



Gaming revenues are rebounding

Summary: As happened to most industries, Pennsylvania's casinos took a big hit during the pandemic. But the losses were not as heavy as they could have been thanks to the advent of internet gaming, which cushioned the blow created by mandated casino closings. As COVID vaccinations become more prevalent, people are returning to the casinos and revenues, and gaming tax dollars, are beginning to rebound.

Gaming revenues in Pennsylvania have become an important source of government funding. From property tax relief and contributions to general fund revenue to county and municipal host government payments, state and local governments are reliant on gaming. In 2020 the pandemic closed casinos for nearly three full months (part of March, April, May and most of December) and restricted patronage for most of the year. Total gaming revenue for the year fell from \$3.41 billion in 2019 to \$2.65 billion (22.2 percent), the lowest annual total since the first full year of table games play a decade ago (\$2.89 billion in 2011).

The Allegheny Institute has been documenting gaming revenues since the legislation to introduce slots gaming was ratified in 2004 (*Vol. 4, No. 28*) through the beginning of table games in 2009 and the latest addition of internet gaming, sports wagering, video gaming terminals and fantasy sports contests within the last few years (*Vol. 20, No. 7*) and how each option is taxed.

Revenues have continued to rise over the years in part because of the expansion of gaming options and the increase in the number of casinos in operation.

The data for this *Brief* comes from the [Pennsylvania Gaming Control Board](#). This analysis covers the period from 2015 through April 2021, the most recent data available.

Slot machines

In 2015 the 12 casinos operating within the commonwealth brought in \$2.365 billion dollars in gross terminal revenue (GTR). Over the period prior to the pandemic in 2020 GTR was relatively stable, ranging from \$2.336 billion (2017) to a high of \$2.369 billion

(2018). GTR is taxed at a total rate of 54 percent—34 percent 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 for economic development and tourism fund with the remainder allocated to the racehorse development fund.

In 2020 the governor shut down casinos halfway through March, all of April and May and then again for most of December. When they were open, they did so at dramatically reduced patronage levels. However, the first new mini casino opened in Westmoreland County in November, bringing the number of casinos in operation to 13. The statewide GTR for 2020 came in at \$1.355 billion, more than \$1 billion lower than what it had been over the last few years.

In 2021 there appears to be a rebound to statewide GTR. First, another mini casino in Philadelphia opened bringing the total to 14. Secondly, as the pandemic began to wane as vaccinations increased, more players returned to the casinos.

The average monthly GTR for January, from 2015 through 2019, was \$180.74 million. In January 2021, it was \$140.74 million—\$40 million below the four-year average. By April, the difference between 2021 and the four-year average for the month closed dramatically to just over \$4 million (\$205.43 million vs. \$201.39 million). Through the first four months of 2021 statewide GTR is on pace to reach \$2.061 billion in 2021—87 percent of the average annual total for the 2015 through 2019 period. Granted this is with 14 casinos instead of 12.

It is also worth noting that the number of slot machines available has decreased despite the addition of the two new mini casinos. In 2015 there were an average of 26,300 slot machines in operation each month. That dipped a bit by 2019 to 24,700—a decline of 6 percent. In 2020 that number declined another 25 percent to 18,500. Thus far in 2021 there has been a small bump back to 19,300.

On a revenue per machine basis, in 2015 the average monthly GTR was \$7,500. It steadily grew to \$7,950 by 2019 before falling to \$7,200 in 2020. However, in 2021 that number has jumped to \$8,860 per machine owing in part to more intense play, both March and April had per machine play over \$10,000 (the highest amount recorded), as patrons streamed back to the casinos.

Table games

Tax money from table games revenue goes into the state's general fund (12 percent) with another 2 percent going to the local share fund. The only exception is for fully automated table games which are taxed at 34 percent, but there are far fewer of them.

From 2015 through 2019, statewide table game revenue from all 12 casinos had been on an upswing from \$808.14 million in 2015 to \$903.59 million in 2019 before dropping 44 percent in 2020 (\$504.31 million). Through four months in 2021, table games revenue is on pace to reach \$772.28 million—89 percent of the 2015-19's average amount.

In fact, it may be the case that the annual gap will close even more. As with the slots' monthly revenues through the first four months, the revenue difference between each month for table games in 2021 and the monthly average from 2015-19, not only got smaller, but surpassed the average in April. January 2021 brought in \$50.83 million while the four-year average came in at \$71.03 million—a more than \$20 million difference. By March that gap fell to just \$6 million. In April, the amount was \$4 million *greater* than the 2015-19 average (\$77.84 million vs. \$73.71 million).

The number of table games available increased steadily from 2015 to 2019 rising from 1,130 to 1,276 and only fell back a bit to 1,171 after the pandemic started. In 2021 the average number of monthly table games is up significantly to 1,370. On a per table basis, the amount collected in 2021 has been increasing each month, but the monthly average of \$46,876 is still below the monthly average from 2015-2019 which ranged from \$57,460 (2018) to \$59,737 (2017).

Other forms of gaming

The other gaming options available to Pennsylvania gamblers are internet slots and table games (iGaming), each taxed at the same rate as its in-person counterpart (54 and 34 percent, respectively); video gaming terminals (VGT) at truck stops (taxed at 52 percent); fantasy sports contests (taxed at 15 percent) and sports wagering (taxed at 36 percent). Sports wagering and fantasy sports contests began in 2018 while the others began in 2019. (The allocation of tax revenues can be found in *Policy Brief Vol. 20, No. 7.*)

iGaming debuted in mid-2019 and brought in \$33.6 million in six months, an estimated \$67.2 million annual rate. In 2020, the first full year, revenue rocketed to \$565.8 million, largely thanks to the pandemic. Thus far in 2021, it has brought in \$346.6 million in total revenue and is on pace to reach \$1.045 billion, surpassing the amount from in-casino table games.

Sports wagering is the next largest category. Wagering on sports brought in \$84.1 million in its first full year (2019) and then more than doubled to \$189.7 million in 2020 despite many sports leagues being shut down or having modified seasons due to the pandemic. Thus far in 2021, with normality returning to sports, sports wagering has already reaped \$106 million in four months and is on pace to reach \$318 million by the end of the year.

In all, these four new forms of gaming's share of total gaming revenue increased from just 4 percent of total gaming revenues to 30 percent in 2020 and are likely to be one-third of all gaming revenues in 2021 (33.5 percent). Whether or not they will continue to climb is a matter of speculation. As the coronavirus becomes less and less of a factor for in-person visits to casinos, they might enjoy a bit of resurgence in play relative to online activities.

It is probably too hard to tell what will happen as these online options are only a few years old and were boosted by the pandemic. The convenience of gaming from home may be too hard to resist. Or are people waiting to go back to the casinos? Sports wagering, fantasy sports and VGTs are more likely determined by economic factors and disposable income. It will likely be a few more years before the answer is known.

But is the growth of gaming in Pennsylvania a good thing? As noted above, nearly all of the commonwealth's neighbors have legalized gaming (Delaware, Maryland, New Jersey, Ohio and West Virginia). The implication is that a high percentage of gamblers are Pennsylvanians and not from out-of-state. Online gaming can only be done by Pennsylvania residents to Pennsylvania registered casinos or companies. Clearly, a dollar spent on gaming cannot be spent on other activities—either leisure or necessities. That money goes to the state in taxes or to the casinos' coffers as optional uses of discretionary income.

Should the government be this heavily dependent on gaming as a source of tax revenue? The pandemic shows what can happen when the activity is impacted. This time the federal government flooded the economy with stimulus money, direct government subsidies and supplemented unemployment compensation. The drop in gaming revenue in 2020 was only 22 percent, in large part to the jump in online gambling revenue. It could have been much larger. The loss of tax revenues in general was likely made up by the federal government.

What happens when the economy has a serious downturn, the discretionary spending ebbs and the federal government is unable to provide a bailout? Politicians may be running out of ways to expand gaming options. What happens as Pennsylvania continues to lag much of the country in economic growth and jobs? Will the federal government always be able to provide billions of bailout dollars to the state?

Gaming as a recreational outlet must be kept in perspective. Pennsylvania should not count on the gaming industry to sustain its economy or keep its tax coffers full. And, certainly, it cannot afford to ignore the social ills and costs that can accompany gambling addiction.

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