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Gaming Revenues Still Slumping

In early January, the Pennsylvania Gaming Control Board reported the final tally of gross revenue from slot machine gaming for 2014 at \$2.319 billion. This amount is about 2.7 percent lower than that for 2013 which in turn was about 3.5 percent lower than the 2012 total. While the recent decline was smaller, this is not the trend the industry, or the Commonwealth, wants to experience.

Looking over the last five years (2010-2014) of slot machine performance, there has been a weakening pattern in gross gaming revenue statewide. 2010's total (\$2.273 billion) was more than 15 percent better than the previous year reflecting in part the addition of more capacity and the 2011 gain of just under six percent better than 2010 occurred in a much stronger economic environment. 2012 represented the high-water mark when \$2.407 billion was realized—but was just under a three percent increase over 2011. As noted earlier, 2013 showed the first decline from the previous year and 2014 the second when gross revenues fell to \$2.319 billion.

Nearly all of the individual casinos are showing weakness in their slots revenues as well. In 2014 only the resort casino at Valley Forge showed an increase to gross slots revenue (16 percent), but it has only been in operation for two full years after opening in early 2012. The other resort casino at Nemacolin has only been open for one complete year, so a true comparison cannot yet be made. The other ten casinos all reported drops to their gross slots revenues. The range went from nine percent (Presque Isle) to just over one percent (Mohegan Sun). Only the Rivers in Pittsburgh did not record two consecutive years with a decline. In fact the Rivers has been perhaps the best performer as 2014 represented the only year it had a decline (2.5 percent) in gross slot revenues. Harrah's in Philadelphia has had decreases to their revenues for all five years while Penn National, Presque Isle, and the Meadows have had declines for four of the last five years.

Possible explanations for the decline in gross slots revenue could be the increased competition from neighboring states Maryland and Ohio, with the latter taking a heavy toll on Presque Isle in Erie. Also, Pennsylvanians were subject to a slowdown in state growth in 2012 through 2014 that might have held down discretionary income growth. And perhaps there was a shift from slot machines to table games at casinos when they appeared in mid-2010.

While the number of slot machines statewide did not vary significantly over the last five years, peaking at just over 318,500 in 2012 before settling in at 317,700 in 2014, they did provide gamblers with another option. But did table games provide the needed boost for casinos?

In their first full year, 2011, table games at Pennsylvania's casinos brought in nearly \$620 million statewide. That amount grew by nearly eleven percent in 2012 (\$687 million). However, that growth slowed a bit in 2013 to just over six percent and for 2014 the rate of growth fell even further to 2.7 percent. In 2014 the gross revenue from table games came in at \$749.5 million. The positive from this, from the casino and state perspective, is that there has been growth to table games revenue, albeit at a decreasing rate since they debuted. Perhaps this is to be expected as table games settles into its steady state.

Interestingly enough the number of table games being offered (banking, non-banking, and electronic) has been expanding at about the same rate as revenues. In the first full year there were over 10,800 table games statewide. That amount grew to nearly 13,200 by 2014. This 22 percent growth rate in the number of tables matches the growth rate of table game revenues since 2011 (21 percent). Clearly casinos are reacting to players' preferences in gaming.

For individual casinos, the results from table games are mixed. Seven of the eleven casinos opened for at least two full years (excluding Nemacolin) posted total revenue growth from 2013 to 2014. The only ones who did not were the Meadows (-18.5 percent), Harrah's (-10.7 percent), Penn National (-8.3 percent), and Presque Isle (-3.28 percent). Since table games were installed, four casinos (Mohegan Sun, Mt. Airy, Sands Bethlehem, and Sugar House) had increased total revenue from these games each year with the Rivers and Philadelphia Parx posting growth in two of three years. Only Presque Isle, which has been hampered by its close proximity to casinos in Cleveland, Ohio, had decreases every year.

After four full years of table games play, the trend of decreasing growth rates overall may be cause for concern. How much longer this segment of Pennsylvania gaming will continue to see revenue growth is difficult to say. Moreover, it is not clear just how the profit margins of table games compares to those of slot machines. Nonetheless, considering the slide in slots play, it is the one area propping up gaming revenues in the Commonwealth. And with so many programs relying on gaming revenues, from property tax rebates for seniors to host fees for municipalities, there is a lot riding on this industry. The recent trend is not promising.

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