



The state of gambling revenues in pandemic Pennsylvania

Summary: The pandemic affected every industry in Pennsylvania with the gaming industry taking a big hit. While casinos were closed for two full and two partial months from March to June, there seems to have been a significant pickup in activity in the third quarter. Gaming depends heavily on discretionary income and the pandemic caused many Pennsylvanians to be laid off. However, the federal government has supplemented unemployment compensation. Combine that with limited recreational and travel spending opportunities during the lockdown—and perhaps some pent-up energy to get out and about—and the result has been a significant improvement in Pennsylvania’s gaming industry revenue. This is good for industry jobs and revenues to the state, in general, and school districts, in particular.

A recent report on U.S. gaming venues shows gaming revenues were hard hit not just in Pennsylvania but nationwide, reflecting the impacts of the coronavirus. The data, which cover the first three quarters of the year, show that 2019 predictions of 2 to 3 percent year-over-year growth in 2020 will fall well short. The likely outcome now will be a decline in the range of 20 to 40 percent¹. As demonstrated in an earlier *Policy Brief* (*Vol. 20, No. 27*), Pennsylvania gaming revenue was also hard-hit in the lockdown period and that will reduce revenue to the state’s general fund and school district tax relief funds.

Other findings from the national report indicate that a recovery may be slow as analysts see personal levels of discretionary income taking a long time to return to pre-pandemic levels. They also note that the societal and economic factors of the pandemic will take much longer to overcome than anticipated as many may place personal safety over the need to participate in recreational activities such as gambling at a casino.

The report, which does not include online gaming or sports betting, shows that for the period 2015-19, total gaming revenues from commercial casinos and tribal casinos steadily increased nationally from \$69.5 billion to \$80.4 billion—growth of 15.7 percent. Absent the pandemic, it is likely that upward trend would have continued in 2020. Note that in Pennsylvania, table-game and slot-machine revenues (not counting internet gaming or sports betting) grew by just three percent during the 2015-19 period.

Pennsylvania casinos were shut down for about half of March and completely for the months of April and May with most reopening in June (Rivers Philadelphia reopened in late July). The

¹ National Gaming Results. Data through September 2020. Jay Sarno & Associates Analytics.

Pennsylvania Gaming Control Board issued protocols for reopening and, as a result, the casinos are admitting fewer patrons and operating fewer slot machines and table games than they had been pre-pandemic.

Slot machines

The earlier *Brief* referenced above estimated the state lost \$381 million in slot-machine revenues in the March through June period. This is important because a large portion of tax revenues from slot machines is set aside to provide school property tax relief. Thirty-four percent of slot revenues is dedicated to property tax relief. Bear in mind that the total combined tax rate for slots is 54 percent.

Statewide slot gross terminal revenues (GTR) from 2015-19 ranged from \$2.360 billion in 2016 to \$2.369 billion in 2018. In 2019 the GTR slipped to \$2.363 billion. Through the first nine months of 2020 GTR was only \$1.03 billion compared to \$1.80 billion for the first nine months in 2019, a drop of 43 percent. Of course, the 2020 figure includes the total shutdown months of April and May and the partial months of March and June. However, after the lockdown the GTR in July, August and September remained below the same months in 2019 averaging 17.4 percent lower for the three months.

As mentioned above the casinos were permitted to open only if they followed coronavirus protocols set forth by the state which include both limited capacity and fewer slot machines and table games available to ensure social distancing. The number of slot machines, statewide, fell from roughly 24,120 per month pre-lockdown (January-March) to 15,500 per month afterward (June-September)—a decrease of 36 percent.

In response, there has been more play per available machine. GTR per slot machine averaged \$8,100 in January and February. Post-lockdown, July-September, the average was \$10,200—26 percent higher. It is worth noting that since 2009 only one month had a GTR per slot machine average over \$9,000 (\$9,324, March 2009) and only a few over \$8,000. Once the lockdown was over, the reduced number of slot machines saw more play despite the limitations on the number of patrons.

Table Games

Taxes from table games are directed toward the state's general fund. Of the 16 percent total tax rate, a 14 percent rate goes to the general fund while the remaining 2 percent goes to local and county governments. The earlier *Brief* had estimated the loss of table games gross revenues on the order of \$270 million during the March-June period.

However, since then, in the July through September period, the shortfall has narrowed. The July total of \$52.5 million in gross table game revenue was \$24.45 million below the 2019 amount of \$76.96 million—a 31.8 percent drop. But in August and September the losses were much smaller at 14.5 and 16.2 percent lower than the same months one year ago—\$76.2 million and \$70.6 million vs. \$65.1 million and \$59.2 million in 2020.

Thus, while the table-games revenue remains below year-earlier figures for the July-September period, there has been progress toward returning to 2019 levels.

The number of table games did not decline as much as the slot machines, dropping only about 100 from an average of 1,272 from January to March to 1,175 (almost 8 percent) from July to

September. Play per table in January and February 2020 averaged \$58,990 and was 1.7 percent above the same months in 2019.

And although July revenue per table was off by 32 percent, August and September revenues showed some rebound and were not far below last year's averages—\$59,894 in August 2019 vs. \$55,421 in August 2020 and \$55,641 in September 2019 vs. \$50,305 in September 2020.

Apparently, patrons were not rushing to return to table games like they were to slot machines. Again the 2020 per table amounts were achieved despite limited occupancies.

Other types of gaming

In 2019, three new types of gaming were unveiled in Pennsylvania—internet gaming, sports wagering and video-gaming terminals. Fantasy contests debuted in 2018. The taxes collected on revenues from these new sources go mostly to state coffers (*Policy Brief, Vol. 20, No.7*).

Internet gaming, debuting in July 2019, was expected to fill some of the void during the lockdown. Gross revenue from internet gaming did, in fact, jump from \$19.5 million in February 2020 to \$24.3 million in March to \$43.1 million in April to \$55.8 million in May where it seems to have leveled off since then as physical casinos reopened, averaging about \$54.4 million for the period of June through September.

Sports wagering and fantasy contests also took a hit as most of the sporting world was also put on hold during the pandemic and returned in limited capacity. Sports wagering took a big jump in August 2020 (\$18.3 million) vs. August 2019 (\$6.1 million) but, it was down in September (\$6.3 million vs. \$14.9 million).

Overall, the revenue from all gaming sources in Pennsylvania did rebound from the shutdown period of March through June. Total gaming revenue in February was up nearly 15 percent over the same month in 2019. Then came the losses. March's year-over-year drop was 51 percent followed by a loss of 84 percent in April, 79 percent in May and 51 percent in June.

Then the revenue rebound began as July recorded a year-over-year increase of just over one-half of a percent, August up six percent and September up 1.5 percent. All three months experienced a \$53 million increase in internet casino-type gaming compared to 2019.

Given the resurgence of positive Covid-19 cases recently, a new round of restrictions is being implemented in Philadelphia and Allegheny counties and could extend statewide. This would stunt any rebound in gaming revenues from onsite slot machines and table games which still provide the bulk of gaming revenues and taxes for the state.

Frank Gamrat, Ph.D., Executive Director

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Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: [AlleghenyInsti](https://twitter.com/AlleghenyInsti)