



### Gaming Revenue Growth in Pennsylvania Continued to Slow in 2017

**Summary:** Gaming revenues for 2017 show a slight uptick over 2016, led by an increase in table game revenues that offset a slight decline in slot revenues. However, 2017's mix of reduced slots revenue combined with moderately higher table game revenue resulted in a drop in state tax receipts from casino gaming.

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Recently released Pennsylvania gaming revenue figures for 2017 show a respectable 4.4 percent gain over 2016 for table games (\$890.6 million from \$853.2 million) and a 1 percent drop for slot machines. But these results are far from a robust showing for two reasons. First, gains in table game revenues, 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. To go with that growth slowdown, slots revenue has been slipping 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.

At first glance, the ongoing increase in table game revenues gives the impression that the gaming industry in Pennsylvania is doing very well. But if the year-to-year growth trend continues its declining path, it will not bode well for the state's reliance on those games to produce increasing tax revenue.

Note that the number of table games available has been rising over the years. In 2013 the average monthly number of table games across the state was 1,058 and has steadily increased, albeit at a decreasing rate, until it reached a monthly average of 1,243 in 2017, up from 1,191 in 2016. On a per-table basis, there has been little improvement in revenues. The revenue per table in 2015 was \$59,610, in 2016 up slightly to \$59,729 and basically flat at \$59,737 in 2017. Overall, it's a very flat trend for revenue per table.

Meanwhile, the number of slot machines in operation across the commonwealth over the five years since 2012 ranges from 26,550 (2012) to 25,971 (2017), a small drop of 579 machines or 2.2 percent. Thus, the number of machines available for play has been relatively steady. The same cannot be said for the gross revenue per machine that fell from a high of \$7,753 (2012) to a low of \$7,302 (2014)—a 5.8 percent decline. By 2017,

revenue had inched back up to \$7,497 but remained \$256 per machine or 3.3 percent below the 2012 level.

As mentioned above, the recent trends in slots and table games revenue have implications for state tax revenue. Bear in mind that table game revenue is taxed at a 16 percent rate. The state's general fund share rate is 14 percent while local share assessment rate is 2 percent for a total tax of 16 percent. Because of the higher overhead costs associated with table game operations, the casino is allowed to keep 84 percent as opposed to the much lower rate for slots.

Meanwhile, gross revenue from slot machines is subject to a much higher 54 percent overall tax rate. A rate of 34 percent is collected for the state gaming fund, most of which is used for homeowner property tax relief. An 11 percent tax rate is assessed for the horse racing development fund and 5 percent is assessed for the economic development and tourism fund with the remaining 4 percent assigned to the local share assessment to municipalities and counties.

Thus, the slowing in slots play and the weakening growth of table games is concerning for two reasons as noted earlier—the slower overall growth in revenue and the changing ratio of revenue from slots and tables. Bear in mind that for every \$1 increase in table game revenues, the state collects 16 cents in tax receipts. However, for every \$1 in gross slots revenues, the state collects 54 cents. Unfortunately, the decline in slots revenue from 2016 to 2017 of just under \$24 million resulted in a nearly \$13 million drop in taxes paid. At the same time the \$37.4 million rise in table game revenue brought the state only a \$6 million boost in receipts and that means there was a net decline of \$7 million in gaming tax collections from 2016. What's more, the revenue mix impact has worsened in recent years as growth in table game revenue weakened and slots revenue trended slowly downward.

Late in 2017 the Legislature amended the gaming law and included in that rewrite authorization of up to 10 mini-casinos (Category 4 license). Category 4 casinos are permitted to operate from 300 to 750 machines with an option to have up to 40 table games. If all 10 are opened with the maximum allowed number of slot machines and tables, it would add another 7,500 slot machines, bringing the state total to over 33,500 (a 28 percent increase), and 400 table games, bringing the total to about 1,643 (a 32 percent increase).

Will the added casinos boost state tax revenues from gaming and shift the trend from its recent weakening pattern? Presumably, the sheer number of additional slot machines and tables will lift tax revenues to some extent. 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. Can Pennsylvania's population and economy support in a profitable manner 22 casinos, gaming in airports, truck-stops and on the internet?

Furthermore will the 10 new licenses be bought? As noted in the revised gaming law, the Category 4 licenses are to be auctioned to the highest bidder, (the bidding floor set at \$7.5 million). The first one was auctioned in mid-January 2018 for \$50 million, the same price as the original license fee in 2004, which was not conducted via auction. If the Category 4 casinos wish to add table games, it will cost them an additional \$2.5 million in a one-time fee. Category 4 casinos will not have to pay the new slot license operating fee imposed on Category 1 and 2 license holders, 20 percent of the \$50 million license fee—\$10 million, which replaces the local share assessment formula as directed by the state Supreme Court (see *Policy Brief Vol. 17, No. 47*). Category 4 casinos will have to pay a local share assessment fee, but it will be derived by a formula.

Putting so much economic reliance on gaming is very risky, especially in light of the fact that neighboring states also have gaming (Delaware, Maryland, New Jersey, Ohio and West Virginia) which diminishes significantly the out-of-state gaming dollars coming into the commonwealth. Thus the lion's share of players will likely come from Pennsylvania. On that point it is important to keep in mind that casino gaming revenue is money that is not being spent on other items by Pennsylvanians—be they recreational, luxuries or necessities.

And while jobs in the casinos are alright, they cannot replace manufacturing and gas industry jobs in terms of productivity and multiplier effects. Chasing the gaming jobs by expanding gambling venues is a poor substitute for creating a far friendlier business climate that attracts manufacturing firms or encourages companies already here to expand. Addressing the overweening political power and costs of public sector unions would be a great start. Coming to grips with economic reality is a must.

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**Frank Gamrat, Ph.D., Sr. Research Assoc.**

**Jake Haulk, Ph.D., President**

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
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