



THE HISTORY AND LAW BEHIND SPORTS WAGERING

MARCH 18, 2019



DGC ENTERTAINMENT
GROUP, LLC

Agenda

- History
 - Ancient Greece and Ancient Rome
 - America
 - Arguments for Prohibition
 - PASPA
 - Prohibition Failed
- End of an Era
- Internet
- Time for a New Approach
- Today
 - USA
 - PR



Nothing New

- Evidence of sports wagering dates back to **ancient times**.
- Wagering on chariot racing, horses and athletic combat was common in Ancient Greece and Ancient Rome.
- For Romans, **race tracks** was a popular sport and a popular wagering activity.
- During medieval times, some religious leaders tried to make laws forbidding it. This forced sports betting **underground**, where it continued to exist and even grow as new sporting events were introduced to the world.
- Modern sports betting came about primarily from **horse racing**.
- In the UK, betting on horses became popular in the early 18th century.



Into the New World

- ❑ New World countries followed suit and by the late 19th century countries like US, Canada and New Zealand had formally established laws to govern gambling.
- ❑ Sports betting has always been popular in America.
- ❑ In the first half of the 20th century, prior to Nevada legalizing sports betting, the earliest forms of sports betting in the US consisted of wagering on boxing, horse racing, and cockfighting. Horse racing, in particular, gained widespread popularity, with horse tracks spreading rapidly across the east coast.





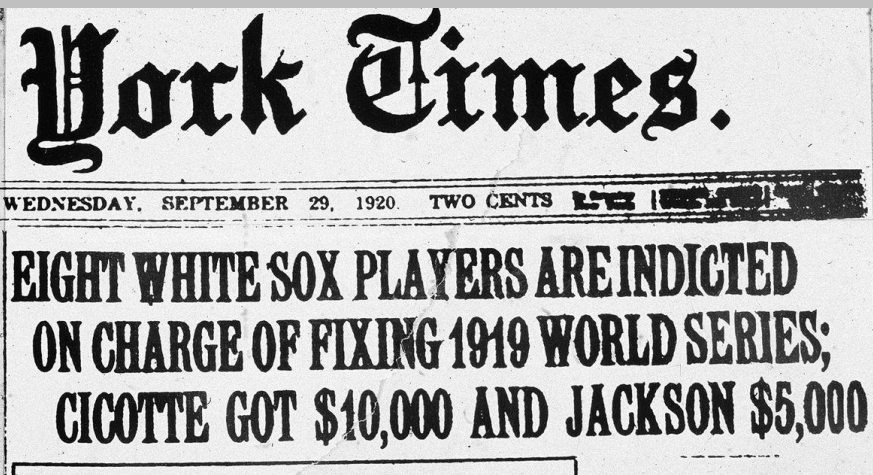
Horse racing

- ❖ In these early days of sports betting, the bets themselves were structured as “auction pools.” These pools auctioned bets for each horse in a given race. But this type of betting quickly fell out of favor with bettors, as they couldn’t wager on a horse that had already been selected by someone else.
- ❖ Recognizing the limited value of auction pools, bookmakers innovated by setting odds on individual horses, a method still used by bookmakers to this day. This resulted in a larger “handle,” or the total amount wagered by bettors, on horse races. By the 1920s, there were more than 300 race tracks in the US, despite that by 1910, most states had prohibited gambling, and horse racing had been banned in New York. The only legal gambling options that remained were horse races in Maryland and Kentucky.
- ❖ Gambling laws were, however, rarely enforced.



Amateur and Professional Leagues

- The popularity of horse racing was eclipsed as America's favorite type of sports betting with the rise of amateur and professional baseball leagues at the end of the 19th and beginning of the early 20th centuries.
- Baseball "pool cards," which offered players a range of betting options starting from as little as 10 cents a wager, gained popularity in eastern urban areas, despite being heavily weighted in the houses' favor.
- College football and basketball emerged as popular sports betting activities in the 1920s and continued to thrive through the years of the Great Depression.
- As America moved into the 1930s and the Depression worsened, attitudes toward gaming and alcohol shifted.



1930-1975

- In a sign that America's commitment to puritanical notions of "right" and "wrong" was wavering, Nevada legalized gambling in 1931, two years before the repeal of Prohibition.
- By 1949, Nevada had authorized single-game sports betting at stand-alone locations, while it authorized hotel sportsbooks in 1975.
- Two factors would prove critical to the rise of sports betting in the second half of the 20th century. The first was the invention of the point spread (the expected difference in the amount of points scored between two teams), and the second was the rise of television.
- But as sports betting grew, especially for the organized criminal networks that arose out of alcohol prohibition, the federal government sought oversight and regulation of the activity.



Arguments for SB Prohibition



One of the most common arguments for the prohibition of sports betting is the preservation of the integrity of sports.



Prohibitionists argue that betting erodes the integrity of sport, with players and referees tempted to fix games at the behest of criminal or other entities.



In Sen. Bradley's words, PASPA was intended to "protect sports from becoming a vehicle for promoting gambling among teenagers, ensuring that the values of character, cooperation, and good sportsmanship that have figured so heavily in the growth of athletic competition throughout the ages are not significantly compromised."

Taxation

- In 1951, Congress introduced a \$50 “occupational stamp” for bookmakers and imposed a 10% excise tax on the handle of sports bets.
- The tax made sports betting an unprofitable enterprise for Nevada casinos, leaving it in the hands of the so-called “turf clubs,” who often evaded the tax.
- Outside of Nevada, in the ‘60’s, organized crime continued to dominate the gambling and sports wagering markets.
- Eventually, Congress reduced the tax to 2% in 1974, sparking an economic boom in Nevada as casinos got in on the action, with the federal government able to capitalize on the subsequent tax revenue.



Congressional action

AGAINST ORGANIZED CRIME

- But the main driver of congressional action concerning gambling in the second part of the 20th century was the desire to deprive organized crime syndicates of the large profits to which they had become accustomed through control of the illegal sports betting market.
- Attorney General Robert Kennedy argued strongly that the federal government needed fresh legislation to tackle the mob's control of the illegal sports gambling trade, resulting in a series of laws passed in the 1960s and 1970s.
- The Wire Act, the Travel Act, the Interstate Transportation of Wagering Paraphernalia Act, and the Illegal Gambling and Business Act were intended to disrupt the mob's ability to operate a successful illegal betting operation.



PASPA

- ❖ After gestating for a few years in both the US House and Senate, in 1992, Congress passed the Professional and Amateur Sports Protection Act (PASPA), championed by NBA Hall of Famer and former U.S. Senator Bill Bradley, effectively outlawing sports betting in most of the U.S.A.
- ❖ Under PASPA, states are prevented from creating a legal framework for offering sports betting within their borders.
- ❖ PASPA allowed sports betting schemes conducted by states in prior years to continue on, unfettered. By the time, Nevada had a long-established SB ecosystem . Oregon, Delaware and Montana claimed their states' limited form of sports gaming were also grandfathered.
- ❖ New Jersey was given a one-year window after PASPA's passage in which to legalize sports betting schemes that could retroactively be exempted under PASPA. But the state legislature was unable to agree and pass sufficient legislation in time.



Internet

- The next major advancement in sports gambling was the emergence of online casinos in the 1990's and related sportsbooks
- When casinos began to offer their games online, the past time took off.
- The rise of internet betting over the next decade generated renewed focus on the issue from some in the federal government. This ushered in the Unlawful Internet Gambling Enforcement Act (UIGEA) of 2006.
- In fact, sports fans find it much more convenient to place their bets online.
- There are now hundreds of online gambling options that are beginning to dominate the traditional bookmaking



Prohibition failed

- With PASPA's passage came an increase, not a decline, in illegal sports betting. The American Gaming Association estimates—conservatively—that Americans wagered roughly \$150 billion on sports illegally in 2016.
- During the 2007 NBA season, for example, ex-referee Tim Donaghy was found to have been betting on games he officiated and was linked to the Gambino mafia family. Meanwhile, point shaving and bribery scandals rocked college basketball teams at Northwestern, Arizona State, University of Texas-El Paso, and University of San Diego.
- Another concern had been the effect of sports betting on gambling disorders. Yet, there is no evidence that the prevalence of such disorders has declined since the passage of PASPA.



End of an era

- New Jersey State Senator Raymond Lesniak filed a lawsuit in 2009 claiming PASPA was **unconstitutional** and discriminated against states by creating exemptions for the four existing states with some form of legal sports wagering.
- The effort was unsuccessful and was dismissed on procedural grounds, with the court finding that only the governor and in some cases the state attorney general could represent the state when challenging federal law.
- Undeterred, New Jersey voters supported the legalization of sports betting in a non-binding **referendum** held in November 2011.
- The New Jersey State Senate supported the decision and Governor Chris Christie signed a bill into law in January 2012 that would have allowed Atlantic City casinos to offer sports betting options.

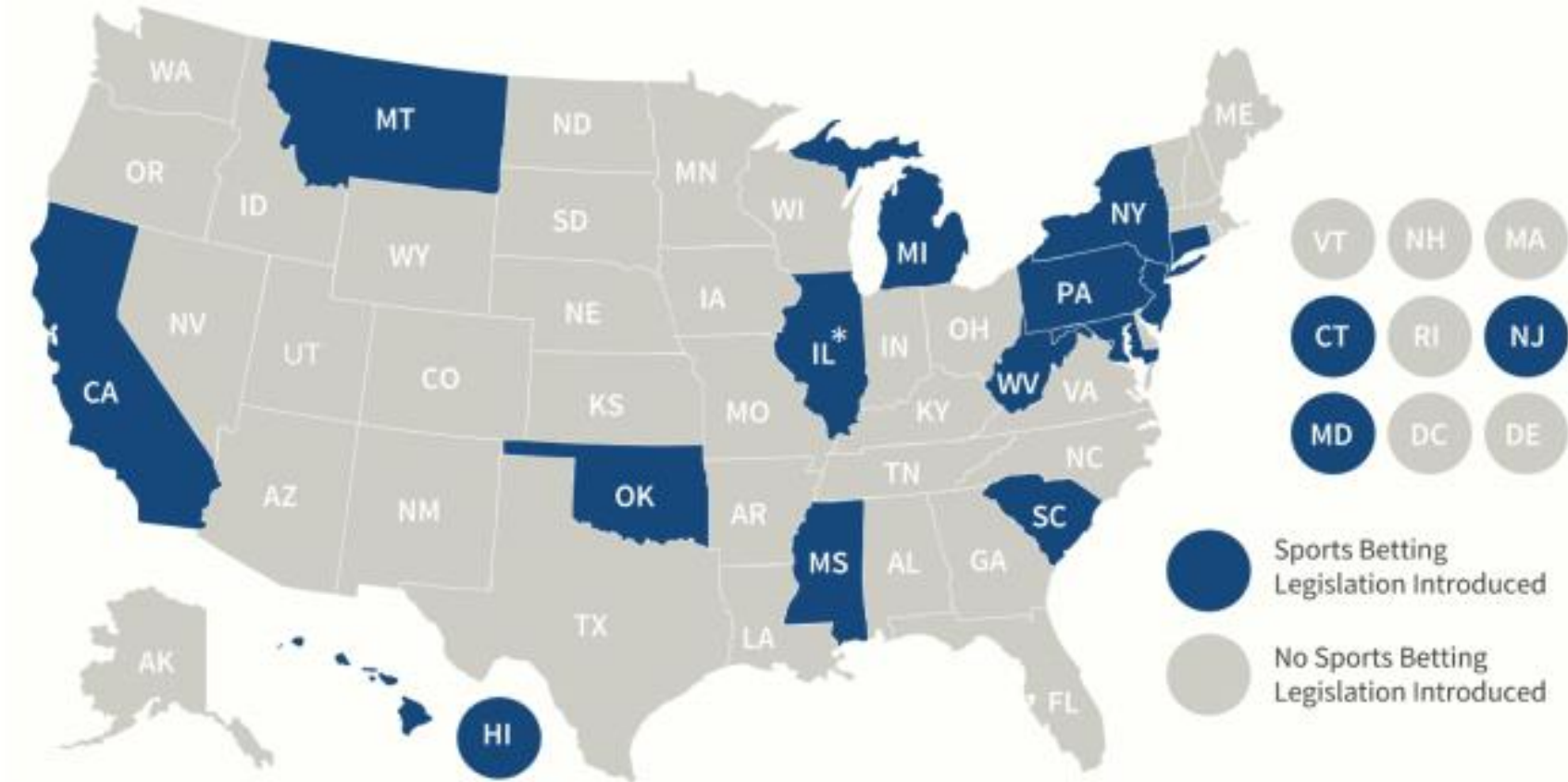
We owe it to New Jersey

- But a coalition of the NFL, NHL, NBA, MLB and NCAA sued to prevent New Jersey from implementing its plans for legal sports betting.
- After the plaintiffs were successful in district court, the state appealed but the Third Circuit Court of Appeals affirmed the lower court's decision based on PASPA, adding that the state could decriminalize sports betting if it wished.
- The U.S. Supreme Court refused to hear the case. New Jersey came back with another bill supported by Sen. Lesniak, which passed in June 2014. But again, the district court ruled against New Jersey and the Third Circuit Court of Appeals affirmed the lower court's ruling in a 2-1 decision.
- New Jersey was granted an appeal for an en banc decision in the Third Circuit but lost again in the summer of 2016.
- New Jersey again petitioned the Supreme Court.
- On June 27, 2017, almost six years after New Jersey began its sports betting odyssey, the high court agreed to take the case.



In the meantime...

STATES LEGISLATURES BEGAN TO LEGALIZE SPORTS BETTING IN 2017



Leagues Softening Stance

NFL Commissioner, Roger Goodell:

"All of us have evolved a little on gambling."

MLB Commissioner, Rob Manfred in

April 2017:

"Sports gambling has changed a lot. The old vision of betting illegally with a bookie somewhere is not today's world. And, we've begun a conversation, educating people about what's out there, what sports leagues in other countries have done, in an effort to make sure that Major League Baseball's ready to join in what I think is going to be a dialogue about how sports gambling regulation in the United States should be changed."

NBA Commissioner, Adam Silver in a November 2015 New York Times op-ed: "...[T]he laws on sports betting should be changed. Congress should adopt a federal framework that allows states to authorize betting on professional sports, subject to strict regulatory requirements and technological safeguards...sports betting should be brought out of the underground and into the sunlight where it can be appropriately monitored and regulated." In 2017, with support for legalization growing, he confirmed his belief that "legalized sports betting is inevitable".





Time for a new approach

BASED ON:

- ❑ **Strict** regulations
- ❑ Rigorous consumer **protections**
- ❑ **Taxation** of revenues to benefit local communities
- ❑ Robust tools to help law enforcement **eliminate illegal** sports betting and strengthen the integrity of games



TODAY





- By 2023 the projected market size is \$3.1 billion (in 25 states)¹
- Experts estimate in \$8.1 billion the potential size of US online betting market ¹
- Approximately \$150 billion is bet on sports illegally in the U.S. each year
- Nearly \$4billion is bet on sports legally in Las Vegas yearly
- An estimated \$80billion to \$380billion is wagered illegally through a shadow industry of offshore online betting houses, office pools and neighborhood bookmakers²

¹<https://gamblingcompliance.com/us-sports-betting>

²The Washington Post: Sports gambling in U.S.: Too prevalent to remain illegal? –Will Hobson, 02/27/2015





- Despite PASPA's attempt to largely prohibit sports betting in the US, Americans have embraced it and continue to place bets on their favorite sports and teams.
- Instead of taking place in a regulated environment backed by consumer protections, the vast majority of sports betting today takes place underground.
- Nonetheless the vast majority of Americans who love sports wagering would stop participating in illegal sports betting and choose to place bets in a safe, legal, regulated and transparent environment





The question isn't whether Americans are going to bet on sports.

It's whether they will wager in an illegal, opaque market or bet in a fully regulated, transparent environment with robust consumer protections, strict law enforcement and rigorous, real-time monitoring to identify suspicious activity and protect the integrity of the games.



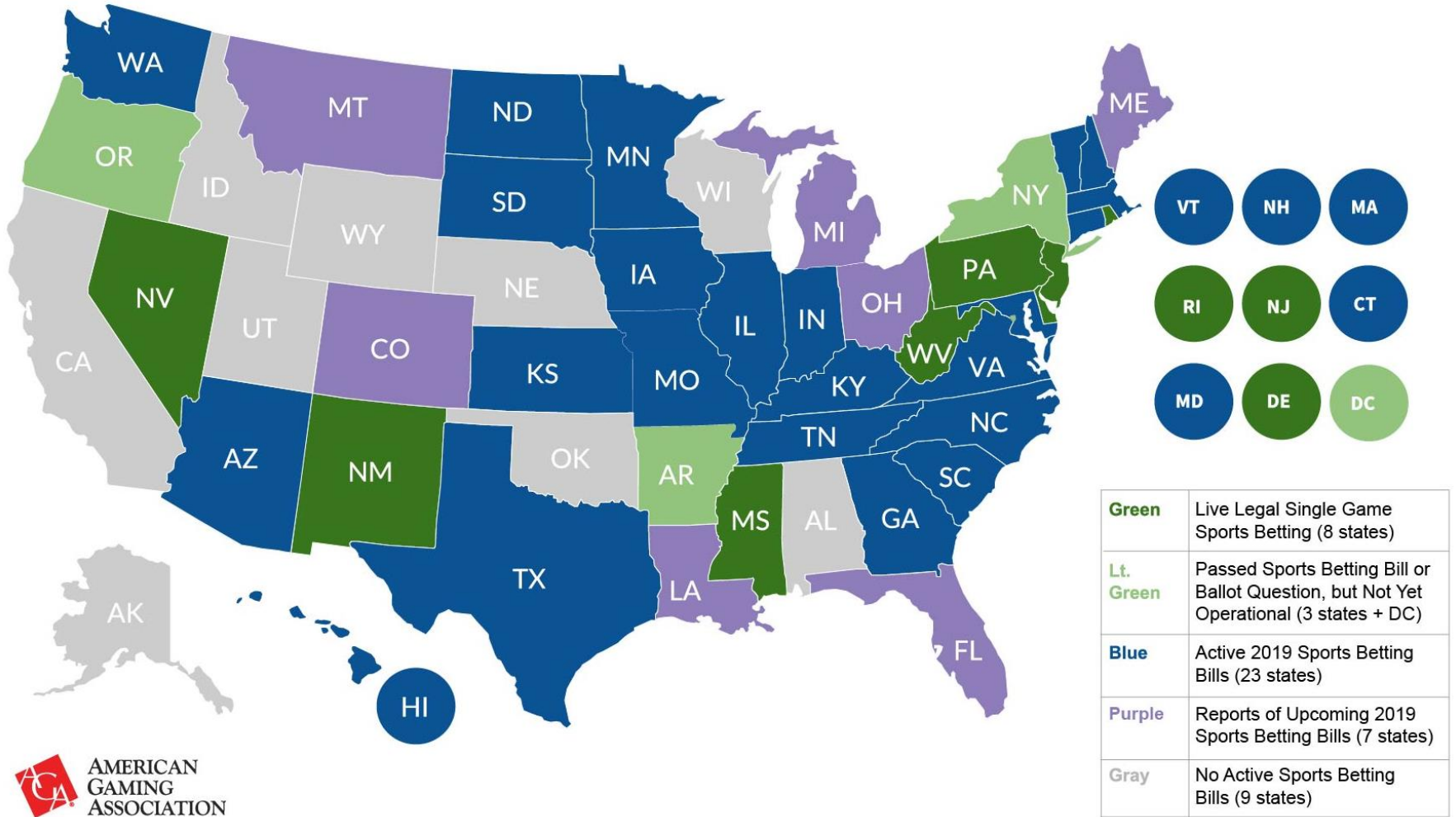
Overwhelming Public Support

2019

- Nearly 8 out of 10 (79%) Americans support legalizing sports betting in their state.
- An overwhelming majority of Americans (63%) support the Supreme Court's ruling that struck down the sports betting ban.
- 2 out of 3 people (66%) believe sports betting is best regulated by states and sovereign tribal governments.
- There is weak support (23%) for leagues getting a cut of wagers on sports. The majority of people (55%) opposed the idea.

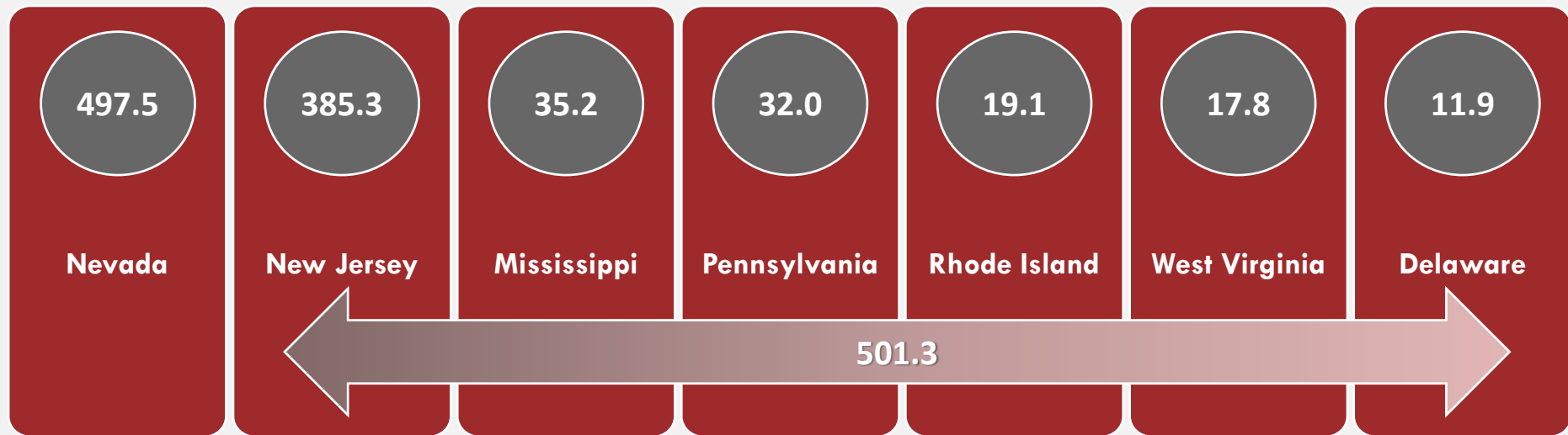


State Gaming Map



Historic Milestone in Wagering

THIS JANUARY, FOR THE FIRST TIME EVER, WAGERS (IN MILLIONS) IN NEW LEGAL SPORTS BETTING MARKETS EXCEEDED THE AMOUNT OF WAGERS PLACED IN NEVADA.



\$998.8 MILLIONS LEGALLY WAGERED IN JANUARY







THE MOST VALUABLE PLAYERS RANKED BY IN TOTAL MARKET VALUE

Player	Team	Market Value
Christiano Ronaldo	Manchester United	€100m
Lionel Messi	Barcelona	€90m
Kevin De Bruyne	Manchester City	€75m
Harry Kane	Tottenham Hotspur	€70m
Virgil van Dijk	Liverpool	€65m
Robert Lewandowski	Barcelona	€60m
Neymar Jr	Paris Saint-Germain	€55m
Eden Hazard	Chelsea	€50m
Thiago Silva	Chelsea	€45m
Andre Schurrle	Chelsea	€40m

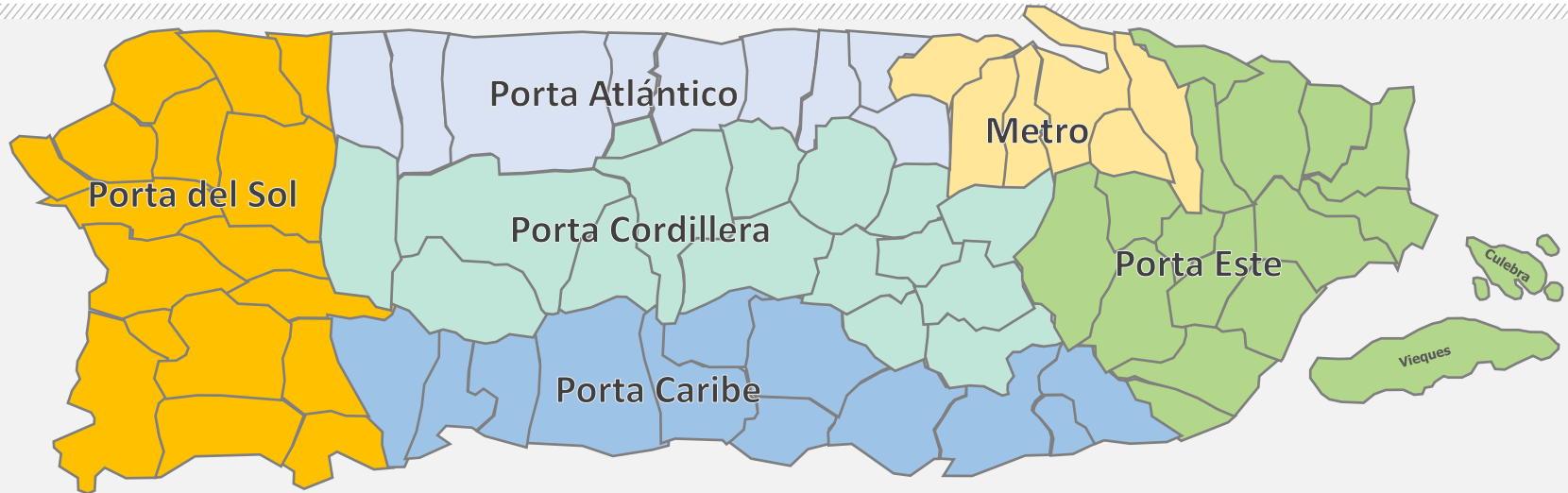


Puerto Rico

Gambling Sites



Touristic Regions



The PR Tourism Company divides Puerto Rico in six (6) Regions

Porta del Sol

Aguadilla
Rincón
Aguada
Añasco
Mayagüez
Hormigueros
Cabo Rojo
Moca
San Germán
Lajas
Isabela
San Sebastián
Las Marías
Maricao
Sabana Grande
Guánica
Lares
Yauco

Porta Atlántico

Camuy
Hatillo
Arecibo
Barceloneta
Florida
Manatí
Vega Alta
Vega Baja
Dorado
Toa Alta
Toa Baja

Porta Cordillera

Adjuntas
Utua
Jayuya
Ciales
Morovis
Orocovis
Corozal
Barranquitas
Naranjito
Aibonito
Comerio
Cidra
Cayey

Porta Caribe

Guayanilla
Peñuelas
Ponce
Juana Díaz
Villalba
Coamo
Santa Isabel
Salinas
Guayama
Arroyo
Patillas

Metro

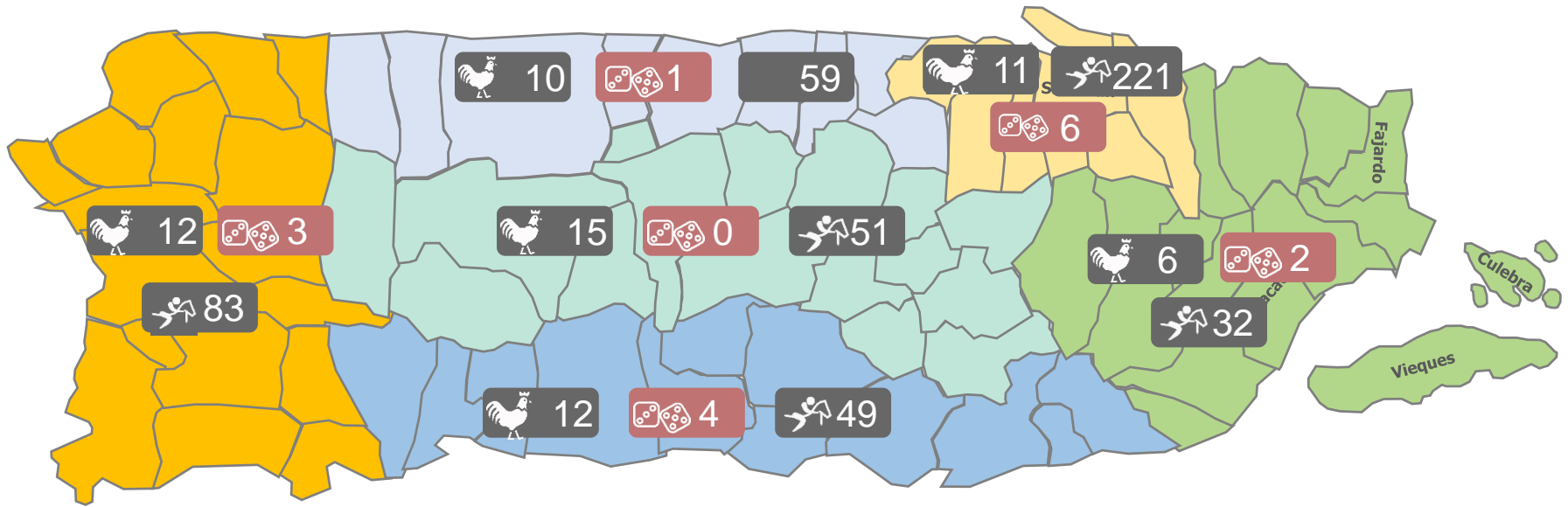
Cataño
Bayamón
Aguas Buenas
Guaynabo
San Juan
Caguas
Trujillo Alto
Gurabo
Carolina

Porta Este

Loíza
Canóvanas
Juncos
San Lorenzo
Río Grande
Las Piedras
Yabucoa
Maunabo
Luquillo
Naguabo
Humacao
Ceiba
Fajardo
Vieques
Culebra



Gambling Venues



 Cockfighting Arenas – “Galleras”

66

 Casinos

16

 Off track betting agency – “Agencias Hípicas”

495



Benefits of legalized Sports Betting

- Fans are more engaged when they bet on sports. That would translate into higher viewership and other forms of participation.
 - By driving additional viewership, sports betting would increase revenue for broadcasters, both directly and indirectly through advertising. Sports leagues, in turn, would benefit from this revenue uplift through increases in the price of rights sold to broadcasters.
- Being able to bet legally in a well-regulated market also provides fans with greater assurance that they will be paid if their bet wins. Also, it gives bettors easier access to legal recourse in the event of disputes.
- Sports betting companies offer consumers ways to manage their betting in order to reduce compulsive gambling. (Many U.S. casinos already do this for other forms of gaming.)
- Game-fixing would be further reduced, thereby enhancing the integrity of the games fan love and watch.



Other Benefits

- A legal U.S. market that offers sports betting could generate significant new economic activity and tax revenue that would benefit local economies and state governments. Much of this revenue would come about from a shift in betting activity from offshore and illegal markets to a new, legal domestic market.
- Tax revenues support job creation and economic development.
- When betting takes place in open and transparent markets, sportsbooks have strong incentives to make payouts when a bettor wins. In addition to the threat of legal and regulatory sanction, sportsbooks seek repeat customers, and failure to make a payout would damage the sportsbook's reputation and ability to retain customers.
- Sports betting will generate other businesses and indirect benefits, like any other industry coming into a state.



It's time

- ❑ create a legal framework;
- ❑ put an end to the massive illegal gambling market;
- ❑ protect the integrity of sports;
- ❑ ensure the integrity of sports betting and sports themselves through appropriate licensing and regulation by state and tribal gaming commissions;
- ❑ make all sports betting businesses transparent to law enforcement;
- ❑ ensure a tax regime does not undermine regulated sports betting operations' ability to compete against illegal offshore operators.



SPECIAL THANKS TO:

- Several slides or content are from
 - Greg Gemignani – Dickinson Wright PLLC
 - UNLV International Center for Gaming Regulation (January Chamber of Commerce Conference)
 - American Gaming Association
 - American Sports Betting Coalition

