

**DD**

# **Proposition DD: Legalization and Taxation of Sports Betting**

1 **Proposition DD, if approved, would:**

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

8 **What your vote means:**

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**YES/FOR**

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/AGAINST**

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.

# Legislative Council Draft

## 1 **Summary and Analysis for Proposition DD**

### 2 **Why is Proposition DD on the ballot?**

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

### 10 **What is sports betting?**

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

### 13 **What types of gambling are currently legal in Colorado?**

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

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

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

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

### 32 **What happens if Proposition DD passes?**

- 33 • Placing sports bets of any amount will be legal for people 21 years of age or  
34 older who are located in Colorado beginning May 2020.
- 35 • People will be able to place sports bets through online or mobile sports betting  
36 platforms operated by Colorado casinos.
- 37 • If voters in Black Hawk, Central City, or Cripple Creek approve a separate  
38 ballot question to legalize sports betting in their cities, casinos will also be able  
39 to offer in-person sports betting.
- 40 • Sports betting will be taxed and regulated, with the tax revenue distributed to  
41 pay for water projects and water-related obligations, the regulation of sports  
42 betting, a hold harmless fund, and gambling addiction services.

# Legislative Council Draft

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

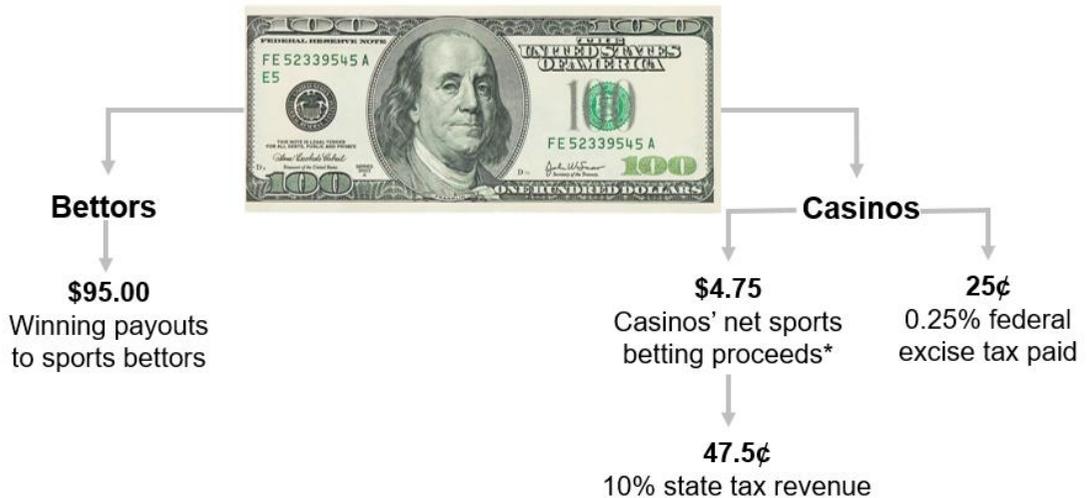
2 Sports bets will be allowed on professional, collegiate, international, and Olympic  
3 sporting events, as well as sanctioned motor sport events. Proposition DD  
4 restricts the types of bets allowed on college sporting events by prohibiting bets  
5 on individual performance statistics or events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

## 8 How will sports betting be taxed?

9 This measure will establish a tax of 10 percent on casinos' net sports betting  
10 proceeds. Net sports betting proceeds are the amount kept by casinos after  
11 deducting payouts to winners and the federal excise tax on sports bets. Figure 1  
12 provides an example of how money from sports bets will be disbursed, including  
13 tax revenue and winner payouts, if Proposition DD passes.

14  
15

**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.*

# Legislative Council Draft

## 1 How will money from sports betting taxes be distributed?

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

10 **Table 1**  
11 **How Is Sports Betting Tax Revenue 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.
<b>Total</b>	<b>\$16.0 million</b>	<b>\$29.0 million</b>	

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

# Legislative Council Draft

## 1 **Who will regulate sports betting if Proposition DD passes?**

2 The Colorado Division of Gaming and the Colorado Limited Gaming Control  
3 Commission, which currently regulate the state's casinos, will be responsible for  
4 overseeing sports betting operations. They will develop rules, issue business  
5 licenses, and enforce all sports betting regulations. Casinos and online or mobile  
6 sports betting providers that apply for a license will have to pay a fee of up to  
7 \$125,000 every other year. These license fees, along with enforcement fines, will  
8 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:*

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

## 9 **Arguments For Proposition DD**

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

## 20 **Arguments Against Proposition DD**

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

# Legislative Council Draft

## 1 **Estimate of Fiscal Impact of Proposition DD**

2 **State revenue.** Proposition DD increases state tax revenue by up to \$6.5 million  
3 in budget year 2019-20 (partial-year impact) and up to \$29.0 million beginning in  
4 budget year 2020-21. This revenue is from the tax on casinos' net sports betting  
5 proceeds. The measure will also increase licensing fee revenue to the  
6 Department of Revenue by up to \$5.0 million every other year, starting in  
7 FY 2019-20. Fee revenue will vary year to year based on a two-year license  
8 renewal cycle. The tax revenue is exempt from constitutional spending limits, but  
9 the fee revenue is not.

10 **State expenditures.** Proposition DD increases state expenditures by \$2.0 million  
11 in budget year 2019-20 and by \$2.8 million in budget year 2020-21 for  
12 administrative and regulatory costs. Starting in budget year 2020-21,  
13 expenditures will also increase each year by a maximum of \$130,000 for gambling  
14 addiction services, up to \$1.7 million for distributions from the hold harmless fund,  
15 and up to \$27.2 million for water projects. Actual expenditures will vary based on  
16 revenue collected.

17 **Taxpayer impacts.** Proposition DD places a 10 percent tax on the proceeds  
18 generated by casinos that offer sports betting, or their net sports betting proceeds.  
19 The state will collect up to \$29.0 million in tax revenue paid by the casinos on  
20 approximately \$290 million in net sports betting proceeds beginning the first full  
21 budget year.

**DD**

# **Proposition DD: Legalization and Taxation of Sports Betting**

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- 2       • legalize sports betting;
- 3       • authorize a state tax on casinos' net sports betting proceeds;
- 4       • use sports betting taxes and fees to pay for the regulation of sports
- 5       betting, a hold harmless fund, and gambling addiction services; and
- 6       • dedicate the remaining tax and fee revenue to water projects and
- 7       water-related obligations.

8 **What your vote means:**

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**YES/FOR**

---

A "yes" vote on Proposition DD means sports betting will be legal and taxed in the state.

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**NO/AGAINST**

---

A "no" vote on Proposition DD means that sports betting will remain illegal in the state.

# Last Draft as Mailed to Interested Parties

## 1 **Summary and Analysis for Proposition DD**

### 2 **Why is this measure on the ballot?**

3 The state legislature referred this measure to the voters because the Colorado  
4 constitution requires the voters to approve new taxes. This measure asks voters  
5 to legalize and tax sports betting. The tax and fee revenue from sports betting will  
6 pay for the regulation of sports betting and provide a funding source for the  
7 Colorado Water Plan and other water-related obligations.

### 8 **What is sports betting?**

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10 Sports betting is currently illegal in Colorado. In May 2018, a U.S. Supreme Court  
11 ruling allowed all states to legalize sports betting.

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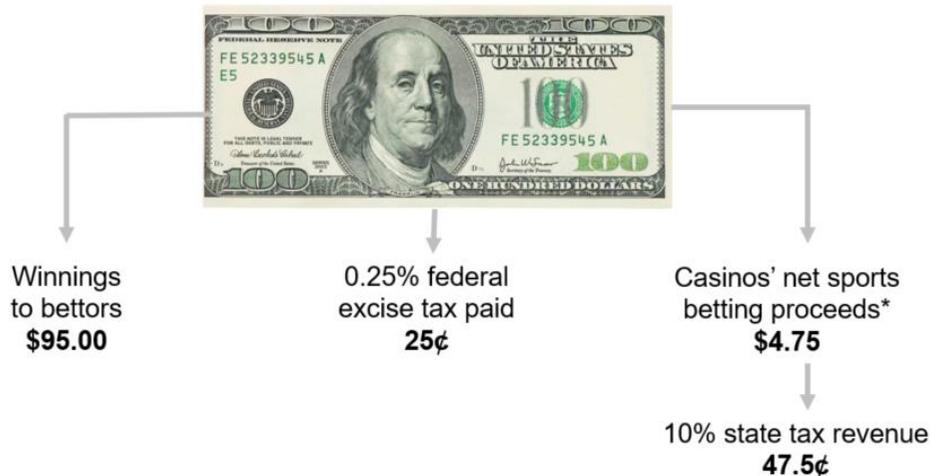
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14 **Figure 1. Where Does My Money Go if I Place a \$100 Sports Bet**  
15 **Under Proposition DD?**



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17 approximately \$290 million in net sports betting proceeds beginning the first full  
18 budget year.

# Last Draft Comments from Interested Parties

## Proposition DD Legalization and Taxation of Sports betting

### **Dick Brown, representing himself:**

This is very well done. I particularly like the graphic of the dollar bill. That should be helpful to the voters.

I'm a little concerned with the primary emphasis on funding for the state water plan. It makes it appear as if the proponents developed the proposal for the primary purpose of funding water projects. I do not think that is true. I think the purpose is for the casinos (that are the big supporters of the measure) to take advantage of sports betting now that it has been made a matter of state discretion by the US Supreme Court. I think proceeds to water is actually a marketing and advertising device to attract voters to support the measure - not that there is anything wrong with marketing. Using water for this purpose is not any different than hosting a music festival to get people to come to the casinos. My concern is that the write up is not properly balanced in that it puts too much emphasis on the water use and makes that look like the purpose. I would like to see the write up tempered a bit.

I know the portion of the write up that highlights proponent and opponent arguments is really a recitation of their lead points and we should give them great deference in expressing their opinions. However, I disagree with the assertion that the measure will have an impact on illegal gambling activities. That might be true at the margin or with respect to newly acquired betters. I am skeptical that it will impact established illegal betting operations. These are completely different market segments with different participant motivations. What is more likely to happen is that there will be some blending of the markets at the margin with some people participating in both. I am skeptical that the established better will see this as an alternative to illegal betting and simply shift from one market segment to the other.

With respect to the commitment of revenues to water uses, nothing in the measure precludes a future legislature from diverting all or some of the revenue to other priority needs such as housing. Nor does the measure provide a hold harmless for the revenues currently being committed to water - this measure could result in less money going to water unless the gambling proceeds are classified as supplemental revenues.

### **Douglas Bruce, representing himself:**

If you don't change the OVERT LIE on page 1 of DD, you won't change anything. The GA can legalize sports betting WITHOUT A TAX. NO TAX IS NEEDED TO LEGALIZE sports betting. You know that's true, so why not write that?

A "yes" vote is not a vote for more water or betting. It is a tax increase. You are trying to evade the truth-telling requirement of TABOR titles. The \$29+ million can be switched in January to the staff's donut fund. Why not admit that in writing?

# Last Draft Comments from Interested Parties

## **Sarah Chapa, representing the Colorado Department of Natural Resources:**

The Department of Natural Resources would like to submit a comment to draft 3 of Proposition DD. Please add a sentence on page 2, after line 27 that says, "Funding would be appropriated annually through the legislative process."

## **Senator Kerry Donovan, bill sponsor of House Bill 19-1327:**

Thanks for this.

How could prop DD hurt communities?

## **Drew Fink, representing himself:**

A few comments/ items to clarify on the final draft:

- The bullets in the beginning state that some funds will be used for the regulation of sports betting, but the budget in Table 1 does not indicate any funds are allocated in that way. It says license fees will cover those costs, perhaps some clarification would help.

- Why is the state's ability to collect capped at \$29M? What happens to the 10% of betting proceeds that would be collected above and beyond the \$29M?

- Why are these issues being bundled in the first place? What is the overall budget of the Colorado Water Plan?

- Additional arguments for: allowing table games but not sport betting is an arbitrary line to draw around Coloradans' rights to gamble. If it is legal to gamble, it should be legal to gamble in the myriad ways that exist. Is sports betting fraud really a significant issue at the moment? This final argument statement feels weak.

- Additional argument against: Gambling taxes tend to be regressive in nature. Also, if these water projects are so critical to the future health and vibrancy of the state, perhaps we should find a tax revenue/ funding source that is not dependent on the birth and incubation of a nascent industry in the state, one with highly volatile revenues.

- The funding going to gambling addiction services is pathetic. It says it will cover a hotline and counselors, but this amount likely barely covers a few salaries. Why would the amount going to addiction services not also fluctuate with revenue, or be tied to the number of individual bets/ bettors in the state?

# Last Draft Comments from Interested Parties

## House Majority Leader Alec Garnett and House Minority Leader Patrick Neville, bill sponsors of House Bill 19-1327:

Please find attached a joint letter from Majority Leader Garnett and Minority Leader Neville regarding the language in the Blue Book for Proposition DD. Thank you for your consideration and all of the hard work that Legislative Council has put into the Blue Book.

Letter is provided as Attachment A.

## Dan Kelliher, representing himself:

First email:

There is an effort to soften the language but the fact is that many of the numbers quoted here are at odds with the information the Bill Sponsors presented during their public testimony. This analysis is not presenting information in a completely honest way with the tax-payers. And the numbers are being inflated to make this more appealing. Again not a single piece of testimony by the Bill Sponsors suggested anything more than \$10-\$12 million in taxes being collected. The research suggests that current sports betting in Colorado is \$2.5 billion of activity. Under no scenario should people believe that all illegal activity will be transitioned to legal outlets. So that puts us at something less than \$2.5 billion.

Under the most robust figure of \$2.5 billion with a sports betting industry average return of 5% profits to the casinos will equal \$125 million. 10% taxes on this amount will yield \$12.5 million in taxes. Again this is under a best case scenario. So where is the \$16 million figure you present coming from? Where is up to \$29 million in taxes as presented here coming from? The industry would have to be twice as large as the Bill Sponsors publicly presented. Or Sports Betting returns to the casinos here in Colorado would have to be double the average returns of the industry everywhere else. Are either of these scenarios likely? Under what research is this suggested? Is anyone willing to put their political futures or current positions on the line if the citizens of Colorado are left holding the bag for the difference between the revenue collected and the Water Plan obligation Proposition DD creates?

Second email:

I really don't mean to be a pain in the behind in this process. I guess I just had a very different understand in how politics works. Which really shows my ignorance. I understood that there was a marketplace of ideas. That the ideas were put forward and those delivering the most value to the broadest set of the populace were approved. I understood that an honest discussion of facts, and information deemed as accurate as possible, was put to the voters so that they could make a well informed decision. Once again my ignorance is evident.

Someone has decided what information is going to be put forward to the voters. Completely factually and accurate or not. I know your group can only do so much.

# Last Draft Comments from Interested Parties

## Dan Kelliher, representing himself (Cont):

And other powers that be are truly making the final final decision on what information the voters will be provided. Very eye-opening and disappointing when you finally see the emperor has no clothes. Sad as it is to say our political process is perverse and unholy and definitely has no clothes. Sorry for wasting your time. I truly thought I was adding some honest perspective to the issue at hand. But I can see now I was not.

## Susan Thornton, representing herself:

The description of Prop. DD looks clear to me. Thank you for letting me review it!

## Gary Wockner, representing Coloradans for Climate Justice, as an opponent:

In response to my comments, you added this sentence to the "Arguments Against..." section: "Specific water projects are not identified, and some may have unintended consequences for the environment and some communities."

First: This is false information: "some may have unintended consequences for the environment". The fact is that a dam project does not have an "unintended consequence for the environment". A dam project is intended to drain and destroy a river and negatively impact the environment.

Second: A project that provides water for fracking is not an "unintended consequence for the environment". It is exactly a negative consequence for the environment.

Third, you completely omitted that trying to raise taxes to pay for climate damage is an extreme assault on climate justice and sets a potentially multi-billion dollar precedent that taxpayers should pay for climate damage instead of fossil fuel corporations.

My three initial points are below, and are still not represented in your Third Draft.

### Let's try it again -- I repeat them below:

1. The "water projects" to be funded by this tax increase are completely unspecified, and thus this is a 'blank check' to the legislature to spend the money on whatever whims they might call a "water project" which could include providing even more state taxpayer-subsidized water to the fracking industry.
2. "Water projects" often include new dams and diversions on our rivers which are exorbitantly expensive and extremely environmentally damaging.

## Last Draft Comments from Interested Parties

**Gary Wockner, representing Coloradans for Climate Justice, as an opponent (Cont.):**

3. Proposition DD proposes to raise taxes on Coloradans to pay for the damage caused by climate change on our water supply systems. Setting the precedent of raising taxes on working- and middle-class Coloradans to pay for the damage caused by climate change is an extreme assault on climate justice that could cost hundreds of billions of dollars per year. If taxes are to be raised, they should be raised on entities that caused climate change, principally the fossil fuel corporations, not the Colorado taxpayer.

Please edit your Third Draft to reflect my input, which I've now given you four times -- in writing and on the phone.



**COLORADO**  
**HOUSE OF REPRESENTATIVES**  
State Capitol  
Denver  
80203

August 21, 2019

Office of Legislative Council  
Director Natalie Mullis  
200 E Colfax Ave  
Denver, CO 80203-1716

RE: Proposition DD Draft Ballot Analyses

Dear Director Mullis,

Thank you for your thoughtful consideration of our comments on the third draft of the Blue Book as it pertains to Proposition DD. We value deeply the role that the Legislative Council plays in giving voters the information they need to be informed participants in the election.

We are submitting the following suggested changes, in order to give voters a full view of both the substance and intent of the legislature in drafting DD. As sponsors and supporters of the measure that referred DD, we believe these changes are needed so that voters can have full and equal view of the measure's most important provisions.

- Third Draft Suggestions:

Page 1:

Suggest title change: Proposition DD: Legalization and Taxation of Sports Betting to fund Colorado's Water Plan

Line 2: Suggest changing "legalize sports betting" to "legalize and strictly regulate sports betting"

Line 4-6: Suggest re-ordering to put water as main recipient first and the following changes:

- dedicate the remaining tax and fee revenue to fund Colorado's water plan; and
- use sports betting taxes and fees to pay for the regulation of sports betting, a hold harmless fund, and gambling addiction services.

Our rationale: The revenue going to water projects, according to LCS analysis, will be more than

90% of revenue. Water should be listed first and it should not appear that water gets whatever might happen to be left over. This leads the reader to think it could be a small percentage of the money, when LCS analysis says the opposite.

Line 8: Suggest the following edits -

A “yes” vote on Proposition DD means sports betting will be legal and taxed in the state and the Colorado water plan will receive up to \$29M.

A “no” vote on Proposition DD means that sports betting will remain illegal and the state will draw no tax revenue from sports betting.

Page 2:

Line 3: Suggested addition to line 3, move line 10 to this line: In May 2018, a U.S. Supreme Court ruling allowed all states to legalize sports betting. Previously, sports betting had been limited to Nevada and now 20 states have passed laws legalizing sports betting. In the aftermath of the Supreme Court decision, the state legislature referred this measure to the voters...

Line 6: This section again leads with paying for the cost of regulation, when 90% of the money will go to water. Suggested change: “...pay for the Colorado water plan and other water-related obligations. 93% of the tax revenue goes to the water plan. The other 7% goes to the regulation of sports betting.”

Line 40: This section again leads with paying for the cost of regulation, when 90% of the money will go to water.

Page 3:

Line 14: Since the dollar chart portrays “profits”, the chart is incorrect. We suggest either recalibrating the chart completely or removing it as it does little to help inform voters and in fact may confuse voters into thinking they pay the tax, not the casinos.

Page 4:

Line 9: Suggest adding, “A projected 93% of the money will go to water projects, with the rest to regulation.”

Line 10: The chart needs to have the distinction of “Up to” before \$960,000 and \$1.7M.

Page 5:

Line 10: Suggest changing - Arguments for

“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. It’s critical for Colorado to fund the water plan, and a tax paid only by casinos is a better way than a tax on the public as a whole.”

Suggest adding: “Colorado’s Water Plan is designed to ensure that the state’s most valuable resource is protected and available for generations to come, but it requires funding. With casino tax revenue, the state will fund important water projects, including water protection and conservation efforts, and expansion of Colorado’s water infrastructure that is critical in light of

the state's growing population and escalating competition with other states for water resources.”

Thank you for your consideration.

Respectfully,



Alec Garnett  
House Majority Leader



Patrick Neville  
House Minority Leader

CC: Legislative Council Staff, Luisa Altmann, Amanda King and Meredith Moon  
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The Honorable Kerry Donovan  
The Honorable KC Becker, Speaker of the House  
The Honorable Leroy Garcia, President of the Senate  
The Honorable Chris Holbert, Senate Minority Leader

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 Legalization and Taxation of Sports Betting  
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**Proposition DD**  
**Legalization and Taxation of Sports Betting**

1 **Question:** SHALL STATE TAXES BE INCREASED BY TWENTY-NINE MILLION DOLLARS  
2 ANNUALLY TO FUND STATE WATER PROJECTS AND COMMITMENTS AND TO PAY FOR  
3 THE REGULATION OF SPORTS BETTING THROUGH LICENSED CASINOS BY  
4 AUTHORIZING A TAX ON SPORTS BETTING OF TEN PERCENT OF NET SPORTS BETTING  
5 PROCEEDS, AND TO IMPOSE THE TAX ON PERSONS LICENSED TO CONDUCT SPORTS  
6 BETTING OPERATIONS?