



PA Slots Revenues Weakened over the Last Year

When the Pennsylvania Gaming Control Board (PGCB) released the slot machine revenue report for September, it noted that statewide revenues were six percent lower than they had been a year earlier in September 2012. In fact, for eleven of the last twelve months, the statewide totals were less than they were for the same month the year before, the only exception was November 2012 and it was up by less than a half of a percent. Have Pennsylvania casinos taken a hit from the competition emerging in Maryland and Ohio? Or is something else going on that may explain the declines?

Slot revenues climbed from 2009 through 2012, jumping 16 percent in one year from almost \$1.96 billion in 2009 to \$2.28 billion in 2010. Part of the increase can be attributed to the opening of two casinos in 2009—the Sands Bethlehem and the Rivers in Pittsburgh, which enjoyed a full year of operations in 2010—and the Sugar House casino which was also in business for the last third of 2010. In 2011, no new casinos debuted and statewide slot revenues rose nearly six percent over 2010 levels, again probably due in large measure to a full year of gaming at Sugar House. In 2012, the smaller Valley Forge Resort¹ casino opened in March and statewide revenues increased by just under three percent over the 2011 totals. Thus, it appears a sizeable share of the revenue gains during this time were due to new casinos coming online.

Note however that the Nemaquin Resort Casino, which opened in July 2013, does not appear to be having much of an impact on statewide totals as revenues for the first three quarters of 2013 are down 3.6 percent over the same period in 2012. In sum, from 2009 to 2012 annual statewide slot revenues were rising, albeit slowing over time and turning into actual decline in 2013.

Another factor to consider is the introduction of table games in 2010. Some casinos may have reduced the number of slot machines to accommodate table games although the impact was probably not significant. As mentioned above, 2009 saw the opening of the Sands and the Rivers each adding 3,000 machines to the state total and in 2010 Sugar House added another 1,600. Thus from 2009 to 2010 the number of slot machines in the state increased more than 19 percent. From 2010 to 2011 the number of machines across the state increased by more than 3.5 percent despite no new parlors opening. From 2011 to 2012 the number of machines increased by less than a half of a percent as Mt. Airy eliminated 200, but Valley Forge opened with 600. Thus far in 2013, slot machine numbers are down slightly (one percent) compared to the same period in 2012.

¹ The gaming law permits two resort casinos, but they are restricted to only 600 machines and are only accessible to resort guests.

On a per machine basis, revenues from 2009 to 2010 across the state fell about three percent, because of the huge jump in the number of machines outlined above. From 2010 to 2011 per machine revenues rose by just over 2.25 percent even though the number of machines also moved higher. And from 2011 to 2012 per machine revenues increased 2.5 percent despite virtually no change in the number of machines. However, they have been in decline throughout 2013. Seven of the nine months so far experienced declines from their 2012 level. Only May had a reasonable pickup (2.6 percent) with March's gain less than one percent. Overall through the first three quarters of 2013, per machine revenues are down about 2.5 percent over 2012.

Looking at the individual casinos, nearly all of them are experiencing a slide in total slots revenue thus far in 2013 compared to their 2012 levels. Presque Isle is down 15 percent—no doubt due to direct competition from a nearby casino in Cleveland—while others are down anywhere from ten percent (Harrah's) to just under one percent (Sands). The only casino with growth in slot revenues through the first three quarters of 2013 is the Rivers, and it is up only one-half of a percent.

Are gamblers leaving slot machines to play table games? The first full year of table game play was in 2011 and total statewide revenues from ten casinos topped \$619.8 million. In 2012 those revenues increased eleven percent to \$687.4 million for eleven casinos. Thus far through the first three quarters of 2013, total revenue from table games is up nearly six percent from twelve casinos. While table games may have siphoned off some play from slots, after only two plus years of data, it is too early to draw any hard conclusions.

Besides competition from neighboring states a more plausible explanation for the weakening slots revenue may lie with the state's economy. Since the relative strong bounce back from recession level jobs in the first year after the recession, the state's economy has struggled to add jobs. As we documented in previous *Policy Briefs*, job formation in the Commonwealth also has been rising at a decelerating rate. Note that from August 2010 to August 2011, private jobs rose 1.5 percent; from August 2011 to August 2012 they increased 1.2 percent; and from August 2012 to August 2013 the pickup was just under one percent. Thus the slowing job growth and the accompanying slowdown in income gains are certainly likely contributors to the reduction of slot machine revenues across the state. We know also that there has been a national trend toward more part time jobs in the face of the Affordable Care Act provisions. To the extent that has been happening in Pennsylvania, income growth will almost certainly be slower than the pace of job gains.

Obviously, there are a number of potential explanations for the recent decline in slot machine revenue; increased competition from Ohio and Maryland in the last couple of years, the advent of table games, and the increasingly sluggish job creation have undoubtedly played a role. But one thing is certain, with so much state and local gambling tax revenue riding on slots revenue, the decline is not a welcome development.

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