

Maryland's Full House



More than 1,200 slot machines welcome guests at the Hollywood Casino Perryville in Perryville, Md.

BY JESSIE ROMERO

Tired shoppers at the Arundel Mills outlet mall in Hanover, Md., between Washington, D.C., and Baltimore, can take a break at one of the country's largest commercial casinos. Just feet away from Bass Pro Shops and Burlington Coat Factory, in a building that could hold more than five football fields, Maryland Live! is home to more than 4,300 slot machines and 122 live table games, such as blackjack and craps, with a two-story poker room opening in August. If a gambler isn't feeling lucky in Hanover, he can drive an hour north to the Hollywood Casino Perryville, two and a half hours east to the Casino at Ocean Downs, near Ocean City, or two hours west to the Rocky Gap Casino Resort in Cumberland. Within the next three years, additional casinos are scheduled to open in downtown Baltimore and in Prince George's County, on the border with Washington, D.C. — making the Free State one of the most concentrated gambling markets outside of Las Vegas.

Gambling has been a heated topic in Maryland politics since the early 2000s, when gubernatorial candidate Robert Ehrlich campaigned on bringing slot machines to Maryland. Ehrlich was elected, but failed to persuade the state legislature to pass his bill. In 2008, however, voters approved a referendum, backed by new governor Martin O'Malley, to allow up to five slots-only casinos to open in the state. Just four years later, gambling was once again the subject of special legislative sessions and a fierce political campaign, which eventually resulted in a major expansion of the state's casino industry.

Supporters view casinos as a surefire way to generate tax revenues for the state and jobs for the surrounding communities. Opponents argue that these benefits are greatly overstated, not to mention outweighed by significant social costs. The reality is probably somewhere in the middle, but legislators in Maryland and many other states are hoping that their bets pay off.

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Going All In

The most expensive political campaign in Maryland history wasn't about a person — it was about a business. In November 2012, voters approved legislation, passed by the General Assembly that August, authorizing the construction of a sixth casino in Prince George's County and expanding casino gambling to include live table games. Between August and November, supporters and opponents spent more than \$90 million — as much as was spent on the past four governors' races combined — to convince voters of their position on Question 7, as the ballot initiative was known. On the "pro" side was

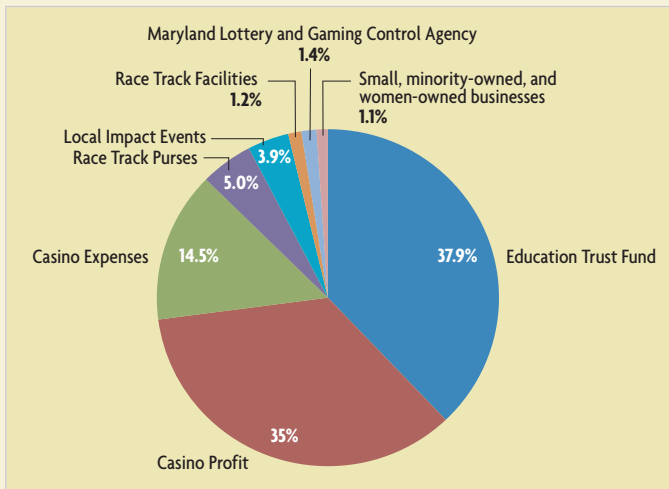
MGM Resorts, which wants to build an \$800 million casino at the National Harbor resort on the Potomac River. On the "con" side was Penn National Gaming, which wants to add a casino to its Rosecroft Raceway, and has argued that the political process is tilted in favor of giving the sixth casino license to MGM and National Harbor. Penn National also owns the Hollywood Casino at Charles Town Races in West Virginia and the Hollywood Casino Perryville.

Maryland's battle was fierce, but it wasn't unique, says James Karmel, a gaming consultant and economic historian at Harford Community College in Bel Air, Md. "It's very rarely the casino interest versus people who just don't like casinos. Almost always it's one casino interest versus another casino interest, because the money is so big."

Consumers spent \$37.3 billion at commercial casinos in 2012, nearly as much as the prerecession peak of \$37.5 billion, according to the American Gaming Association (AGA), a trade association. Commercial casinos include riverboat and dockside casinos, racetrack casinos, and stand-alone casinos. Tribal casinos, which operate on Indian reservations under federal regulation, generated \$27 billion in revenue in 2011, the most recent year for which data are available.

Of course, commercial casino owners don't get to keep a large portion of their revenue. In Maryland, the state keeps

Revenue Shares from Maryland Casino Gambling, April 2013
Gross Revenue: \$68,943,512



NOTE: April 2013 was the first month casinos operated table games.
 SOURCE: Maryland Lottery and Gaming Control Agency

67 percent of the slot machine revenue and 20 percent of the table game revenue, one of the highest rates in the nation. The 2012 law allows Maryland Live! and the forthcoming Baltimore casino — the ones closest to a sixth casino in Prince George’s County — to keep about 8 percent more of their slots revenue as compensation for the added competition. The money that casinos give to the state does not include property taxes or corporate income taxes, which must be paid separately. (Tribal casinos are not subject to state or federal taxes, although the state compacts that govern tribal casinos generally include a revenue-sharing agreement.)

“People think, oh, casinos take in so much money,” says Jennifer Miglionico, director of marketing at Hollywood Casino Perryville. “But they don’t realize how much we give back out.”

The 2008 legislation established an education trust fund, which initially received 49 percent of the total gambling revenue. With the passage of Question 7, the trust fund will receive 39 percent of total gambling revenue, according to projections by Maryland’s Department of Legislative Services (DLS). The remainder of the state’s money goes toward supporting the horse racing industry, local impact grants, and small, minority-owned, and women-owned businesses. Through May 2013, total slot machine revenue was more than \$620 million. (See charts.)

Winning Big...

Casinos have proliferated rapidly in the United States. Before 1989, gamblers had to travel to Nevada or Atlantic City, N.J. But that year, a casino opened in Deadwood, S.D., in a bid to revitalize the struggling town. Today, more than 500 commercial casinos operate in 22 states, with Massachusetts slated to become the twenty-third. Tribal casinos operate on Indian reservations in 28 states, including the Fifth District state of North Carolina.

Maryland and West Virginia are the only Fifth District

states with commercial casinos, but all five states and the District of Columbia operate state lotteries, which combined have generated \$33 billion for their states’ budgets. Maryland’s lottery is the longest-standing, at 40 years, while North Carolina only started its games in 2005.

Whether it’s scratch-off tickets or a glitzy casino, state lawmakers legalize gambling for a combination of three reasons: reducing fiscal stress, keeping gambling revenues and taxes in state, and attracting tourism, according to an analysis of states’ decisions by Peter Calcagno and Douglas Walker of the College of Charleston and John Jackson of Auburn University. And once one state allows gambling, its neighbors tend to follow suit. “[Legislators] realize that people are still gambling, and figure, well, if we can get an extra \$500 million for the budget, let’s let people gamble here as opposed to some other state,” says David Schwartz, director of the Center for Gaming Research at the University of Nevada, Las Vegas.

That was the case in Maryland, where Governors Ehrlich and O’Malley both supported slots as a way to close large budget deficits. Maryland also found itself in the midst of a casino arms race: West Virginia and Delaware began allowing slots gambling in 1995, and Pennsylvania followed suit in 2004. No sooner did Maryland legalize slots than its neighbors responded by allowing table games; recapturing the revenue lost to other states thus became a major impetus for the 2012 expansion. Marylanders spent more than \$1 billion at Charles Town Races and Slots between 2003 and 2012, in effect generating tax revenue for West Virginia instead of Maryland, according to a study by Sage Policy Group, a Baltimore-based economic consulting firm. Sage estimated that if Question 7 did not pass, Maryland residents could spend an additional \$1.5 billion at Charles Town over the next 10 years. (Sage received funding from a pro-Question 7 group.)

The DLS estimated that the addition of table games and the sixth casino would increase gambling revenue to \$1.9 billion by 2017, about \$700 million more than slots alone. The education trust fund would receive \$750 million in 2017 — \$170 million more than would be generated by the five existing casinos.

Gaming industry supporters also point to casino gambling as an effective way to create jobs. The casino industry supported about 820,000 jobs in 2010, according to a study prepared for the AGA by The Brattle Group, a consulting firm. About 350,000 people were employed directly by the casinos, with the remainder employed by suppliers and other support industries. The study also noted that casinos are more labor-intensive — they employ more people per dollar of revenue — than many other industries. A report prepared for Massachusetts by the Spectrum Gaming Group found that casinos have a multiplier effect of about 1.5, meaning that for every job created at a casino, additional spending in the economy generated another 0.5 jobs. The Brattle Group puts the multiplier at 1.92. In Maryland’s case, supporters of Question 7 claimed that the expansion would

generate 2,000 construction jobs and 10,000 permanent jobs across the state. So far, Maryland Live! has hired about 2,400 permanent employees, half of whom were a result of Question 7. Hollywood Casino Perryville has added about 140 employees to its original 300, according to Miglionico. There are no estimates yet of how many indirect jobs might have been created.

... Or Going Bust?

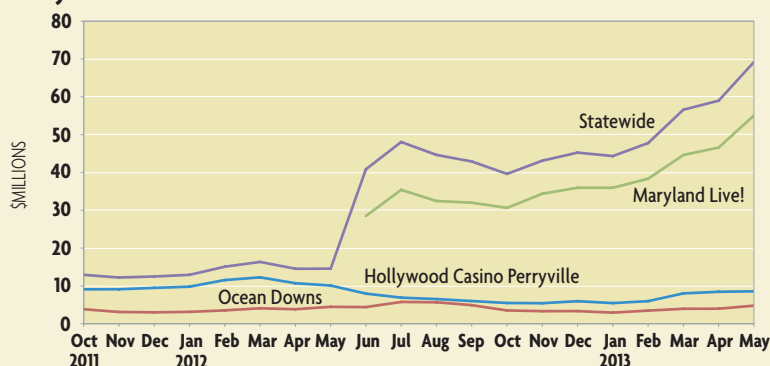
Economic-impact studies on the effects of casino gambling depend, however, on a number of assumptions about how consumers and businesses will respond — and those assumptions might or might not prove to be true. For example, most studies assume that the new casinos will attract out-of-town visitors, but as more states legalize casinos, there is less reason for people to travel out of state to gamble. In addition, research suggests that many of the people who visit casinos are day-trippers who rarely venture beyond the casino, making it unlikely that they generate a large multiplier effect.

Many impact studies also fail to account for the net effect on jobs and tax revenues. As Karmel says, gaming has become “an everyday thing, just part of your routine entertainment options, like going to a restaurant or a movie or a ballgame.” While that has been good for the casino industry, it’s possible that consumers are shifting their spending from other forms of entertainment to casinos, rather than increasing their total amount of entertainment spending. If that’s the case, any job gains or increased tax revenue from casinos could be offset by job losses or decreased taxes from other businesses, according to Earl Grinols, an economist at Baylor University. “When one sector of the economy expands at the expense of another sector of the economy, you’ve merely shifted the location of jobs,” Grinols says. “Casinos don’t create people. They’re merely hiring people who would already be working someplace else.”

Of course, that is less likely to be true when unemployment is high, as at present. In that case, casinos could provide a benefit if they put some people back to work more quickly than would otherwise have been the case. But in the long run, casinos might not have a large effect on economic growth. In a separate study, Walker and Jackson found that casinos do not have any measurable effect on state per capita income. While there might be an initial boost in employment or tax revenue, they conclude that “the average state should not expect any long-term growth effects from legalizing casino gambling.”

Whatever the financial benefits of casinos, it’s possible that they are outweighed by the social costs of pathological gambling and higher crime. Compulsive gamblers tend to commit more crimes and are more likely to commit suicide; they also file for bankruptcy and get divorced at higher rates than the rest of the population. Areas that have a casino within 50 miles have double the rate of problem and pathological gambling, according to the National Gambling Impact Study Commission, which was convened by

Maryland Slot Machines Revenue



NOTE: Data are not included for the Rocky Gap Casino Resort, which opened in May 2013.
SOURCE: Maryland Lottery and Gaming Control Agency; UNLV Center for Gaming Research

Congress in 1996. It’s not certain that these links are causal; people with gambling problems often have other psychological problems, and an already-compulsive gambler might move to an area with a new casino, rather than the casino creating the compulsion. Still, the commission concluded in its 1999 report, “As the opportunities for gambling become more commonplace, it appears likely that the number of people who will develop gambling problems also will increase.”

Casinos also could lead to more crime. Crime rates increase in counties where casinos open, and overall between 5 percent and 30 percent of crime in a county can be attributed to the casino, according to research by Grinols and David Mustard of the University of Georgia. In another study, William Evans of the University of Notre Dame and Julie Topoleski of the Congressional Budget Office found that while employment in the surrounding county increased by 26 percent four years after an Indian casino opened, bankruptcy rates, violent crime, auto theft, and larceny all increased by 10 percent.

Other studies, however, have found that counties with and without casinos have the same crime rates, or that crime increases in some counties while remaining the same in others. Part of the discrepancy stems from the fact that it is difficult to distinguish the effects of casinos specifically from the effects of more visitors generally. Also, differences in population, law enforcement, or casino regulation might affect how a community responds to the introduction of a casino.

Despite the potential costs of gambling, arguments based on the economic impact tend to prevail. “You can easily quantify the benefits; you can say, here’s the gaming revenue, here’s the tax, here’s the employment,” says Schwartz. “When you look at the social costs, that’s a much more nebulous area.”

Breaking Even

So far, Maryland Live! is drawing huge crowds. In March, the casino generated more than \$44 million in slots revenue — more than any other casino in Delaware, Maryland, New Jersey, or Pennsylvania. And anecdotal evidence suggests that Delaware and West Virginia already are losing

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customers to Maryland, primarily to Maryland Live!. “It’s a phenomenon we’ve seen throughout the Northeast,” says Schwartz. “As casinos have proliferated, new jurisdictions have done well but the old jurisdictions have definitely suffered.”

It’s an open question, however, whether or not Maryland can support all the casinos that are scheduled to open. When Maryland Live! opened in June 2012, gambling revenues fell noticeably at Hollywood Casino Perryville and Ocean Downs. The Rocky Gap casino opened in May with about 300 fewer slot machines than originally planned, and Hollywood Casino Perryville recently reduced its number of slot machines by almost 350. “We have too much supply for the demand we have,” general manager Bill Hayles said in a statement. But even Maryland Live! might take a hit; a 2012 study by the DLS with PricewaterhouseCoopers calculated

that nearly half of the revenues from a new casino in Prince George’s County would come at the expense of those in Anne Arundel County and Baltimore.

While the proliferation of casinos poses challenges to the casinos themselves, it could be good for consumers. “For most people who like to gamble, and who view it as a recreation, there is a benefit to being able to gamble closer to home rather than having to travel to Las Vegas,” says Grinols.

Lawmakers tend to be less interested in consumer utility than in creating lots of jobs and tax revenue. In this respect, the evidence is mixed. Still, the fact that casinos might fall short of expectations for economic development doesn’t necessarily mean that they shouldn’t be legalized — but policymakers must carefully weigh the costs and benefits for their own communities. **EF**

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