

Will Ohio Gaming Threaten Play at Pennsylvania Casinos?

The Pennsylvania Gaming Control Board released revenue figures for August 2012 and noted that total gross revenue increased by 3.7 percent from casinos that were in operation this time last year. Adding in the new Valley Forge Casino ups the percentage gain to 5.7 percent. Whether or not this will continue remains to be seen as neighboring Ohio has started rolling out its own slot parlors in 2012 and the question arises about the effect of competition on casinos in western Pennsylvania.

In 2011, the Ohio Legislature granted the first slots licenses for four stand-alone casinos as well as for the seven racetracks across the state. In May 2012, the first stand-alone casino opened in Cleveland followed closely by another in Toledo. The other two major cities, Columbus and Cincinnati, are expected to have casinos open in October 2012 and February 2013 respectively. Among the seven racetracks only one, Scioto Downs in Columbus, has begun slot operations. The others are projecting 2013 as possible start dates.

An interesting note about the location of the stand-alone casinos and the racetracks in Ohio is that they are all concentrated in the central or western part of the state. Cincinnati, located in the southwest corner of Ohio is home to two racetracks (River Downs and Lebanon Raceway) while two are located in the Columbus area of central Ohio (Beulah Park and Scioto Downs). Two more are located in the north central part of Ohio in the Cleveland area (Northfield Park and Thistledown) while the other is located in the northwest corner near Toledo (Raceway Park).

Thus, it appears at first glance that the slot parlors in western Pennsylvania—Erie's Presque Isle Casino, Pittsburgh's Rivers Casino, and the Meadows in Washington County—will not be hit very hard by nearby competition from Ohio casinos.

But that in fact will not be the case as Ohio State Racing Commission may grant two racetracks permission to move their facilities closer to the Pennsylvania border. Penn National, the owner of Beulah Park track in suburban Columbus (as well as the owners of the casino in Harrisburg) has applied for permission to move the track from Columbus to the Youngstown area. In addition, the owners of Thistledown racetrack in Cleveland, Caesars Entertainment, (also the owners of Harrah's near Philadelphia) is seeking to move this track to the Akron-Canton area. If these move requests are approved, there

will be two casinos very close to the western Pennsylvania border and in position to siphon off a large portion of the gaming now being done by Ohioans who come to Pennsylvania.

This could be bad news for the Rivers Casino. Currently the competitors in Ohio are approximately 185 miles away in Columbus and 133 miles away in Cleveland. If the racetracks move to Youngstown and Akron these new competitors will be only roughly 67 and 110 miles away respectively. The fight for gamblers living in eastern Ohio, and perhaps western Pennsylvanians living close to the border, will heat up and has a real chance of eating into the play at the casinos in western Pennsylvania.

As we have written in past *Policy Briefs (Volume 12, Number 6)*, the Rivers Casino has had trouble living up to the pre-opening slot machine revenue projections of either the Gaming Board (\$362 million) or their own (\$427.8 million). Things have gotten better: calendar 2011 saw gross terminal revenues increase to \$274.8 million—an increase of nearly 14 percent over 2010. And of course that is just from slots. Adding the \$67.5 million from table games pushes up the 2011 total to \$342.3 million—still shy of those initial projections, but inching closer.

So what kind of hit can the Rivers expect to take if Ohio puts casinos closer? To get an idea we can look to neighboring West Virginia whose own slots parlors took the same hit when the Pennsylvania casinos opened. In fiscal (FY) 2007 (July 1, 2006 to June 30, 2007), the year before both the Meadows and Presque Isle casinos opened, West Virginia realized \$972.6 million in adjusted gross terminal revenues from their four racetrack casinos. The next fiscal year that had fallen to \$897.95 million, a decrease of 7.7 percent. By FY 2011 that figure had fallen to \$726.95, a decrease of 25 percent since FY 2007. Keep in mind the nation was in the grips of a terrible recession for most of 2009 and 2010 so the decrease is not solely the result of competition from Pennsylvania, but that competition did play a key role. In FY 2012 the adjusted gross terminal revenues from slot machines increased by five percent to \$764.9 million reflecting an end to the recession. Also note that in FY 2008, in response to Pennsylvania opening slot parlors, West Virginia added table games to their casinos to draw in more players. Since FY 2008 revenues from table games has increased dramatically from \$15.9 million to \$68.2 million in FY 2011. But the combined revenues from slots and table games in FY 2011 (\$795.1 million) did not come back up to the FY 2007 amount realized just from slot machines.

And of course the two casinos in West Virginia's northern panhandle, Mountaineer and Wheeling Island, closest to the Rivers and the Meadows in southwestern Pennsylvania were the hardest hit. From FY 2009 (the year before the Rivers opened) until FY 2012 adjusted gross terminal revenues fell 21.6 percent at Wheeling Island and 9.8 percent at Mountaineer.

Regardless, the competition from Pennsylvania has had an appreciable impact on those casinos and may be a harbinger of things to come for casinos in western Pennsylvania. If Ohio opens casinos close to the Pennsylvania border, it will present competition for the

Rivers, the Meadows, and Presque Isle. How their play and revenues will change remains to be seen. But given that the Rivers have yet to meet their initial revenue expectations it's a sure bet that this new competition will be most unwelcome.

Frank Gamrat, Ph.D., Senior Research Associate

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
