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February 27, 2024

Senator Guy Guzzone
Chair, Budget and Taxation Committee
On Behalf of Budget and Taxation Committee
Senate
State of Maryland
3 West
Miller Senate Office Building
Annapolis, Maryland 21401

SUBMITTED VIA My MGA Portal

RE: Testimony by Brian Gordon, Applied Analysis, Regarding Senate Bill 0603

Chair Guzzone and Members of Senate, Budget and Taxation Committee:

Thank you for allowing me the opportunity to offer testimony. My name is Brian Gordon; I am a Principal with Applied Analysis, a consulting firm specializing in economic analysis, public policy analysis and gaming and hospitality analysis. For nearly three decades our firm and its principals have been evaluating gaming-specific issues, various policy initiatives and related economic implications. I am also a certified public accountant (CPA) and accredited in business valuations (ABV) by the American Institute of Certified Public Accountants.

Purpose and Background

I am here today to offer our firm's testimony related to Senate Bill 0603, which contemplates the authorization of internet-based gaming activities, such as online slot machines, online table games and other activities. I will refer to these activities as iGaming.

Applied Analysis was retained by Boyd Gaming Corporation to conduct an independent assessment of three primary topics, including: (1) the potential revenue implications of the proposed legislation; (2) alternative revenue scenarios should an alternative number of licenses, or sublicenses, be considered by this body; and (3) the topic of cannibalization of brick-and-mortar casino revenues sourced to iGaming activity. My time here is limited, but I would like to highlight the most salient points of our research and analysis.

1. Baseline iGaming Revenues in Maryland Estimated to Exceed $1.1 Billion by 2030

Assuming Maryland were to approve iGaming legislation that allows economic activity to commence in 2026, initial estimates suggest annual gaming revenue of nearly $500 million is possible. This estimate reflects a 50 percent discount to the average iGaming revenue per adult in the six other states that actively offer iGaming. Simply stated, this estimate assumes each Maryland resident over the age of 21 spends approximately $111 in 2026, which is approximately half the average among iGaming states.

Consistent with a number of other markets, revenue is expected to ramp up after its initial debut as multiple channels launch and this new entertainment offering is absorbed by the market. By 2030, estimates suggest Maryland revenue could exceed $1.1 billion. Importantly, consumer spending on iGaming activities in 2030 is estimated to account for approximately 0.21

percent – that is less than half a percent – of personal income in Maryland. For reference, a typical household earning the median income of $94,991 in Maryland would be expected to spend an average of $199.49 per year on iGaming activities.

2. Revenues Could Outperform Baseline Expectations with a Greater Number of Outlets

The current draft of House Bill 1319 indicates a total of two licenses, or skins as they are sometimes referred to, per gaming license. This equates to 12 potential licenses based on six (6) casino licensees. Research suggests that states with a greater number of iGaming outlets have reported the strongest gaming volumes. The number of outlets that are offered in each state appear to provide a number of advantages, including:

- Expanding the brand reach of brick-and-mortar casinos;
- Establishing a competitive marketplace (more quickly);
- Attracting new demographics to the gaming space, including groups not previously exposed to in-person gaming;
- Providing access to a wider database of potential consumers and accelerating the absorption within the market; and
- Catering to niche demographics that may not have been connected but for multiple access points.

For reference, New Jersey has an estimated 33 skins and generated $1.9 billion in iGaming revenue in 2023, while Pennsylvania has approximately 19 skins and posted revenue of $1.7 billion in the past year. The baseline revenue estimates discussed previously assume two licenses (or skins) per operator. However, fewer skins would suggest less revenue potential (reducing revenue by 25 percent or more), while more skins (a minimum of three per operator), could increase revenues by 25 percent or more – equating to approximately $1.4 billion in iGaming revenue by 2030.

3. Concerns About Cannibalization of Brick-and-Mortar Casinos Appear Unwarranted

I understand there has been speculation about the impact iGaming may have on brick-and-mortar casino operators. Physical casinos are responsible for employing thousands of workers while positively contributing to the overall economy. However, the consumers visiting a casino, which is referred to as experiential gaming, tend to be much different than those seeking entertainment opportunities on a computer or mobile device from the comfort of their home. Research on this topic would suggest the two groups rarely cross over with one another, and in fact, they have the potential to complement one another.

States with tenured iGaming access have not seen a dramatic fall of in-person gaming revenue. Immediately following their iGaming launches, several states saw brick-and-mortar casino revenues stabilize and then ultimately trend upward. A few key examples include:

- New Jersey casino revenues were trending downward for the better part of a decade, reaching a low of $2.4 billion in the mid-2010s. As iGaming ramped up, casino gaming revenues increased to $2.7 billion in 2019 (pre-pandemic) and reached over $2.8 billion in 2023 (excluding sports betting). Combined, revenues reached $4.8 billion in 2023, the highest level since 2007.
- Pennsylvania experienced a somewhat similar overall gain as casino revenues hovered around $3.2 billion annually for a five-year period prior to the introduction of iGaming. Since then, aggregate revenues reached $5.2 billion in 2023 with casino revenues increasing to $3.4 billion.
- Delaware casino revenues were sliding prior to the introduction of iGaming about a decade ago, and since the launch, casino revenues have trended upward.

A multichannel approach to gaming products suggests that revenues increase across the industry. Gains in overall revenues have also translated into increased tax dollars.

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This concludes my prepared remarks. Thank you again for the opportunity to testify on this important topic. I stand ready to answer any questions the chair or committee members may have.

Sincerely,

Applied Analysis

Applied Analysis
By: Brian R. Gordon, CPA/ABV, Principal