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As Pa.'s gaming revenue growth slows, questions arise

By Colin McNickle

Pennsylvania's gaming revenue numbers for 2017 show a slight increase over 2016. However, this modest increase belies a worrisome trend that researchers at the Allegheny Institute for Public Policy say requires deeper analysis.

State-released figures show revenues for table games increased 4.4 percent over 2016, to \$890.6 million. However, slot machine income was down 1 percent, to \$2.3 billion. These results are not encouraging for two reasons, say Frank Gamrat, a senior research associate, and Jake Haulk, president of the Pittsburgh think tank.

"First, table games revenues (growth), on a year-over-year basis have been slowing since 2014 – from 7.8 percent in 2015 to 5.6 percent in 2016 and the latest at 4.4 percent," they say (*in Policy Brief Vol. 18, No. 4*).

"To go with that growth slowdown, slots revenue has been slipping slightly lower year-to-year since the peak 2012 reading of \$2.47 billion to stand at \$2.34 billion in 2017.

"Second, the implications for state tax revenue from this weakening picture are considerable," the Ph.D. economists say, reminding that while table games gross revenue is taxed at 16 percent, slots revenue is taxed at 54 percent.

To wit, the decrease in gross slots revenue from 2016 to 2017 of close to \$24 million resulted in a nearly \$13 million decline in taxes paid. The \$37.4 million increase in table games brought in an additional \$6 million. But that leaves the commonwealth short \$7 million of the year-earlier collection.

That said, Pennsylvania's gambling landscape is changing. Last year, the state Legislature approved an expansion program that allows for up to 10 new mini-casinos. It could add between 300 and 750 slot machines and up to 40 table games at each site.

If all 10 casinos open, and each increases its gaming options by the maximum, that would represent a 28 percent increase in slot machines and a 32 percent increase in table games.

“Presumably, the sheer number of additional slot machines and tables will lift tax revenues to some extent,” Gamrat and Haulk say. “But the question is whether or not the increase will be substantial or merely incremental and whether any upturn can be sustained.

“Clearly, the question of ‘saturation’ needs to be answered,” the scholars caution. “Can Pennsylvania’s population and economy support in a profitable manner 22 casinos, gaming in airports, truck-stops and on the Internet?”

Given that the neighboring states of Delaware, Maryland, New Jersey, Ohio and West Virginia also have gambling, and how that significantly reduces the influx of out-of-state gaming dollars, Pennsylvania’s expansion could be quite risky.

With the lion’s share of players likely coming from Pennsylvania, Gamrat and Hauk say it’s important to note that for every gaming dollar lost – which is the casinos’ gain – it’s money not being spent on other things, be they recreational, luxuries or necessities.

Additionally, while new casino jobs are welcome, they cannot replace manufacturing and gas industry jobs in terms of productivity and multiplier effects.

Chasing gaming jobs by expanding gambling sites is a poor substitute for creating a far friendlier business climate that attracts manufacturing firms and encourages companies already here to expand,” Gamrat and Haulk stress.

“Addressing the overweening political power and costs of public sector unions would be a great start,” they say. “Coming to grips with economic reality is a must.”

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