

# LET IT RIDE: CASINOS, ONLINE BETTING AND THE FUTURE OF GAMBLING IN VIRGINIA

*Nobody has ever bet enough on a winning horse.*

- American Proverb



In 1987, Virginia voters faced a choice: approve a public referendum on a state lottery or continue to prohibit most forms of legal gambling in the Commonwealth. While proponents pointed to how a state lottery could increase funding for K-12 education, opponents argued that a lottery would not only be a regressive tax, but also the gateway to other forms of gambling.<sup>1</sup> With 57% of voters casting a “yes” ballot in November that year, Virginia joined the growing ranks of other states in having a lottery.

In retrospect, the lottery opponents were prescient, although it took a while for their prophecies to be realized. In 1988, Virginia voters approved pari-mutuel betting by a 56% to 44% margin. In 1992, local referendums for off-track betting parlors passed in Brunswick County, Chesapeake, Greenville County, Henrico County, Richmond and Virginia Beach. In 1993, Hampton voters approved an advisory referendum on off-track betting, although zoning was not approved until 1997. The Colonial Downs Racetrack opened in New Kent County in 1997. Over ensuing decades, state and local bills and referendums were considered by the General Assembly and voters, but, until 2015, legal gambling consisted primarily of the Virginia Lottery, horse racing and games associated with charitable giving.

<sup>1</sup> <https://www.washingtonpost.com/archive/local/1987/09/23/virginia-lottery-referendum-debate-is-no-ticket-to-excitement/7d3c7174-0758-4f51-9dd6-f4d0387a17db/>.

Since 2015, the Commonwealth has, in effect, gone “all in” on gambling. Virginians can now purchase lottery tickets online as well as play online lottery games. They can visit historical horse racing parlors and off-track betting sites. If they don’t want to get off the couch, they can wager on sporting events through a number of online sportsbooks. The only notable exception to this “gold rush” was the narrow defeat in November 2021 of the referendum that would have allowed the construction and operation of a casino in Richmond. In the coming years, however, Virginians will be able to visit commercial casinos in Bristol, Danville, Norfolk and Portsmouth.

The push to expand commercial gambling in the Commonwealth over the last decade is a reflection of a continuing shift in public attitudes toward gambling as well as the search by state and local legislators for additional sources of revenue outside of raising taxes. In the 2021 Gallup survey of American moral values, 68% of respondents replied that gambling was “morally acceptable” (Graph 1). This represented an 8% increase from when the question was first asked in 2003. This gradual shift may also reflect the increasing ubiquity of gambling across the United States. In other words, as there are more opportunities to gamble legally, Americans view it in a more favorable light.

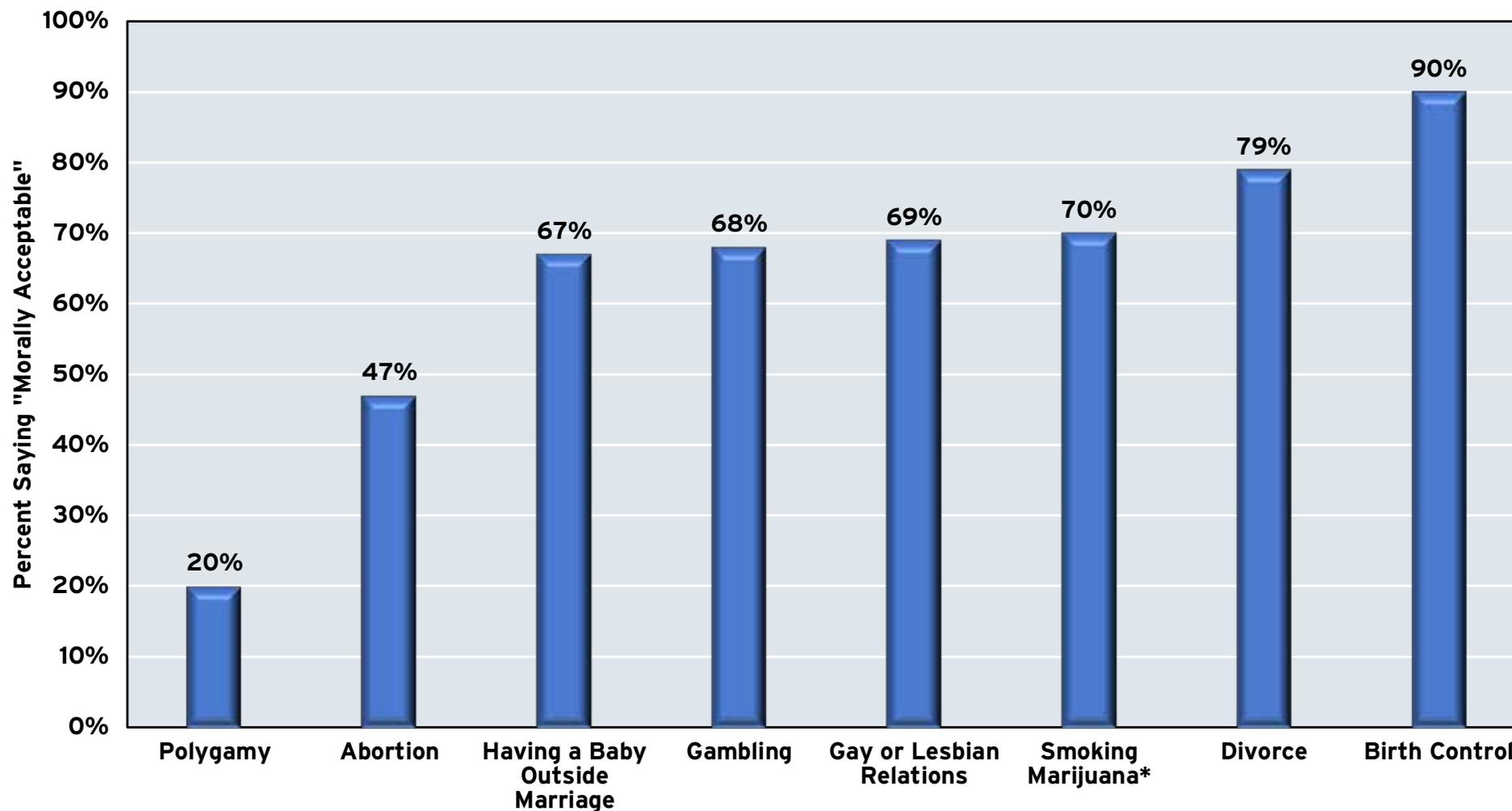
**As legal gambling expands in Virginia, the question remains: Who benefits and who pays? Is it wise for the state and localities to become increasingly dependent on gambling revenue instead of making hard choices with respect to reforming the antiquated tax system in the Commonwealth? While we project that localities with new casinos will see increases in jobs and tax revenues, the net economic impacts of the casinos are closely correlated with how many patrons come from outside the state. While the casinos in Bristol and Danville are likely to attract a majority of their customers from outside Virginia, the same cannot be said about the casinos in Norfolk and Portsmouth. We also note that new forms of gambling, especially online gambling, pose a threat to the future revenue potential of the commercial casinos. Lastly, with an ever-expanding slate of gambling alternatives, we argue that Virginia needs to prepare for the increasing social toll of gambling.**

In this chapter, we examine the evolution of gambling in the United States and the Commonwealth, and estimate the impact of introducing four new casinos in Bristol, Danville, Norfolk and Portsmouth. We also discuss how displacement may alter the projected economic impacts of these new venues. We conclude with a look at the social costs of gambling and pay particular attention to gambling addiction.



**GRAPH 1**

**2021 GALLUP POLL ON MORAL ISSUES,  
PERCENT OF RESPONDENTS STATING AN ISSUE IS MORALLY ACCEPTABLE**



Source: Gallup (2021), "Moral Issues," available at: <https://news.gallup.com/poll/1681/Moral-Issues.aspx>  
\*Smoking Marijuana question was not included in the 2021 survey. Estimate reflects the 2020 Gallup survey.

## Rolling With The Times: Gambling Goes Mainstream

When one hears the word “gambling,” thoughts of casinos and horse tracks may come to mind. The casino, with its blackjack tables, roulette wheels and slot-style machines, has occupied a place in the American consciousness for decades. In the United States, casino gambling was legal only in Nevada until New Jersey voters approved casino gambling for Atlantic City in 1976. Over the next three decades, other states approved commercial casinos, and tribal casinos also opened throughout the country. As illustrated in Graph 2, the number of commercial casinos peaked at 524 in 2016, before falling sharply the following year. The number of casinos in operation in 2020 was roughly equivalent to the level seen in 2006.

State and local lotteries have grown considerably over the last three decades. In the late 1970s, state and local lottery revenue amounted to less than \$1 billion. By 2019, revenue approached \$29 billion.<sup>2</sup> Growth in some states, however, slowed (if not declined outright) as consumer fatigue set in and competition from other sources of gambling intensified over the last decade. In Virginia, the launch of the online lottery and larger jackpots lifted lottery revenue to \$1.43 billion and profits to \$350 million (a record) in just the second half of 2020.<sup>3</sup>

Competition is likely to only increase for casinos and lotteries in the coming years. In May 2018, the U.S. Supreme Court ruled that the Professional and Amateur Sports Protection Act of 1992, which effectively granted Nevada a monopoly on legal sports betting, was unconstitutional. The historic decision legalized sports betting nationwide. A number of states, including Virginia, rapidly moved to create the legal and regulatory frameworks necessary for residents to place sports bets via computer or their phone. Sports betting with full or limited mobile-betting options is now offered in 17 states and the District of Columbia, and has been

approved in another three states.<sup>4</sup> While some states require in-person registration for mobile betting, this requirement appears to limit revenue growth and is likely to fall by the wayside.

**In 2018, total sports betting revenue in the United States amounted to \$560 million. A year later it nearly doubled, jumping to \$1.1 billion. Sports betting revenue is likely to top \$2 billion in 2021 and approach \$8 billion by 2025.<sup>5</sup> Sports betting became legal in Virginia in January 2021 and by July, the state had collected over \$9.6 million in taxes.<sup>6</sup> Every dollar wagered online is one less dollar that could have been spent in a historical horse racing parlor or commercial casino. The open question is whether physical gambling establishments will face the same disruption that many brick-and-mortar retailers experienced (and continue to experience) from online shopping.**

2 Statista, E. Duffin (2021), “State and local lottery revenue in the United States from 1977 to 2019,” at <https://www.statista.com/statistics/249128/us-state-and-local-lottery-revenue/>.

3 [https://richmond.com/news/state-and-regional/govt-and-politics/big-jackpots-online-gambling-lift-virginia-lottery-revenue-37-in-late-2020/article\\_98743ed5-de36-567a-90e6-22b7fd4033d8.html](https://richmond.com/news/state-and-regional/govt-and-politics/big-jackpots-online-gambling-lift-virginia-lottery-revenue-37-in-late-2020/article_98743ed5-de36-567a-90e6-22b7fd4033d8.html).

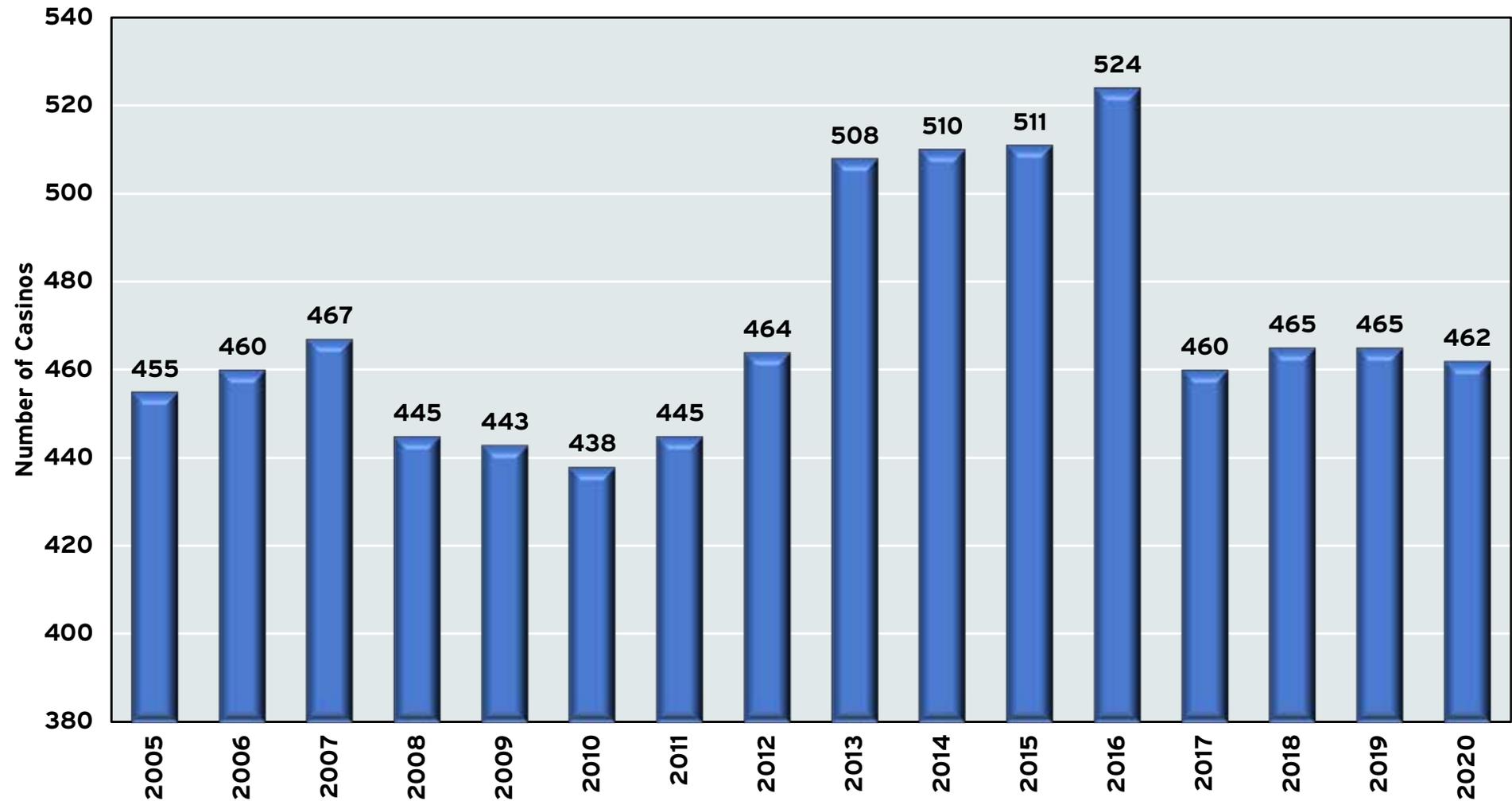
4 <https://www.actionnetwork.com/news/legal-sports-betting-united-states-projections>.

5 Statista, S. Lock (2021), “Sports betting revenue in the United States in 2018 and 2019, with a forecast to 2028,” at <https://www.statista.com/statistics/1117369/sports-betting-revenue-forecast-us>.

6 <https://www.sportsbettingdime.com/virginia/sports-betting-revenue/>.

**GRAPH 2**

**NUMBER OF COMMERCIAL CASINOS IN THE UNITED STATES, 2005-2020**



Source: Statista, S. Lock (2021), "Number of commercial casinos in the United States from 2005 to 2020," at <https://www.statista.com/statistics/187972/number-of-us-commercial-casinos-since-2005/>

## Virginia Rolls The Dice

Over the last five years, there has been a rapid shift in public policy toward gambling in Virginia. In 2015, legal gambling consisted primarily of the Virginia Lottery, historical horse racing and games associated with charitable giving. By 2021, Virginians could gamble via online lotteries, wager bets with mobile sportsbooks, visit expanded historical horse racing sites and look forward to frequenting commercial casinos in the near future. Table 1 provides descriptions of the types of gambling that are currently legal in Virginia.

One might argue that the demarcation line for this change in public policy was drawn in March 2019 when Gov. Ralph Northam signed Senate Bill 1126, establishing a broad framework for expanding commercial casinos and authorizing casino gaming to be regulated by the Virginia Lottery Board. The bill included a reenactment clause, which meant it would need to be passed again for it to take effect. The clause directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a review of gaming laws in other states and approximate what would occur in Virginia if casino gambling were authorized in the Commonwealth. The findings from JLARC's report prompted the re-signing of the bill in 2020.

**The bill authorized casinos in five cities – Bristol, Danville, Norfolk, Portsmouth and Richmond – but only if citizens approved the casinos. Residents in Bristol (71.1%), Danville (68.7%), Norfolk (65.1%) and Portsmouth (66.8%) resoundingly voted in favor of having a commercial casino in their cities. In November 2021, however, Richmond voters narrowly rejected (51%) a proposal to build and operate a commercial casino in south Richmond.**



**TABLE 1**

**GAMBLING BY TYPE IN VIRGINIA, 2021**

Type	Definition
Casino gaming	Table games (such as craps, roulette, baccarat, poker, etc.) and wagering played with cards and electronic gaming devices where players wager money. Video lottery machines (slot machines) have become one of the most popular forms of gambling in casinos.
Charitable gaming	Bingo, charity game tickets, raffles and charity fundraising permitted by the Office of Charitable and Regulatory Programs throughout Virginia. There were 211 registered gaming activities in Virginia as of November 2021.*
Fantasy sports betting	Players create a fantasy sports team and compete against other teams to win money. Virginia introduced legal fantasy sports betting regulation in 2016.
Gray machines and games of skill	Games of skill are slot-like machines that appeared in restaurants, bars and convenience stores. The outcome of these games is determined by a player's mental or physical skills rather than by chance. These machines operated in a gray area of the law until they were banned in 2020 but were then granted a reprieve in return for tax collections. Skill games were banned again on July 1, 2021.
Historical horse racing machines	Electronic gambling system that allows players to bet on the outcome of horse races that have already been run. These machines appear similar to a traditional slot machine. Users can select their horse "winners" with each wager or use an auto cap feature for random horse selection.
Live horse race betting	Individuals place in-person bets on the outcome of a live horse race.
Lottery (scratchers, state lottery)	Prize drawings where entrants pay for a chance to win a large jackpot or instant prizes by scratch "reveal" tickets.
Online horse race betting	Individuals place bets on live horse races via an online website or a smartphone app from the comfort of their own home.
Sports betting	Placing bets on a particular outcome or winner of a domestic or international sports event (including straight, total line, money line, parlay and teaser bets).
Sweepstakes sites	A contest in which participants enter for a chance to win a range of prizes (from houses to cars to money), and winners are drawn at random.

Source: Dragas Center for Economic Analysis and Policy, Old Dominion University  
 \*Online Directory of Bingo Sessions in Virginia, [https://www.vdacs.virginia.gov/pdf/bingo\\_events.pdf](https://www.vdacs.virginia.gov/pdf/bingo_events.pdf)

# The Rise Of Mobile Betting

*When Virginia launched, it was our most successful launch to date, with more users on the first weekend than any state before it.<sup>7</sup>*

– Kevin Hennessy, FanDuel  
Director of Publicity

The bet on casinos by Bristol, Danville, Norfolk and Portsmouth is being made at a time when the gambling industry is experiencing a period of profound change. Two decades ago, the thought of sitting on your couch and placing real-time bets via a mobile device on whether the next football pass will be completed, a basketball game beats the over/under or an MMA fighter lands more punches than an opponent in a particular round was just a glimmer in the eyes of entrepreneurs. Today, not only does this technology exist, but also consumers are embracing it enthusiastically. While the number of casinos remains relatively stable and lottery revenue growth has slowed, sports betting revenue nationally is projected to increase from \$2.1 billion in 2021 to \$7.9 billion in 2025.

Virginia legalized sports betting in April 2020 with the passage of Senate Bill 384, which allows for up to 12 online sports-betting providers in the Commonwealth.<sup>8</sup> Table 2 lists the online and mobile sportsbook applications that have already launched or will launch in Virginia. FanDuel was the first, followed quickly by DraftKings, BetRivers, BetMGM and Caesars Sportsbook. Currently, 10 providers are either operating or have been approved to operate a mobile sportsbook in the state. Physical sportsbook locations are anticipated to open in spring 2022. JLARC estimates that the mobile sports-betting market will generate between \$22 million and \$55 million annually in tax revenue for the Commonwealth.<sup>9</sup>

**TABLE 2**  
**ONLINE AND MOBILE SPORTSBOOK APPS IN VIRGINIA**

Online Sportsbooks	Launch Dates	Partner Casinos/ Organizations	Probable Physical Sportsbook Locations
FanDuel Sportsbook	January 21, 2021	Washington Football Team	TBD
DraftKings Sportsbook	January 24, 2021	Stand-Alone License	TBD
BetRivers	January 27, 2021	Rush Street Gaming	Portsmouth
BetMGM	January 27, 2021	Stand-Alone License	TBD
Caesars Sportsbook (formerly William Hill)	February 3, 2021	Caesars	Danville
WynnBET	March 11, 2021	NASCAR	Martinsville, Richmond
Unibet	April 28, 2021	Stand-Alone License	TBD
Golden Nugget	October 13, 2021	Stand-Alone License	TBD
PointsBet	TBD	TBD	TBD
bet365	TBD	Hard Rock	Bristol

Source: Sports Handle, <https://sportshandle.com/virginia/>, updated as of Nov. 1, 2021

<sup>7</sup> <https://www.13newsnow.com/article/news/local/mycity/norfolk/virginia-leading-the-way-for-popular-sports-betting-platform-fanduel/291-888e7fff-3a1a-4433-8c6c-0920e4951d89>.  
<sup>8</sup> [https://www.americangaming.org/wp-content/uploads/2021/03/AGAGamingRegulatoryFactSheet\\_Virginia-2021.pdf](https://www.americangaming.org/wp-content/uploads/2021/03/AGAGamingRegulatoryFactSheet_Virginia-2021.pdf).  
<sup>9</sup> JLARC, "Gaming in the Commonwealth 2019," <http://jlarc.virginia.gov/pdfs/reports/Rpt527.pdf>.

# Games Of Skill Or Games Of Chance?

While Virginia was debating whether to approve commercial casinos, gaming machines (often referred to as “gray machines”) began appearing in restaurants, bars, convenience stores and truck stops throughout the state. These “machines” were electronic, computerized terminals featuring games that were played by inserting money in hopes of winning a cash prize. On the outside, there appeared to be no fundamental difference between a virtual slot machine and these games; however, operators argued that these machines required skill, rather than chance, to win.

The distinction between skill and chance is important from a legal perspective. If the outcome of a game is determined by the player’s ability, then it is not a random event. A popular game of skill mimics the Simon memory game, whereby a player must remember color combinations of increasing complexity. Another version requires a player to identify patterns among nine different pictures, much like a pictorial tic-tac-toe game, but with time limits and “wild cards.” These games of skill differ considerably from a slot machine, where the player’s only input is a bet and the push of a button to start the gamble.

Games of skill occupied what one could consider an ill-defined legal space. The machines were not taxed or regulated and, while some were skill-based, others appeared to cross the line into games of chance. Virginia planned to ban these games in 2020, even though many small-business owners argued that the revenue from these machines allowed them to make capital investments and expand staff.

As the COVID-19 pandemic rolled across Virginia in spring 2020, however, social distancing and restrictions on economic activity threatened to overwhelm many of these same businesses. Legislators, fearing a significant downturn in state revenues, decided to allow these machines to operate legally in the Commonwealth and to use the tax revenues and license fees for COVID-19 relief, problem gambling and local community

support. The tax was \$1,200 per machine every month it operated, and game distributors were subject to the tax. With over 10,000 machines and \$198.4 million in wagers placed in May 2021 alone, many small-business owners and their patrons welcomed the legalization of these machines (Table 3). The state collected over \$100 million in taxes during the time the machines were legal here.<sup>10</sup>

Even though the machines produced a boon for the state and business owners, the Commonwealth banned these games of skill on July 1, 2021. One argument was that the games bring gambling and its associated social costs into local neighborhoods, though, curiously, the same argument could be made about lotteries and mobile betting. In all likelihood, the primary rationale was the fear that these machines competed with lottery sales and also posed a threat to the state’s nascent casino industry. A 2019 presentation by the Virginia Lottery Board attributed slowing growth in lottery sales to the prevalence of gray machines.<sup>11</sup> However, in a December 2020 presentation to the Virginia House Appropriations Committee, Dan Timberlake, director of the Virginia Department of Planning and Budget, noted that gray machine revenue had fallen short of expectations. When asked why, he replied: “One reason we believe the gray machine revenue is not what was originally forecasted is because people weren’t going into the stores (to play them). But what they were doing, to our surprise, is that they were buying lottery tickets. The lottery is not seeing the loss of revenue from the fact that the gray machines are still out there.”<sup>12</sup> On Dec. 6, 2021, a preliminary injunction placed the ban on games of skill on hold until full arguments on the constitutionality of the ban could be heard in court.

**If the state reaped revenue from both games of skill and lottery sales, it should have been indifferent to where the money originated. The short-lived experiment with games of skill generated revenue for businesses and the Commonwealth and was obviously welcomed by many Virginians. Arguments that one form of gambling displaces another should fall on deaf ears, as it should not be the responsibility of the Commonwealth to choose winners and losers.**

10 <https://www.fox5dc.com/news/some-va-business-owners-fight-against-ban-on-skill-games>.

11 Virginia Lottery briefing for House Appropriations and Senate Finance committees, September 2019, [https://ihodvirginiageneralassembly.s3.amazonaws.com/agenda\\_block\\_docs/attaches/000/000/428/original/III\\_-\\_Lottery.pdf?1568640091](https://ihodvirginiageneralassembly.s3.amazonaws.com/agenda_block_docs/attaches/000/000/428/original/III_-_Lottery.pdf?1568640091).

12 <https://www.playvirginia.com/virginia-gray-machines-lottery-sales/>.

**TABLE 3**

**MONTHLY REPORT OF SKILL GAME MACHINES IN THE COMMONWEALTH, MAY 2021**

Region	Total Wagered	Total Awarded	In Play	Warehoused	Total Machines
Region 1 (Roanoke)	\$20,697,585	\$15,240,639	1,065	13	1,078
Region 2 (Lynchburg)	\$32,046,065	\$26,841,343	1,056	47	1,103
Region 3 (Staunton)	\$10,660,184	\$8,177,235	557	8	565
Region 4 (Alexandria)	\$24,862,133	\$19,137,080	994	38	1,032
Region 5 (Fredericksburg)	\$10,708,016	\$7,877,868	542	27	569
Region 6 (Richmond)	\$40,456,679	\$32,056,971	1,666	104	1,770
Region 7 (Hampton)	\$21,251,730	\$17,414,045	922	38	960
Region 8 (Chesapeake)	\$29,829,243	\$22,337,921	1,539	36	1,575
Region 9 (Charlottesville)	\$7,889,460	\$5,936,468	369	11	380
Other*	\$0	\$0	18	1,163	1,181
<b>Grand Total</b>	<b>\$198,401,095</b>	<b>\$155,019,571</b>	<b>8,728</b>	<b>1,485</b>	<b>10,213</b>

Source: <https://rga.lis.virginia.gov/Published/2021/RD274/PDF>

\*Eighteen machines were improperly reported by the distributors as being warehoused, but according to ABC's records they were still subject to the monthly tax.

# Bright Lights, Big Gamble? New Casinos In Virginia

To understand the potential economic impact of the new casinos in Virginia, we briefly examine each of the projects, including projected levels of employment and revenue. We note that the availability of data varies significantly from project to project. In some cases, cities have prepared economic analyses that examine the composition of jobs and visitors to the new casinos. In other cases, press releases and developer presentations are all one can readily find on the projected benefits and costs of the new casinos. **Given the hundreds of millions of dollars of proposed spending on their construction, the lack of publicly available information from objective sources on the size, scope and potential impacts of these enterprises is, to put it mildly, surprising. It will be much harder to hold public officials accountable if there is a lack of specifics regarding these casinos prior to their construction.**

## HARD ROCK HOTEL & CASINO IN BRISTOL

In the 2020 general election, Bristol became one of five Virginia cities to authorize a casino in the state. With a 71% approval rating by voters, initial plans called for the new Hard Rock Hotel & Casino to start construction in 2021, with a hopeful opening in early 2022. In the meantime, a temporary gaming facility was to open, which would allow access to a limited number of slot machines and table games while the main casino was being built.

However, delays and regulations have postponed the opening of both the temporary and main casino. Although state legislation allows for a temporary gaming facility to operate during the construction of a casino, a vetting and licensing process is still required. In May 2021, the Virginia Lottery Board announced it was highly unlikely the vetting and licensing process would be finished in time for the temporary gaming facility to open in 2021. As of October 2021, the temporary casino was slated to open by the end of the first quarter in 2022.



The plans for Bristol's main casino have seen multiple setbacks as well. The \$400 million venue was originally scheduled to open in late 2022, but construction cannot start until the Virginia Lottery Board approves a license. In the board's latest public announcement, a license is expected to be awarded in April 2022, after which construction can begin. Although this may seem promising, construction is still expected to last at least 18 months, so Bristol's casino will not open until late 2023, assuming no more delays or postponements.

According to publicly available data, the Hard Rock Hotel & Casino Bristol will consist of a 100,000-square-foot casino with 2,700 slot machines, 100 table games and a sportsbook; a hotel with 750 rooms; retail space for up to 50 stores; and a spa, concert venue, sports simulators and go-kart track. Although multiple estimates have been cited in local media, the most recent estimates state that the casino is expected to generate \$130 million in annual net gaming revenue<sup>13</sup> and \$106 million in nongaming revenue.<sup>14</sup> The Hard Rock Hotel & Casino will offer over 1,000 construction jobs and employ approximately 2,000 permanent workers with an average annual wage of \$46,500.<sup>15</sup>

<sup>13</sup> [https://heraldcourier.com/news/local/watch-now-with-the-bristol-casino-s-fate-in-voters-hands-a-deeper-look-into/article\\_70a97273-6b1f-5ab4-9566-d3edd2df078c.html](https://heraldcourier.com/news/local/watch-now-with-the-bristol-casino-s-fate-in-voters-hands-a-deeper-look-into/article_70a97273-6b1f-5ab4-9566-d3edd2df078c.html).

<sup>14</sup> The Bristol casino's nongaming revenue of \$106 million is the projected amount for the first year of operation. <https://www.casino.org/news/bristol-virginia-casino-developers-donate-310000-to-state-political-campaigns/>.

<sup>15</sup> Hard Rock Hotel & Casino Bristol, <https://www.playvirginia.com/bristol/>.

## CAESARS VIRGINIA IN DANVILLE



About 200 miles to the east of Bristol, the city of Danville is going through a similar process. Prior to the November 2020 referendum approval by Danville's residents, the Danville City Council chose Caesars Entertainment as its preferred casino partner. As is the case with the Bristol enterprise, the construction process is being postponed by the Virginia Lottery. While the casino awaits licensing approval, demolition and site cleanup have already begun at the 85-acre site. The planned \$500 million casino is set to be located at the former Dan River Mills Schoolfield complex on West Main Street. This site was rezoned in June 2021 from industrial manufacturing to casino entertainment. Construction of Caesars Virginia is expected to begin in winter 2021 with the opening anticipated in fall 2023.

The casino will include 1,400 slot machines and table games, a sportsbook, a poker room, a hotel with 500 rooms, restaurants and a live entertainment theater.<sup>16</sup> Danville is projecting annual gaming tax revenue will reach \$22 million with an additional \$4 million in property, meal and hotel occupancy tax revenue. The project is estimated to create 1,300 full-time jobs with annual salaries ranging between \$35,000 and \$47,000.<sup>17</sup>

<sup>16</sup> <https://cardinalnews.org/2021/09/27/how-big-will-danvilles-casino-be-this-big/>.

<sup>17</sup> <https://pokernewsdesk.com/caesars-virginia-to-hear-public-enter-for-on-line-casino-at-former-textile-mill-website/>.

<sup>18</sup> The Pamunkey were the first Virginia tribe to receive official sanction from the U.S. Bureau of Indian Affairs in July 2015. The reservation is located near the Chesapeake Bay on the north side of the James River, approximately 90 miles northwest of downtown Norfolk. It is one of two original reservation lands assigned from a treaty with the English colonial government.

## HEADWATERS RESORT AND CASINO IN NORFOLK

In September 2019, Norfolk City Council initially authorized a land deal with the Pamunkey Indian Tribe that included a hotel, restaurants and an entertainment venue.<sup>18</sup> The proposal would have designated the land



as sovereign to the Pamunkey, not subject to taxation, and outside the jurisdiction of Norfolk. In November 2019, after complaints of a lack of transparency, doubts about the benefits of the deal and a signature petition that forced the council to schedule public hearings, a new vote was scheduled on the proposal. Two months later, Norfolk Mayor Kenny Alexander announced the Pamunkey Tribe would go through the Commonwealth of Virginia. This change reduced the initial investment plans from approximately \$700 million to about \$500 million, although these estimates continue to evolve. Tennessee billionaire and casino-gaming mogul Jon Yarbrough teamed up with Golden Eagle, the tribe's development partner, on the project.

In 2020, the city of Norfolk and the Pamunkey Indian Tribe came to a final agreement, and the tribe signed a deal to purchase land to build the resort casino. The new deal ensures the land will not become sovereign land and Norfolk will receive tax revenue. The tribe has also been confirmed as a preferred casino partner and will construct the HeadWaters Resort and Casino near Harbor Park, home of the Norfolk Tides minor league baseball team.

As of May 2021, the HeadWaters Resort and Casino was projected to have 3,000 slot machines, 150 table games and a sportsbook. Additionally, it is expected to have 300 hotel rooms, live music and entertainment venues, bars and restaurants, indoor and outdoor pools, and a spa and fitness center. The casino is estimated to create over 2,000 construction jobs and approximately 2,500 permanent jobs.<sup>19</sup> City officials project total annual revenue to be between \$415 million and \$485 million on a stabilized basis, with annual gaming revenue estimated to be between \$350 million and \$400 million. Nongaming revenue, which includes profits from the hotel, food and beverage, and other amenities, is estimated to be between \$65 million and \$85 million on a stabilized basis. Payments to the city of Norfolk in the form of direct payments and taxes are projected to be between \$26 million and \$31 million annually.<sup>20</sup> Press releases from Capital Results, the firm that handles media relations for the Pamunkey Indian Tribe, suggest the opening could occur as early as 2022.

## RIVERS CASINO IN PORTSMOUTH

On Nov. 3, 2020, Portsmouth residents resoundingly voted in favor of a casino – a proposal state Sen. Louise Lucas has supported for more than 20 years. The hotel-casino will be built by Chicago-based Rush Street Gaming, just off Victory Boulevard near Tidewater Community College, and eventually grow to include restaurants, a sportsbook and other entertainment amenities. “For Portsmouth, this means \$16.3 million in tax generation ... [where] \$16.3 million is an additional 7% to our GDP,” said Robert Moore, director of economic development for the city of



Portsmouth. In addition to tax generation, the casino promises to create over 1,400 temporary construction jobs and over 1,200 permanent jobs.<sup>21</sup>

Before work can begin on either the Norfolk or Portsmouth casino, licensing must be obtained through the Commonwealth of Virginia, as well as the Virginia Lottery Board. Once licenses have been granted, construction can begin. Originally, the timeline called for shovels to break ground in November 2021 with the Portsmouth casino opening scheduled for sometime in 2023. More recently, however, a spokesperson for the casino said the plans have been pushed forward. Construction, including site clearance, is expected to last 18 to 24 months, with the venue opening its doors in late 2022.

<sup>19</sup> Source: <https://www.allinnorfolk.com/sites/default/files/media/2020-09/General.pdf>

<sup>20</sup> Projections assume stabilized operations in year three of the project, as well as the third year of operation of all planned properties in the competitive market, <https://www.norfolk.gov/DocumentCenter/View/61651/Criteria-For-Selection-of-Gaming-Operator>.

<sup>21</sup> <https://www.krem.com/article/news/local/casinos-are-on-their-way-to-norfolk-portsmouth-heres-when-theyll-be-completed/291-58cfae8e-aa50-4617-a1ab-728901d33cad>.

## It's All Good – Until It Isn't

We caution that survivorship bias tends to cloud the perceptions of casino projects. We often hear of success stories but rarely learn about casinos that fail to meet expectations or failed entirely. Presentations to city councils and state governments highlight jobs and tax revenue, leading one to believe that a casino (or most any gambling venture) is a sure bet. Experience has shown (repeatedly), however, that as the novelty wears off, gambling revenue plateaus, if not declines outright. Graph 3 illustrates how, after accounting for inflation, casino revenue in Detroit shrank from a peak in 2006 (\$1.65 billion) to a prepandemic low in 2019 (\$1.41 billion). Locally, we need only point to the performance of the Virginia Lottery at the end of the most recent decade, and its push to introduce mobile betting as a means of addressing the stagnation in sales, to highlight how consumer fatigue can lead to an ever-widening search for gambling options to sustain revenues.

To gauge the potential economic impact of casinos on Virginia's economy, we first need to ask from whence casino patrons will come. The more customers who come from outside the region, the greater the potential economic impact of the casinos. Much like tourists visiting the Oceanfront who "inject" money into the regional economy, nonresidents traveling to Hampton Roads to gamble at the casinos will bring "new money" with them, adding to the impact of the gambling establishments.

Graph 4 illustrates JLARC's 2019 estimates of the percentage of net gaming revenue that will derive from spending by out-of-state customers. The casinos in Danville and Bristol are estimated to generate approximately three-quarters of their gaming revenue from nonresidents. The threat to these casinos, however, is competition brought about by potential casino development in neighboring states. If Tennessee or northcentral North Carolina were to build casinos in their areas, Danville and Bristol's annual net gaming revenue is estimated to decrease by 36% and 13%, respectively.

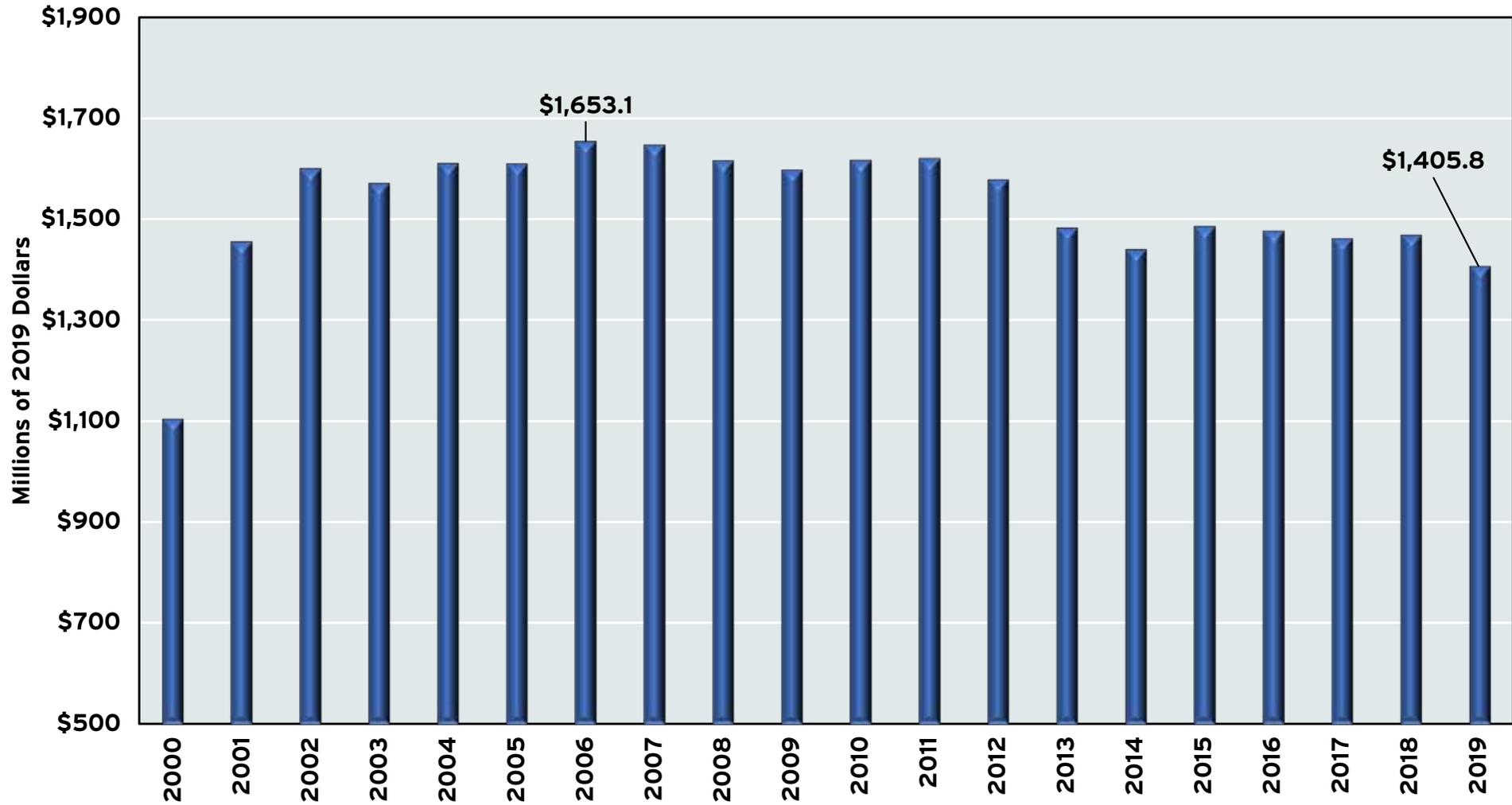
**These estimates also suggest that the Hampton Roads casinos are unlikely to generate a significant amount of revenue from out-of-state visitors. However, the defeat of the proposed casino in Richmond directly benefits the casinos in Norfolk and Portsmouth. The proposed Richmond casino would have occupied a geographical blocking position for travelers from Northern Virginia to Hampton Roads, lowering the likelihood of repatriated spending. The Richmond casino's market also would have extended south, constraining the reach of the Norfolk and Portsmouth casinos. The defeat of the Richmond referendum presents an opportunity for the Hampton Roads region to market itself as a vacation *and* entertainment destination; however, it remains to be seen whether the localities in the region can cooperate sufficiently to take advantage of the decision of Richmond voters.**

When considering the economic impact of a policy, economists focus on two broad effects: additionality and displacement. Additionality occurs when a policy change causes economic agents to engage in behavior that they would not have taken in absence of the policy. If a new advertising campaign, for example, influences a family from Pennsylvania to come to Virginia Beach for a vacation that they otherwise would not have taken, then the expenditures associated with the visit and the consequent economic activity are additional stimulus to the economy.

Displacement, on the other hand, occurs when a policy change causes economic agents to shift their behavior such that they reduce spending in one area to increase spending in another area. The additional spending as a result of the updated policy must be balanced against the reduction in spending elsewhere to determine the economic impact. For example, if a couple shifts spending from going to a movie theater instead of a concert, they are merely "moving" spending from one form of entertainment to another.

**GRAPH 3**

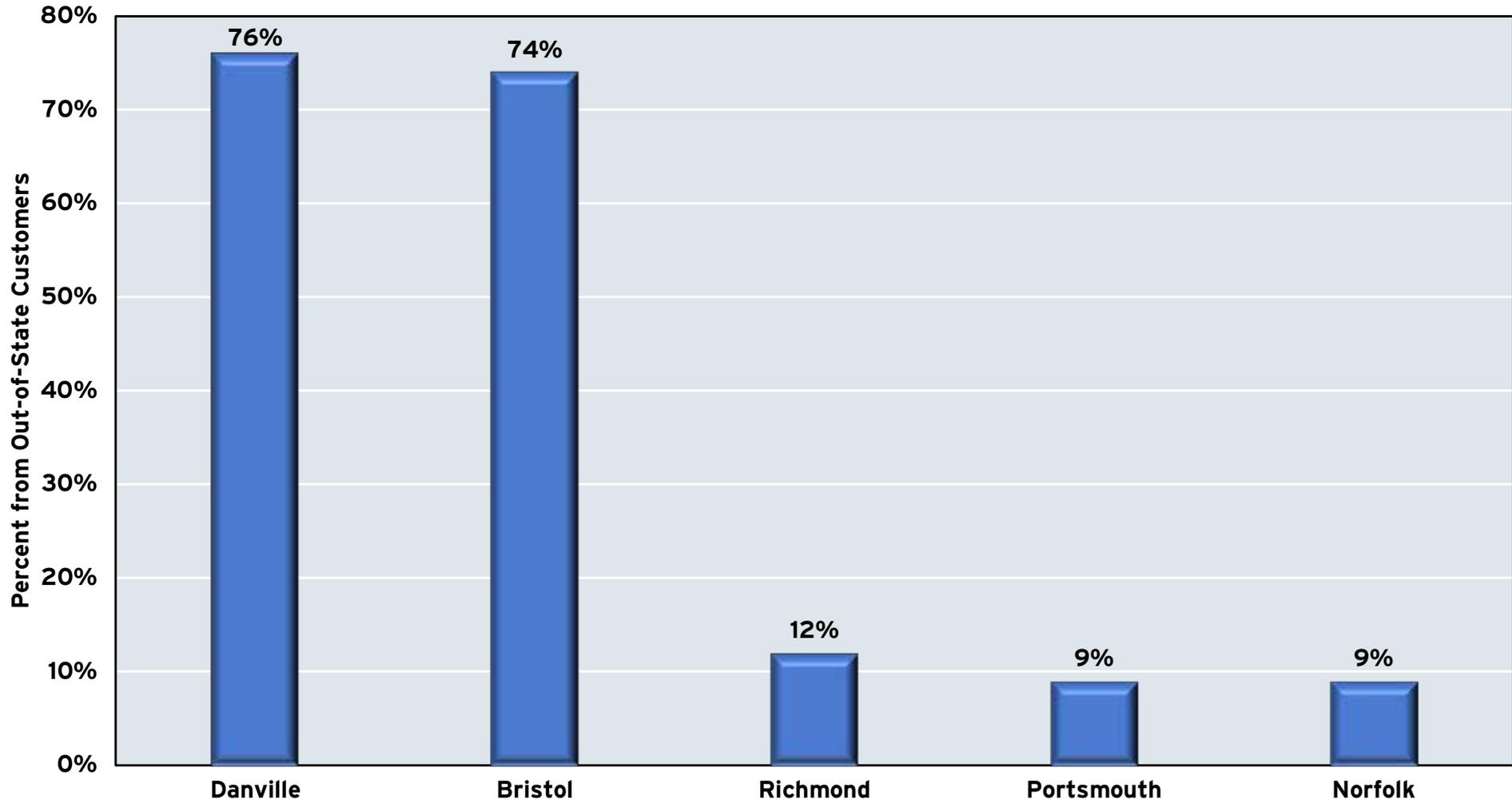
**REAL (INFLATION-ADJUSTED) DETROIT CASINO REVENUE, 2000-2019**



Source: Michigan Gaming Control Board, Revenues and Wagering Tax Information (2021)

**GRAPH 4**

**PROJECTED PERCENTAGE OF NET GAMING REVENUE FROM OUT-OF-STATE CUSTOMERS,  
VIRGINIA CASINOS**



Source: 2019 JLARC casinos report, <http://jlarc.virginia.gov/pdfs/reports/Rpt527-5.pdf>. We note that voters rejected the Richmond casino referendum in November 2021.

# Estimating The Economic Impact Of Casinos In Virginia

To estimate the economic impact of each casino, we use projections of two economic inputs: capital investment (buildings, furnishings, equipment and so on) and annual casino revenue (Table 4). Of course, our estimates depend on the accuracy of the projections of these economic inputs. Given the continued evolution of the scale and scope of the casinos across Virginia, our estimates should be viewed as informative rather than authoritative. For these expenditures, we draw upon JLARC’s analysis, news reports and staff analyses (where these are publicly available) to estimate aggregate economic impact.

**TABLE 4**

**ECONOMIC IMPACT ANALYSIS ASSUMPTIONS, VIRGINIA CASINOS**

	Capital Investment	Gambling Revenues
<b>Bristol</b>	<b>\$400 million</b>	<b>\$130 million</b>
<b>Danville</b>	<b>\$500 million</b>	<b>\$190 million</b>
<b>Norfolk</b>	<b>\$500 million</b>	<b>\$350 million</b>
<b>Portsmouth</b>	<b>\$300 million</b>	<b>\$150 million</b>

Sources: WTOP.com (2021), “Here’s a look at Caesar’s plans for Danville, Va. Casino”; city of Norfolk (2020), “Staff Report - Impacts of a Casino Hotel on the City of Norfolk”; and WAVY.com (2021), “Portsmouth Casino Developer Commits to Building Hotel, but Won’t Say When”

Analysts’ estimates of economic impact can often seem confusing. We explain below some of the more common terms they use:

- **Compensation** - the total payroll cost of employees, including wages, salaries and all benefits.
- **Employment** - the annual average of full-time, part-time and seasonal employment in an industry or region.
- **Output** - the measure of the total value of goods produced in an industry. However, output from one industry utilizes output from other industries, so the measure overstates the contribution of an industry to GDP.
- **Value Added** - the total market value of all final goods and services produced in a region in a given period of time. Value added is the measure of the increase or decrease in GDP.

## Estimated Impacts Of Casino Construction

Unlike some other recent projects in Virginia, the construction of the casinos will not receive any state or local government tax incentives or grants. Instead, private funds will be used to fund construction. The injection of new capital into each region for the building of the casinos and associated properties will temporarily boost jobs and output. However, one must also recognize that not all the expenditures on these projects will stay in the region. Some building supplies, furnishings, machines and services will be sourced from vendors outside each metropolitan area, thus it is not appropriate to assume all construction dollars will be spent entirely within each region. We conservatively estimate that 40% of capital investment expenditures will remain in each region. For the casino in Danville, for example, total projected construction outlays are \$500 million, of which \$200 million will occur in the Danville region. We also note that we do not have specific information on when expenditures will occur, thus we model the impact of a lump-sum increase in construction spending. The reader should interpret these numbers as the estimated impact across the construction timeline for each project.

We present the economic impact estimates for casino construction spending in Table 5. Undoubtedly, the construction will boost jobs in each of the cities. The injection of construction spending will also increase local economic activity. These jobs and increases in GDP are transitory; that is, once the construction is complete, the jobs and increases in output will largely dissipate. We also note that, relative to the size of the local economies, these boosts in activity are small. The projected increase in local GDP for Norfolk is approximately \$139 million, which is roughly equivalent to 0.5% of 2019 GDP (assuming that all the construction spending occurs in one year).

**TABLE 5**

**ECONOMIC IMPACT: PROPOSED INVESTMENTS IN VIRGINIA CASINOS, 2021 DOLLARS**

	Local Direct Construction Spending	Employment	Output (Millions)	Value Added (Millions)
Bristol	\$160 million	2,155	\$210.5	\$93.5
Danville	\$200 million	2,694	\$263.1	\$116.9
Norfolk	\$200 million	2,120	\$270.7	\$139.0
Portsmouth	\$120 million	1,176	\$151.3	\$80.3

Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group. Estimates reflect the sum of direct, indirect and induced effects. We use 2019 data to avoid the impact of COVID-19 on our estimates. Projected economic impacts for each city assume 40% of construction spending occurs within city limits.

## Impact Of Sustained Operations

To estimate the annual economic impact of the fully operational casinos, we must first consider the question of displacement. If, as noted by JLARC and the consulting firm TIG (The Innovation Group), the casinos in Norfolk and Portsmouth generate about 10% of net gaming revenue from out-of-state customers, then the pool from which the casinos draw will be limited compared to the casinos in Bristol and Danville. Furthermore, the literature and practice show that casinos tend to attract customers predominantly from their local market area. If this occurs, then the Norfolk and Portsmouth casinos will merely “recycle” money within the local economies, moving it from established businesses to the casinos. On the other hand, if casinos are able to attract visitors from other states or regions, then spending at these venues is equivalent to the injection of new money into the local economy. While one might quibble about the extent of displacement, it will clearly occur, and will invariably reduce the overall impact of the casinos on regional economic activity.

Graphs 5 and 6 illustrate the projected annual economic impact of spending in the Virginia casinos. If one completely ignores displacement and assumes (unrealistically) that all spending in the casinos comes from outside the regions in which the casinos are located, then the new casinos would add over \$600 million annually to Virginia's GDP and generate about 11,000 new jobs. In this rosy scenario, the new casino in Norfolk would add \$294.3 million annually in economic activity, while the Bristol casino would add about \$89 million to local GDP.

**We cannot ignore displacement, of course, and studies that shrug displacement effects off or provide estimates of economic impact based on industry output alone should be viewed with a healthy dose of skepticism.<sup>22</sup> For example, if a casino generated \$300 million annually in gambling revenue, but 50% of that revenue originated from outside the casino's local area, then only the impact of the "new" spending (\$150 million) should be considered. To do otherwise ignores the impact of patrons shifting money away from local restaurants, bars, movie theaters and other establishments to spend it on gambling, rooms, and food and drink in the casinos.**

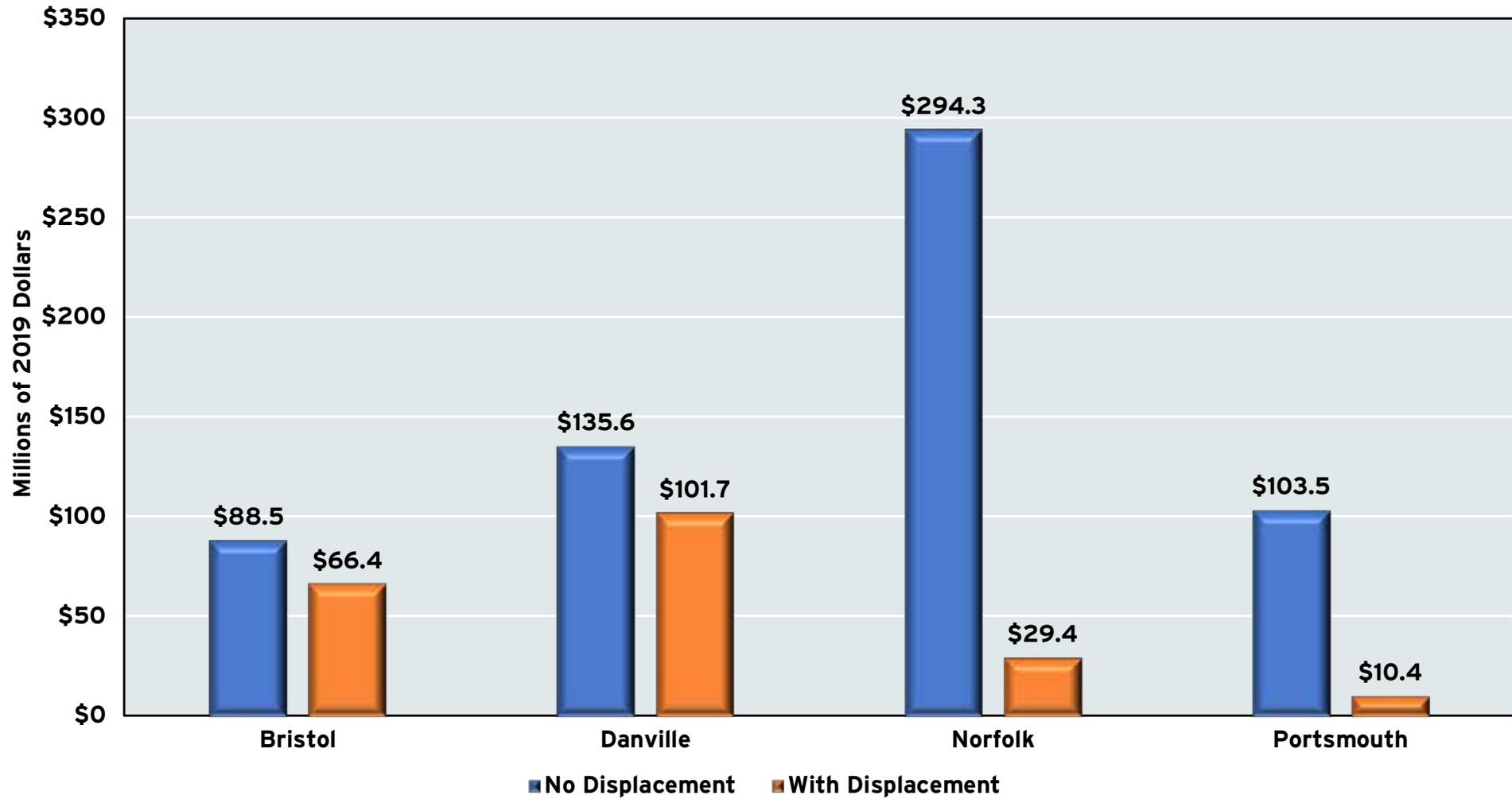
Accounting for displacement changes the picture. The casinos in Bristol and Danville are likely to have a higher proportion of out-of-state visitors than the casinos in Norfolk and Portsmouth. As such, the difference between the gross and net of displacement is much smaller for the casinos in Bristol and Danville. We project the Bristol casino will add about \$67 million to GDP, while Danville's casino will lift GDP by over \$100 million. For the Norfolk and Portsmouth casinos, on the other hand, the relatively high levels of displacement mean that the net economic impacts in these cities will be much smaller than the impacts without allowing for displacement. We would be happy to be proven wrong on the attraction of out-of-state visitors to the Hampton Roads casinos, but we must highlight the need to account for the impact of displacement on projections of net economic impact.

**The fiscal impact of the Virginia casinos depends on one's perspective. The cities of Bristol, Danville, Norfolk and Portsmouth will all observe increases in GDP from gambling revenue. The question is whether their revenue arises because of "new money" being injected into the local economy or "old money" being recycled. As displacement rises, the revenue of neighboring cities and counties will be negatively affected as people choose to spend some of their money in the casinos. If nothing else, our analysis highlights the need to have a high level of discernment when considering the net economic impacts of casinos.**

<sup>22</sup> Where displacement occurs and the magnitude of displacement remain matters of debate in the economics literature. Leven and Phares (1998) estimated that about half of casino revenues in Missouri were the result of displacement spending. Siegel and Anders (1999) found that casino spending displaced other forms of entertainment spending in 11 Missouri counties. D. Chhabra (2007) estimated that about 30% of Iowa gamblers would have participated in other entertainment activities if casinos were not locally available. Wiley and Walker (2009), on the other hand, found a complementary effect between casinos and retail property values in the Detroit urban area.

GRAPH 5

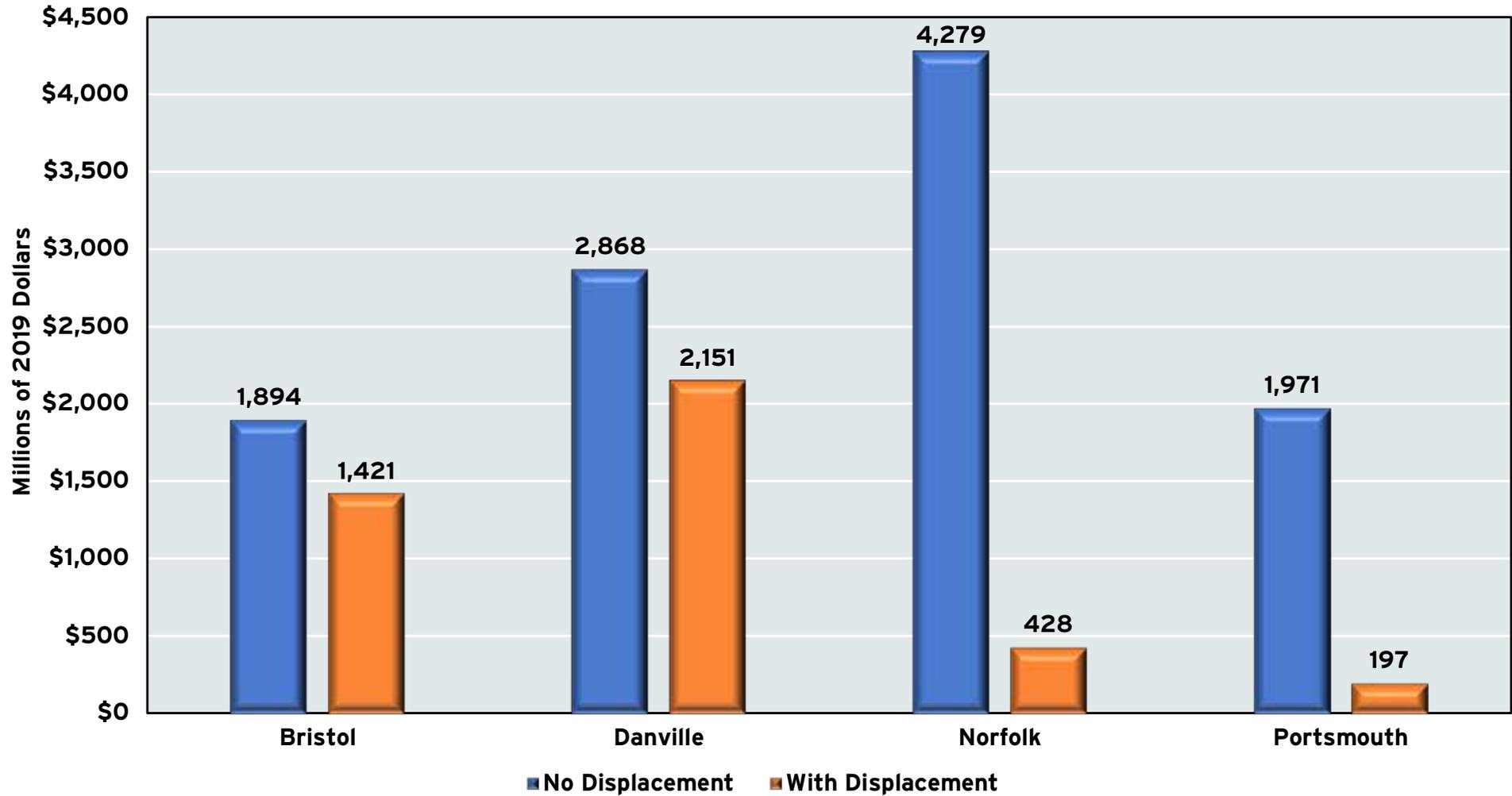
ESTIMATED ANNUAL ECONOMIC IMPACT OF VIRGINIA CASINOS ON LOCAL GROSS DOMESTIC PRODUCT



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group

**GRAPH 6**

**ESTIMATED ANNUAL ECONOMIC IMPACT OF VIRGINIA CASINOS ON EMPLOYMENT**



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group. Estimates may not sum due to rounding.

## Problem Gambling

When it comes to gambling, it's all about winners and losers. Success, whether in the lottery or at a gaming establishment, is often celebrated in the media, while gambling losses and costs to society are rarely mentioned. In December 2020, a Dumfries resident won a jackpot of \$800,000 in a Virginia Lottery Pick 4 drawing.<sup>23</sup> In January 2021, a Newport News man hit the highest historical horse racing jackpot in the United States at Rosie's Gaming Emporium in Hampton, a tremendous win totaling \$914,530.90.<sup>24</sup> A September 2021 Virginia Lottery headline heralded "Dinwiddie County Man Wins \$185,285 While Sitting at Home Watching TV" because the winner was playing Virginia Lottery games on his personal device from his living room.<sup>25</sup> We learned about these lucky individuals from TV and newspaper stories.

**One is much harder pressed, however, to hear and read stories about residents who lose money gambling, who suffer from gambling addiction or who are victims of crime due to increased gambling activities. The Virginia Council on Problem Gambling reports that the Virginia Problem Gambling Helpline has seen a significant increase, around 77%, in the number of calls it has received in 2021. Callers largely originated from Hampton Roads with Northern Virginia and Central Virginia close behind.** <sup>26</sup>

According to The Recovery Village Drug and Alcohol Rehab treatment facility, an estimated 10 million Americans struggle with gambling addiction in the United States. The social costs attributed to gambling vary, depending on the type of gambler. Gambling addiction can affect anyone of any age or gender, and it impacts not only the individual with the problem but also close family and friends. This addiction is more common among adults than adolescents, but the exposure to and participation in gambling at a younger age increases the risk of developing a gambling problem later in life. Approximately 1 in 20 college students are said to exhibit signs of compulsive gambling, a rate that is higher than that for the overall adult population.<sup>27</sup> Table 6 lists local programs that specialize in treating gambling addiction.

For many people, gambling addiction isn't an isolated problem. Individuals who are most at risk of developing gambling problems typically have preexisting addictions or disorders. A correlational link exists between gambling and depression, and one study found suicidal ideation in nearly half of its respondents.<sup>28</sup> Substance abuse is also prevalent among these individuals, with the connection to alcoholism being most common. A 2016 survey conducted by the Association of Problem Gambling Service Administrators estimated the percentage of Virginia adults with a gambling problem to be 2.2%.<sup>29</sup> Previous estimates of the general public afflicted with a gambling disorder range from approximately 0.5% to 2%. U.S. Census 2020 figures show that with Virginia's population of approximately 8.6 million people, there may be between 43,000 and 189,000 problem gamblers in the Commonwealth. Yet, with the advent of the mobile lottery, online sportsbooks and games of skill, the argument that casinos will be the primary source for problem gambling seems to have lost some steam. The challenge for Virginia will likely be meeting the rising demand for mental health services due to the increasing range of gambling choices available to the public. It may be appropriate to allocate more funds to behavioral health services in order to address this demand.

23 <https://whatsupwoodbridge.com/dumfries-resident-wins-virginia-lottery/>.

24 <https://www.nbc12.com/2021/01/13/newport-news-man-wins-nearly-m-hampton-rosies/>.

25 <https://www.valottery.com/winnersnews/latestwinners>.

26 [https://www.einnews.com/pr\\_news/550780336/virginia-problem-gambling-helpline-sees-spike-in-2021-call-volume-amid-industry-s-expansion](https://www.einnews.com/pr_news/550780336/virginia-problem-gambling-helpline-sees-spike-in-2021-call-volume-amid-industry-s-expansion).

27 The Recovery Village, Gambling Addiction Facts and Statistics, <https://www.therecoveryvillage.com/process-addiction/compulsive-gambling/related/gambling-statistics/>, and the National Center for Responsible Gaming, [https://www.icrg.org/sites/default/files/oec/pdfs/ncrg\\_fact\\_sheet\\_gambling\\_disorders.pdf](https://www.icrg.org/sites/default/files/oec/pdfs/ncrg_fact_sheet_gambling_disorders.pdf).

28 <https://preventionlane.org/gambling-vulnerable-populations>.

29 2016 Survey of Problem Gambling Services in the United States, [https://www.apgsa.org/wp-content/uploads/2018/01/2016\\_Survey\\_of\\_PGS\\_USA.pdf](https://www.apgsa.org/wp-content/uploads/2018/01/2016_Survey_of_PGS_USA.pdf).

**TABLE 6****SELECTED GAMBLING ADDICTION TREATMENT PROVIDERS: VIRGINIA, 2019**

<b>Name</b>	<b>Location</b>
<b>A Richards Counseling and Psychotherapy</b>	<b>720 Rodman Ave. Portsmouth, VA 23707</b>
<b>Agape Counseling and Therapeutic</b>	<b>106 West 5th Ave. Franklin, VA 23851</b>
<b>Colonial Behavioral Health</b>	<b>3804 George Washington Memorial Highway Yorktown, VA 23692</b>
<b>Hampton Veterans Affairs Medical Center/Mental Health SATP</b>	<b>100 Emancipation Drive, Unit 116-A Hampton, VA 23667</b>
<b>Lighthouse Counseling of Fredericksburg, PLC</b>	<b>420 Hudgins Road, Suite 201 Fredericksburg, VA 22408</b>
<b>Mental Wellness Now, LLC</b>	<b>1363 North Main St. Harrisonburg, VA 22802</b>
<b>New River Valley Community Services</b>	<b>700 University City Blvd. Blacksburg, VA 24060</b>
<b>Sentara Norfolk General Hospital Gambling Addiction Treatment</b>	<b>600 Gresham Drive Norfolk, VA 23507</b>
<b>Williamsville Wellness</b>	<b>10515 Cabaniss Lane Hanover, VA 23069</b>
<b>Winchester Addiction Services, PLC</b>	<b>3042 Valley Ave., Suite 110 Winchester, VA 22601</b>

Source: List of Virginia Gambling Addiction Treatment Centers, <https://www.alltreatment.com/va/gambling-addiction-treatment/>

## Final Thoughts

Over the last decade, Virginia has doubled down on its bet on legalized gambling. Today, residents can place a bet through an online or mobile sportsbook, buy a physical or virtual lottery ticket, visit a historical horse racing establishment and look forward to gambling at a state casino in the near future. This is a marked change from a little over three decades ago, when the Commonwealth did not even have a state lottery.

With this in mind, we offer some final observations about the expansion of gambling and the opening of casinos across the Commonwealth.

**Local governments in Virginia are increasing their reliance on taxes that are more sensitive to economic conditions. Proponents of casinos and other forms of gambling invariably point to the contributions to local and state budgets to support these projects. While we do not deny that gambling will enhance the bottom lines of the cities where they are located, we also note that casinos are sensitive to changes in economic conditions. Casinos are not a “sure bet” and local governments should be aware of how survivorship bias may cloud presentations on the benefits of casinos. A healthy dose of skepticism is warranted to rationally discuss how casinos can help (and hinder) economic development.**

While the Virginia casinos will create jobs and increase economic output, the impact is likely to be small. An increase in the number of jobs in the Hampton Roads region would be welcome news, especially given the relatively anemic job growth over the decade prior to the COVID-19 pandemic. However, these jobs are likely to be concentrated in the leisure and hospitality sector, which continues to struggle to attract workers in the aftermath of the pandemic. Experience in the gambling industry shows that, after the novelty has worn off, casino revenue tends to plateau, if not outright decline. We caution readers to view promises of sustained, fulsome impacts over time with a wary, informed eye.

Displacement effects should not be cast aside in the conversation about casinos. There are likely to be positive spillovers across the region in terms of spending and employment. The Virginia cities where the proportion of out-of-state visitors is expected to be higher will perform better than those with few out-of-area visitors. All these cities need as many visitors as possible who expend new dollars rather than substitute casino patronage for other forms of leisure activity. One dollar cannot be spent at the same time in different places.

Gambling is here in the Commonwealth; thus, we should plan accordingly for the social costs. We know that problem gambling and criminal activity are likely to occur at higher rates as gambling opportunities increase, so we should act now. Enhancing investment in behavioral and mental health services is not only a wise course of action to help residents cope with gambling addiction, but also to address other economic and social shocks. Investing more in policing, including community-based approaches to nonviolent crime, appears to be a sensible response to the reality of casinos in our midst. It's time to hedge our bets.

**All these cities need as many visitors as possible who expend new dollars rather than substitute casino patronage for other forms of leisure activity. The recent injunction allowing games of skill back into restaurants, bars and other establishments only highlights the increasing competition for entertainment dollars. One dollar cannot be spent at the same time in different places.**

