

SPORTS BETTING

AND THE

1% 'INTEGRITY FEE'

EXPLAINED

ABSTRACT

In case you haven't been paying attention, the federal ban on sports betting as established by the Professional and Amateur Sports Protection Act of 1992 (PASPA) was struck down recently by the US Supreme Court.

A lot of people incorrectly read between the lines and thought that this means INSTA-LEGALIZED SPORTS BETTING across the country.

As I outlined in a previous piece, [*Sports betting and SCOTUS, what it all means and what's next?*](#) this isn't the case.

This ruling merely puts the option and onus on states and tribal nations to allow or not allow sports betting.

If allowed at the lawmaking level, these same entities then must create the rules and regulations related to those wagers. Some states were prepared to move forward quite quickly to get their sports betting to market (laws passed, and regulations set), others will take longer. There will inevitably be some states and/or tribal nations which elect not to allow sports betting at all or will only allow limited flavors of sports betting.

In the conversations surrounding this decision, the professional sports leagues reaffirmed their general opposition to this ruling with the NFL even stating that

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they wanted Congress to intervene. In a statement, the NFL proclaimed:

"Congress has long recognized the potential harms posed by sports betting to the integrity of sporting contests and the public confidence in these events."

Amongst all the noise and under the headlines, the NBA, PGA and Major League Baseball reiterated their support for what is being called an integrity fee that deserves more attention, discussion and thought by stakeholders in the industry and the general wagering public.

The purpose of this paper is to shine a light on the proposed integrity fee. Specifically, I'll talk about the concept as well as the origin of this idea, where integrity fees stand now and what questions vested interests might want to ask themselves.

SPORTS BETTING INTEGRITY FEE EXPLAINED

The idea of an integrity fee seems simple on paper. It's a tax on legal sports betting that goes to professional leagues or the governing bodies of different sports upon which bets are being made. In the details of such a tax come the definitions of a 'handle' and 'revenue'. The handle is the total sum of money of a bet regardless of how well the sportsbook does on those bets. The revenue is the how much sportsbooks make in profit from all the money wagered.

EVER WONDERED ABOUT HOW MUCH MONEY SPORTSBOOKS MAKE IN REVENUE? IN BROAD BRUSH STROKES, THE FIGURE IS ABOUT 5% OF THE HANDLE ACROSS THE INDUSTRY.

Ever wondered about how much money sportsbooks make in revenue? In broad brush strokes, the figure is about 5% of the handle across the industry.

What is being proposed currently is a 1% integrity fee on the handle that would be paid to each league as bets were made on that specific sport. Squinting at the math? Think of it this way, if you're a sportsbook that takes in \$100,000 on a game across all bets, then makes 5% profit after you've paid out all the winners, you have exactly \$5,000 in your pocket. That 1% integrity fee would translate to 20% or \$1,000 from your profit, which would be shipped straight to a professional league or governing body.

Pundits and politicians everywhere are guessing at the potential size of a mature US sports betting market, but even for the most conservative guesses, the implications of a 1% integrity fee are enormous.

THE HISTORY OF THE INTEGRITY FEE

THE FIRST TIME THAT THE WORDS, INTEGRITY FEE APPEARED IN SPORTS BETTING LEGISLATION IN THE US WAS IN A HOUSE BILL IN INDIANA IN 2018:

“A sports wagering operator shall remit to a sport’s governing body that has provided notice to the commission under section 2 of this chapter an integrity fee of one percent (1%) of the amount wagered on the sport’s governing body’s sporting events. The sports wagering operator shall remit integrity fees to the sport’s governing body at least once per calendar quarter.”

THE AMERICAN GAMING ASSOCIATION, THE LEADING VOICE OF CASINO GAMING, ISSUED THE FOLLOWING STATEMENT SOON AFTER:

“While we applaud Representative Morrison’s efforts to bring legal, transparent sports betting to Indiana, handing sports leagues 20 percent of what’s left over after winnings are paid out, undercuts its economic viability. Doing so will ensure the illegal market continues to thrive in the state and gut the tax revenues available to fund essential public services. We believe Indiana taxpayers deserve better.”

“We encourage Indiana to reject this short-sighted, misinformed idea, which simply replaces a failed federal prohibition with bad state policy. Our goal is to eliminate the illegal market, protect consumers and strengthen the integrity of the game. We invite all stakeholders to join us in working together in a thoughtful and transparent fashion.”

THE INTEGRITY FEE TODAY

The question of sports betting and integrity fees is all over the map and being hotly debated by law making bodies, professional sports leagues and different interest groups as this article is being written.

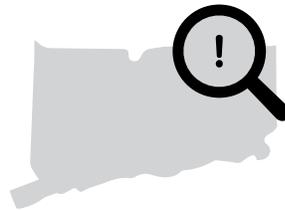
In a recent July 2018 interview during the All-Star Week media tour with the National Press Club, MLB Commissioner Rob Manfred advocated for MLB to protect the integrity of the game by saying:



“We will never delegate responsibility for those integrity issues to state regulators, whatever their expertise in the gambling area may be. We have our own expertise, and no one is more motivated than the commissioner’s office in baseball to make sure that there is no threat to the integrity of our sport.”

Going further on The Dan Patrick Show, Manfred stated:

“We need laws — whether they’re state laws, federal laws, whatever — that allow us to protect the integrity of our sport. That’s our job. We’re not going to delegate it to some regulator in New Jersey or whatever, with all due respect. We care more about it. It’s what we’re about.”



In Connecticut, lawmakers pushed against the idea as some wanted more clarity on where fees would be

pointed: to protecting the integrity of the industry, or to the bottom line of the league. The NBA countered that the fee would be akin to a royalty as compensation for the value the leagues provide the betting markets. In one amendment, ~~1%~~ **.25%** one representative even

tried to lower the fee to .25% as a proposed compromise.



In New Jersey, Deputy Assembly Speaker John Burzichelli said plainly about the prospect of an integrity fee in his state, “It’s not going to happen.” However, taxes related to gaming that are not being called integrity fees are still in play and being discussed.

In West Virginia, the governor said that his state had tentatively agreed to pay an integrity fee, but gaming industry officials directly contradicted him saying that there is no deal yet and that further, they are only willing to pay professional leagues for information, such as game statistics.



THE INTEGRITY FEE TODAY CONT.

Opponents of paying anything to the leagues went further, citing a federal court's 1997 decision that concluded that live-game data from the leagues is in the public domain and cannot be considered intellectual property.



Just last week, NBA's Commissioner Adam Silver reframed his assertion of earlier this year where he stated that his league is entitled to integrity fees. In a press conference at the NBA Summer League in Las Vegas, he stated:

"Related to that is the so-called integrity fee or royalty that the league has talked about. Frankly it's not a place where we've made a lot of progress. It's one of the issues we're talking to states about."

It's an issue that is fluid, with every number, figure and angle up for debate, which leads to the next question.

WHAT WOULD AN INTEGRITY FEE DO?

The question of what integrity fees would do in the hands of a professional league is interesting and far from clear. Leagues argue that these fees should go to them with the idea that the money would be allocated to monitor and police their leagues related to suspicious betting activity. It sounds like a fair and feasible concern until you realize that professional leagues have nothing to do with the bets that are made on the sports they represent.

It would seem that someone, somewhere should monitor data, develop protocols for suspicious betting activity and enforce rules, however professional leagues are ill-suited for all of these integrity activities. For example, if there was a wave of bets made in quick succession, across several states, on the same NBA game, that didn't make sense per odds, history and statistics, it would be imperative that this activity be flagged in real-time and that the NBA was alerted. Yes, the league should have measures in place to investigate and address such flags, but the NBA is hardly equipped to look at all professional basketball wagering across every state.

In his interview, MLB Commissioner Rob Manfred offered no details on exactly how his league would intersect with betting to protect the integrity of the sport, but like the difference between a foul ball, a pop fly and a homerun, those lines matter.

A FEW QUESTIONS ON THE INTEGRITY FEE

There are a lot of moving pieces, dependencies, risks, opportunities and open questions to the sports betting equation. Listed here are just a few, but there are certainly more that the industry must ask and answer to ensure the transparency and trust that is at the heart of all gambling activities.

Should any fee be tied to revenue instead of handle?

Is there any part leagues can play (beyond what they do now) to earn part of the revenue from sports betting?

Would such a fee be passed on to customers?

Would such a fee hurt current sportsbooks and disincentivize new ones from opening?

Should sports betting have a governing body to monitor betting data and raise flags to professional leagues?

Should there be a federal law or perhaps 50 state laws?

Offshore and black-market have always existed without data monitoring and integrity protocols to professional leagues, why start now?

As stated in this paper's abstract, the purpose here was to explain the integrity fee in more detail, provide current context and pose questions for the industry.

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