



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Rep. Saine
Analyst(s): Brent Lucas, David Vanderweide, Jonathan Tart, and Emma Turner
RE: House Rules PCS to H.B. 347

SUMMARY TABLE

FISCAL IMPACT OF HOUSE RULES PCS to H.B. 347, V.2 (\$ 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					
Privilege Tax	2.9	17.8	24.7	35.6	45.4
Fees	10.3	10.3			
Less Expenditures	5.8	12.7	14.9	18.1	21.0
General Fund Impact	7.4	15.4	9.8	17.5	24.4
Special Fund Revenues					
Privilege Tax	-	4.4	7.4	12.0	16.2
Less Expenditures	-	-	-	-	-
Special Fund Impact	-	4.4	7.4	12.0	16.2
NET STATE IMPACT	\$7.4	\$19.8	\$17.1	\$29.5	\$40.6
STATE POSITIONS	12.0	12.0	12.0	12.0	12.0

FISCAL IMPACT SUMMARY

HB 347 creates a 14% privilege tax on interactive sports wagering operators doing business in the State and earmarks tax revenue for several purposes. The bill creates several fees associated with applying for and maintaining various licenses related to sports wagering. The bill establishes January 1, 2024 as the earliest date for sports betting to begin in North Carolina; for the purposes of this fiscal memo, Fiscal Research assumes operations will begin on that date.

Fiscal Research estimates total tax and fee revenue of \$13.2 million in FY 2023-24, increasing to \$61.6 million in Fiscal Year 2027-28. The Lottery Commission is anticipated to incur administrative expenses of \$2.9 million in Fiscal Year 2023-24 and \$2.7 million in Fiscal Year 2027-28.

FISCAL ANALYSIS

Licensing Fees

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

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 is required to issue at least 10, but no more than 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).

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 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
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 Virginia¹ and the income statement from the Tennessee Lottery² and finds that the Commission’s estimates are reasonable. Therefore, the estimated administrative costs of the Lottery Commission 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	\$2.9	\$2.3	\$2.5	\$2.6	\$2.7

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

Privilege Tax Revenue

The bill creates a 14% privilege tax on an interactive sports wagering operator for the privilege of doing business in the State. The tax would be calculated against gross wagering revenue (GWR) minus the following:

- Winnings paid to registered players;
- Costs paid for any personal property distributed to a registered player as a result of a sports wager;
- Promotional credits or bonuses given to registered players, at cash value, when returned to the operator in the form of a wager or deposit, which would be phased out beginning in 2025 and ending after 2026;
- Uncollectible receivables from registered players, not to exceed 2% of gross wagering revenue minus payouts; and
- Federal excise tax payments.

The bill defines gross wagering revenue as the total of all of the following received by an interactive sports wagering operator from sports wagers: cash or cash equivalents, whether collected or not, and the cash value of any bonuses or promotional bets.

If the amount of gross wagering revenue as adjusted above 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 the potential GWR from online betting, adjusting for differences in disposable personal income and adult population in each state. The bill also authorizes certain bars and restaurants to accept sports bets, specifically based on location and affiliation. Fiscal Research used information about the estimated number of such facilities, which increased potential GWR by a small amount. Fiscal Research assumed that total GWR from online and in-person betting would grow from approximately \$3.9 billion in the first 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.

¹ <https://lis.virginia.gov/cgi-bin/legp604.exe?201+oth+HB896FER122+PDF>

² <https://tnlottery.com/wp-content/uploads/2022/02/FY-2021-Financial-and-Compliance-Audit-Report.pdf#page=20>

Fiscal Research estimated the total amount of deductions allowed under the bill by reviewing tax data from several states that allow one or more similar deductions. The estimate accounts for the anticipated reduction in the promotional credit deduction given the bill's corresponding phase-out rates beginning in January 2025 and ending after January 2026. Fiscal Research assumed that the total amount of uncollectable receivables deducted would be the maximum amount allowed by the bill. Fiscal Research adjusted for the impact of the loss carryforward provision using information from a similar carryforward provision in Colorado.³

After applying these adjustments to GWR and accounting for project 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
Privilege Tax	\$2.9	\$22.2	\$32.0	\$47.6	\$61.6

Statutory Distributions of Privilege Tax Revenue

The bill outlines the order by which privilege 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 as follows:⁴

- \$2.0 million to the Department of Health and Human Services for its gambling addiction education and treatment programs.
- \$1.0 million to the North Carolina Division of Parks and Recreation for \$10,000 grants to each county for youth sports development;⁵
- \$300,000 each to 10 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;
- Of the remaining amount,
 - 20% is directed to the UNC institutions discussed earlier to support, not supplant, the seven collegiate athletic departments identified earlier,
 - 30% to the North Carolina Major Events, Games, and Attractions Fund, and
 - 50% to the General Fund.

³ https://leg.colorado.gov/sites/default/files/documents/audits/2166p_sports_betting_performance_audit.pdf

⁴ In the event these amounts are not met, the amount of each appropriation for several of these items shall be reduced by the same proportion so that all recipients receive an appropriation of the same amount.

⁵ The bill states that if there are not sufficient funds for the annual appropriation to the North Carolina Parks and Recreation Authority, the amount of each grant counties receive shall be reduced by the same proportion so that all counties receive a grant of the same amount.

⁶ These institutions include Elizabeth City State University, Fayetteville State University, North Carolina Agricultural and Technical State University, North Carolina Central University, the University of North Carolina at Asheville, the University of North Carolina at Greensboro, the University of North Carolina at Pembroke, the University of North Carolina at Wilmington, Western Carolina University, and Winston-Salem State University.

The table below shows the estimated annual distributions of collections from the sports wagering privilege tax revenue.

Statutory Distributions of Privilege Tax Revenue (\$ in millions)						
		FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
NC DHHS	Gambling addiction education and treatment programs	2.0	2.0	2.0	2.0	2.0
NC Division of Parks and Recreation	Grants to counties for youth sports development	0.4	1.0	1.0	1.0	1.0
Elizabeth City State University	Support college athletic departments	0.0	0.6	0.8	1.1	1.4
Fayetteville State University		0.0	0.6	0.8	1.1	1.4
NC A&T University		0.0	0.6	0.8	1.1	1.4
NC Central University		0.0	0.6	0.8	1.1	1.4
UNC-Asheville		0.0	0.6	0.8	1.1	1.4
UNC-Greensboro		0.0	0.6	0.8	1.1	1.4
UNC-Pembroke		0.0	0.6	0.8	1.1	1.4
UNC-Wilmington		0.0	0.6	0.8	1.1	1.4
Western Carolina University		0.0	0.6	0.8	1.1	1.4
Winston Salem State University		0.0	0.6	0.8	1.1	1.4
N.C. Outdoor Heritage Advisory Council	Grants to assist sports teams with travel expenses and to attract non-professional sporting events	0.0	1.0	1.0	1.0	1.0
N.C. Major Events, Games, and Attractions Fund	To encourage and promote the attraction of major events	0.0	4.4	7.4	12.0	16.2

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; Moody's Analytics.

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. 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. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.