

### **Pennsylvania's gaming revenues continue to climb**

**Summary:** As calendar year 2022 ended, the state's gaming industry set a new record with \$5.21 billion in total revenues collected, topping 2021's \$4.73 billion. Recent news reports showed that March 2023 recorded over \$515 million in revenues, pushing the first quarter's total to \$1.44 billion. While it's much too early to speculate, 2023 appears to be on pace to set yet another record. The gaming industry throws off over \$1 billion each year for property tax relief and a few hundred million for the state's general fund and the local share.

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#### *Overview*

When Pennsylvania first passed gaming legislation in 2004, slot machine gambling was the only option and was sold as a way to provide relief for school district property taxes. Indeed, gross terminal revenues from slot machines are taxed at a 54 percent rate with 34 percent being set aside for property tax relief (*Policy Brief, Vol. 22, No. 37*).

Table games were then introduced in 2010 with a much lower tax rate (14 percent with 12 percent going to the state's general fund). For the next several years, retail slot machines and table games were the only gaming options available. Then, in 2018, the state introduced fantasy sports contests (taxed at a 15 percent rate going to the general fund) in May and then sports wagering (36 percent tax rate with 34 percent to the general fund) in November. Internet gaming offering slots (taxed the same as retail slots), tables and poker (taxed the same as retail tables) debuted in 2019 as did video gaming terminals at truck stops (taxed at 52 percent with 42 percent to the general fund and 10 percent to the local share).

There are also 17 casinos dotted across the commonwealth. In 2019 there were just 12.

#### *Revenue by game*

Retail slot machines are still the most popular and have the highest gross revenues. In 2022, retail slots had gross terminal revenues (GTR) of \$2.39 billion, a 4.5 percent increase over 2021's GTR of \$2.29 billion. The highwater mark for retail slots GTR was

\$2.47 billion in 2012. The 2022 amount represents the third highest. The 2023 first quarter total of \$630.47 million is on pace to eclipse the 2012 mark. In 2022, retail slots represented 45.9 percent of all gaming revenue, a decline of 2.4 percentage points from 2021.

Internet-based casino games represent the fastest growing segment of Pennsylvania's gaming landscape. In 2022, total internet gaming (i-slots, i-tables and i-poker) revenues reached \$1.36 billion, which represented 26.18 percent of all gaming revenues. In 2021, they were responsible for 23.5 percent of all revenues with more than \$1.11 billion.

Of the three types of internet games, i-slots is the most popular. In the first full year (2020), i-slots were responsible for \$373.5 million. The revenues more than doubled in 2021, reaching \$759.4 million before reaching \$936.4 million in 2022. It is very likely to top \$1 billion in this year as 2023's first quarter total came in at \$287.9 million.

Sports wagering comprised just over 7 percent of all gaming revenues in 2022, earning over \$401.2 million, up from \$340.1 million in 2021 (up 18 percent). However, through 2023's first quarter it already has collected \$133.1 million and is on pace to surpass 2022. Sports wagering has two components, online and retail. The online component is by far and away the largest segment—for every \$1 of revenue earned in-casino, \$7 was earned online in 2022. Thus far in 2023, that ratio is up to \$9.50.

In calendar 2021, the amount wagered on sporting contests came in at \$6.55 billion, of which 92 percent, or \$6.02 billion, was done via online. For 2022, over \$7.25 billion was wagered on sports across Pennsylvania. Of that, \$6.73 billion was wagered online (92.9 percent). In the first quarter of 2023, that share is a little higher at 93.2 percent of the total \$2.01 billion wagered. The current pace would be an uptick of 15 percent over 2022 at \$8.38 billion.

Of course, the casinos' gross revenues (revenue minus promotional credits) come from the amounts lost. In 2022, gross revenues were \$401.2 million for a payout rate of 94.5 percent. In 2021, gross revenues from wagering were \$340.1 million (payout rate of 94.8 percent).

It's the gross revenues that are taxable. With a tax rate of 36 percent, with 34 percent going to the state's general fund, \$136.4 million went into the general fund while the remaining \$8.02 million went to the local share in 2022. This is up 18 percent over 2021.

Retail table games, while being surpassed by online gaming revenues, have maintained steady growth. In 2022, retail table games had revenues of \$990.6 million, 19 percent of total gaming revenues. In 2021 that amount was \$924.9 million or 19.5 percent of total. However, through the first quarter, retail table games account for just 17 percent of overall gaming revenues. The projected retail table games revenues are lower at \$977.2 million—a dip of 1.4 percent over last year.

### *Conclusion*

Gaming revenues continue to climb thanks to the increase in the number of options and locations. However, it is always wise to keep in mind that for every dollar spent on gaming, it is a dollar not spent on other goods and services. Building an economy on gaming is not a wise bet. For some it is a recreational outlet. But for others it could lead to addiction and other social problems.

Furthermore, while the tax revenues from gaming coming into the general fund are helpful, they were just \$307.8 million in fiscal year 2021-22. While gaming tax revenues are up 27 percent from the previous fiscal year, they comprise just 0.6 percent of the total general fund of \$48.13 billion.

The local share from all gaming sources that are divided between host municipalities and counties came in at \$209.5 million in fiscal year 2021-22. The amount set aside for school property tax relief (from retail and online slot machines) came in at \$1.11 billion for the fiscal year. As past a *brief* demonstrated that only covers about 7 percent of annual school property taxes.

Gaming should not be relied upon to solve any budget problems. The commonwealth's leaders still need to keep expenditures in check and create a more business-friendly environment, which will lead to a more prosperous economy for everyone. Stimulus money from COVID has, or is about to, run its course. Relying on it was a mistake. That practice just boosted spending above levels that can be sustained—absent faster economic growth or higher tax rates.

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