



Gaming options expand in Pennsylvania

Summary: Gaming revenues grew in 2019. But it was due more to the expansion of gaming options than growth to the existing system. Sports wagering, fantasy contests, internet gaming and, soon, mini-casinos should continue the trend. But is the commonwealth's reliance on tax revenues a sure thing? Will gaming boost the economy?

At the conclusion of 2019, the state Gaming Control Board reported that total gaming revenues were up by 4.5 percent over 2018's tally. The revenue gain did not reflect an increase in the number of people playing slot machines, which debuted in 2006, or even table games (2010); it was primarily due to the expansion of gaming options. In 2019 internet gaming and video gaming terminals debuted while retail and internet sports wagering and fantasy sports contests had their first full year. With mini-casinos getting ready to open soon, and a full year of operation for last year's newcomers, 2020 gaming revenue is likely to top 2019.

Slot machines

Statewide, the 12 casinos in operation realized \$2.363 billion in gross terminal revenues (GTR) from slot machines in 2019—a slight dip of \$6.8 million (-0.3 percent) from the previous year (all data is calendar year). The high-water mark for GTR occurred in 2012 (\$2.471 billion) from 11 casinos (the resort casino at Valley Forge opened in March 2012 while the one at Nemacolin opened in July 2013).

The monthly average number of slot machines in operation has declined slightly over the years. In 2012 there were 26,550 machines available on average per month across the state. By 2019 that number had fallen to 24,722—a drop of 7 percent. It is likely that space previously used for slot machines is now being used by table games or areas for sports betting—which is not a surprise given that slot machines are taxed at a higher rate than those options.

Nonetheless, Pennsylvania has a lot riding on the performance of slot machines. As noted in earlier *Policy Briefs* (most recently in *Vol. 19, No. 15*), slot machine GTR is taxed very heavily at 54 percent. There is a 34 percent assessment for property tax relief; a 2 percent assessment for the local share (with an additional 2 percent for the two

smaller resort casinos); a 6 percent rate is added on for the economic development and tourism fund with the remainder allocated to the racehorse development fund.

It is very interesting that \$12.4 million per year of the economic and tourism fund is being allocated in perpetuity to Pittsburgh International Airport. Reportedly the airport will use some of that money to help pay for the construction of a new terminal.

Also, in his fiscal 2021 budget address, the governor is proposing to divert \$204 million from the racehorse development fund to start a scholarship fund for students attending the 14 universities of Pennsylvania's State System of Higher Education. The proposal is meeting predictable resistance from the racehorse industry.

Table games

Tax revenue from slot machine GTR does not go into the state's general fund budget. But tax revenue from other gaming sources (table games, etc.) does. The total tax rate on table games is 14 percent. A 12 percent rate is assigned to the state's general fund and another 2 percent goes to fund the local share. The only exception is for fully automated table games, which are taxed at 34 percent but there are far fewer of them.

Table games were introduced in 2010 and the total revenues statewide have been on a fairly consistent growth path ever since (except a small dip from of 1.3 percent from 2017 to 2018). In 2019 revenue from table games reached \$903.6 million, \$24.8 million (2.8 percent) higher than in 2018 and established a new high-water mark for the category.

The average number of table games available per month statewide in 2019 was 1,275, up slightly from the 1,234 in 2018.

Bear in mind that the increase in total table games revenue accounts for only 20 percent of the revenue increase from all gaming options (\$24.8 million of \$146.1 million)

New forms of gaming

Two new forms of gaming were made available to the public in 2019 while two others had their first full years.

Pennsylvania gamblers were able to play slots/table games on the internet beginning in July 2019. Internet slot games are taxed at 54 percent, the same rate as traditional slots. The allocation of the tax is a bit different: 34 percent to the state, 13 percent to the Commonwealth Financing Authority (county grants) and 7 percent for the local share. The economic development and tourism fund and the racehorse development fund do not receive money from internet slots. Funds from the state share of the tax are split between property tax relief (65 percent) and the state treasury. Internet table games are taxed at the same rate as casino-based table games, 14 percent, with the same allocations.

In just six months of 2019, internet gaming brought in \$33.6 million in total revenues—\$20.9 million from internet slots and \$12.6 million from internet table games.

Video gaming terminals opened at 20 truck stops across the commonwealth in August 2019. A total of 100 machines collected \$2.3 million in revenues over the last few months of 2019. They are taxed at a rate of 52 percent—a 42 percent assessment going to the state’s general fund with a small portion of that going to a compulsive and problem gambling treatment fund and a 10 percent assessment to the local share.

Fantasy gaming began in May 2018. It is a process where a gamer selects players (typically football) to form a team that will compete (statistically) against other gamers’ teams. This gaming avenue is taxed at a rate of 15 percent which goes to the state’s general fund.

In just eight months fantasy gaming brought in \$15.3 million in revenues in 2018. For the full calendar year of 2019 fantasy gaming brought in \$25.9 million, an increase of 69 percent over 2018.

The final form of gaming, and the biggest of the new additions in Pennsylvania, is sports wagering. Calendar 2019 represented the first full year of sports wagering in the commonwealth. It is taxed at a rate of 36 percent—34 percent to the state’s general fund and 2 percent to the local share.

Total sports wagering revenues in 2019 were \$84.1 million (51.1 percent of that was wagered online, while the rest was wagered in person). Sports wagering in 2018 consists of just November and December. The total wagering revenues from these two months was \$2.5 million.

It is very likely that there will be substantial growth in Pennsylvania’s gaming industry in at least 2020. First of all, the industry will grow with the addition of the new mini-casinos which should debut soon and some of these options such as video gaming terminals and internet based gaming have not yet had a full calendar year of operation.

Gaming and the economy

But more importantly the national economic growth is putting more discretionary funds into people’s pockets and gaming is one form of recreation available in Pennsylvania. But is this a good thing? Should the government be so dependent upon gaming as a source of tax revenue?

Clearly, a dollar spent on one activity cannot be spent on another. Money spent on gaming comes at the cost of other options, most likely other leisure activities.

According to Bureau of Labor Statistics’ (BLS) data, Pennsylvania’s “amusements, gambling and recreation” sector jobs stood at 58,500 in December 2019. In December 2018 that number was 62,200—a year-over-year loss of 3,700 jobs. The current job count

stands 10 percent above 2009's 52,400. In comparison, national employment in the "amusements, gambling and recreation" sector climbed 30 percent. Note that data for the gambling sector itself are not available at the state level.

However, at the national level, jobs data are available for the gambling industries. In December 2009 there were 126,600 jobs in the gambling industry. The count rose to 132,300 (4.5 percent) in 2013 before dropping 13 percent by December 2019. Over the 10 years 2009 to 2019 the nation's gambling jobs fell by 11,200 or 9 percent. Furthermore, nationally casino employment is down 5.7 percent over the last 10 years and by 14.5 percent since the peak of 2013. Is this due to automation and the advent of alternative online gaming? Or could it be that the gambling industry has peaked and is in decline? At this juncture, it seems unlikely that gaming will have much of an impact on Pennsylvania's job count in the years to come.

In 2009, employees in gambling industries accounted for 10 percent of the jobs in the "amusements, gambling and recreation" sector. By 2019, the gambling share had fallen to 7 percent. While Pennsylvania's gambling share of "amusement, gambling and recreation" employment is not provided by the BLS, it seems reasonable to assume it is in the 7 to 10 percent range. And, if it is following the national trend, the share is declining.

As for the tax revenues that policy makers are more than happy to collect, what happens when the economy has a downturn and the discretionary spending ebbs? How secure are these revenue streams? Politicians may be running out of ways to expand gaming in the commonwealth.

Gaming as a recreational outlet must be kept in perspective. Pennsylvania should not look to the gaming industry to sustain its economy or keep its tax coffers full, not to mention the social ills and costs that can accompany gambling addiction or the impact on lottery sales.

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