



## Gaming Revenue's Slight 2016 Rise in Perspective

**Summary:** News reports of the recently released 2016 gaming revenue in the Commonwealth noted that it was a record breaking year for the industry. While it is true that the combined revenues (table games and slot machines) did reach the highest level to date, some perspective on the number is needed.

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While gross gaming revenues reached \$3.213 billion in 2016 that represented only a small gain of 1.25 percent over 2015, the previous high. And, notwithstanding last year's increase, gaming revenue has risen by a mere 1.7 percent from the \$3.16 billion figure posted in 2012. To put this in context, consumer prices have climbed just under five percent over the four years which means that in real, inflation adjusted terms, 2016 revenue was about three percent below the 2012 reading.

Clearly, whatever momentum there is in the gaming industry is due to table games that have been the driving force behind these revenue gains. Note that the number of table games has grown steadily since 2012 when there were 1,016 tables in operation. Ongoing increases in the count boosted the total table games in operation to 1,196 in 2016, a jump of 17 percent since 2012.

Looking at the last five years of data (2012-2016), table game revenue across the system grew 14 percent, rising from \$687.4 million to \$853.2 million. On a per table basis, the growth has been more modest rising just six percent.

While table game revenue climbed at a fairly solid pace over this time frame, revenues from slot machines fell from \$2.47 billion in 2012 (the highest annual reading to date) to \$2.36 billion in 2016—a 4.5 percent dip. Still, despite declining slot play, the machines account for the bulk (73 percent) of gaming revenues in Pennsylvania. The number of slots machines, and the revenue per machine, has dropped slightly over the period.

It is important to note that while the popularity of table games are driving the gaming revenue gains, the tax rate on table games is about a third of the rate leveled on slots revenue. Table games revenue is taxed at a rate of 14 percent with 12 percent going to the state's general fund and the rest (2 percent) goes to the local share assessment.

Meanwhile, slots revenue pays a tax of 54 percent. Of this amount, 34 percent goes into the State Gaming Fund for, among other things, property tax relief for homeowners. Eleven percent goes to the state Race Horse Development Fund and five percent to the Economic Development and Tourism Fund with municipalities and counties getting two percent each. The funding for host

municipalities is being reworked by the Legislature as ordered by the State Supreme Court in a decision from 2016.

Setting aside the different allocations of the table games revenue and slots revenue, it is must be borne in mind that each dollar decline in slots revenue results in a 54 cents drop in tax receipts for the Commonwealth. By the same token, a dollar increase in table games revenue generates only 14 cents in additional tax receipts. Therefore, on a net basis, the \$110 million decline in slots revenue and the \$170 million gain in table games revenue have lowered the total tax receipts from the gaming industry over the last five years. And the trend seems to point to further erosion.

Finally, how have the Pittsburgh area casinos, the Rivers and the Meadows fared, over these last five years?

Looking at their table game revenues, neither local casino has fared well in comparison to the statewide numbers. In 2012 the Rivers Casino earned \$69.7 million from table games while the Meadows took in \$35.4 million. In 2016, they each generated less than in 2012 with the Rivers earning \$69.1 million, only a slight falloff, while the Meadows take of \$31.4 million represents a drop of eleven percent.

There were similar changes regarding slot gross terminal revenues (GTR) for both casinos. In 2012, the GTR for the Rivers came in at \$282.13 million, but by 2016 had fallen to just over \$265 million—a decline of six percent. For the Meadows, the drop was more severe. In 2012 they posted GTR of \$248.9 million but by 2016 it had fallen to \$221.6 million (11 percent).

One possible explanation is that the Meadows' customer base may have been hard hit by the decline in the gas drilling industry as many of those firms which are based in Washington County reduced their workforce. Meanwhile, both casinos have seen competition arise from casino facilities in Ohio and that has been coupled with the sluggish employment gains in the Pittsburgh region in recent years.

At this point, it appears gaming activity in Pennsylvania is topping out as growth gets harder and harder to come by and that is all generated by table games that produce much less revenue for the state and are most likely more expensive for casinos to operate than slots per dollar of revenue produced.

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