The state of gambling in the Midwest already varies considerably from one jurisdiction to the next.

Want to try your hand at a casino table game? You have no such chance on one side of the Iowa-Nebraska line, where the latter’s constitutional language prevents commercial casinos. Cross the Missouri River from Omaha into the Iowa town of Council Bluffs, though, and three casinos are only minutes away.

How about playing a table-style casino game while at a bar or other local establishment, via a “video gaming terminal”? In Illinois, more than 6,000 locations now have these terminals. For most other states in the region, this type of activity is nonexistent, or at least limited to charitable or tribal gaming.

These state-by-state differences in gambling are the result of a mix of constitutional language, politics and legislative decision-making. These same factors are likely to cause states in the Midwest to take varying approaches to intrastate sports betting. In May, the U.S. Supreme Court overturned a federal law that had blocked this type of gambling activity, and a handful of states outside the region already have new laws in place.

In some Midwestern states, the odds seem pretty good that sports betting will be authorized (maybe as early as next year). In others, legalization appears much more of a long shot.

This year, bills to authorize sports betting have been introduced in six of the Midwest's 11 states. Not coincidentally, each of these states — Illinois, Indiana, Iowa, Kansas, Michigan and Ohio — already has existing commercial or non-tribal casinos up and running. (Many of the introduced measures would run sports betting through these licensed gambling establishments.)

“Sports betting will continue to pick up momentum in the states, but I also think you’re going to see some resistance,” says Drake University law professor Keith Miller, co-author of the 2016 book “The Law of Gambling and Regulated Gaming.”

“I’ve seen some estimates that within a year, 35 states [across the country] will have legalized sports betting. I would take the under on that; I don’t think it’s going to expand that quickly.”

That’s partly because some lawmakers will oppose what they view as a major expansion of gambling, and also because of the newness and complexity of the policy issue. With debate over sports betting expected to intensify in the months ahead, here are four questions that the Midwest’s legislators will be asking as they consider any new legislation.

Question #1: Will there be a rise in problem gambling?

One of the arguments for legalizing sports betting is that it is happening already — illegally, via offshore or online sports books.

“We’re not creating an activity; the numbers show that,” says Indiana Rep. Alan Morrison, who has sponsored legislation in his state (HR 1325). National estimates have ranged anywhere from $50 billion to $150 billion a year.

By legalizing sports betting, Morrison says, Indiana can regulate operators, strengthen consumer protections, improve business for the state’s existing casinos, and bring in some additional tax revenue for the states.
But Miller says there are downsides to consider as well, including a potential rise in problem gambling. Keith Whyte, executive director of the National Council on Problem Gambling, says one group should be of particular concern — young males between the ages of 18 and 24. They are most likely to bet on sports, are prone to gambling problems, and would be most impacted by advertising and increased availability, he says.

“What we see coming down the pike with technology is that you’ll be able to bet on every single play, every single action, every single athlete, every single game, every single sport — 24-7,” Whyte adds. “A vast majority of Americans have not had that kind of betting at their disposal.”

The council is neutral on legalization, but it does advocate that states include certain provisions in any new law. One is to adequately fund prevention and treatment services; the council recommends 1 percent of a state’s total gaming revenues (U.S. states currently fall very short of this figure).

“A person with an untreated gambling problem generates enormous health care and criminal justice costs,” Whyte says. “Every dollar you spend saves at least $2 in those costs.”

Secondly, the council recommends that states require sports-betting operators to implement “responsible gaming programs.” That includes training for employees, allowing problem gamblers to join self-exclusion lists, and setting limits on the time and money spent by an individual bettor.

**Question #2: What should be the state’s sports-betting tax rate?**

For operators, sports betting is much different than slot machines or table games: The outcomes are much less predictable, and profit margins are smaller.

“When you hear sports betting in the United States is a $150 billion industry, that is simply how much is bet,” Miller notes. “The sports book historically retains about 5 percent of that. So if you tax that [revenue from sports betting] too much, the sports book raises prices to make a profit. And people aren’t going to migrate [from the illegal market to the legal market] if the pricing isn’t attractive.”

And as Iowa Rep. Jake Highfill says, “If we don’t get people to come off the black market, is it really worth doing this?”

He believes Iowa’s tax rate should be between 7 percent and 8 percent of revenue; that figure is similar to what has been introduced in Indiana (9.25 percent, under the 2018 legislation).

“As we’ve started to learn the dollars and cents a little more, there is a magic line of about 10 percent on the take,” Rep. Morrison says. “You ultimately can’t go over that line.”

According to the online publication Legal Sports Report, states that have already authorized sports betting have taken different approaches to taxation — for example, a rate of 6.75 percent in Nevada vs. 36 percent under Pennsylvania’s new law. New Jersey is taxing at 8.5 percent for land-based sports betting, 13 percent for online wagering run by casinos, and 14.25 percent for online betting operated by racetracks.

One related question for states is whether a portion of the sports-betting revenue should go to the NFL, NBA and other leagues, through what has been called an “integrity” or “royalty” fee.

Morrison had included such a fee in his 2018 legislation, but he doesn’t want one in next year’s version, in part because of what he has learned about the relatively low profit margins. Highfill says that he would “never have an integrity fee in any bill that I run.”

Nationwide, Miller says, states appear to be turning against the idea of giving professional sports leagues or other entities a piece of the new revenue pie. “The leagues fought and resisted [legalization], and if you’re a legislator, you say, ‘Now they want to be compensated?’ ” Miller says. “New Jersey was vocal about not including this kind of fee. That has spread to other states.”

**Question #3: What should states expect in terms of new revenue?**

States will gain revenue from legalized sports betting, but exactly how much is unknown. The fiscal note on Indiana’s legislation (HB 1325[13] and SB 405[4]) estimated an increase of anywhere from $3.1 million to $18.8 million. In Iowa, Highfill says, “we think anywhere between $3 million and $15 million.”

In a presentation this summer at The Council of State Governments’ Midwestern Legislative Conference Annual
Meeting, Lisa Soronen, executive director of the State and Local Legal Center, said sports gambling should not be viewed as a “get-rich-quick scheme” for states. (CSG is a member organization of this center.) She noted that in 2017, Nevada’s tax collections on gambling totaled $875 million; of that amount, only $16.6 million came from sports betting.

“Out of our annual budget of $16 billion here in Indiana, [additional revenue] from sports betting will be a fraction of that,” Morrison says. “But if we can add, say, $20 million to the budget that wasn’t there before, it’s worthwhile.”

New Jersey is projecting an additional $13 million during the first full year of sports betting.

“This shouldn’t be sold as a game changer to states in terms of tax revenue,” Miller says. “Any state legislator is going to want to look realistically at this as they weigh the costs and benefits. The benefits are that you are going to get some new revenue, create some economic activity at your casinos. The drawbacks are that, given the demographics of people who bet on sports — mostly young people — you have issues of problem gambling that could develop.”

**Question #4: How and where will people be able to bet on sports?**

Most of the new laws and proposed legislation would run sports betting through existing, licensed gambling establishments such as casinos. Stand-alone sports betting operations are typically not authorized. Though the clout of existing casinos cannot be overlooked in the reasons for this policy choice, Miller says, there are also good reasons behind it.

Casinos already are licensed and regulated, he notes, with a history of running gambling operations with integrity. Some states’ constitutions and statutes, too, may make it more difficult to allow for sports betting by new entities.

One possible competitor to casinos, though, is state-run lotteries.

“They can say, ‘We already have a network of distribution set up, we can give the state more control over the profits and operations, and we can make it easier for people to participate,’” Miller says. “People could go the convenience store and place a sports bet on a machine, rather than having to go to a [gambling-based] property.”

Under a 2018 bill in Kansas (HB 2792), for example, sports betting could be done at the state’s lottery retailers.

Regardless of the entities authorized to offer sports betting, states are likely to give bettors the option of wagering on smart phones and other mobile devices (after registering with a licensed gambling establishment).

In Michigan, the House passed legislation earlier this year (HB 4926, 4927 and 4928) that while not specifically authorizing sports betting, would allow for other types of internet wagering via the state’s commercial or tribal casinos.

Rep. Brandt Iden, a sponsor of the three-bill package, says this change in Michigan law would provide a greater layer of consumer protection for an activity that is already occurring, but minus state oversight.

“When you legalize this activity and regulate it, you’re able to monitor betting habits,” he says. “So we’re actually going to be able to do a better job with the online format of identifying people with gambling problems.”

Iden believes the Michigan Legislature will legalize internet gambling by early next year, and he expects consideration of a law on sports betting to follow soon.

One major federal restriction remains regarding any type of mobile wagering, whether it’s on a sporting event or a game of poker: The Wire Act of 1961 bars interstate gambling.

Take this scenario as an example: Illinois legalizes sports betting, and a resident of the state registers with a casino in the state to place bets via his or her phone. The resident could not place a bet whenever he or she is outside the state’s lines.

“Any expansion into interstate betting is going to require Congress’ participation,” Miller notes.

States do have the authority to decide who can bet (age restrictions, for example) and what games can be bet on.
Under the New Jersey law, wagers cannot be placed on collegiate athletic events taking place in the state or involving New Jersey teams. But Miller doesn't believe this type of restriction will be duplicated in many other jurisdictions, including his home state of Iowa, where there aren’t professional sports teams and where wagering on university sports would likely be a big part of the betting activity.

5 notable trends in gambling activity, legislation and laws in Midwest

1. RISE OF LOCAL VIDEO GAMING IN ILLINOIS
At the end of 2017, more than 6,300 locations in Illinois had video gaming terminals. Tax collections from these devices totaled $390.8 million, an increase of 119 percent from just four years ago. This activity is the result of a 2009 state law allowing licensed bars, fraternal and veterans establishments, and truck stops to install up to five video gaming terminals. The state receives 30 percent of the revenue generated from these machines (one-sixth of that total goes to the host municipalities).

2. MORE FOCUS ON FANTASY SPORTS
Two years ago, Indiana became one of the first U.S. states with a law (SB 339 [7]) legalizing fantasy sports, charging a licensing fee for game operators ($50,000, plus a $5,000 annual renewal), and regulating this activity through its Gaming Commission. This summer, the Indiana Supreme Court heard arguments in a case that could have big implications for the industry, and sports betting in general. According to The Indianapolis Star [8], the question is this: Is a fantasy sports company required to pay players for the use of their names, photos and statistics, based on the terms of Indiana’s “right of publicity” law?

3. EARLY ACTION ON LEGALIZED SPORTS BETTING
In 2018, six states in this region (Illinois, Indiana, Iowa, Kansas, Michigan and Ohio) had at least one piece of legislation introduced to legalize sports betting. Among the major questions: Who gets authorized to conduct the sports betting (most of the bills say existing casinos in the state)? What tax rate should be imposed on these new gaming revenues, and should sports leagues and college sports teams get some piece of the profits? Should the legislation allow for gambling via the internet and on mobile devices, or should this activity be confined to in-person bets made at a casino?

4. MICHIGAN’S MOVE ON INTERNET GAMBLING
Michigan would become the first Midwestern state to legalize and regulate online gambling under a three-bill package (HB 4926, HB 4927 and HB 4928 [6]) approved in June by the House. The proposals would allow online gaming through existing land-based casinos, including tribal casinos that rework their compacts with the state. Casino profits from this internet gambling activity would be taxed at 8 percent under the House-approved measure. A handful of states outside the Midwest already have legalized internet wagering.

5. MINNESOTA’S BIG JUMP IN CHARITABLE GAMBLING ACTIVITY
Minnesota tops the nation in charitable gambling activity, with gross sales of more than $1.7 billion. Nonprofit groups (fraternal, religious, veteran and community organizations) sponsor various games in more than 2,700 bars, restaurants and other sites around the state. Between 2012 and 2017, charitable gambling sales jumped by 63 percent, driven in part by the Legislature’s decision six years ago to legalize electronic pull-tab games. Last year, North Dakota legalized the use of electronic pull tabs for charitable-gaming purposes (HB 1216 [9]).