



Legalization and Taxation of Sports Betting to Fund Water Projects and Obligations

Proposition DD, if approved, would:

- legalize and regulate sports betting;
- authorize a state tax on casinos' net sports betting proceeds; and
- use sports betting taxes and fees to create a dedicated source of funding for water projects and water-related obligations and pay for the regulation of sports betting, a hold harmless fund, and gambling addiction services.

What Your Vote Means

YES A “yes” vote on Proposition DD means sports betting will be legal and taxed in the state, with revenue being used to fund water projects and water-related obligations and pay for the regulation of sports betting, a hold harmless fund, and gambling addiction services.

NO A “no” vote on Proposition DD means that sports betting will remain illegal in the state and sports betting activities will not be regulated or taxed.



Summary and Analysis for Proposition DD

Why is Proposition DD on the ballot?

In May 2018, a U.S. Supreme Court ruling allowed all states to legalize sports betting. Following this ruling, the state legislature referred Proposition DD to the voters asking to legalize and tax sports betting. Under the Colorado Constitution, a new tax requires voter approval. The tax and fee revenue from sports betting will be used to create a dedicated source of funding for the Colorado Water Plan and water-related obligations and pay for the regulation of sports betting, a hold harmless fund, and gambling addiction services.

What is sports betting?

Sports betting is placing a bet on the outcome or any portion of a sporting event. Sports betting is currently illegal in Colorado.

What types of gambling are currently legal in Colorado?

In 1991, voters in Colorado legalized limited stakes gambling in casinos located in the cities of Black Hawk, Central City, and Cripple Creek. Gambling bets are limited to \$100. Colorado also permits gambling on horse racing, simulcast horse and dog races, the state lottery, and bingos and raffles sponsored by nonprofit organizations.

What are the Colorado Water Plan and other water-related obligations?

The Colorado Water Plan, released by the state in 2015, identifies objectives, goals, and actions by which Colorado will address future statewide water needs. State law outlines the types of projects that can be funded, including those addressing: water storage and supply, conservation and land use, engagement and innovation activities, agriculture, the environment, and recreation. The Colorado Water Conservation Board is responsible for overseeing the implementation of the plan and approving water project grants. Projects funded with sports betting tax revenue will depend on the amount of money available and the state's needs at the time of funding.

In addition to projects funded under the Colorado Water Plan, interstate water compacts and water obligations outlined in federal law may be funded with sports betting tax revenue from Proposition DD.

What happens if Proposition DD passes?

- Placing sports bets of any amount will be legal for people 21 years of age or older who are located in Colorado beginning May 2020.
- People will be able to place sports bets through online or mobile sports betting platforms operated by Colorado casinos.

- If voters in Black Hawk, Central City, or Cripple Creek approve a separate ballot question to legalize sports betting in their cities, casinos will also be able to offer in-person sports betting.
- Sports betting will be taxed and regulated, with the tax revenue distributed to pay for water projects and water-related obligations, the regulation of sports betting, a hold harmless fund, and gambling addiction services.

What types of sports betting will be allowed under Proposition DD?

Sports bets will be allowed on professional, collegiate, international, and Olympic sporting events, as well as sanctioned motor sport events. Proposition DD restricts the types of bets allowed on college sporting events by prohibiting bets on individual performance statistics or events during the game. Sports betting will not be allowed on high school sporting events or unsanctioned video game competitions.

How will sports betting be taxed?

This measure will establish a tax of 10 percent on casinos' net sports betting proceeds. Net sports betting proceeds are the amount kept by casinos after deducting payouts to winners and the federal excise tax on sports bets. Only casinos, or the sports betting operators that a casino contracts with, would pay the 10 percent tax. The tax does not apply to the winnings of bettors. Figure 1 provides an example of how money from sports bets will be disbursed, including tax revenue and winner payouts, if Proposition DD passes.

**Figure 1
Where Would \$100 in Sports Bets Collected by Casinos Go?**



* Casino revenue will vary based on each establishment's operations, as well as the outcomes of sporting events. It is assumed that casinos will keep 5 percent of the total amount bet for illustrative purposes in this figure. The 5 percent pays for all taxes and includes casino profits.



How will money from sports betting taxes be distributed?

Proposition DD authorizes the state to collect up to \$29 million per year in sports betting tax revenue. Tax revenue from sports betting is expected to vary as the market matures. Based on information from other states’ sports betting markets, about \$16 million in tax revenue, on average, is expected to be collected annually over the first five years. After paying regulatory costs, this money will be used to pay for the programs shown in Table 1. The amount of money dedicated to the hold harmless fund and water projects and obligations will vary depending on the actual amount collected, as shown in the distribution amounts below.

**Table 1
How Will Sports Betting Tax Revenue Be Distributed?**

Program and Funding Level	Annual Distribution		What Will it Pay For?
	Projected*	Maximum	
Gambling addiction services <i>Set amount</i>	\$130,000	\$130,000	Gambling addiction services, including a gambling crisis hotline and gambling addiction counselors.
Hold harmless fund <i>6% of tax revenue</i>	\$960,000	\$1.7 million	Entities that receive tax revenue from traditional gambling and horse racing, such as casino cities and counties, community colleges, and the State Historical Fund, may apply for funding from the hold harmless fund if they can prove that they lost money due to a decrease in the amount bet on traditional gambling and horse racing following the legalization of sports betting.
Water projects and obligations <i>All remaining revenue</i>	\$14.9 million	\$27.2 million	Water projects and other water-related obligations that address the state’s water needs, including projects funded under the Colorado Water Plan and water obligations outlined in interstate water compacts and federal law.
Total	\$16.0 million	\$29.0 million	

* Projected amount indicates the average sports betting tax revenue that is expected to be collected and distributed annually over the first five years.

Who will regulate sports betting if Proposition DD passes?

The Colorado Division of Gaming and the Colorado Limited Gaming Control Commission, which currently regulate the state's casinos, will be responsible for overseeing sports betting operations. They will develop rules, issue business licenses, and enforce all sports betting regulations. Casinos and online or mobile sports betting providers that apply for a license will have to pay a fee of up to \$125,000 every other year. These license fees, along with enforcement fines, will be used to help cover administrative costs.

For information on those issue committees that support or oppose the measures on the ballot at the November 5, 2019, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<https://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

Arguments For Proposition DD

- 1) Water is a scarce resource in Colorado, and demand will continue to increase as the state's population grows. Colorado's economy and way of life, from urban cities to agricultural communities, will suffer if the state cannot meet its water demands. Revenue from taxes on legalized sports betting would provide much-needed financial support to protect the state's water resources.
- 2) Many Coloradans bet on sporting events now, but because that activity is illegal, they use black market bookies and websites, which are not subject to oversight or regulation. Legalizing sports betting in Colorado will create consumer protections for people who place sports bets, ensuring that they receive their winnings and do not fall victim to fraud or abuse.

Arguments Against Proposition DD

- 1) Proposition DD puts no limits on the amount a person can bet on sports, making it easy to lose a lot of money with just the touch of a button on a smartphone. Of the millions in potential revenue, only \$130,000 each year is dedicated to gambling addiction services, and this amount does not grow with an increase in sports betting activity. This small amount of money may not be enough to help people who are harmed by the legalization of sports betting in Colorado.
- 2) Proposition DD tries to tackle Colorado's water needs without providing enough detail or money. Specific water projects are not identified, and some may have potential unintended consequences for the environment and some communities. Additionally, Proposition DD will pay for only a portion of the Colorado Water Plan.