

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

March 10, 2010

Volume 10, Number 13

Gaming Revenue Impact on Government Spending

Money received by Allegheny County from gaming taxes almost certainly delayed hard budgetary choices. Would the County have raised taxes or cut spending in the absence of gaming dollars promised or received? Recall that the County Executive intercepted gaming derived payments totaling \$40 million, money intended originally to be used by Pittsburgh International Airport to pay down debt incurred to construct the new airport facilities. The intercepted funds were used to plug holes in the County's budget. In absence of this "found" money, extremely hard budget decisions would have been required.

A similar scenario is playing out in school districts. School districts have been receiving gaming money that was intended to go toward property tax relief and in many cases have continued to raise property taxes because of increased spending beyond the amounts of gaming money received.

Has the availability of gaming money weakened the resolve of officials to make the hard spending choices that should be made? For example, it's difficult to sit across the negotiating table with public sector unions and demand concessions when they know additional revenue from gaming taxes is expected. We've seen this time and again with the transit unions who have stood firm in their demands knowing the Governor would, and of course did, ride to their rescue with more money. As a result labor costs, the largest component of the budget, keep climbing.

While some may argue that gaming money has kept taxes from rising as much as they would have otherwise and is therefore a benefit, it is just as logical to argue that a consequence of gaming dollars is more government spending, which, in recessionary times becomes extremely difficult to maintain. If gaming funds had been used exclusively to actually cut taxes as opposed to filling budget holes or raising expenditures, it would be a different matter. Gaming money has by and large enabled governments to increase spending or put off making needed cuts.

Then too, the recession has not only impacted government budgets, but casinos across the country are feeling the effects as well. The number of casinos filing for bankruptcy protection has been rising. In Las Vegas at least four casino companies filed for bankruptcy protection during the current recession including the Majestic Star Casino (owned by former Pittsburgh slots license holder and now minority partner of the Rivers

Casino Don Barden). Furthermore, Centaur LLC, which owns casinos in Indiana and Colorado, recently filed for bankruptcy protection. Centaur is planning to develop Pennsylvania's seventh and final racetrack and casino in Lawrence County. Of course all of these companies vow to come out of bankruptcy proceedings stronger than before with no interruption in service or plans. But even those that have not filed for bankruptcy protection have experienced substantial revenue reductions during the recession.

Nowhere is this more evident than with the Rivers Casino in Pittsburgh. The Rivers Casino hasn't hinted about declaring bankruptcy, but they are having a hard time meeting their initial revenue expectations. Through the first seven full months of operations, the total gross revenues for the slots parlor are on pace to cover less than half of their initial projections (\$201 million vs. \$427 million). While historically casino play ramps up in spring through mid-summer (peaking at the Fourth of July weekend), the Rivers would need to average more than \$7 million per week in gross terminal revenues to meet their projections. Only one Pennsylvania casino averages as much (Parx in Philadelphia) in gross terminal revenue. The likelihood of that happening in Pittsburgh seems slim indeed.

Thus, we see two major problems with reliance on casino revenues for funding governments. First, the money is more likely to go toward spending than to be used for actual tax roll backs, creating major problems when the economy is soft and tax revenues of all types are down. Second, the casinos themselves are affected by recessions and will not produce the revenue for governments that they have built into their out-year budgets. This will exacerbate government fiscal problems.

All this points to the perennial problems of governments and schools in Pennsylvania: there is never enough revenue. The more money they can get their hands on, the more they spend. Now the state and school districts are facing big jumps in spending to cover pension shortfalls even as state revenue collections appear to be off by a half billion dollars in the current fiscal year. And yet, the Governor is still proposing significant spending increases for non-pension items in the 2010-2011 budget. And, predictably he wants tax increases to pay for it. Wasn't gaming supposed to take care of the revenue problems? Chalk that up as another pipe dream thought up and sold to the public by those who cannot bring themselves to see the real problem—TOO MUCH SPENDING.

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