



Casinos lose big in Covid lockdown

Summary: Casino operations did not escape the mandatory shutdown order stemming from the coronavirus pandemic. Deemed a “non-essential” business, Pennsylvania casinos were forced to close beginning in mid-March and throughout all of April and May with their reopening beginning in June. Safety protocols, such as operating at a restricted capacity, are now in place. As such, what were the revenue losses during the shutdown period? And what does it mean for beneficiaries of casino tax payments?

Slot machines

Hailed as a method for providing property tax relief, slot machine operations throughout the commonwealth began in 2006. Prior *Policy Briefs (Vol. 20, No. 7)* note that gross terminal revenues (GTR) from slot machines are very heavily taxed with a combined rate of 54 percent, including a 34 percent rate designated for school property tax relief; an 11 percent rate for the horseracing industry; a 5 percent rate for economic development and tourism and a 4 percent levy for local and county governments.

Statewide casino data over the past few years indicates that the month of January tends to bring in the lowest amount of GTR during a calendar year while March typically yields the highest. Due to the mandated closing, Pennsylvania’s casinos lost at least two and a half months of revenue, including half of the best revenue month of the year.

Slot machine revenues at the beginning of 2020 made the year look promising. January’s total GTR intake of \$190.3 million was 5.82 percent higher than last year’s \$179.8 million (the biggest increase since 2011 to 2012). February brought in \$199.6 million compared to last year’s \$189.9 million, an increase of 5.1 percent and the largest February-to-February gain since 2015 to 2016.

If prior year-over-year changes for March had held this year, then we estimate that the GTR from 2019 to 2020 would have risen by 2 percent. This equates to an increase of \$4.5 million over 2019’s almost \$226.6 million or a total collection of \$231.1 million in GTR for March 2020. Instead, only \$87.5 million was brought in, an estimated loss of just over \$143.5 million in March alone.

Statewide casino closures continued throughout all of April and May, and thus, no GTR were collected. Again, assuming 2020 casino slot revenue was following a typical growth pattern, monthly changes in year-over-year GTR point to a gain of 0.5 percent in April and 2 percent in May over the same monthly levels in 2019. As such, April’s GTR would have reached \$201.3

million (\$200.3 million in 2019) and May's revenues would have yielded over \$213.7 million (\$209.5 million in 2019). The two and a half months of total shutdown resulted in a conservatively estimated loss of \$558.5 million in GTR for the state's casinos.

Some gaming establishments—including the Rivers Casino in Pittsburgh and the Meadows Racetrack and Casino in Washington County—reopened as early as June 9 while others—including the Rivers Casino in Philadelphia (formerly Sugar House)—reopened in July. A reasonable estimate for fully open and operating casinos in June would have produced an overall 2 percent increase for the month from 2019's \$198.7 million to \$202.7 million in GTR. Instead, June's report of actual virus created slowdown in GTR totaled \$62.4 million, a loss just under \$140.3 million compared to the conservative estimated GTR for fully open operations.

All told, the total loss in GTR across the state from mid-March through June is likely on the order of almost \$699 million.

If GTR had followed the growth pattern of a typical year, total tax revenue from slot machine play over the March through June period would have reached an estimated \$458.4 million. While no tax revenue was collected from slot machine play during April or May, casino operations from March and June yielded combined tax revenue of \$77.3 million (\$45.2 million in March and \$32.1 million in June). This represents a shortfall of roughly \$381.1 million.

Table games

Table games, on the other hand, which debuted in 2010, are taxed at a much lower total tax rate of only 16 percent. The total consist of a 14 percent rate for the Pennsylvania general fund while the other 2 percent rate is distributed to both local and county governments.

Unlike slot machines, the year started off much weaker for table games revenue. January's year-over-year change in table games revenue fell 2.49 percent from \$74.4 million in 2019 to \$72.5 million in 2020. February numbers looked a bit better with \$77.4 million in table games revenue, an increase of 4.63 percent over 2019's almost \$74 million.

March had the potential to continue this upward trend, especially considering its prior 4.25 percent increase from 2018 to 2019 (\$79.1 million to \$82.5 million). In fact, prior-year data indicate that, as with slot machine play, March is also one of the highest grossing months for table games revenue.

But as with slots revenue, table games revenue was significantly diminished if not eliminated by the state ordered two-and-a-half month mandatory casino closing.

Assuming 2020 casino revenue would have grown at the pace of a typical year in the absence of the virus caused shutdown, the revenues for March, April, May and June would have increased by about 3 percent in each month. In that scenario, table games revenue would have reached \$85 million in March, over \$79.7 million in April, over \$78.8 million in May and almost \$71 million in June for a total of nearly \$315 million. Instead, the reported table games revenue for March was only \$33.1 million. No revenue was produced in either April or May and only \$11.7 million was collected in June. This puts the estimated total loss to almost \$270 million from mid-March through June.

Assuming a normal 2020, with our estimated growth for March to June, roughly \$50.3 million in estimated tax revenue would have been collected from table games. Instead, only \$7.2 million

was collected (\$5.3 million in March and almost \$1.9 million in June). Thus, tax revenue from table game activity fell almost \$43.1 million short of its potential, owing to the effects of the coronavirus.

Internet gaming

Call it intuition or just plain luck that internet gaming made its debut in Pennsylvania casinos in July 2019. While not all casinos in Pennsylvania offer online gaming options, for those that do, total internet gaming revenue (including online table games, internet slot machines and online poker) jumped from \$13.9 million in January 2020 to \$50 million in June, an increase of 258.6 percent.

Revenue from online slots soared by 411.3 percent from \$7.1 million in January to \$36.7 million in June. The trend continued with online table games as revenues climbed by almost 118 percent from \$4.6 million to \$10 million. Altogether, from January through June, online slot play brought in \$132.1 million, and internet table games revenue reached just over \$54.3 million.

Overall, from January through May, the trend in month-to-month changes for online gaming revenue was positive. Although June's online gaming revenues dipped compared to May's (likely due to the reopenings of physical locations), it still represents solid growth over January's intake.

As described in *Policy Brief Vol. 20, No. 7*, internet slot games—just like traditional slots—are taxed at 54 percent with a 34 percent rate allocated to the state, a 13 percent rate going to the Commonwealth Financing Authority and a 7 percent rate set aside for the local share. Likewise, online table games are also taxed at the same rate as casino-based table games (16 percent) and have the same allocations (14 percent to the general revenue fund and 2 percent to local and county governments).

Based on these tax rates, total tax collection from online slot play from January through June comes to \$71.3 million (about \$3.8 million in January, \$5.2 million in February, \$6.6 million in March, \$14.7 million in April, \$20.9 million in May and \$19.8 million in June). Total tax collection from online table games revenues over the same period is almost \$8.7 million (about \$0.74 million in January, \$1.28 million in February, \$1.4 million in March, \$1.67 million in April, \$2 million in May and \$1.6 million in June). Internet gaming tax revenue (from slots and table games alone) over the first six months of 2020 totaled \$80 million.

The question is whether internet play will diminish as casinos return to full operations.

Economic impact

Non-seasonally adjusted data from the Bureau of Labor Statistics on amusement, gambling and recreation industries statewide illustrate the effects on employment stemming from the virus and lockdown. The number of employees in March totaled 60,500, a decline of 1.3 percent over March last year. April's employment of 19,600 (down over 70 percent since last year) represents the jobs low point. Employment has edged back up to 30,300 employees in May (60.5 percent fewer than the prior May) and 52,300 employees in June (down 42.8 percent over last year).

Based on the Pennsylvania Gaming Control Board's "12th Annual Diversity Report," the total number of individuals employed by all 12 casinos in the commonwealth by the end of the 2018-19 fiscal year stood at 16,717. Since the lockdown included a complete stoppage of all nonessential functions and only a few managers and maintenance crews were likely deemed

essential and kept on the job, it is safe to assume that most of the 16,717 casino employees were furloughed.

Overall, there is much to learn about the consequences stemming from government action related to the pandemic. For the Pennsylvania casino industry, the revenue loss from traditional slot play and table games over the four-month period alone tallies \$968.8 million with a combined loss of \$424.2 million in tax revenue. With \$3.26 billion collected in revenue from traditional slot and table games play in 2019, the \$968.8 million in lost revenue amounts to nearly 30 percent of last year's total.

Meanwhile, although online gaming revenue from slots, table games and poker rose to record setting highs, the total intake from January through June (\$206.6 million) doesn't even cover a quarter of the estimated losses from slot and table games.

How exactly taxpayers will be affected remains to be seen, but entities that typically receive tax money from casino revenues, including school districts for property tax relief, should expect and likely will see a decrease in funding in the coming fiscal years.

Despite dismal earnings for the last three months, the Rivers Casino in Pittsburgh has managed to pay the quarterly installments on its mandatory, yearly sum of \$10 million to the city. But if revenue declines for upcoming months compared to year-ago levels continue and remain the "new norm" for a long period, will the casino be forced to ask for leniency on its obligation? And would the City of Pittsburgh grant such a request amidst its own revenue shortfalls?

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