

PA Gaming Revenues Slowed in 2013

Has luck run out for Pennsylvania's casinos? In 2013, annual gross terminal revenue (the casino share of slots play) from the state's twelve casinos was three percent lower than in 2012. And while table games revenue was up 6.2 percent over 2012, this represents a sharp slowing from the nearly eleven percent increase 2012 enjoyed over 2011. Are these numbers a cause for alarm or just an indication that the industry is settling in to a steady state?

Slot machine gross terminal revenues (GTR) had been increasing statewide from 2006 through 2012 as the industry grew and new casinos were debuting annually. As we wrote in a previous *Policy Brief (Volume 13, Number 52)* from 2009, when both the Sands Bethlehem and Rivers opened, through 2013, when the Nemaquin resort casino debuted, a new casino had opened every year (except in 2011) which undoubtedly contributed to the steady increases in statewide GTR. But 2013 was an exception as Nemaquin's opening failed to prevent the statewide GTR from falling three percent from the 2012 performance.

Looking at individual casinos, nearly all suffered a drop in slot revenue with the lone exception being the Rivers in Pittsburgh which managed a very slim one percent gain. In 2012 half of the state's casinos posted dips in their annual GTR from the previous year. For five casinos (Parx in Philadelphia, Harrah's Chester Downs, Presque Isle in Erie, the Meadows in Washington County, and Penn National in Harrisburg) the slide in GTR stretches back to 2010. One explanation is that some of them may have swapped slot machines for table games when table games were authorized in 2010. Other explanations include new competition from Maryland and Ohio and a sluggish economy that is holding down discretionary income growth.

But if a casino traded slot machines for table games, has that paid off? It would appear that might be the case based on the 6.2 percent rise in revenue for table games last year. But as mentioned above, the increase from 2011 to 2012 was nearly eleven percent. Keep in mind that Nemaquin opened in 2013 while Valley Forge enjoyed its first full year of operations, so these two casinos certainly contributed to the rise in table games revenue. Note that in 2011, the first full year of table game play there were ten casinos operating. Looking at the gains for these ten, table games revenue growth is significantly slower than the totals for all casinos including the recent additions. The gain at the ten was just under 7.5 percent from 2011 to 2012 (compared to 11 for all casinos) and about 4.25 percent in the subsequent year (compared to 6.2 percent for all casinos). It is a virtual certainty that the new casinos were a major factor in boosting table game revenue statewide.

Individual casino results show that five of the ten operating in 2011 saw a reduction to their table games revenues from 2012 to 2013—Harrah's Chester Downs (-4.6 percent), Presque Isle (-26.5 percent), Meadows (-2.5 percent), Penn National (-5.6 percent), and Rivers (-2.9 percent). The casino with the highest jump was the Sands Bethlehem with more than 20.5 percent, but they did increase the number of tables by 20 percent, thus on a per table basis they netted no change.

As mentioned above, Sands Bethlehem increased the number of tables by twenty percent, but that is a bit of an anomaly as eight of eleven casinos either reduced the number of tables available or held the number steady—Valley Forge (20 percent) and Sugar House (six percent) joined the Sands in adding tables from 2012 to 2013. This was most likely in reaction to the per table revenue results from 2011 to 2012 as seven of the ten casinos at the time experienced declines in per table revenues. Only the Sands (eight percent), Mohegan Sun, and Mount Airy (each less than two percent) posted gains in per table revenues from that first year to the next. From 2012 to 2013, nine of the eleven operating casinos either showed lower per table revenues or held steady on a per table basis (Parx (15 percent) and Mohegan Sun (2.4 percent) were the exceptions).

While it is still too early to say whether table games are losing some of their luster, recent results are not encouraging. Is the state reaching a saturation point with respect to gaming? There are still active plans to place a casino in Lawrence County and one in Philadelphia. The former will compete with the other three western Pennsylvania casinos as well as Ohio casinos. What's more the Lawrence County facility would be a racino offering horse races gambling as well as casino play. That would not be a welcome development for the Meadows. The Philly facility would certainly impact the three existing casinos in the Philadelphia area (Parx, Sands, and Harrah's). There is also speculation that internet gaming may find its way into the mix in Pennsylvania in light of the fact that both Delaware and New Jersey allowed online gaming in 2013. Will Pennsylvania join this gaming "arms race" and follow its neighbors' lead?

In sum, whatever the reasons, gaming revenue growth statewide has certainly slowed down considerably, with slots machine revenue actually down and table games revenue growth decelerating abruptly. With so many programs riding on gaming money, from property tax rebates for seniors to host fees for municipalities, there is a lot riding on the gaming industry not faltering. Even a leveling out could be problematic.

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