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Testimony of Ed Lazere, Executive Director
At the Public Hearing on
Bill 22-944, The Sports Wagering Lottery Amendment Act of 2018
DC Council Committee on Finance and Revenue
October 17, 2018

Chairman Evans and members of the committee, good morning and thank you for the opportunity to submit this written testimony. My name is Ed Lazere, and I am the Executive Director of the DC Fiscal Policy Institute. DCFPI is a non-profit organization that promotes budget choices to reduce economic and racial inequality and build widespread prosperity in the District of Columbia through independent research and thoughtful policy recommendations.

The Sports Wagering Lottery Amendment Act would authorize sports betting in the District, in both physical locations and online, and would dedicate the revenue generated by taxing sports betting to early childhood education and the arts.

I am here today to voice DCFPI's opposition both to legalizing sports gambling in the District, and to the idea of dedicating certain revenue to specific purposes.

Legalizing Sports Betting Would Not Generate Much Revenue But Would Encourage More Betting

DCFPI opposes legalization of sports betting for several reasons. Most important, it is unlikely to be a substantial revenue source, and revenues are likely to decline over time. In a community as prosperous as the District, we do not need to seek revenue sources such as this. Second, this proposal would significantly change the gaming landscape in the District. While currently the lottery is DC's only source of gaming, this legislation would lead to the opening of physical betting locations across the city. Expanding gaming in the District would change the character of the city and likely increase the rate of gambling addiction in DC.

- **Sports betting is unlikely to generate substantial revenue.** One 2017study estimated that the revenue raised by sports betting would equal $3.4 billion nationwide, or just 0.3 percent of state and local tax revenue.[1] In the District, this would translate to less $25 million per year. It is worth noting that legalizing sports betting would replace only some illegal betting, limiting the revenue increase from regulated betting. Some illegal and unregulated betting would continue, from March Madness office pools to illegal operators seeking to avoid regulation and taxes.

- **Sports betting revenue is likely to decline over time.** Creating new gaming can create a short-term revenue increase, but one that is unlikely to be sustained as competition from other states grow, According to a recent Pew Charitable Trusts report.[2] Even if DC could implement sports betting soon—not a given, since we do not have regulatory or physical gambling infrastructure in DC now—the revenue would likely decline over time as competition spreads or as initial excitement wanes.

The trend in revenue in the DC lottery and in lotteries around the country, where revenues tend to decline over time, is an important lesson for what might happen with sports betting. DC lottery revenues are now just $45 million a year, down from close to $70 million a decade ago, despite a large increase in population. That is a drop of more than 40 percent, adjusting for inflation.

- **"New" revenue from sports betting will simply replace other revenue, at least in part.** If sports betting spreads throughout the region and nation, it will not be a special draw in DC, which means that betting activity and revenue would likely come from people who already would be in the District—residents, commuters, and visitors. Given that sports betting is a discretionary activity, any money spent on sports betting would mean less money available to be spent on other activities, such as dining or shopping. If sports betting substitutes for other consumption or economic activity, it would simply shift tax revenue from one source to another, with limited impact on raising total revenue.[3]

- **Taxing sports betting may require heavy promotion by the DC government, leading to increased rates of gambling addiction.** If DC comes to rely on sports betting as a revenue source, it may need to engage in advertising to promote betting, especially if revenues decline over time. Notably, the legislation provides no resources to support people with gambling addiction. And the legislation puts all the responsibility for consumer protection—like keeping minors from betting online—on the betting operators themselves, a recipe for lack oversight.

Dedicating Sports Betting Revenue Is Unadvisable

The Sports Wagering Lottery Amendment Act would devote the revenues it raises to early childhood education programs and the arts. These are of course laudable goals and important needs in DC.

Nevertheless, it generally is unwise to dedicate a specific revenue source to a specific purpose, for several reasons:

- **There often is a mismatch between revenue and needs**. If sports betting in DC starts by generating something in the range of $25 million, that is nowhere near enough to fully fund the Birth to Three for All DC Act, which ultimately will cost several hundreds of millions of dollars when fully implemented. The DC Commission on Arts and Humanities currently receives over $31million per year. Providing $25 million between the two sources will not fully fund either.

- **Dedicating funds often leads to removal of other funds**. If funds from sports betting are dedicated to Birth to Three for All DC and the DC Commission on the Arts and Humanities, policymakers could easily replace other general fund appropriations, leaving the programs no better funded than before. This is not an uncommon experience with dedicated funds.

- **Declining sports betting revenue could hurt early childhood programs and the arts**. If sports betting revenues decline over time, as expected, that will leave a hole in funding for the arts and early childhood programs, with no guarantee that policymakers would make a corresponding increase in general funds. This same trend affected the Housing Production

Trust Fund in the Great Recession. The Trust Fund is supported with 15 percent of deed transfer and deed recordation taxes. When the volume of property transfers dropped in the Great Recession, so did HPTF funding. Dedicated HPTF funds dropped 40 percent between FY 2007and FY 2010, greatly reducing the ability to invest in affordable housing. In this same way, dedicating sports betting revenue could actually hurt funding for arts and early childhood programs.

Given these factors, Pew Charitable Trusts concluded in a July 2018 report that devoting gambling taxes to specified programs is unwise: "States should be especially cautious about pursuing emerging sin taxes [including gambling] where markets are volatile and forecasts rely on limited data. Given this uncertainty, and the trends in revenue from these sources, states should also be mindful of potential pitfalls in directing new sin tax revenue toward recurring expenditures."[4]

Thanks for the chance to testify.

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[1] "Hedge Those Bets: Sports Gambling May Not Be a Jackpot for States," Stateline Article, May 22, 2018

[2] Are Sin Taxes Healthy for State Budgets?, Pew Charitable Trusts, July 2018

[3] "Uncertain Benefits, Hidden Costs: The Perils of State-Sponsored Gambling," The Institute on Taxation and Economic Policy, 2011.

[4] Are Sin Taxes Healthy for State Budgets?, Pew Charitable Trusts, July 2018