

From: Anirban Basu, Sage Policy Group, Inc.  
To: Anne Arundel County Chamber of Commerce  
Re: iGaming in Maryland  
Date: January 4, 2024

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I am Anirban Basu, Chairman and CEO of Sage Policy Group, Inc., and the former Chair of the Maryland Economic Development Commission (2014-21). I am an economist by profession and hold four graduate degrees, including a JD and PhD. This memorandum supplies my conclusions regarding the potential economic and fiscal implications of iGaming legalization in Maryland.<sup>1</sup> Specifically, this memorandum discusses the impacts of iGaming legalization that are either not discussed or not discussed at length in The Innovation Group’s November 2023 report entitled “iGaming in Maryland” (the IG Report).<sup>2</sup>

### ECONOMIC LEAKAGE

The IG Report mentions the concept of *economic leakage* as a disadvantage associated with iGaming. The concept is straightforward. There is potential cannibalization of economic activity as casinos and other local economic actors suffer losses of revenue that instead flow to large, out-of-state firms that are adept at operating iGaming platforms.

Whereas gaming at brick-and-mortar casinos (B&M gaming) supports jobs for local residents operating as managers, card dealers, technicians servicing machines, and chefs and other food service employees, among others, jobs supported by iGaming would primarily be performed beyond Maryland’s boundaries. Accordingly, Maryland’s six casinos, along with other local enterprises, would support fewer jobs. These are often union jobs associated with living wages and comprehensive benefits presently available to thousands of Marylanders.

### IGAMING AND JOB DESTRUCTION

The IG Report finds that same-store B&M casino revenues from in-person gaming declined 8 percent between 2019 and 2022 in states that legalized iGaming while increasing 2 percent in states that did not. With decimals, that translates into a 10.2 percent reduction in same-store B&M gaming revenues, or approximately \$200 million, based on 2022 data.

This almost certainly understates the long-term decline in brick-and-mortar gaming revenue that would occur in Maryland. The presence of iGaming would not only lower the trajectory of near-term revenues but also render it less likely that existing enterprises would expand their respective footprints.

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<sup>1</sup> iGaming, in the context of this memorandum, refers to online and mobile slot machines and table games.

<sup>2</sup> “iGaming in Maryland.” The Innovation Group, prepared for the Maryland Lottery and Gaming Control Agency. November 2023.

Maryland’s six casinos presently employ more than 6,700 people. Were they a single entity, they would rank among the top four private employers in the state behind only Giant Food, Home Depot, and the Johns Hopkins School of Medicine according to data sourced from the [Maryland Department of Labor](#).<sup>3</sup>

Importantly, B&M casino employees are members of several unions including SEATU, UFCW, and UNITE HERE — the largest union of gaming workers in America. Union members are associated with the elevated levels of compensation envisioned when Maryland initially voted to legalize gaming in 2008. Correspondingly, leaders of UNITE HERE locals 7 and 25 recently penned an [op-ed in opposition of iGaming](#) because “It will harm thousands of Maryland workers who rely on in-person gaming and tips.”<sup>4</sup>

Assuming that the 10.2 percent reduction in revenues found in the IG Report translates into a similar reduction in employment, Maryland’s brick and mortar casinos would employ 685 fewer people due to associated economic leakage. The pace of future compensation increases could also be jeopardized.

Employment losses would be broader since Maryland’s six casinos support additional economic economy beyond their walls. According to the [American Gaming Association](#), Maryland’s six casinos supported more than 27,000 statewide jobs in 2023 after accounting for multiplier effects, or about 0.5 percent of total statewide employment.<sup>5</sup> If one applies a 10.2 percent reduction in economic activity among firms associated with Maryland’s casinos, legalization of iGaming would destroy an estimated 2,700 jobs.

A somewhat more conservative model developed by Sage economists estimates job loss at approximately 1,215.<sup>6</sup> Those jobs would be concentrated in industries like legal services, artistic activities, real estate, healthcare, and tax preparation services.

Exhibit 1: Estimated Lost Economic Activity Due to iGaming

Annual, Ongoing Losses	Jobs	Labor Income (Millions \$2023)
<b>Statewide Impact</b>		
Direct effects	-685	-\$33.6
Secondary effects	-530	-\$32.0
<b>Total</b>	<b>-1,215</b>	<b>-\$65.6</b>

Source: Sage, IMPLAN

<sup>3</sup> Maryland Department of Labor. Maryland – Major Employer Lists – Workforce Information & Performance. <https://www.dllr.state.md.us/lmi/emplists/maryland.shtml> Accessed December 7, 2023.

<sup>4</sup> Tracy Lingo and Paul Schwab, “Union leader: Online casino gambling would cost Maryland hundreds of jobs.” <https://www.baltimoresun.com/2023/11/30/union-leader-online-casino-gambling-would-cost-maryland-hundreds-of-jobs-reader-commentary/> The Baltimore Sun, November 30, 2023. Accessed December 8, 2023.

<sup>5</sup> American Gaming Association, State of Play 2023, Maryland. <https://www.americangaming.org/state/maryland/>

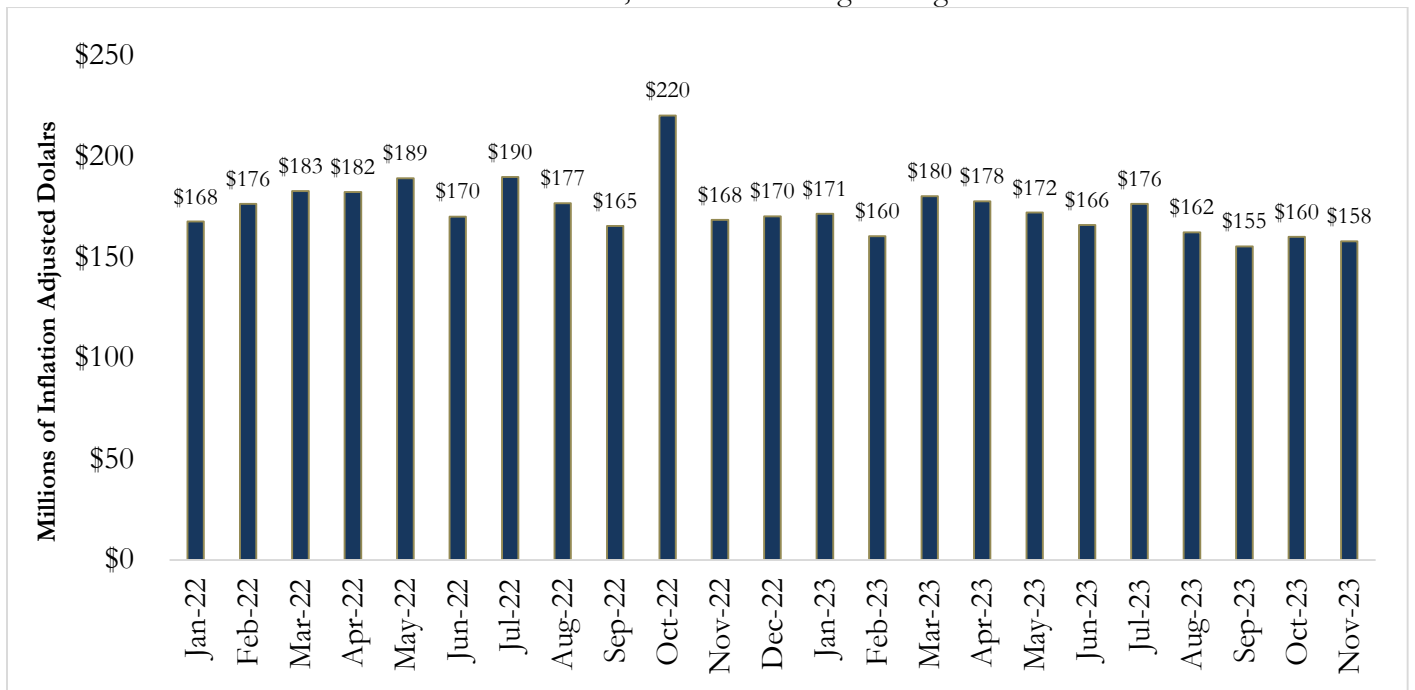
<sup>6</sup> This model was created using IMPLAN economic modeling software, an industry-standard platform for this kind of input-output analysis.

Under that scenario, statewide personal income would decline by more than \$65 million each year. By Sage’s calculations, that lost income would implicate a reduction of approximately \$1.9 million in State income tax collections and \$1.2 million in local income tax collections. Importantly, this Sage model does not account for expenditures made by those who travel to casinos from other states, thereby underestimating prospective losses in economic activity and employment.

Much of this presumes that the 10.2 percent estimate in the IG report proves accurate. In-person sports wagering revenue declined nearly 63 percent between October 2022, the month before online sports gambling became available, and October 2023. A similar decline in overall in-person gaming resulting from iGaming legalization in Maryland would lead to the destruction of more than 7,000 jobs and \$400 million in annual employee compensation.

Note that in person gaming revenues declined more than expected upon the legalization of online sports betting. From October 2022, the month before online sports gaming became available, to November 2023, the most recent month for which data are available, in person gaming revenues declined approximately 26 percent. This is largely due to the fact that those placing sports wagers are no longer traveling into a casino and playing other games while there. While October 2022 was a month associated with particularly large in person gaming revenues, year-to-date revenues for slots and table games are down 3.7 percent compared to the first eleven months of 2022 in nominal terms and 7.5 percent in real terms.

Exhibit 2: Real Table Game and Slots Revenues, 3-Month Moving Average



Source: Maryland Lottery and Gaming All Gaming Financial Reports, U.S. Bureau of Labor Statistics, Sage

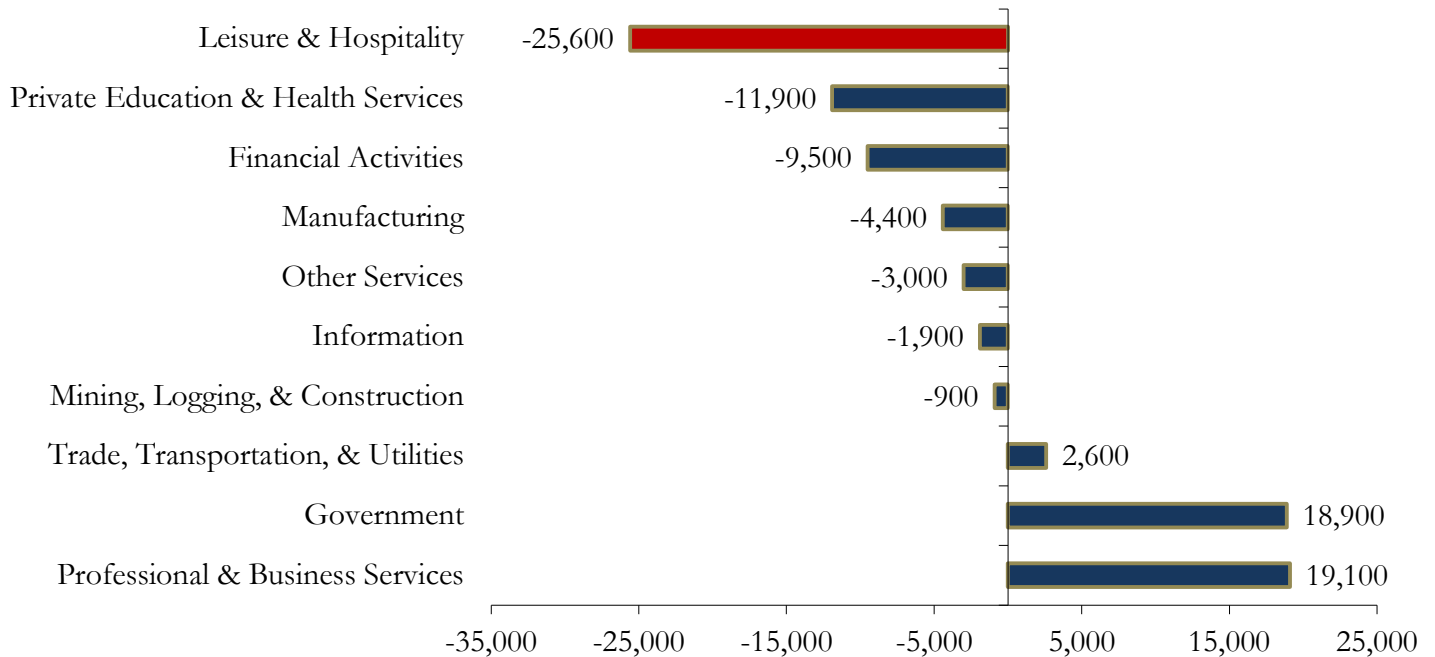
**NEGATIVE EMPLOYMENT IMPACTS BEYOND THE GAMING INDUSTRY**

Critically, the aforementioned impacts pertain only to decreased revenue from in-person gaming at Maryland’s six casinos. The IG Report projects that iGaming revenue would stabilize at greater than \$900 million per annum. Net of the cannibalization of B&M revenues, the total increase in gaming revenues from all channels (including iGaming) would total approximately \$686 million by 2029, according to IG.

A significant portion of those monies would likely be spent on other in-state leisure and hospitality activities, including at local restaurants, theaters, water parks, concert halls, and sporting events, in the absence of iGaming legalization. These Maryland enterprises not only employ many local residents, but they purchase considerable volumes of supplies and services from other in-state establishments.

For Maryland’s leisure and hospitality segment, diversion of revenues could not come at a worse time. Among Maryland’s ten major economic segments, leisure and hospitality has posted the slowest recovery from the job losses sustained during the pandemic’s earliest months. As of October 2023, the state had nearly 26,000 fewer leisure and hospitality employees than it did in February 2020, a 9 percent decline.<sup>7</sup>

Exhibit 2: Maryland Employment by Segment, Feb-20 vs. Oct-23, Absolute Change



Source: U.S. Bureau of Labor Statistics

<sup>7</sup> U.S. Bureau of Labor Statistics, All Employees: Leisure and Hospitality in Maryland [MDLEIH], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MDLEIH>, December 9, 2023.

Diversions of hundreds of millions of dollars to out-of-state operators will compound the industry's challenges. This will have especially large consequences for members of Maryland's labor force lacking a college degree. According to [research conducted by the Congressional Joint Economic Committee](#), "Almost 20 percent of the leisure and hospitality workforce did not graduate high school and more than half have a high school degree or less."<sup>8</sup> For example, table games and poker dealers typically receive free training from the casinos and then average \$65,000-\$75,000 wages per year. These employees make up a significant portion of the 6,500+ workforce at Maryland's casinos and can achieve these earnings without a high school degree.

#### REDUCED CAPITAL INVESTMENT UNDER IGAMING

By diminishing in-person gaming activity, iGaming legalization will limit capital investments at Maryland's casinos. These enterprises are associated with assessed value approaching \$1.7 billion and collectively pay more than \$20 million in State and local property taxes each year. Obvious examples of foregone capital expenditures include affiliated synergistic hotels, outdoor patios, and additional space for restaurants.

Importantly, Maryland's casinos offer room for expansion. Maryland's gaming regulations originally approved 16,000 slot machines. To date, fewer than 10,000 are presently in operation. Diminished capacity to expand operations and physical footprints translates into lost employment opportunities, including for the state's construction industry, another sector associated with living wage opportunities for those having acquired a high school degree or less.

#### STIFLING OF AGGLOMERATION EFFECTS

Reduced visitation to the state's casinos via the leakage of dollars to out-of-state iGaming operators will also produce potentially deleterious impacts on entertainment districts that have arisen or are emerging around Maryland's six casinos. For instance, in Baltimore, Horseshoe Casino serves as a centerpiece and catalyst for the Warner Street Entertainment District. The district features a Topgolf and a soon-to-be-operational concert venue. Similarly, Live! Casino and Hotel attracts activity to establishments in and around the Arundel Mills shopping complex, which continues to operate at a much higher occupancy rate (greater than 95%) than many other shopping malls. Hollywood Casino is critical for the leisure and hospitality sector in Perryville, played a critical role in the attraction of a Great Wolf Lodge to the region, and is a key factor in the development of a new \$60 million athletic entertainment facility that is under construction on a property adjacent to the casino.

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<sup>8</sup> Representative David Schweikert – Vice Chairman of the United States Congress Joint Economic Committee. "The Leisure and Hospitality Industry: Short-Term Growth, Long-Term Challenges." <https://www.jec.senate.gov/public/index.cfm/republicans/2022/3/the-leisure-and-hospitality-industry-short-term-growth-long-term-challenges> March 17, 2022. Accessed December 9, 2023.

At the heart of these synergistic effects is the ability of casinos to attract in-person customers and their associated spending power. As the Innovation Group itself explains, “the addition of gaming supply in destination type markets results in a ‘cluster effect,’ more formally known as agglomeration. As casino developments ‘cluster’ in destination type markets, a corresponding increase in gaming and tourism demand occurs.”<sup>9</sup> Maryland should not encourage the destruction of these agglomeration effects.

## NET FISCAL IMPACTS

If iGaming revenues are taxed at 15 percent, the rate at which the IG Report estimates that the fiscal benefit net lost brick and mortar taxes becomes positive, net gaming taxes would increase by an estimated \$37.4 million. When accounting for diminished state and local income tax, sales tax, and property tax revenues, the net fiscal benefit that tax rate would likely be equivalent to less than 0.05 percent of Maryland’s total annual revenues, and that’s assuming that the cannibalization rates presented in the IG Report are accurate and without accounting for costs associated with potential negative social outcomes.

While the IG Report forecasts greater net gaming taxes at higher iGaming tax rates, the model used in that analysis is not dynamic; that is to say, it assumes the same level of iGaming revenues and associated cannibalization at a 10 percent iGaming tax rate as at a 45 percent tax rate. In reality, there would be marginal iGaming activity and cannibalization that does not occur at a 45 percent rate that would occur at a 15 percent rate. The IG Report recognized this, explaining that “tax rate is not independent of market size, though we present it as such for illustrative purposes in the table below.”

Of course, analyses of iGaming legalization in other states suggest that it could in fact be fiscal negative. A recent report produced by NERA Economic Consulting on iGaming in New Jersey concluded that “while there may be some benefits to the State in terms of tax revenue relative to alternative industries, the value of [iGaming] to the State of New Jersey appears to be lower than the alternatives, whether that is land-based gambling or nongambling related activities.”<sup>10</sup>

Furthermore, that report estimated that “the total \$2.4 billion of iGambling in 2022 decreased New Jersey’s economic activity by about \$180 million and decreased the total amount of money that employees received in wages by about \$900 million.” These negative impacts—the loss of high paying

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<sup>9</sup> Michael Vanaskie. “Primorsky and the Cluster Effect: Examining Casino Clusters and the Potential Positive Impacts for Primorye Integrated Entertainment Zone.” <http://theinnovationgroup.com/wp-content/uploads/2019/01/Primorsky-Cluster-Effect-FINAL-2019-0128A.pdf>. The Innovation Group. Accessed December 9, 2023.

<sup>10</sup> Soren Christian, Duncan Broadie. “Economic Assessment of iGambling in New Jersey.” <https://cdn.sanity.io/files/42ezp3kj/production/d368ab1d437325e12d9e35cc846d80587d968ead.pdf> NERA Economic Consulting. November 9, 2023.

union jobs and the associated labor income and income tax revenue, fewer agglomeration effects, and reduced capital investments—would also be present in the event that iGaming is legalized in Maryland.

## CONCLUSION

Legalization of iGaming in Maryland would, among other things, prospectively destroy hundreds of high-paying union jobs while jeopardizing thousands of other positions at employers indirectly supported by casino operations. Legalization also threatens the vibrancy of several entertainment districts emerging across the state, including in Baltimore City, Anne Arundel County, and Cecil County.

The IG Report understates the potential negative economic consequences associated with iGaming, and the legislature must consider that there is more at stake than just gaming taxes collected. The likely reduction in jobs, development, and traffic through Maryland’s six land-based casinos will have a negative impact on the State’s coffers, offsetting the benefits received in direct gaming taxes. Some of these negative impacts on B&M casinos have already been observed with the introduction of online sports betting and would be meaningfully larger with iGaming.

There are also broader social implications. The IG Report discussed at length in this memo notes that Pennsylvania and New Jersey experienced a rise in calls to their respective gaming helplines following iGaming legalization, noting that, “These higher incidences, if accurate, certainly make sense, since there are many decision points and hurdles between going from a place of residence to a physical casino. There is considerably less friction to open up an online casino on a mobile phone or tablet.”<sup>11</sup> In other words, iGaming presents a mechanism by which gambling becomes excessively accessible for those who find such activity irresistible to the point of generating self-harm, including the youngest and most susceptible Marylanders.

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<sup>11</sup> Page 33, “iGaming in Maryland.” The Innovation Group, prepared for the Maryland Lottery and Gaming Control Agency. November 2023.