

THE IMPACT OF IGAMING IN VIRGINIA

The introduction of iGaming in Virginia is projected to generate \$1.82 billion in gross gaming revenue annually by 2029¹. The Innovation Group was asked by the National Association Against iGaming to analyze whether this revenue is incremental or whether there is an associated decline in land-based gaming (including historical horse racing) and online lottery revenue. While iGaming can increase consumer convenience and generate meaningful gross tax receipts, the key policy issue is whether those receipts represent incremental economic activity or a redistribution of existing gaming spend across channels. In other words, is all of the revenue generated by online gaming “new revenue” or is some of it caused by players shifting their wallets to online gaming from casinos, HHRs, or iLottery?

We provide a brief overview of our analysis and results in this document. A summary is presented in the following table, with a description of these results to follow. With the losses described here, it is plausible that Virginia may actually realize **less revenue to the Commonwealth** as a result of introducing iGaming, before considering potential increases in gambling-related harms and the associated administrative and treatment costs.

Summary of Forecasted Key Financial Impacts – 2029 (\$MM)

Impact Category	Description of Impact	Forecasted Impact
iGaming Tax Impact	iGaming Tax Revenue @ 15%	\$272.9
Cannibalization of Land-Based Gaming	Lost Land-Based Gaming Tax @ 19.2%	(\$70.3)
	Additional State Tax Losses	(\$50.1)
Cannibalization of Online Lottery	Reduction in transfer payments	Possible losses: (\$219.3) ²
Net Tax/iLottery Payment Impact	Sum, incl. Possible iLottery Impact	(66.8)
Purse Impacts from HHR Declines	Horse Racing Purses, Funds Losses	(\$9.1)
Job Loss	Total Job Loss	(2,056)

Regarding land-based gaming, we find that online gaming reduces casino revenue by approximately 16%, and we expect a similar effect at HHR facilities. This consumer behavior shift has associated fiscal implications for the Commonwealth. First, it results in a reduction in land-based gaming taxes that partially offsets the new gaming taxes from iGaming. Second, casinos and HHR facilities will experience a reduction in visitation, which will cause staffing reductions, particularly in areas such as table games dealers, slot attendants, hotel room attendants where applicable, and food and beverage jobs such as beverage servers, cooks, and waitstaff. We

¹ Based on The Innovation Group’s analysis of per capita iGaming spending patterns in existing iGaming states and adjusted for Virginia-specific demographic and economic conditions.

² See later discussion in this document. This number is less firm than others, but there is a strong argument that losses here could be very large.

summarize our economic impact assessment that captures the multiplier effects of this job and wage loss throughout the Virginia economy, including the loss of non-gaming tax revenue.

Regarding online lottery, there are considerably fewer states from which to draw meaningful conclusions. However, our research suggests that iLottery may be negatively impacted (and substantially so) by iGaming. Many of the iLottery games present the same to players as iGaming counterparts. Our experience observing these games suggests players may have difficulty distinguishing the games from titles on iGaming platforms. So, it follows that iGaming and iLottery will directly compete for many of the same players. However, iLottery will do so without nearly the marketing budget that major national iGaming operators bring: player rewards, sign up bonuses, media spend, national ad campaigns, and platform investment. From the quantitative perspective, we undertook a comparison of growth rates of iLottery in states with and without iGaming, and we see substantial outperformance in iLottery growth from the non-iGaming states. We share more details in the iLottery section below.

Finally, available research indicates that iGaming expansion may introduce increased exposure to gambling-related harms, which itself bears a substantial social cost and cost of mitigation.

Demand Shift from Land-Based to Online

A key finding of our analysis is that a portion of iGaming revenue will stem from a shift in consumer demand away from land-based casinos, rather than entirely new play. We recognize that some operators may partially mitigate cannibalization through omnichannel marketing and shared wallets. However, observed results across iGaming jurisdictions still show a consistent relative performance gap for land-based gaming. States with iGaming show a 16% underperformance versus non-iGaming states over a five-year period (2019-2024); that is, over this five-year window, iGaming states show 4% declines in casino revenue, while non-iGaming states have grown by approximately 12%.

Given this effect, our analysis indicates that Virginia land-based casinos and HHR locations could lose as much as \$407 million in gaming revenue annually (our two methodological approaches provide a range: \$325 to \$407 million). These figures include projected lost revenues at both new casinos opening in Virginia in the next two years (HeadWaters Casino in Norfolk and Live! Casino in Petersburg).

iLottery Impacts

Our research further suggests that the introduction of iGaming will also cause harm to iLottery revenues. Many iLottery products closely resemble (or are identical to) iGaming offerings from a consumer perspective. Given the lack of product differentiation, we expect that iGaming platforms will utilize their substantial marketing budgets to attract iLottery players. In fact, Virginia's already robust iLottery will provide sophisticated iGaming operators a natural "profile" of player to target with digital ads (for example, they will likely display ads to people who search "Virginia lottery" or similar). Their ability to target will be bolstered by their broader-based national ad campaigns, their overlap with sports betting operators, sponsorships of professional sports teams who are nationally televised, and their outsized promotional spend. Many would-be iGaming operators also already have sizable databases in the Commonwealth since they are the state's licensed sports

betting operators. We believe it is evident that these companies would have several advantages in a competitive marketplace against the Lottery.

To quantify this effect, we endeavored to conduct a comparative analysis similar to that conducted above that arrived at the 16% cannibalization rate for land-based casinos. However, only two states, Michigan and Pennsylvania, offer both iLottery and iGaming, and data for iLottery performance in iLottery-only states is limited to Rhode Island, Kentucky, and New Hampshire. Given the limited number of dual-offering states, we treat this analysis as directional evidence rather than a precise forecast, and we present the resulting fiscal impact as a plausible downside scenario.

iLottery Performance ³in iGaming vs non-iGaming States (2021-2023)

State	iLottery Intro Date	Sales Metric	Per Capita Sales 2021	Per Capita Sales 2022	Per Capita Sales 2023	2021-2022 Growth Rate	2022-2023 Growth Rate
Non-iGaming States							
Kentucky	Apr-16	eInstants (sales)	\$34.68	\$66.76	\$115.95	93%	74%
New Hampshire	Sep-18	iLottery (NGR)	\$22.04	\$27.95	\$34.73	27%	24%
Rhode Island	May-20	iLottery (sales)	\$8.76	\$11.33	\$14.96	29%	32%
Virginia	Jul-20	eInstants (sales)	\$117.82	\$197.77	\$316.74	68%	60%
Non-iGaming State Average						54%	48%
iGaming States							
Michigan	Aug-14	eInstants (NGR)	\$31.84	\$25.49	\$26.35	-20%	3%
Pennsylvania	Jun-18	eInstants (GGR)	\$10.33	\$9.55	\$10.18	-8%	7%
iGaming State Average						-14%	5%

Source: La Fleur's World Lottery Almanac (2024), ESRI (population age 21+)

Note that the reported sales metrics are different for each state, and the states are in different stages of development (noted here), so comparing sales per capita from state to state is not appropriate. However, comparing their **growth rates** from year to year is meaningful. The lagging growth rates in iGaming states suggest that perhaps, but for iGaming, iLottery would grow at much faster rates. Indeed, from 2021 to 2023, both Michigan and Pennsylvania saw *declines* in their respective iLottery sales metrics on a per capita basis.

To contextualize this effect, the Virginia iLottery market is currently over \$3 billion in gross sales (2024), which it attained in fewer than five years of operation, and signs point to its continued rapid growth. Further, earnings on lottery revenues accrue to the state at approximately 17% of total sales. Taking the above figures at face value, if Virginia's \$3B iLottery market were to grow at 48% (the '22-'23 average growth rate of iLottery states without iGaming) in an environment without iGaming versus at 5% (the '22-'23 average growth rate of iLottery states with iGaming),

³ Per Capita here means Per Adult aged 21+; Growth Rate reflects growth rate of Per Capita revenue

the difference in sales would be \$1.29 billion, and at a 17% state transfer payment rate, the state would lose more than \$219 million in the iGaming scenario.

Tax, Job, and GDP Considerations

Headline iGaming tax revenues (in the case of Virginia, \$273 million) can be considered alongside offsetting losses as a result of declines in land-based gaming tax revenue and non-gaming tax losses from reduced economic activity. We undertook an economic impact analysis to capture these full effects.

- At current tax rates, declines in land-based gaming tax revenue could total as much as \$78 million (range: \$63 to \$78 million).

Further, HHR facilities make regular mandatory contributions to horse racing purses, the Virginia Breeders Fund, and additional horse-related organizations.

- Reduced revenue at HHR facilities will result in reduced contributions to such funds by as much as \$10 million (range: \$8 to \$10 million).

We also modeled decreased employment at the land-based casinos and HHRs as a result of the revenue declines. Current best practices are to staff nearly all jobs in a casino/resort according to various hourly metrics: slot attendants per occupied machine, hotel front desk clerks per hotel check-in/check-out, and so forth. This focus on efficiency, particularly at facilities owned by corporations with public shareholders, implies that a reduction in revenue and visitation will certainly result in a reduction in staffing, which leads to payroll tax reduction as well as an overall economic output reduction: when Virginians aren't getting paychecks, they are spending less in their communities, which causes ripple effects through the economy.

Land-based gaming operations are major employers and local economic anchors.

- Gaming revenue declines would result in an estimated 1,819 to 2,293 jobs lost, primarily from reduced employment at casinos, HHR locations, and their vendors.
- The resulting contraction in wages and operating expenditures would decrease labor income by up to \$176 million (range: \$140 to \$176 million) and reduce the state's gross domestic product by as much as \$483 million (range: \$381 to \$483 million).

There would also be a reduction in sales taxes. Causes include reduced visitation, which yields reduced sales tax on hotel and food and beverage; casinos buying fewer supplies from local vendors; and reduced wages causing reduced community spending by employees (and the associated multiplier effect).

- Additional non-gaming tax losses from reduced economic activity, including payroll and sales taxes, for example, could reach \$56 million (range: \$45 to \$56 million).
- With the above loss in gaming tax revenue, these offsets decrease the net tax revenues to the state from \$273 million to as little as \$139 million (range: \$139 to \$166 million).

- With the potential iLottery impact of up to \$219 million, the Commonwealth may end up realizing less tax and lottery revenue than it would without iGaming, and it would do so while losing roughly 2,000 Virginian jobs.

Notably, these projected net state tax benefits are *before* the social and fiscal impacts of increases in disordered gambling and related social harms are taken into account. See The Innovation Group, *Economic Impacts of iGaming Expansion* at pp. 59-71 (February 2025).

Summary

Simply, our analysis reveals that iGaming is not a pure additive to the market; it represents a combination of partial market growth and partial redistribution of revenue away from land-based gaming, HHR, and iLottery. Policymakers have the difficult task of balancing the benefits with the real risks of economic and labor displacement across Virginia’s established gaming and hospitality sectors.

Our analysis took two approaches to developing impact estimates. The two approaches use the same model for iGaming topline revenue, but they take differing approaches to modeling the impact on land-based gaming: one model (Approach 1) forecasts impact as a percentage of land-based gaming revenue, and the other (Approach 2) forecasts impact as a percentage of online gaming revenue. Revenue impacts and job losses will vary by facility, depending on market positioning, amenity mix, patron demographics, and more. We believe the values reported are approximate bookends for actual impacts and have reported them as such in this analysis. The table below summarizes these values.

Summary of Key Financial Impacts, All Land-Based Gaming – 2029 (\$MM)

	Approach 1	Approach 2	Average
iGaming GGR	\$1,819.3	\$1,819.3	\$1,819.3
iGaming Tax @ 15%	\$272.9	\$272.9	\$272.9
Lost Land-Based Gaming Revenue	\$325.4	\$407.2	\$366.3
Lost Land-Based Gaming Tax @ 19.2%	(\$62.5)	(\$78.2)	(\$70.3)
Additional State Tax Losses	(\$44.6)	(\$55.6)	(\$50.1)
(Possible) iLottery Impact	(\$219.3)	(\$219.3)	(\$219.3)
Net State Tax Impact, including possible iLottery reduction	(\$53.4)	(\$80.2)	(\$66.8)
Horse Racing Purses, Funds Impact	(\$8.0)	(\$10.1)	(\$9.1)
Total Job Loss	(1,819)	(2,293)	(2,056)
Lost Labor Income	(\$139.6)	(\$176.3)	(\$157.9)
Lost Value Added (GDP)	(\$381.3)	(\$483.5)	(\$432.4)
Lost Total Output	(\$581.3)	(\$736.5)	(\$658.9)

About The Innovation Group

The Innovation Group is the premier provider of consulting and management services for the gaming, hospitality, leisure, and entertainment industries, distinguished by its depth of experience, both in client/project type and in volume/scope. Notably, The Innovation Group was proud to assist JLARC in its research related to *Gaming In the Commonwealth*, which laid the foundation for a robust gaming environment in Virginia. The Innovation Group has conducted gaming studies for commercial, tribal, investor, and government clients dating back to the early 1990s. To date, we have collectively worked in more than 100 major jurisdictions, conducted research on all relevant hospitality industry segments, provided our services in over 80 countries throughout the globe, and been associated with over \$110 billion in investment decisions specific to our target industries.

As gaming offerings have evolved, The Innovation Group has developed extensive experience providing a range of research and data analysis services to clients in the gaming and iGaming industries. Over the past decade, we have worked with major sports and iGaming operators, state regulatory organizations, major commercial entities, and smaller regional casinos including dozens of Native American Tribes and Canadian First Nations. Our work has spanned market assessments, player segmentation studies, operational efficiency, long-term planning, site planning, geospatial analyses, and more, helping these clients optimize their gaming and iGaming operations and identify growth opportunities.