (2018). (b). “Employment and Wages Online Annual Averages, 2016.” July 6, 2018. U.S. Department of Labor Statistics.

Condliffe, Simon. (2012). “Pennsylvania Casinos' Cannibalization of Regional Gambling Revenues.” *UNLV Gaming Research and Review Journal*, 16(1).

Dadayan, Lucy and Robert Ward. (2009). *For the First Time, a Smaller Jackpot: Trends in State Revenues from Gambling Fiscal Studies*. The Nelson A. Rockefeller Institute of Government.

Davidson, Paul. (2018). “Supreme Court Sports Betting Decision is Unlikely to Fix State Budget Problems.” *USA Today*.

Eadington, William. (1999). ‘‘The Economics of Casino Gambling.’’ *The Journal of Economic Perspectives*, 13(3): 173-192.

Edelson, Stephen. (2018). “NJ Sports Betting: Monmouth Park, Casinos Handle $16 Million in 17 Days.” App. *USA Today*.

Elliot, Donald and John Navin. (2002). “Has Riverboat Gambling Reduced State Lottery Revenue? *Public Finance Review*, 50(3): 235-247.

Fink, Stephen and Jonathan Rork. (2003). “The Importance of Self-Selection in Casino Cannibalization of State Lotteries.” *Economics Bulletin*, 5(10): 1-8.

Garrett, Thomas. (2003). *Casino Gambling in America and its Economic Impacts.* Federal Reserve Bank of St. Louis.

Garrett, Thomas and Mark Nichols. (2005). “Do Casinos Export Bankruptcy?” *The Journal of Socio-Economics*, 37(4): 1481-1494.

Grotto, Jason; Sandhya Kambhampati; and Dan Mihalopoulos. (2019). “How Illinois Bet on Video Gambling and Lost.” *ProPublica Illinois*, *WBEZ Chicago*, and the *Chicago Sun-Times*.

Gouker, Dustin. (2018). “Will Other States Follow New Jersey’s Lead On These Three Parts Of Its Sports Betting Law?” *Legal Sports Report*.

Illinois General Assembly (ILGA). (2018). (a). Bill Status of SB3432: Sports Wagering Act. State of Illinois.

Illinois General Assembly (ILGA). (2018). (b). Bill Status of HB5186: Sports Wagering Act. State of Illinois.

Illinois Racing Board. (2017). *Illinois Racing Board: 2017 Annual Report*. State of Illinois.

Illinois Student Assistance Commission. (2018). “Monetary Award Program (MAP).” State of Illinois.

IMPLAN. (2018). IMpacts for PLANning.

Isabella, Sean. (2018). “States Race for a Piece of the Sports Gambling Action.” *The Herald-Tribune*.

Klebnikov, Sergei. (2018). “These Are the 10 Richest American Sports Team Owners — and How They Made Their Billions.” *Money*.

Landers, Jim. (2009). “The Two-Sided Coin: Casino Gaming and Casino Tax Revenue in Indiana.” *Indiana Business Review*, Spring: 1-6.

Liptak, Adam and Kevin Draper. (2018). “Supreme Court Ruling Favors Sports Betting.” *The New York Times*.

Madhusudhan, Ranjana. (1996). “Betting on Casino Revenues: Lessons from State Experiences.” *National Tax Journal*, 49(3): 401-412.

Nichols, Mark.; Mehmet Serkan Tosun; and Jingjing Yang. (2015). “The Fiscal Impact of Legalized Casino Gambling.” *Public Finance Review*, 43(6): 739-761.

Parry, Wayne. (2018). “New Jersey Businesses Get $16M in Sports Bets in 1st 2 Weeks.” *The Associated Press*.

Popp, Anthony and Charles Stehwien. (2002). ‘‘Indian Casino Gambling and State Revenue: Some Further Evidence.’’ *Public Finance Review*, 30: 320-330.

Riopell, Mike. (2018). “J.B. Pritzker: Legal Sports Betting in Illinois is 'An Important Thing to Consider'” *The Chicago Tribune*.

Rodenberg, Ryan. (2018). “State-by-State Sports Betting Bill Tracker.” *ESPN*.

Sacks, Adam and Aran Ryan. (2017). *Economic Impact of Legalized Sports Betting*. Oxford Economics. Commissioned by the American Gaming Association.

Siegel, Donald and Gary Anders. (2001). ‘‘The Impact of Indian Casinos on State Lotteries: A Case Study of Arizona.’’ *Public Finance Review*, 29(1): 139-147.

Srinivasan, Arun and Thomas Lambert. (2017). “The Impact of Stagnating Casino Revenues on State and Local Governments Tax Receipts.” *Public Budgeting & Finance*, 37(1): 26-46.

State of New Jersey. (2018). “13:69A-9.4 Casino License Fees.”

Trost, Jason. (2018). “Six Sports Betting Legalization Myths.” *Forbes*.

Walker, Douglas and John Jackson. (2008). ‘‘Do U.S. Gambling Industries Cannibalize Each Other?’’ *Public Finance Review*, 38: 308-333.

Walker, Douglas and John Jackson. (2011). ‘‘The Effect of Legalized Gambling on State Government Revenue.’’ *Contemporary Economic Policy*, 29: 101-114.

Wenz, Michael. (2007). “The Impact of Casino Gambling on Housing Markets: A Hedonic Approach.” *Journal of Gambling Business and Economics*, 1(2): 101-120.

Cover Photo Credits

Harrington, Dov. (2006). "ESPN Sportsbook." *Flickr Creative Commons.* Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0).

Leyla. (2011). "Sportsbook at the Wynn." *Flickr Creative Commons.* Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0).

Skiff, Eric. (2006). "The Sportsbook." *Flickr Creative Commons.* Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0).

Appendix

Below is a graphical representation of the Illinois Economic Policy Institute (ILEPI) model of estimated total handle by effective tax rate on gross gaming revenues.