

### **Pennsylvania raises the stakes on gaming**

**Summary:** In 2018 the commonwealth authorized sports wagering at its casinos. This new venture was rationalized on the grounds that those who like to gamble on sporting events should be captured and taxed by Pennsylvania rather than by out-of-state casinos. That same rationale was used when authorizing slots over a decade ago and then table games a few years after. This *Brief* looks at the last five years of data to see how gaming revenue has fared.

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Act 42 of 2017 expanded gaming in Pennsylvania to include sports wagering. License holders (defined as slot machine licensees) were notified in late May 2018 that they could begin collecting bets on professional and college sports (made possible with the removal of federal prohibition). Sports wagering is being taxed at a 36 percent rate with 34 percent going to the state's general fund and 2 percent for the local share. In November the Hollywood Casino in Harrisburg took the first bets, handling \$1.4 million and earning \$508,997 in gross revenues and paying \$183,239 in taxes.

In December, the Rivers and Sugarhouse casinos joined in. The total handle across the state in December topped \$16.17 million with just over \$2 million in gross revenues for the casinos and \$722,356 in taxes collected. Statewide the handle doubled in January (\$32 million) before sliding back a bit in February (\$31.5 million) as three more casinos offered sports wagering (Parx casino, its South Philadelphia Sportsbook and Harrah's casino—all in Philadelphia). Taxes collected in January were \$938,597 on \$2.6 million in gross revenues and \$700,854 in February on \$1.9 million in gross revenues.

With more facilities surely on the way as 2019 unfolds it's certainly too early to draw any conclusions about sports wagering. However, one thing is clear—the commonwealth is not going to generate a large percentage of its expected \$34 billion in total general fund revenue from sports wagering even if it tops a couple million dollars per month in wagering taxes. In fact, a recent news article notes that of the six states that have legalized sports wagering after the U.S. Supreme Court made it possible (Delaware, Mississippi, New Jersey, Pennsylvania, Rhode Island and West Virginia), only New Jersey has met its projections. Pennsylvania's haul has been about half of what it expected, thus far.

Then too, the history of taxes from slots and table games revenues shows the commonwealth should not bank on these gaming venues to account for a substantial share of state tax revenues.

After authorizing legislation was passed, slots gaming commenced in 2006 when the Mohegan Sun casino began operating. The current count of 12 casinos was reached in mid-2013 when the final resort casino, Lady Luck at Nemacolin, opened.

For the last five years (2013-2018) there have been 12 casinos in operation. In 2013 the gross terminal revenues (GTR) for all casinos across the state reached \$2.38 billion. The highwater mark overall was reached in 2012 (\$2.47 billion) before falling 3.6 percent in 2013. Over the last five years statewide GTR ranged from \$2.32 billion (2014) to \$2.38 billion (2013) with an average of \$2.36 billion. In 2018 it came in at \$2.37 billion, up 1.4 percent from 2017.

Slot machine revenues are taxed at a rate of 54 percent of which 34 percent is dedicated to property tax offsets; 2 percent for the local share assessment (with an additional 2 percent for the two smaller resort casinos), 6 percent for the economic development and tourism fund with the remainder allocated to the racehorse development fund.

With the peak of slots revenue in 2012, the state collected just over \$840.1 million for the property tax offsets. The range of revenue collected over the last five years runs from a low of \$788.6 million (2014) to a high of \$810.6 million (2013) with an average collection of \$801 million. Keep in mind that school property taxes collected across the commonwealth are roughly \$13 billion (2016-17 school year, residential and commercial), so the taxes collected on slot machine GTR amounts to only about 6 percent of the property taxes paid to the state's 499 school districts. While something is better than nothing, taxes from slot machine GTR hardly scratched the surface as a way of lowering property taxes for homeowners. And with GTR basically flat over the last five years and property taxes continuing to climb (up \$1 billion from the 2013-14 school year), the property tax reduction will become even less significant.

Table games' revenue increased from 2013 (\$729.8 million) through 2017 (\$890.6 million) before sliding back a bit in 2018 (\$878.8 million). The average over the five-year span is \$818.4 million.

The tax rate on table games is lower than the rate on slot machines at 14 percent with 12 percent going to the state's general fund and another 2 percent for the local share. Fully automated table games are taxed at 34 percent but there are much fewer of them. At 12 percent, table games provided an average state tax revenue amount of \$98.2 million per year over the last five years—or roughly 0.3 percent of general fund expenditures.

In the last 13 years or so gaming in the commonwealth has grown substantially—from slots to tables to sports wagering—and will continue to grow with smaller regional casinos opening soon. It was originally sold as a way to keep Pennsylvania gamblers

from spending their money in other states while attracting gamblers from neighboring states and then using the tax money to offset property taxes or supplement the general fund. However, our neighboring states (Delaware, Maryland, New Jersey, Ohio and West Virginia) have either authorized its own gaming parlors or expanded to keep up with Pennsylvania. The competition of out-of-state gaming has undoubtedly lowered the number of out-of-state gamblers, meaning that the bulk of the state's gaming revenues are coming from Pennsylvanians. Keep in mind that money spent at the casino is money that is not spent on other goods, be they recreational, luxuries or necessities.

Furthermore, the amount of tax revenue being realized just isn't enough to keep pace with the growth in expenditures. Promoting the use of gaming revenues to shore up the general fund in a substantial way is proving to be a foolish venture. A better way to bring in higher tax revenues would be to improve the business climate by rolling back tax rates and reducing the burdensome regulatory environment to encourage new firms to locate, or existing firms to expand, in Pennsylvania.

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