



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-311: DEDUCTIONS FOR NET SPORTS BETTING PROCEEDS

Prime Sponsors:

Rep. McCluskie; Soper
Sen. Roberts

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Fiscal note status: This fiscal note reflects the introduced bill.

Summary Information

Overview. For purposes of the sports betting tax, the bill ends the deduction for free bets placed by players on September 1, 2025.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Expenditures
- State Revenue

Appropriations. For FY 2024-25, the bill requires an appropriation of \$9,401.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	\$0	\$11.8 million	\$10.7 million
State Expenditures	\$9,401	\$0	\$0
Transferred Funds	\$0	\$0	\$11.8 million
Change in TABOR Refunds	\$0	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

**Table 1A
State Revenue**

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$0	\$11.8 million	\$10.7 million
Total Revenue	\$0	\$11.8 million	\$10.7 million

**Table 1B
State Transfers**

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
Sports Betting Fund	\$0	\$0	-\$11.8 million
Water Plan Implementation Cash Fund	\$0	\$0	\$11.8 million
Net Transfer	\$0	\$0	\$0

**Table 1C
State Expenditures¹**

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$9,401	\$0	\$0
Federal Funds	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$0
Total Expenditures	\$9,401	\$0	\$0
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE

¹ Expenditures from the Water Plan Implementation Cash Fund are also expected to increase beginning in FY 2026-27 to use additional sports betting revenue on water projects. It is assumed the amount and timing of future spending on water projects will be addressed through the annual budget process.

Summary of Legislation

Under current law, sports betting operators are allowed to deduct free bets placed by players when calculating their net sports betting proceeds, the amount on which the sports betting tax is assessed. The amount of free bets that may be deducted is capped under current law at:

- 2.25 percent of all bets during FY 2024-25;
- 2.00 percent of all bets during FY 2025-26; and
- 1.75 percent of all bets beginning in FY 2026-27.

On September 1, 2025, the bill ends the deduction for free bets placed by players.

Background

Under current law, a 10 percent tax is imposed on the net sports betting proceeds of sports betting operators. When calculating net sports betting proceeds, a sports betting operator may deduct all payments to players, all federal excise taxes paid, and a certain percentage of free bets placed by players from gross gaming revenue. House Bill 22-1402 established the percentage of free bets that may be deducted when calculating net sports betting proceeds. Prior to HB 22-1402, sports betting operators could deduct all free bets placed.

Sports betting tax revenue is exempt from TABOR and is distributed as follows after paying for administrative costs:

- 6 percent of the first \$29 million in sports betting revenue to the Wagering Recipients' Hold Harmless Fund; and
- the remaining revenue to the Water Plan Implementation Cash Fund.

Sports betting revenue allocated to the Water Plan Implementation Cash Fund is annually appropriated to the Colorado Water Conservation Board (CWCB) within the Department of Natural Resources (DNR) through the annual CWCB Projects Bill. That bill allows the CWCB to use the appropriation for water project grants, and any unspent appropriations remain in the Water Plan Implementation Cash Fund for future use. Through FY 2023-24, the CWCB had issued over 470 grants.

State Revenue

The bill increases revenue to the Sports Betting Fund by an estimated \$11.8 million in FY 2025-26 and \$10.7 million in FY 2026-27, with increasing amounts in future years. Estimates are based on actual sports betting data from the Department of Revenue and the March 2025 LCS Forecast. Based on an analysis of free bets placed in Colorado following the passage of HB 22-1402 and other states' sports betting wagers data, the fiscal note assumes that the bill will result in less free bets offered by sports betting operators leading to a corresponding decrease in wagers. If the bill does not result in a reduction of free bets offered, sports betting revenue would increase by a greater amount than estimated in the fiscal note.

State Transfers

On September 30 of each year, revenue to the Sports Betting Fund received in the prior year is transferred to the Water Plan Implementation Cash Fund, after accounting for administrative costs and the transfers to the Wagering Recipients' Hold Harmless Fund. Based on the projected increase in revenue, it is estimated that \$11.8 million in FY 2026-27, \$10.7 million in FY 2027-28, and similar amounts in future years, will be transferred to the Water Plan Implementation Cash Fund.

State Expenditures

The bill increases state expenditures in the Department of Revenue by \$9,401 in the current FY 2024-25, paid from the Sports Betting Fund. It also increases available funding for water projects and related administrative costs starting in FY 2026-27. These impacts are described below.

Department of Revenue

This bill requires expenditures of \$9,401 to program, test, and update database fields in the GenTax software system. Programming costs are estimated at \$6,953, representing 30 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$2,680 for 48 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$768 for 24 hours of user acceptance testing at a rate of \$32 per hour. The programming must begin in the current FY 2024-25 to be completed in time before the September 1, 2025 implementation date.

Department of Natural Resources

The bill increases sports betting revenue allocated to the Water Plan Implementation Cash Fund. However, the fiscal note assumes that increased revenue to the fund will be annually appropriated to the CWCB in DNR through the annual budget process and annual water projects bill, rather than in this bill, based on available projects and spending decisions by the General Assembly and CWCB. However, for informational purposes, a preliminary estimate of the costs to distribute grants using the anticipated revenue is provided below.

Grant Administration

Assuming around \$10 million in additional grants is issued each year using the increased revenue under the bill, the CWCB is estimated to require an additional 6.5 FTE to administer additional grants, beginning in FY 2026-27. In addition to salary and operating costs, the CWCB will also have travel expenses and software licensing for the additional grant managers as shown in Table 3 below. This estimate assumes an additional 55 grants per year, with an average contract length of five years. These expenditures would be paid from the cash fund and reappropriated funds and requested through the annual budget process.

Table 3
Potential Expenditures in the Department of Natural Resources

Cost Component	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
CWCB Staff	\$0	\$0	\$338,144	\$612,043
DNR Executive Director's Office Staff	\$0	\$0	\$0	\$141,908
CWCB Travel Expenses	\$0	\$0	\$25,524	\$25,524
CWCB Software Licensing	\$0	\$0	\$1,800	\$1,800
Total Costs	\$0	\$0	\$365,468	\$781,275
Total FTE	\$0	\$0	2.5 FTE	6.5 FTE

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For the current FY 2024-25, the bill requires an appropriation of \$9,401 from the Sports Betting Fund to the Department of Revenue.

State and Local Government Contacts

Natural Resources

Revenue