

Michigan Office of Administrative Hearings and Rules

Administrative Rules Division (ARD)

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**REGULATORY IMPACT STATEMENT
and COST-BENEFIT ANALYSIS (RIS)**

Agency Information:

Department name:

Treasury

Bureau name:

Michigan Gaming Control Board

Name of person filling out RIS:

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Rule Set Information:

ARD assigned rule set number:

2020-9 TY

Title of proposed rule set:

Internet Sports Betting

Comparison of Rule(s) to Federal/State/Association Standard:

1. Compare the proposed rules to parallel federal rules or standards set by a state or national licensing agency or accreditation association, if any exist.

Section 2(b) of the Lawful Sports Betting Act, MCL 432.402(b), recognizes that this Act is consistent and complies with the Unlawful Internet Gambling Enforcement Act of 2006, 31 USC 5361 to 5367. Otherwise, there are no parallel federal rules or standards set by a state or national licensing agency or accreditation association.

A. Are these rules required by state law or federal mandate?

These rules are authorized under § 10(1) of the Lawful Sports Betting Act, MCL 432.410(1), which says the Board shall promulgate rules pursuant to the APA and may include anything necessary and proper to govern internet sports betting.

B. If these rules exceed a federal standard, please identify the federal standard or citation, describe why it is necessary that the proposed rules exceed the federal standard or law, and specify the costs and benefits arising out of the deviation.

Section 2(b) of the Lawful Sports Betting Act, MCL 432.402(b), recognizes that this Act is consistent and complies with the Unlawful Internet Gambling Enforcement Act of 2006, 31 USC 5361 to 5367. There are otherwise no federal standards.

2. Compare the proposed rules to standards in similarly situated states, based on geographic location, topography, natural resources, commonalities, or economic similarities.

In drafting the rules, the Board identified several key objectives, including: (a) implementing the requirements and public policy goals of the Act to establish a secure, responsible, fair, and legal system of internet sports betting; (b) creating a regulatory environment that is the least burdensome for those required to comply; and (c) aligning corresponding provisions of the internet sports betting rules and the internet gaming rules to reduce the regulatory burden on impacted parties and improve regulatory efficiency.

The Board compared key areas of the proposed rules to internet sports betting standards in three similarly situated states: Indiana, Pennsylvania, and New Jersey. These states were selected due to their comparability across several factors, including authorization of internet sports betting, geographic location, market size, operating and regulatory structure (privately-operated, state-regulated), and regulatory history and experience.

A. Licensing standards established in the rules are materially consistent with licensing standards established in similarly situated states and in the Michigan Gaming Control & Revenue Act, except for licensing requirements related to nongaming-related suppliers which do not require licensing under this Act.

B. Technical standards in Part 3 of the rules adopt GLI-33, published by Gaming Laboratories International. GLI-33 is a widely accepted sports betting platform and was developed by reviewing other gaming jurisdictions' technical standards and documenting common technical standards. Other technical standards in the rules supplement GLI-33, as needed, to address instances where the GLI-33 either did not fully address a subject or required additional regulatory body guidance. In such instances, the supplemental technical standards are consistent and align with the technical standards of other similarly situated states.

C. The rules contain requirements designed to protect authorized participants and ensure internet sports betting occurs in a fair and responsible manner. The requirements are consistent with and, in general, do not exceed those adopted in similarly situated states. Specific examples include:

1. Responsible gaming database, self-exclusion, and prohibited persons: The rules are designed to implement unique statutory requirements while incorporating best practices from the comparison states.

2. Authorized participant complaints: Requirements for the receipt of, investigation of, and response to complaints are like those in Indiana and New Jersey and align with certain elements from Pennsylvania. The process for filing unresolved complaints with the Board was drafted, in part, based on feedback from industry stakeholders.

3. Reserve: The rules align with best practices from the comparison states as well as Nevada. Some requirements were adapted to provide flexibility and reduce the regulatory burden while ensuring that patron funds are adequately protected.

4. Verification of authorized status: Verification requirements a person must satisfy to open an account are consistent with the comparison states related to: 1. ensuring only individuals 21 years or older are able to open an account; 2. ensuring individuals not self-excluded, banned, or otherwise prohibited are able to open an account; and 3. required information and methods used to verify the identity of the individual opening the internet sports betting account, including the use of third-party database providers.

5. Account terms and conditions: Requirements regarding terms and conditions are generally consistent with the comparison states. The proposed rules establish specific requirements that are consistent with New Jersey as to scope of rights, responsibilities, and protections applicable to both the authorized participant and the sports betting operator or internet sports betting platform provider.

6. Authorized participant protections and responsible gaming: These are largely consistent with Indiana and New Jersey. Both Indiana and New Jersey require internet sports betting websites to include a link to a responsible gaming page which is readily visible and accessible to the patron. The responsible gaming page must include telephone numbers and website URLs to state and/or national resources for help with gaming addictions. The rules establish platform requirements consistent with Indiana and New Jersey, including: 1. authorized participant access to a self-exclusion registration page; 2. authorized participant ability to set various controls related to internet sports betting activities such as daily monetary limits, time limits, and other controls defining the scope of internet sports betting activities; 3. temporary cool-off periods where an internet sports betting account is temporarily disabled for use; and 4. authorized participant ability to invoke enhanced security controls to prevent unauthorized account access, including strong authentication protections.

A. If the rules exceed standards in those states, please explain why and specify the costs and benefits arising out of the deviation.

In general, the proposed rules are materially consistent with and do not exceed standards in similarly situated states. Minor differences between the proposed rules and the other states' licensing and regulatory requirements are due primarily to variations in statutory requirements and other unique aspects of the Michigan internet sports betting environment.

3. Identify any laws, rules, and other legal requirements that may duplicate, overlap, or conflict with the proposed rules.

Generally, the proposed rules do not duplicate, overlap or conflict with other laws, rules, or legal requirements. The proposed rules do require licensees to comply with and notify the Board upon the happening of certain events under the Bank Secrecy Act of 1970, 31 USC 5311 to 5332. Moreover, a publicly traded corporation must also meet reporting requirements set forth by the U.S. Securities and Exchange Commission.

A. Explain how the rules have been coordinated, to the extent practicable, with other federal, state, and local laws applicable to the same activity or subject matter. This section should include a discussion of the efforts undertaken by the agency to avoid or minimize duplication.

The proposed rules have been coordinated, to the extent practicable, with reporting requirements of the Bank Secrecy Act of 1970, 31 USC 5311 to 5332, and reporting requirements of the U.S. Securities and Exchange Commission. The Lawful Sports Betting Act, MCL 432.401 to 432.419, authorizes internet sports betting as an activity separate from casino gaming conducted under the Michigan Gaming Control and Revenue Act, MCL 432.201 to 432.226, and internet gaming conducted under the Lawful Internet Gaming Act, MCL 432.301 to 432.322. Nevertheless, the proposed rules have been coordinated, to the extent practicable, with these laws. Efforts were undertaken to minimize duplication related to occupational licensing, provisional supplier licensing, annual financial audits, and reserve requirements.

4. If MCL 24.232(8) applies and the proposed rules are more stringent than the applicable federally mandated standard, a statement of specific facts that establish the clear and convincing need to adopt the more stringent rules and an explanation of the exceptional circumstances that necessitate the more stringent standards is required.

MCL 24.232(8) does not apply to the proposed rules.

5. If MCL 24.232(9) applies and the proposed rules are more stringent than the applicable federal standard, either the statute that specifically authorizes the more stringent rules or a statement of the specific facts that establish the clear and convincing need to adopt the more stringent rules and an explanation of the exceptional circumstances that necessitate the more stringent standards is required.

MCL 24.232(9) does not apply to the proposed rules.

6. Identify the behavior and frequency of behavior that the proposed rules are designed to alter.

The rules establish a framework for secure, responsible, fair, and legal system of internet sport betting. The Lawful Sports Betting Act, MCL 432.401 to 432.419, was enacted on December 20, 2019 authorizing the operation, conduct, and offering of internet sports betting which was already occurring in this state illegally. It was found to be in the best interest of this state and its citizens to regulate this activity by establishing a secure, responsible, fair, and legal system of internet sports betting. This system is designed to protect participants and capture revenue in the form of taxes and payments.

A. Estimate the change in the frequency of the targeted behavior expected from the proposed rules.

There is no expected change in frequency of the targeted behavior except that internet sports betting will be offered legally in this state.

B. Describe the difference between current behavior/practice and desired behavior/practice.

The difference between the prior behavior and the current behavior is that internet sports betting will now be regulated and subject to taxes/payments.

C. What is the desired outcome?

The desired outcome of promulgating these rules is to administer, regulate, and provide for the enforcement of the Lawful Sports Betting Act, MCL 432.401 to 432.419. As such, the promulgation of these rules will do all the following:

- (a) Set requirements for submission and approval of event categories and wager types.
- (b) Set prohibited events and wager types.
- (c) Set procedures for using information and data received from a sports governing body.
- (d) Set requirements for house rules governing internet sports betting.
- (e) Set reporting requirements for licensees.
- (f) Define types of records and length of time that records must be kept.
- (g) Set the ways in which an authorized participant may fund his or her internet sports betting account.
- (h) Set protections for authorized participants placing internet sports betting wagers.
- (i) Set the qualifications, standards, and procedures for approval and licensure by the board for sports betting operators, sports betting suppliers, and occupational licensees.
- (j) Set responsible gaming requirements.
- (k) Set technical and security standards for internet sports betting platforms.
- (l) Adopt procedures for contested case hearings in accordance with the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328.
- (m) Set requirements for vendor registration.
- (n) Set requirements for event integrity monitoring.
- (o) Set accounting and internal control standards.
- (p) Set requirements for the computation of adjusted gross sports betting receipts and remittance of taxes and payments.

7. Identify the harm resulting from the behavior that the proposed rules are designed to alter and the likelihood that the harm will occur in the absence of the rule.

Internet sports betting is new to Michigan, but gaming is not. Generally, gaming is a highly regulated industry where the regulatory structure is made to protect the public interest in a secure, responsible, fair, and legal system of gaming. The harms resulting from the behavior the proposed rules are designed to alter include:

- (a) Offering internet sports betting in this state without a license.
- (b) Knowingly making false statements on an application or to the Board or an authorized representative of the Board.
- (c) Willfully failing to report, pay, or truthfully account for any license fee, tax, or payment imposed by the act, or willfully attempting in any way to evade or defeat the license fee, tax, or payment.
- (d) Knowingly, with the intent to cheat, alter, tamper with, or manipulate any game, platform, equipment, software, hardware, devices, or supplies used to conduct internet sports betting, in order to alter the odds or the payout, or to disable the game, platform, equipment, software, hardware, devices, or supplies from operating in the manner authorized by the Board, or knowingly, with the intent to cheat, offer or allow to be offered, with the intent to cheat, any game, platform, equipment, software, hardware, devices, or supplies that have been altered, tampered with, or manipulated in such a manner.
- (e) Allowing an individual under the age of 21 to open, maintain, or use in any way an internet sports betting account or make or attempt to make an internet sports betting wager.
- (f) Having an authorized participant claim, collect, or take, or attempt to claim, collect, or take, money or anything of value from an internet sports betting operator with the intent to defraud, or to claim, collect, or take an amount greater than the amount won.
- (g) Giving, offering, or promising anything of value to a person for the purpose of influencing the outcome of a sporting or athletic event, contest, or game on which an internet sports betting wager may be made, or placed, increased, or decreased after acquiring knowledge, not available to the general public.
- (h) Placing, increasing, or decreasing an internet sports betting wager or determining the course of play after acquiring knowledge, not available to all players, of the outcome of the athletic event or any event that affects the outcome of the athletic event or that is the subject of the internet sports bet or aiding a person in acquiring the knowledge for the purpose of placing, increasing, or decreasing an internet sports betting wager or determining the course of play contingent on that event or outcome.

In addition, continued proliferation of illegal internet sports betting poses numerous risks to both participants and the state, including:

- (a) Lack of licensing and registration to ensure that persons involved are suitable and that profits are not used for illicit purposes.
- (b) Lack of mechanisms to protect participants, their personal information, and their funds.
- (c) Lack of responsible gaming tools and programs.
- (d) Lack of procedures to protect the integrity of wagering and events on which wagers are accepted.
- (e) Lack of testing to ensure that platforms are safe for participants and function as intended.
- (f) Lack of revenue to state and local governments in the form of taxes and payments.

A. What is the rationale for changing the rules instead of leaving them as currently written?

As internet sports betting is new to Michigan, there are currently no rules.

8. Describe how the proposed rules protect the health, safety, and welfare of Michigan citizens while promoting a regulatory environment in Michigan that is the least burdensome alternative for those required to comply.

The proposed internet sports betting rules provide protections for the public in the following ways: (a) setting forth responsible gaming measures; (b) providing for event integrity monitoring; (c) providing the Board with oversight capabilities; (d) providing protections for authorized participants when setting up an account or placing an internet sports betting wager; (e) setting qualifications, standards, and procedures for approval and licensure of sports betting operators, sports betting suppliers, and occupational licensees; (f) setting technical and security standards for internet sports betting platforms; (g) setting internal control standards for sports betting operators and internet sports betting platform providers; and (h) establishing prohibited events and wager types. These measures are designed to protect the public interest in secure, responsible, fair, and legal system of internet sport betting while at the same time promoting a regulatory environment that is the least burdensome alternative for those required to comply.

9. Describe any rules in the affected rule set that are obsolete or unnecessary and can be rescinded.

As internet sports betting is new to Michigan, there are currently no rules.

10. Please provide the fiscal impact on the agency (an estimate of the cost of rule imposition or potential savings for the agency promulgating the rule).

The Board has submitted a request for ongoing appropriation for \$2,375,000 starting in fiscal year 2021. This appropriation will cover the general administration of the Lawful Sports Betting Act, MCL 432.201 to 432.419. The Board will need to hire staff to properly license sports betting operators, suppliers, and employees. This includes hiring departmental technicians, financial analysts, and regulation officers to process applications including review for suitability. The Board will also hire auditors, analysts, and specialists to interpret and enforce the law, administrative rules, and internal control standards. With the addition of staff, the Board will incur additional costs related to telecommunications, travel, office supplies, building occupancy, SWCAP, Civil Service annual assessment, and other administrative fees. The appropriation also includes support for IT applications required for the new program, additional user license renewals, document storage, and IT equipment. Additionally, the Board may need to contract with a consultant for assistance with more complex investigations related to suitability of applicants, sale of ownership, international conversion/translation, or any other potential situation that could require additional expertise.

The Lawful Sports Betting Act imposes taxes/payments on adjusted gross sports betting receipts and requires application and license fees to be paid by operators and suppliers. MCL 432.414, MCL 432.407(1)(f), MCL 432.406, MCL 432.408. It is projected ongoing revenue generated by internet sports betting will exceed \$7 million.

11. Describe whether or not an agency appropriation has been made or a funding source provided for any expenditures associated with the proposed rules.

Section 16(1) of the Lawful Sports Betting Act creates the internet sports betting fund in the state treasury. MCL 432.416(1). Application fees, license fees, taxes, and payments provided for in the act are to be deposited into the fund. The Board is the administrator of the fund for auditing purposes. MCL 432.416(3). Upon appropriations, the Board can expend money from the fund to cover the costs of regulating and enforcing the act. MCL 432.416(4)(a). A request for ongoing appropriation from the internet sports betting fund for \$2,375,000 has been made for fiscal year 2021 that is pending approval by the Legislature.

12. Describe how the proposed rules are necessary and suitable to accomplish their purpose, in relationship to the burden(s) the rules place on individuals. Burdens may include fiscal or administrative burdens, or duplicative acts.

The proposed rules are necessary to create a regulatory structure for lawful internet sports betting. Industry best practices were referenced in developing the proposed rules, including the technical requirements of the internet sports betting platform; the internal control procedures; the internet sports betting account requirements; and the accounting and audit procedures. The licensing procedures and vendor registration are no more of a burden than in any other gaming jurisdiction where protecting the public interest in secure, responsible, fair, and legal system of internet sports betting is a priority. To the extent licensing is provided for under other Michigan laws such as the Michigan Gaming Control and Revenue Act, MCL 432.201 to MCL 432.226, and the Lawful Internet Gaming Act, MCL 432.301 to MCL 432.322, the Board may waive certain requirements to lessen the burden on an applicant.

A. Despite the identified burden(s), identify how the requirements in the rules are still needed and reasonable compared to the burdens.

Any burden on an applicant or licensee is necessary to regulate internet sports betting.

13. Estimate any increase or decrease in revenues to other state or local governmental units (i.e. cities, counties, school districts) as a result of the rule. Estimate the cost increases or reductions for other state or local governmental units (i.e. cities, counties, school districts) as a result of the rule. Include the cost of equipment, supplies, labor, and increased administrative costs in both the initial imposition of the rule and any ongoing monitoring.

There are no anticipated increases or decreases in revenues to state or local governmental units as a result of the proposed rules. The Lawful Sports Betting Act allocates a portion of the taxes and payments assessed thereunder to the city of Detroit, MCL 432.415(a), Michigan agriculture equine industry development fund, MCL 432.415(c), and Michigan strategic fund, MCL 432.415a(b). In addition, any money remaining in the internet sports betting fund after Board expenditures for regulatory costs will be expended, on appropriation, for the compulsive gaming prevention fund, MCL 432.416(4)(b), first responder presumed coverage fund, MCL 432.416(4)(c), and state school aid fund, MCL 432.416(4)(d).

14. Discuss any program, service, duty, or responsibility imposed upon any city, county, town, village, or school district by the rules.

There are no anticipated or intended programs, services, duties, or responsibilities imposed on any city, county, town, village, or school district as a result of these proposed rules.

A. Describe any actions that governmental units must take to be in compliance with the rules. This section should include items such as record keeping and reporting requirements or changing operational practices.

There are no anticipated actions that a governmental unit must take to comply with these proposed rules. This does not include an Indian tribe who is licensed as a sports betting operator.

15. Describe whether or not an appropriation to state or local governmental units has been made or a funding source provided for any additional expenditures associated with the proposed rules.

No appropriations have been made to any governmental unit as a result of these rules. No additional expenditures are anticipated or intended with the proposed rules.

16. In general, what impact will the rules have on rural areas?

The proposed rules are not expected to impact rural areas.

A. Describe the types of public or private interests in rural areas that will be affected by the rules.

The proposed rules should have no impact on public or private interests in rural areas.

17. Do the proposed rules have any impact on the environment? If yes, please explain.

The proposed rules do not have an environmental impact.

18. Describe whether and how the agency considered exempting small businesses from the proposed rules.

Under the Lawful Sports Betting Act, a person must be licensed as an operator to operate, conduct, or offer sports betting through the internet, MCL 432.406. Further, a supplier, as identified by the Board, must also be licensed to provide sports betting operators goods or services for the operation of internet sports betting, MCL 432.408.

Although these entities cannot be exempt from the proposed rules, it is anticipated that few of them, if any, will constitute small businesses.

However, a vendor who is a person that is not licensed but supplies goods or services to a sports betting operator or sports betting supplier is only required to register, MCL 432.403(kk). Such entities include:

(a) Affiliate marketers which do not have an agreement based on the sharing of gross sports betting receipts or adjusted gross sports betting receipts.

(b) Independent integrity monitoring providers.

(c) Payment processors.

(d) A person that provides over \$100,000.00 worth of goods and/or services to any sports betting operator or sports betting supplier in connection with its Michigan internet sports betting operation in a calendar year.

(e) Data warehouses providing physical security and infrastructure.

(f) Any other person as deemed necessary by the Board.

Some registered vendors may be small businesses. Furthermore, some small businesses supplying non-gaming goods or services may not be required to register at all.

19. If small businesses are not exempt, describe (a) the manner in which the agency reduced the economic impact of the proposed rules on small businesses, including a detailed recitation of the efforts of the agency to comply with the mandate to reduce the disproportionate impact of the rules upon small businesses as described below (in accordance with MCL 24.240(1)(a-d)), or (b) the reasons such a reduction was not lawful or feasible.

Vendors must only register with the Board by filling out an application and submitting a \$200 registration fee, R 432.729(1)(e). This registration must be renewed every five years, R 432.729(2)(a). Even though not licensed, vendors are expected to conduct themselves in a manner that does not compromise the integrity of internet sports betting or violate any provision of the act or rules. Otherwise, because gaming is a highly regulated industry and operators and suppliers must be licensed, it is not possible to specifically exempt small businesses from the licensing requirements as it would create a disparity in regulation.

A. Identify and estimate the number of small businesses affected by the proposed rules and the probable effect on small businesses.

Internet sports betting is new in Michigan and it is not known how many vendors are going to be involved, let alone how many will be small businesses.

B. Describe how the agency established differing compliance or reporting requirements or timetables for small businesses under the rules after projecting the required reporting, record-keeping, and other administrative costs.

The Board did not establish separate compliance or reporting requirements for small businesses. However, the proposed rules establish many compliance and reporting requirements for licensees that do not apply to vendors. To the extent practicable, the rules were drafted to be the least burdensome on all impacted persons.

C. Describe how the agency consolidated or simplified the compliance and reporting requirements for small businesses and identify the skills necessary to comply with the reporting requirements.

The Board did not consolidate or simplify compliance or reporting requirements for small businesses.

D. Describe how the agency established performance standards to replace design or operation standards required by the proposed rules.

The Board did not establish performance standards to replace design or operation standards for businesses that must be licensed.

20. Identify any disproportionate impact the proposed rules may have on small businesses because of their size or geographic location.

There is no disproportionate impact on small businesses because of their size or geographical location.

21. Identify the nature of any report and the estimated cost of its preparation by small businesses required to comply with the proposed rules.

Vendors, who might be small businesses, have a continuing duty to notify the Board of any change in information previously submitted to the Board. Cost to notify the Board of such changes would be minimal. Other reporting requirements that apply to licensees generally do not apply to vendors.

22. Analyze the costs of compliance for all small businesses affected by the proposed rules, including costs of equipment, supplies, labor, and increased administrative costs.

There will be no increased cost of compliance for a vendor, who might be a small business, concerning the costs of equipment, supplies, labor, or administrative costs.

23. Identify the nature and estimated cost of any legal, consulting, or accounting services that small businesses would incur in complying with the proposed rules.

There are no expected costs for legal, consulting, or accounting services that a vendor, who might be a small business, would incur in complying with the proposed rules.

24. Estimate the ability of small businesses to absorb the costs without suffering economic harm and without adversely affecting competition in the marketplace.

There are no expected costs to a vendor, who might be a small business, that will cause economic harm or adversely affect competition in the marketplace as a result of the proposed rules.

25. Estimate the cost, if any, to the agency of administering or enforcing a rule that exempts or sets lesser standards for compliance by small businesses.

Vendors, who may be small businesses, are subject to minimal compliance standards and are required to pay minimal fees. Therefore, enforcing rules that exempt or set lesser standards for compliance by vendors would have minimal impact on vendors and would not materially affect Board revenue or costs.

26. Identify the impact on the public interest of exempting or setting lesser standards of compliance for small businesses.

There is a public interest in establishing a secure, responsible, fair, and legal system of internet sports betting. To the extent operators and suppliers must be licensed, exempting small businesses or setting lesser standards of compliance is not an option. However, to the extent the proposed rules provide for mere registration for a vendor that might be a small business, the public interest is not harmed as the Board retains authority to issue a cease and desist order, obtain injunctive relief, or take another action necessary to protect the integrity of internet sports betting.

27. Describe whether and how the agency has involved small businesses in the development of the proposed rules.

No small businesses were involved in the development of the proposed rules. The Board solicited and considered feedback from industry stakeholders in developing the proposed rules. Feedback was received primarily from potential operators and suppliers.

A. If small businesses were involved in the development of the rules, please identify the business(es).

No small businesses were involved in the development of the proposed rules.

28. Estimate the actual statewide compliance costs of the rule amendments on businesses or groups.

Internet sports betting is new in Michigan and, therefore, estimates of the actual statewide compliance costs are unknown. Compliance costs are expected to be consistent with costs in regulated sports betting markets in other states. Furthermore, revenues generated by businesses that participate in the industry are expected to far exceed actual compliance costs. Sports betting operators and internet sports betting platform providers will be required to submit certain information and documentation prior to commencing operations. This includes: a risk management framework, internal controls, accounting procedures, house rules, and the internet sports betting platform. This is standard operating procedure in this regulated industry. The proposed rules do require locating a server or other equipment capable of receiving internet sports betting wagers in Michigan, which could result in additional costs to the sports betting operator and/or internet sports betting platform provider. In addition, there will be costs associated with ongoing regulatory requirements, such as integrity monitoring, annual auditing, system integrity and security assessments, etc.

A. Identify the businesses or groups who will be directly affected by, bear the cost of, or directly benefit from the proposed rules.

The sports betting operators, sports betting suppliers, and vendors will be directly affected by these rules and will bear the cost (although costs for vendors will be minimal). The public will directly benefit from these rules by having a secure, responsible, fair, and legal system of sports betting in Michigan. Operators, suppliers, and vendors will benefit via the revenue they generate through participation in the regulated internet sports betting industry.

B. What additional costs will be imposed on businesses and other groups as a result of these proposed rules (i.e. new equipment, supplies, labor, accounting, or recordkeeping)? Please identify the types and number of businesses and groups. Be sure to quantify how each entity will be affected.

Sports betting operators (up to 15 total) and internet sports betting platform providers (up to 15 total) may experience various additional costs. Exact amounts are unknown, but these costs may include:

- (a) Administrative costs related to licensure.
- (b) Purchase and setup of IT infrastructure.
- (c) Cost to comply with technical standards and related security controls.
- (d) Cost of integrity monitoring.
- (e) Cost of data, including official league data (where required).
- (f) Cost to comply with internet sports betting account requirements.
- (g) Cost to comply with internal control and audit requirements.
- (h) Cost to comply with responsible gaming requirements.

Internet sports betting suppliers will experience administrative costs related to licensure, recordkeeping, and reporting. The number of internet sports betting suppliers and exact costs are unknown.

Vendors will experience minimal costs associated with registration.

In general, costs are expected to be consistent with costs in regulated sports betting markets in other states.

Furthermore, revenues generated by businesses that participate in the industry are expected to far exceed these costs.

29. Estimate the actual statewide compliance costs of the proposed rules on individuals (regulated individuals or the public). Include the costs of education, training, application fees, examination fees, license fees, new equipment, supplies, labor, accounting, or recordkeeping.

Individuals who perform an occupation that directly impacts the integrity of internet sports betting and as deemed necessary by the Board must be licensed, MCL 432.403(y). The licensing costs include: (1) a license application fee of \$500.00; (2) an initial license fee of \$250.00; and (3) an annual license fee of \$250.00. Occupational licensees and key persons are expected to experience minimal individual costs due to compliance with the licensing requirements established in the proposed rules. The rules are not expected to impose compliance costs on the public.

A. How many and what category of individuals will be affected by the rules?

Individuals who perform an occupation that directly impacts the integrity of internet sports betting and as deemed necessary by the Board must be licensed, MCL 432.403(y). The people include, but are not limited to: (a) An individual who has the capability of affecting the outcome of internet sports betting through other than read-only or equivalent access to any critical components of an internet sports betting platform identified in Part 3 of the proposed rules; (b) An individual who directly supervises individuals who have the capability of affecting the outcome of internet sports betting through other than read-only or the equivalent access to any critical components of an internet sports betting platform identified in Part 3 of the proposed rules; and (c) An individual who directly manages an internet sports betting operation or who directly supervises an individual who directly manages an internet sports betting operation.

Key persons will be subject to disclosure and investigation as part of an application for a sports betting operator license or internet sports betting supplier license. Key persons include:

- (a) A director of the applicant.
- (b) A managerial employee of the applicant that performs the function of principal executive officer, principal operations officer, or principal accounting officer.
- (c) A person who holds more than 5% ownership interest in the applicant.
- (d) An affiliate of the applicant.
- (e) A director of an affiliate of the applicant.
- (f) A managerial employee of an affiliate of an applicant that performs the function of principal executive officer, principal operations officer, or principal accounting officer.
- (g) Key person does not include an elected or appointed representative of any applicant or licensee that is a federally recognized Indian tribe located in the State of Michigan unless the representative is also a full-time employee of the applicant's or licensee's internet sports betting operations. A key person for an Indian tribe will include primary management officials of the applicant who has management responsibilities for the applicant's sports betting operations.

B. What qualitative and quantitative impact do the proposed changes in rules have on these individuals?

The impact will be minimal. Gaming is a highly regulated industry where operators and suppliers understand individuals are going to be licensed to create a secure, responsible, fair, and legal system of sports betting in Michigan.

30. Quantify any cost reductions to businesses, individuals, groups of individuals, or governmental units as a result of the proposed rules.

There are no cost reductions for businesses, individuals, groups of individuals, or governmental units as a result of the proposed rules.

31. Estimate the primary and direct benefits and any secondary or indirect benefits of the proposed rules. Please provide both quantitative and qualitative information, as well as your assumptions.

The primary and direct benefit of the proposed rules is a secure, responsible, fair, and legal system of sports betting in Michigan. The secondary impact is to create a regulatory environment that is the least burdensome alternative for those required to comply. In addition, lawful internet sports betting is expected to generate tax/payment revenue for the state of Michigan (various funds) and the city of Detroit.

32. Explain how the proposed rules will impact business growth and job creation (or elimination) in Michigan.

Lawful sports betting is new in Michigan. As such, jobs will be created and revenue will be generated for the State. Sports betting operators, internet sports betting suppliers, and vendors may experience a net increase in their business. Some suppliers and vendors may commence operations in Michigan for the first time.

33. Identify any individuals or businesses who will be disproportionately affected by the rules as a result of their industrial sector, segment of the public, business size, or geographic location.

Individuals or businesses will not be disproportionately affected by the rules as a result of their industrial sector, segment of the public, business size, or geographic location. Certain rules will not apply to tribes or will apply to tribes to a lesser extent; however, this application is required under the Lawful Sports Betting Act, MCL 432.406(12).

34. Identify the sources the agency relied upon in compiling the regulatory impact statement, including the methodology utilized in determining the existence and extent of the impact of the proposed rules and a cost-benefit analysis of the proposed rules.

The Board relied upon agency staff and its regulatory experience to determine the impact of the proposed rules. The Board also looked at other jurisdictions who currently regulate internet sports betting as well as getting input from stakeholders.

A. How were estimates made, and what were your assumptions? Include internal and external sources, published reports, information provided by associations or organizations, etc., which demonstrate a need for the proposed rules.

The Board relied on agency staff and its regulatory experience to formulate estimates and assumptions and determine the need for the proposed rules. The Board also looked at other jurisdictions and relied on stakeholders when determining the existence and extent of the impact of the proposed rules.

35. Identify any reasonable alternatives to the proposed rules that would achieve the same or similar goals.

To create a secure, responsible, fair, and legal system of internet sports betting in Michigan, there are no reasonable alternatives to the proposed rules.

A. Please include any statutory amendments that may be necessary to achieve such alternatives.

There is no reasonable alternative to the proposed rules.

36. Discuss the feasibility of establishing a regulatory program similar to that proposed in the rules that would operate through private market-based mechanisms. Please include a discussion of private market-based systems utilized by other states.

No alternative to promulgated administrative rules, including private market-based mechanisms, is feasible to regulate internet sports betting. The Legislature has found it to be in the best interest of this state and its citizens to regulate this activity by establishing a secure, responsible, fair, and legal system of internet sports betting, MCL 432.402(d). Moreover, the Legislature charged the Board with supervising all internet sports betting operations and granted the Board powers and duties to administer, regulate, and enforce internet sports betting, MCL 432.405. The Board is not aware of any states that utilize a private market-based system, as opposed to a state regulatory body, for this purpose.

36. Discuss the feasibility of establishing a regulatory program similar to that proposed in the rules that would operate through private market-based mechanisms. Please include a discussion of private market-based systems utilized by other states.

Due to the nature of internet sports betting, no significant alternatives to reasonable regulation were considered during the development of the proposed rules. Significant provisions of the proposed rules are intended to align with the requirements and public policy objectives of the Lawful Sports Betting Act and best practices observed in other states. The Board solicited feedback from internet sports betting stakeholders and incorporated many of their suggestions and revisions into the proposed rules.

38. As required by MCL 24.245b(1)(c), please describe any instructions regarding the method of complying with the rules, if applicable.

The rules explicitly inform persons of most requirements, including but not limited to those pertaining to licensing and registration, technical standards, approval of internet sports betting platforms, responsible gaming, internet sports betting accounts, approval of event categories and wager types, use of official league data, internal controls, house rules, and remittance of taxes, payments, and fees. Other information, including forms and applications, will be available on the Board's website.