

GOV. JUSTICE STANDS FIRM ON SPORTS BETTING INTEGRITY FEE, STATE WILL PAY NOTHING

CHARLESTON, WV — Gov. Jim Justice said that a tentative agreement was reached Wednesday between the Lottery commission, the state's licensed casino operators, and the sports consortium that will enhance sports betting in West Virginia.

"I insisted from day one that no part of an integrity fee for sports betting would be paid by the state," Gov. Justice stated. "I demanded that the entire fee be paid by the casinos."

"This was a difficult negotiation between many different parties, but the outcome will be very good for the State of West Virginia as well as the sports leagues," Gov. Justice added.

"Additional dollars received by the state from sports betting will be utilized for the benefit of many of our residents. However, all of this is a moot issue until the U.S. Supreme Court rules on the legality of sports gaming across the country."

Lottery director Alan Larrick and his staff will be working on ways to implement the integrity fee and will determine what, if any, legislation is needed for codification.

The potential legalization of sports betting around the US is raising a lot of questions for states that are delving into the topic.

Should they legalize it at all? What's the proper tax rate? Who can offer sports betting?

But a new issue is going to be cropping up in statehouses around the country, and possibly even Congress: "Integrity fees." What are they and how can they impact the sports betting landscape in the US? What is a sports betting integrity fee?

Integrity fees, as they've been advanced in some states, are basically taxes on legal sports betting.

They are apparently the brainchild of the NBA and Major League Baseball as they look to find a way to profit from the proliferation of sports betting in the US. The fee would transfer money from sportsbooks to the leagues themselves.

It first cropped up in Indiana. Then the NBA advanced it as its preferred policy around the country at a hearing in New York. NBA and MLB are also opposing legislation that does not include an integrity fee.

It's not an entirely new idea. For instance, pro leagues in both France and Australia already get a small percentage of wagers made in those jurisdictions.

Whether integrity fees ever get implemented depends on the outcome of the New Jersey sports betting case in the US Supreme Court. The federal ban on single-game

wagers would need to be struck down before integrity fees become reality anywhere. How does an integrity fee work?

An integrity fee, as proposed, would tax handle at a rate of one percent, payable to each league on which sports wagering would occur.

Some people who are new to the sports betting industry confuse handle for revenue. Handle is the total amount wagered by bettors, so it's a gauge of how much money is flowing through sportsbooks. Revenue, on the other hand, is how much sportsbooks hold from the total amount wagered. Historically, this number comes in at about five percent of handle for sportsbook operators.

A integrity fee of one percent, then, would send that amount of wagers from the sportsbooks to the leagues, regardless of the revenue picture of the sportsbook. Using a baseline of five percent hold, a one percent integrity fee would equate to roughly 20 percent of revenue going to the leagues.

The fees, at least as written in the legislation we've seen so far, have no strings attached to them. It's just a transfer of money from gaming operators to the leagues. How much could leagues make from integrity fees?

A lot. On a single state basis — especially small states — the money the NBA, MLB and other leagues might not profit from sports betting integrity fees.

Using a possible mature sports betting market of around \$200 billion — if the federal law is struck down in the New Jersey sports betting case — that means about \$2 billion in integrity fees would be paid out. That translate to hundreds of millions going to individual leagues like the NFL, NHL and the NCAA, possibly.

Of course, there's already been some resistance to the idea of integrity fees in several states, so it's not at all clear if this will get ported to a large number of states. Why are integrity fees a bad idea?

There are several reasons to be skeptical of integrity fees:

Taxing handle is not a great idea, because it is not tied to revenue. Sports betting will be a new industry in a lot of states. For all, it's only legal in Nevada currently in the US. If margins are even lower than in Nevada to start, that means an even larger portion of revenue is going to leagues.

Why do the leagues deserve the money? Yes, the leagues' contests are the basis for betting. But the leagues are playing no functional role in the industry. The state will be regulating it. The sportsbooks are operating it.

The leagues simply exist.

It takes away from state revenue. Why would states simply want to give money away to the leagues? They would likely be lowering their own tax rates in order to make this work. Enriching leagues at the cost of money that could go to state coffers is a difficult decision to defend.

It hurts consumers and businesses. If the cost of doing business increases for sportsbooks operating legally in the US via integrity fees, they'll likely attempt to pass that cost on to consumers. That would make it more difficult for legal books to compete with offshore books that are serving Americans illegally already. If the goal is to move all betting to regulated markets, states should be interested in keeping costs down. Integrity fees don't do that.

Why are integrity fees a good idea?

There are certainly costs for leagues that are associated with a proliferation of sports wagering. They'll have to increase the amount of time and money that they spend on data monitoring and integrity protocols.

Of course, a regulated market gives them insight into sports betting markets that they do not have access to now. Namely, we're talking about the black market — offshore sportsbooks worth tens of billions of dollars in handle annually.

Anyway, integrity is a concern for everyone — leagues, players, sportsbooks and governments. It deserves attention and money devoted to it. An integrity fee could help integrity, if implemented correctly.

Ohio County Delegate Shawn Fluharty is questioning the legality of what he calls a "back door meeting" held on Wednesday with West Virginia Governor Jim Justice, the Lottery commission, the state's licensed casino operators and the sports consortium on sports betting and the integrity fee.

Delegate Fluharty says he's now considering taking action in circuit court to remedy the situation.

The West Virginia legislature passed a bill to legalize sports betting in its last session earlier this year and now the state is waiting on a Supreme Court to decide if it's legal across the United States.

As a result of Wednesday's meeting, Governor Justice said in a press release that a tentative agreement was reached and work will now begin on ways to implement an integrity fee, as well as to determine if any formal legislation is needed.

Governor Justice stood firm in that same press release saying that no part of the integrity fee would be paid by the state.

He referenced Wednesday's meeting saying negotiations were difficult:

"This was a difficult negotiation between many different parties, but the outcome will be very good for the State of West Virginia as well as the sports leagues."

He also added that money received by the state from betting will be used to benefit West Virginia residents, pending the Supreme Court's decision.

Some in the House of Delegates don't believe it.

"His answer is he wants to go back, re-open something that's already been signed, sealed and delivered and give money that's currently going to West Virginians and give it to billionaire leagues outside of West Virginia because coincidentally they hold functions at The Greenbrier where he may or may not make a good bit of money from it," said Delegate Shawn Fluharty (D-Ohio).

Delegate Fluharty is also questioning the meeting where these decisions on the integrity fee were made, saying it violates the state's open meetings law because it wasn't open to the public and no notice was given.

He also explained that at this meeting there was the intent of public or government action taking place, another reason why he feels it falls under the open meeting law.

"If we're talking about integrity fees, I think we need more integrity in our government right now," he said. It's a clear infraction of that law, which we have on the books for a reason. That reason's to keep from back door deals taking place involving the government and it shouldn't be headed up by our own Governor."

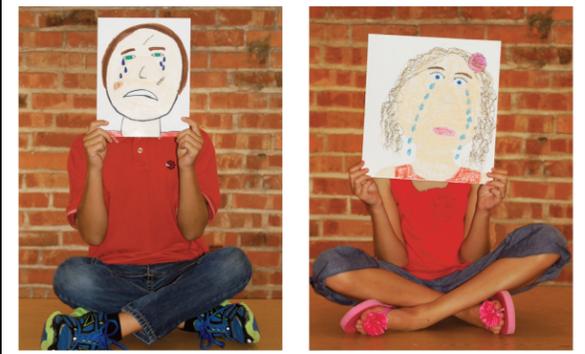
Fluharty was a heavy supporter of the initial sports betting legislation, but says this closed door meeting is possibly a misdemeanor, and he's considering filing a suit in circuit court.

"I think there are certainly many people who agree with me in that realm and would like to see whatever happened at that meeting come to light," Fluharty added. "You can't keep things in the darkness and expect the legislature to follow through and say 'oh hey we reached a deal now all 130 of you have to agree to it'. That's not how this works."

We reached out to Governor Justice's office for comment on this issue.

"As for the sports betting tentative agreement, the process is still in the very early stages and many details still need to be worked out. There is no other comment and no other information available at this time."

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