

KENTUCKY AND PROFESSIONAL SPORTS:

A PARTNERSHIP

A strong partnership between sports leagues, sports betting operators and Kentucky is crucial to making regulated sports betting a success and eliminating the thriving online, off-shore black market.

Core Principles of a Best-In-Class Sports Betting Framework

The following principles are the bedrock for a lasting partnership that will benefit Kentucky, sports betting operators, fans and the leagues:

- **Sports League Royalty.** Sports leagues invest billions of dollars to create compelling and fair contests. A modest 0.25% of the amount wagered on their contests, paid to the sports leagues by the betting operators properly recognizes the leagues, as creators of the product, should rightfully share in any revenue generated by third parties on the backs of their games and incentivizes the leagues to help grow the regulated sports betting market in Kentucky. It also compensates the leagues for the additional risks and costs from increased sports betting. Compensating sports leagues draws upon precedent from both U.S. horse racing and international sports betting.
- **Use of Official League Data.** Consumers deserve to know that their bets are being settled using reliable, verified data collected with the highest level of integrity. Data sourced directly from the leagues is collected and distributed in real-time, increasing the window for in-game betting and decreasing the risk of incorrect results for consumers. The alternative is data that is pirated through web scraping or collected covertly in stadiums (aka "courtsiding"). Requiring all operators to use a unified, official source of data for in-play betting protects consumers, creates a superior betting experience, and will generate more revenue for betting operators and Kentucky.
- **Integrity Protections.** In partnership with the leagues, betting operators should prevent insiders (e.g., coaches, players) from placing bets on their respective sports, report suspicious activity, cooperate with league investigations, and make anonymized real-time betting data available for integrity monitoring purposes. The leagues must be able to request that the regulator restrict specific bets that carry an unacceptably high risk for manipulation or corruption.
- **Mobile betting.** Most illegal sports betting currently occurs online and via mobile apps. The regulated sports betting market must offer a mobile and online option to compete with, and ultimately shut down the illegal market.

Sports Betting by the Numbers

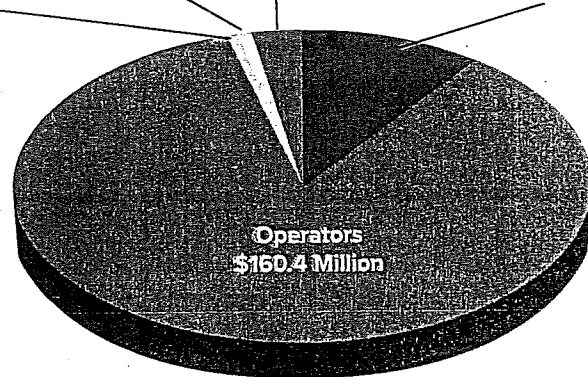
Gaming operators have argued that a 0.25% royalty will make sports betting financially untenable for them and will decrease tax revenue for the state. That is simply untrue. According to the American Gaming Association's own report by Oxford Economics, the market for legalized sports betting could reach as much as \$287 billion nationally, with nearly \$3 billion taking place in Kentucky.

Kentucky operators are set to take in hundreds of millions of dollars in new revenue from sports betting, with just a small portion being paid as a royalty. This royalty would be paid by the operators and not reduce state tax revenue, and in fact will increase state tax revenue.



Total Annual Handle In Kentucky: \$2.8 Billion

NBA \$1 Million MLB \$1.6 Million Other Leagues \$4.4 Million State Revenue \$18.6 Million



- Operator Revenue After Taxes and Royalty
- State Revenue (10%)
- NBA .25% Royalty
- MLB .25% Royalty
- Other Leagues .25% Royalty

Partnering with the Leagues Will Grow Revenue

Providing a royalty to the leagues creates a partnership that will increase revenue for Kentucky. The leagues, if treated as partners in sports betting, will be directly incentivized to grow regulated sports betting revenue through marketing and promotion, product development, and fan engagement. Australia, where royalties are paid to domestic leagues, has the highest per capita gross gaming revenue of any country in the world— a result driven in part by the partnership between leagues and operators. While commercial agreements may exist between leagues and larger operators, a royalty incentivizes the leagues to grow revenue for all operators, maximizing revenue for the state.

League involvement would only need to grow total volume by 7% in order for the modest royalty fee to be a net positive proposition for operators. Considering the substantial assets the leagues possess to promote regulated sports betting, the uplift from this partnership model will create more revenue for the operators and, more importantly, increase state tax revenue.

No League Involvement		League Involvement	
\$100 Handle		Handle increases by \$7.00	
Operator Gross Revenue		Operator Gross Revenue	
Handle	\$ 100.00	Handle	\$ 107.00
Winnings to Players	\$ -95.00	Winnings to Players	\$ -101.65
Gross Gaming Revenue¹	\$ 5.00	Gross Gaming Revenue¹	\$ 5.35
Minus (-) Tax Revenue		Minus (-) Tax Revenue & Royalty	
Federal Excise Tax ²	\$ -0.25	Royalty Fee ²	\$ -0.27
State Tax ³	\$ -0.50	Federal Excise Tax ²	\$ -0.27
		State Tax ³	\$ -0.53
Operator's Net Revenue	\$ 4.25	Operator's Net Revenue	\$ 4.28

¹15% of handle ²0.25% of Handle ³10% of GGR

