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## **Fitch Ratings: US States to Gain Modest Tax Revenue from Sports Gaming**

Fitch Ratings-New York-21 August 2018: Initial data on US states' sports gaming revenues support Fitch Ratings' view that tax revenue increases will be relatively modest as most states will seek to balance tax gains with encouraging operator participation. However, secondary tax revenue benefits related to consumer participation in other gaming and entertainment, food, and lodging purchases, may provide a more significant boost to states' tax revenues, although still modest in the context of overall budgets.

A few states have begun to see the revenue benefits from the US Supreme Court's ruling in favor of legal sports gaming. Since the May 14, 2018 ruling nullifying the federal Professional and Amateur Sports Protection Act (PASPA), Delaware, Mississippi and New Jersey rolled out full scale sports gaming operations. West Virginia will begin on September 1. Previously, only Nevada offered a full array of sports betting.

Delaware's swift expansion on June 5 was facilitated by legal and administrative procedures already in place as it was one of four states with permitted sports betting under PASPA. Delaware's three casinos garnered \$15 million in sports wagers through July with the state lottery's 50% share of residual earnings providing a modest \$668,000 in tax revenue to the state in comparison to an approximate \$212 million in total gaming tax revenue in fiscal 2018.

New Jersey sports wagering opened on June 14 with legal gaming at Atlantic City casinos, three racetracks and online sports books. The state recorded \$57 million in sports wagers through July, providing for almost \$7.3 million in gross gaming revenue. The 8.5% tax rate on in-person bets and 13.0% rate for online wagers garnered about \$620,000 in tax revenue for the state. The state projects \$25 million in sports gaming tax revenue for the fiscal year ending June 30, 2019; a small 11% of \$233 million in gaming taxes and a negligible amount compared to \$37 billion in total state revenue projected for fiscal 2019.

Yet, to the extent sports gaming boosts other consumption, the increase in gaming could modestly benefit Atlantic City's economy and finances, while boosting related state and local tax revenue. The city and gaming revenue recently benefitted from the opening of two new casinos, although revenue losses were recorded in July at the seven existing casinos as the new properties siphoned customers. Yoy in July, casino revenue was up at more than 10%, compared to July 2017 and total gaming revenue, which includes online gaming and sports wagering activity, was up almost 13.0%. Total state gaming tax revenue was up 12.5% yoy.

Mississippi began taking bets on August 1 through one casino, although this was followed by multiple opening announcements from among the state's 28 casinos. Given the sizable casino presence and current southern US monopoly on sports gaming, the state could provide a robust sports betting market, although mobile wagering is only permitted on casino premises. Moderate tax rates on net revenue of 8% to the state and 4% to host localities should also encourage casino participation.

States to watch include Pennsylvania, as the Gaming Control Board approved rules for sports betting on August 15, although casinos still need to apply for licenses at a considerable \$10 million initial fee and develop infrastructure prior to taking first bets. Rhode Island's foray is expected in October at two casinos and similar to Delaware net revenue will be shared between the casinos and the state lottery. Other states continue to consider legalization and new regulations, including Connecticut, Indiana and New York.

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