Optimal Regulatory Framework For State Regulation of Sports Betting

Since the U.S. Supreme Court overturned the federal prohibition on sports betting in 2018, 33 states and the District of Columbia have legalized the activity with a variety of regulatory approaches. However, illicit sports betting remains a $60 billion a year industry. To maximize the benefits of sports betting legalization and minimize negative externalities, states regulatory frameworks should encourage robust and competitive markets, with numerous competing interests, low indirect costs, and the flexibility needed to respond to changing consumer demand and market conditions. To achieve this, we encourage lawmakers and regulators to consider the following:

Licensing

- State-licensing creates a more competitive market than state control.
- Control state markets tend to have fewer participants, less liquidity, fewer promotions, worse betting lines, less consumer access, and less consumer engagement.
- Competitive markets increase state revenue. These either permit many operators to compete or require state-run operators to set nationally-competitive betting lines.
- Lower barriers-to-entry encourage participation in the legal market and migration out of illicit markets.
- Market participation increases funding for problem gambling services and monitoring.

Control States vs Licensing States

License-Based States

AZ, AR, CO, IL, IN, IA, LA, MD, MA, MI, MS, NE, NV, NH, NJ, NM, NY, NC, OH, OK, PA, SD, TN, VA, WA, WI, WY.

Control States

CT, DE, D.C., MT, OR, RI, WV.

Taxes and Fees

- Reasonable taxes and fees promote liquidity and growth and help licensed operators compete with illicit counterparts.
- The optimal tax rate for any jurisdiction is one which generates enough revenue to cover enforcement and regulatory costs while being low enough to maintain a sufficiently robust market, typically 10 to 20 percent.
- Avoid arbitrary payment transfers, such as “integrity fees” provided from sportsbooks to sports leagues or other non-government interest.

Flexibility

- Allow in-person and online gaming. Mobile sports betting comprised 20 percent of total U.S. gaming revenue in 2022 and is especially important for states with smaller or spread out populations, limited in-person betting, or which border states with competitive gaming markets.
- Authorize in-game wagering as well as bets on game outcomes; in mature markets, in-game wagers comprise upwards of 75 percent of total handle.
- Avoid instituting a data monopoly. Do not mandate operators rely on league data.
- States with smaller populations should consider reciprocity or player pool sharing with other states where sports betting is legal to increase both markets’ competitiveness.