



### **Pennsylvania gaming revenue led by slot machines**

**Summary:** A recent newspaper article touted the fact that communities are reaping the benefits of gaming revenue by putting together a wish list of proposals for money from the Commonwealth Financing Authority (CFA). This *Brief* looks at overall gaming revenues in Pennsylvania and focuses on the role of slot play and how this money comes back to the communities.

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#### *Overview*

When Pennsylvania legalized slot machines in 2004 (*Policy Brief, Vol. 4, No. 28*), the state joined neighboring New Jersey and West Virginia with gaming casinos. Over the years, Ohio and Maryland joined the club with gaming legislation of their own.

In 2021, New Jersey and Pennsylvania were nearly tied for the most revenue taken in by casinos and other gaming options with New Jersey casinos earning \$4.74 billion and Pennsylvania \$4.73 billion. This is from all sources, which includes slot machines, table games, sports wagering and internet gaming (*Vol. 15, No. 51*). Maryland was a distant third with \$1.94 billion, followed by West Virginia (\$1.18 billion) and Ohio (\$983.7 million).

All states had seen improvement from their pre-pandemic (2019) totals. Pennsylvania had the largest increase (39.15 percent) followed by New Jersey (36.57 percent); Ohio (15.6 percent); Maryland (10.38 percent) and West Virginia (3.05 percent).

All states had a steady gain in total gaming revenues over the last few years, in large part due to the increase in the number of gaming types available and an increase in the number of casinos in operation. Pennsylvania's casino count climbed from 12 casinos in 2019 to 16 in 2022. Bear in mind that in response to the pandemic, the federal government pumped a lot of stimulus money into the economy, increasing disposable income for many residents. Much of that made its way to casinos, which were some of the first recreational options to reopen.

New Jersey currently boasts the largest number of casinos (21) with Pennsylvania (16) and Maryland (15) a distant second and third. Ohio has 11 and West Virginia has five.

### *Pennsylvania gaming revenues*

Except for the pandemic year of 2020, total Pennsylvania gaming revenues have been increasing steadily since 2014 when the total from both slots and table games came in at \$3.07 billion. Growth rates from primarily slots and table games at 12 casinos from 2014 to 2018 averaged a very modest 0.88 percent per year.

In 2019, as the menu of gaming options expanded, including internet gaming and sports wagering, total gaming revenue reached \$3.4 billion—4.62 percent over 2018. During the pandemic year, casinos were shuttered by mandate for a couple of months and as expected, total revenues fell sharply. However, the 2021 rebound to \$4.73 billion easily bested 2019's mark with rapid growth in internet gaming, in addition to the opening of three new casinos, accounting for much of the large jump. 2022 total revenues are projected to be 7.25 percent higher than last year. The projected \$423.2 million per month average will lift the yearly total above \$5 billion for the first time.

### *Slots*

While internet gaming has rapidly become popular, slot machines played at the casino, known as retail slots, are still the biggest revenue generator for Pennsylvania. In 2021 the gross terminal revenues (GTR) from retail slots were \$2.29 billion with 16 casinos in operation—a slight drop of 1.7 percent from 2019's \$2.36 billion. The highwater mark remains 2012 when 11 casinos generated \$2.47 billion in GTR. For 2022, projected GTRs are \$2.41 billion, the second highest annual amount.

Of course, the GTR figures simply represent the gross slot revenues for all the state's casinos. For them to earn this revenue, patrons have to wager money on the machines. In 2012, the historic high, patrons wagered over \$31.05 billion at 11 casinos on a monthly average of 26,500 machines. The payouts were just over \$28 billion for a payout ratio of 90.17 percent. Once promotional plays and adjustments were made, roughly \$649 million that year, the remainder was the gross terminal revenue (\$2.47 billion).

In 2022, it is projected that \$31.39 billion will be wagered at 16 casinos on 25,950 machines—more casinos and fewer machines than a decade ago. Part of the reason for fewer machines is the move toward other gaming options on the casino floor, specifically table games and sports wagering. It is projected that \$28.34 billion will be paid out for a ratio of 90.26 percent.

Internet slots have proven to be very popular and took off during the pandemic. In 2022, online slots are projected to have \$25.64 billion in wagers—81.7 percent of the amount wagered on retail slots. The payouts were much larger though at 95.4 percent or \$24.47 billion. After promotional plays and adjustments are made, the difference is the GTR—\$890.98 million.

One possible explanation for the higher payout ratio is the lack of overhead. Online slots are computer-generated and require a lot less maintenance and upkeep. Keep in mind that the physical casinos in Pennsylvania sponsor the internet gaming options. Players must be Pennsylvania residents, as identified by their internet (IP) address. According to the Gaming Control Board, there are just 10 casinos sponsoring internet gaming and the only one in Western Pennsylvania is Presque Isle in Erie.

### *Tax revenue*

Slot machines and gaming were sold to Pennsylvanians as a way to relieve school district property tax burdens. Indeed, GTRs are taxed at a total rate of 54 percent. They are taxed 34 percent for property tax relief; a 4 percent tax for local share assessment (for host municipalities and counties); 5 percent for the economic development and tourism fund and the remaining amount for the Pennsylvania Race Horse Development Fund.

The Gaming Control Board states that through August 2022, the grand total for school district property tax relief from retail slots, for all years (Nov. 2006-Aug. 2022), was \$11.41 billion. For 16 years that is roughly \$713 million per year. For comparison, in the most recent school district data available, the 2020-21 school year, the Department of Education notes that \$14.5 billion in school real estate taxes were collected that year.

In contrast, the 4 percent local services tax collections for host municipalities and counties totaled about \$1.12 billion for the 16 years (\$69.7 million per year).

Internet slot play is taxed at the same total rate but has slightly different allocations. The school district property tax relief tax is 34 percent, the Commonwealth Finance Authority (CFA) tax is 13 percent for county grants and the local share assessment is 7 percent.

Based on data through August, the school property tax relief fund is projected to collect about \$302.9 million in 2022 from internet slots. The CFA is projected to receive \$115.8 million and the local share assessment about \$62.4 million.

### *Summary*

Legalized gaming and casinos were sold to Pennsylvanians as a way to reduce school property taxes. In 2022—with the combined revenues from retail slots and internet slots—there should be about \$1 billion per year dedicated to school tax reduction. However, with more than \$14 billion in total annual property tax revenues collected by school districts, which continue to rise every year, one billion gaming dollars represent a potential reduction of the commonwealth's total school property tax burden of barely 7 percent.

The local share assessment typically goes to the host municipalities and counties to do as they wish. However, the CFA now collects 13 percent of internet slot revenues that will

be allocated to communities that may not be host to a casino; and they are more than willing to accept the grants.

As we have mentioned in past *Briefs*, building an economy on gaming is not a sure bet. Government entities—including school districts, municipalities and counties—should not count on gaming money as a totally reliable funding source. As the pandemic year of 2020 showed, that money can stop flowing, or in a recession, shrink substantially.

Reliance on gaming money to pay for government operations is no substitute for good governance that keeps expenditures in check and a business-friendly environment—policies which can help build a strong and stable economy that provide adequate revenue at low tax rates to fund necessary services.

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