

Testimony of The Cordish Companies and Live! Casino Hotel Maryland

Presented by Mark Stewart, General Counsel

In OPPOSITION to HB1319

Budget and Taxation Committee Hearing

March 26, 2024

On behalf of The Cordish Companies and Live! Casino Hotel Maryland, I respectfully submit this written testimony in **opposition** to HB1319 and the authorization of online casino gambling (“iGaming”) in Maryland. The Cordish Companies and Live! are Maryland-based and Maryland headquartered companies, with a long history of economic, civic and community investment in the State. We oppose HB1319 because iGaming is a bad bet for Maryland:

1. **iGaming is a jobs killer** – According to the Maryland Lottery’s consultant, Innovation Group, iGaming will lead to thousands of Marylanders losing their good-paying jobs. Sage Policy Group found Maryland would lose nearly 3,000 jobs as a result of HB1319. All casino unions oppose iGaming. These are our team members who help us produce for Maryland year in and year out and we stand with them.
2. **Inflated revenue projections** – The iGaming revenue projections at the heart of this debate are badly inflated – a fact publicly acknowledged by Innovation Group (Jan. 18, 2024 Report to House Ways & Means Committee at p. 11). Innovation assumed that the State’s iGaming market would produce the same gross revenue regardless of the tax rate imposed – but this is not true. HB1319’s tax rate will yield \$180 Million *less* tax revenue than Innovation and Department of Legislative Services (“DLS”) have projected even before cannibalization and other deductions are considered.
3. **iGaming causes substantial cannibalization** – iGaming will cannibalize gaming tax revenue generated by Maryland’s six brick and mortar casinos, undercutting any new revenue generation. Innovation Group, Deutsche Bank, Sage Policy Group and others have said Maryland’s six casinos will see at least a 10% drop in gaming revenue due to iGaming. The experience in other states shows that, for a state like Maryland, that figure could exceed 20%. In fact, the Sage Policy Group noted a 26% cannibalization at Maryland casinos during the first year of mobile sports betting (p. 3, Jan. 4, 2024, Sage Policy Group Report).
4. **iGaming destroys economic development** – The negative impacts on Maryland’s casinos and significant reduction in foot traffic also results in substantial losses of ancillary economic activity and reduced economic investment in Maryland. This means reduced sales tax, wage tax, alcohol tax and property tax revenues, as well as financial losses for Maryland small businesses and non-profits. Sage Policy Group projected as many as 4,000 additional lost jobs and \$74 Million annually in lost State and local tax revenue. Neither Innovation Group nor DLS factored these losses into their analyses.

5. iGaming sends Marylanders' money out-of-state – iGaming does not promote tourism. Instead, by its very nature, iGaming relies almost exclusively on Marylanders for wagers. At the same time, the vast majority of operator revenue from iGaming will flow to technology platform providers outside of Maryland. Neither Innovation Group nor DLS factored this into their analyses.
6. Wait for the data – Online gambling needs to be fully studied by the University of Maryland Center for Excellence on Problem Gambling and other experts so that the State has all the data and a comprehensive picture of what expansion may entail for Marylanders, including potential increases in social costs. The Senate passed SB878 calling for just such a study, and there should be no expansion until that study is completed.
7. iGaming doesn't add up – Advocates of HB1319 say it's needed for the tax revenue. Yet, taking all the factors above into account, iGaming simply does not add up. The claimed tax revenue gains are illusory and will not materialize.

Maryland's Successful Gaming Industry

The General Assembly carefully crafted the initial gaming legislation, strategically locating casinos to maximize tax revenue, seeking input from local communities, imposing a historically high gaming tax rate, and implementing protections and safeguards against problem gambling. As a result, Maryland is home to a thriving gaming industry that is among the best (in terms of jobs and tax revenue) in the nation. According to the American Gaming Association, Maryland's six casinos support 27,300 jobs. The State's casinos have also generated over \$3.5 Billion in gaming taxes for Maryland since the inception of casino gaming. Of course, our industry has produced many multiples of that sum when one considers the economic benefits of capital investment in casino facilities, hotels, entertainment venues, restaurants and other ancillary development, construction spend, personnel wages and taxes, property taxes, sales taxes, liquor taxes, purchases of goods and services from Maryland vendors, local share support for important community projects, and philanthropy for non-profits. As per the American Gaming Association, these examples are all part of the \$5.78 Billion in annual economic impact attributable to Maryland's six casinos.

From its inception until the launch of mobile sports betting in Maryland (with the exception of Covid's 2020), the State's casino industry averaged nearly \$100 Million in new tax revenue growth each year. Over a ten-year period, that's \$1 Billion in new tax revenue. It's safe to say that Maryland has rarely, if ever, had an industry produce such tremendous financial results for the State. As a bit of foreshadowing should iGaming be adopted, the launch of mobile

sports betting – even after considering the new revenue it generated – cost the State approximately \$75 Million in total tax revenue in 2023 because of the loss of patron foot traffic at the State’s casinos. If left alone, Maryland’s gaming industry can get back to what it does best – growing new tax revenue for the State.

iGaming is Devastating for Maryland Workers

Casinos offer an attractive career for Maryland workers. Casino jobs offer good pay, with benefits and special incentives, like the free healthcare clinic provided by Live! to its workers and their families. Many casino jobs are union jobs, many are available to workers with a high school diploma or less, and casinos boast a fully diverse workforce. iGaming is a direct threat to casino workers. Sage Policy Group, in a March 2024 Report for the Anne Arundel County Chamber of Commerce, reported that iGaming, implemented consistent with HB1319, would cost Maryland nearly 3,000 statewide jobs, resulting in a \$90 million/year decline in employee wages. If iGaming is enacted with a lower tax rate, those job losses could skyrocket to more than 6,700 lost jobs and nearly \$400 Million in lost wages. Even if jobs are preserved, iGaming is likely to suppress wages and threaten benefits.

Sage Policy Group’s findings are consistent with other experts and real world experience in iGaming states. The Innovation Group has stated that as many as 8% of the gaming industry’s more than 27,000 jobs could be lost. True to form, in Pennsylvania, over 2,000 casino jobs disappeared after iGaming launched and those losses were sustained despite the opening of five (5) new casinos. Likewise, in New Jersey, a November 2023 study by NERA Economic Consulting for The Campaign for Fairer Gambling found that more than 15,700 casino jobs had been lost since the start of iGaming – representing a loss of more than \$900 Million in employee wages.

All labor unions representing casino workers in Maryland oppose iGaming and HB1319, including the Maryland State AFL-CIO, UFCW, UNITE HERE, United Auto Workers, Seafarers Entertainment and Allied Trade Union, Teamsters, American Federation of Teachers, International Union of Operating Engineers, and the International Alliance of Theatrical Stage Employees. HB1319’s one-time funding for a VLT Employee Displacement Fund has not changed this opposition and is a solution for an unnecessary problem – just don’t destroy the jobs

in the first place. Notably, a similar proposal in New York was opposed by the affected labor unions and ultimately abandoned by the Senate of New York.

iGaming is a Zero-Sum Game At Best

Despite the claims of easy money by out-of-state and foreign iGaming companies, the numbers don't add up for iGaming. Even before considering the cannibalization and economic leakage caused by iGaming, a major flaw in the Innovation Group's projections means that hundreds of millions of dollars in projected iGaming revenue will never materialize at the tax rate included in HB1319.

Explained simply, Innovation Group assumed that gross iGaming Revenue would be the same regardless of the tax rate imposed. But, that is not how gaming markets work. As Sage Policy Group explained in its March 2024 Report:

Critically, the IG Report's analysis does not account for the effects of tax rates on iGaming activity. In other words, it assumes the same level of taxable iGaming activity at a 10 percent tax rate as at a 45 percent tax rate . . . It is almost certain that the estimated iGaming revenues for the higher tax rates in the IG Report's analysis are overstated . . . Correspondingly, tax revenues at higher iGaming tax rates [like in HB1319] are overstated, possibly by large amounts.”¹

Innovation Group has acknowledged this fact.² As such, the purported \$904 Million of gross iGaming revenue by 2029 is a mirage. An analysis of the per capita iGaming revenue spend in the iGaming states of New Jersey, Michigan and Pennsylvania (which have respective tax rates of 15%, 25% and 42%) shows the impact on market size and gross revenue of the iGaming tax rate. Applying that analysis to the Innovation Group's 2029 projection for Maryland lowers gross iGaming revenue by \$400 Million and decreases iGaming tax revenues and net tax revenues by \$180 Million. As such, instead of \$308 Million in net gaming taxes claimed by Innovation Group for 2029, when HB1319's tax rate is accounted for, the real net tax revenue number is only \$128 Million.

¹ Sage Policy Group, *The Economic Implications of iGaming Legalization in Maryland* (March 2024) at pp.6-7.

² The Innovation Group, *iGaming in Maryland* (November 2023) at p. 31; Report to House Ways and Means Committee (Jan. 18, 2024) at p. 11.

Importantly, this \$180 Million loss in projected tax revenue under HB1319 is taken off the top before required additional deductions for casino cannibalization, job losses, economic leakage and increased social costs. The Innovation Group and DLS project that iGaming will cannibalize over 10% of gaming revenue at Maryland’s six casinos, reducing gaming revenue by more than \$200 million. Observers like Sage Policy Group and data from other states indicate that the losses will be even greater.

In the real-world example of mobile sports betting in Maryland, after just one year of online betting, brick and mortar casino sports betting revenue decreased by 65% – more than six times the Innovation Group’s projected rate for iGaming. As a result, the State lost 1,400 jobs and will suffer annual losses of \$92 Million in wages and nearly \$225 Million in economic output. According to Sage Policy Group (January 2024 Report), **mobile sports betting also led to a 26% decline in in-person slot machine and table game revenue**, costing the State millions of dollars in gaming taxes.

In another real-world example, backing out the opening of new casinos (which is appropriate given that Maryland has no new casinos) **brick and mortar casinos in iGaming states suffered a more than 23% decline in gaming revenue** from 2019-2022. While casinos in iGaming states saw in-person revenue *decline* by 10%, their counterparts in non-iGaming states enjoyed a 13.5% *increase* in in-person gaming revenue during that same period. Further, until recently, the biggest iGaming states (New Jersey, Michigan and Pennsylvania) were the only states in the country where in-person casino revenue had not recovered to 2019, pre-pandemic levels. ***To this day, New Jersey brick and mortar casinos are still not back to 2019 gaming revenue levels due to iGaming.*** All of which shows that Innovation Group’s projected 10.2% cannibalization rate is low.

Importantly, Innovation Group admits they did not factor into their study any ripple effects or ancillary losses as a result of brick and mortar casino cannibalization or any increase in government spending on social costs from iGaming. As HB1319’s fiscal note is based on Innovation Group’s study, DLS also omitted these crucial factors from its analysis. New Jersey’s experience is telling on both points. The NERA study showed that iGaming had a net negative financial impact on New Jersey, after considering a \$180 Million/yr. decrease in economic output

and \$350 Million/yr. increase social costs tied to increased gambling addiction, impacts on healthcare, homelessness, welfare programs, and criminal justice system costs.³

Sage Policy Group's March 2024 Report, *The Economic Implications of iGaming Legalization in Maryland*, provides a detailed analysis of the economic leakage that will result in Maryland from iGaming. Assuming the same 10% cannibalization rate adopted by the Innovation Group, Sage Policy Group projects iGaming and HB1319 could cost Maryland an additional 4,000 jobs statewide, resulting in a decrease of \$224 Million in employee wages, and a decline in economic output of nearly \$681 Million each year. These figures could be even higher if the tax rate is reduced in HB1319 or if, as expected, casino cannibalization from iGaming is higher than Innovation Group's projections. Moreover, Sage Policy Group found that this economic leakage will result in a loss of \$74 Million per year in non-gaming related State and local tax revenue.

In sum, the iGaming math does not add up:

\$407.2M/yr. iGaming tax revenue by 2029⁴
– \$180.9M/yr. Less tax revenue overinflation based on actual HB1319 tax rate⁵
– \$98.3M/yr. Less lost B&M gaming tax revenue due to iGaming as per Innovation⁶
– \$137.6M/yr. Additional lost B&M gaming tax revenue at 26% cannibalization rate⁷
– \$74M/yr. Less lost States & local tax revenue from decreased economic output⁸
(–\$83.6M/yr.) Net negative impact from iGaming

When the complete economic consequences of iGaming are factored in, even the Innovation Group and DLS' highest projections for new iGaming tax revenue leaves the State with no gain in net revenue. If, in reality, brick and mortar cannibalization is more than 2x the projection of Innovation Group, and job losses and economic leakage are likewise worse, then the State's losses could be even greater. Finally, if, like New Jersey, Maryland is forced to

³ NERA Economic Consulting, *Economic Assessment of iGambling in New Jersey* (Nov. 2023).

⁴ Innovation Group, *iGaming in Maryland* (Nov. 2023) at Table 28.

⁵ See *iGaming in Maryland* at p. 31; Sage Policy Group, *The Economic Implications of iGaming Legalization in Maryland* (March 2024) at pp.6-7.

⁶ *iGaming in Maryland* at Table 28.

⁷ Sage Policy Group, *iGaming in Maryland* (January 2024) at p. 23.

⁸ Sage Policy Group, *The Economic Implications of iGaming Legalization in Maryland* (March 2024) at p.6.

increase spending on social costs caused by iGaming (\$235M/yr. as per the NERA study pro-rated for Maryland), the economics of iGaming get even worse. It's easy to see how Maryland will end up losing financially from iGaming.

Don't Experiment with Marylanders

Despite how much it's talked about in the media, **only six states** have experience with iGaming. **43 states have not authorized it.** Online gambling is very different than in-person casino gaming. At Maryland's casinos, the Lottery's regulations and the casinos' procedures are geared to create a pause in the action and make patrons think twice before placing that next bet. Patrons must travel to the casino. Credit cards cannot be used to gamble and access to cash requires additional steps. Casino employees are trained to identify problem gambling and intervene. Patrons are not allowed to gamble while drunk or high. Security personnel stop underage individuals from gaining access to gaming.

Online gambling lacks many of these protections. Maryland only has one year of mobile sports betting under its belt. While the Maryland Center of Excellence has reported increases in call volumes and problems among young people, the Center has explained that the State does not yet have the data to know the full scope of the problem that may be facing Marylanders. It takes time for problem gambling behavior to manifest itself, people to accept that they have a problem and, ultimately, to seek help from the Center or a 1-800 Helpline. The Senate wisely recognized this in passing SB 878, which calls for a comprehensive study of the impact of mobile sports betting by July 2029 and which we support.

Conclusion

We urge you to oppose HB1319. At the very least, before any further expansion of online gambling occurs, the State should conduct a comprehensive study of mobile sports betting and its various impacts, as well as the societal impacts of iGaming in the very few states that have authorized it, to obtain a clearer data-based picture of the issues related to iGaming and inform any future legislative policy accordingly. There is too much at stake for the State in terms of jobs, comprehensive tax revenues and potential social costs to rush this important public policy decision.