

# ***POLICY BRIEF***

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## **Gambling For Education? Not A Sure Bet**

The legalization of slot machines at Pennsylvania's four racetracks has been proposed as a way of raising money for the "state's share" of education. Over the years, slot machines have been suggested as a savior for the horse racing industry in Pennsylvania, a revenue stream for a variety of government programs, as well as a way to capitalize on the gambling activities of Pennsylvanians, many of whom drive to West Virginia or New Jersey to play the slots. From 1996 through 1999 four bills aimed at legalizing slot machines were introduced in the General Assembly but all failed to pass.

Five states have authorized video slot machines with West Virginia being the closest and most often cited example. There are roughly 7,000 slot machines at that state's four racetracks and over the last few years revenue has averaged in the neighborhood of \$430 million after paying out winnings to players. The state keeps a sizeable portion for tourism and general state spending, while the host county and host city get a share, and the rest goes to racetracks for purse enhancement and other expenses.

One proposal would use all of the net slot machine revenue for education and permit school districts to lower the local property tax burden. If Pennsylvania were to permit slot machines, would the revenue have a significant beneficial effect on education funding or property taxes?

An analysis of the amount of play per machine in West Virginia provides an approach for estimating Pennsylvania's potential revenue from the slot machines. A typical recent week of play at West Virginia's racetracks generated more than \$141 million played and over \$129 million won (a payout rate of 91.5 percent). Thus, the remaining revenue available to state and local government and the racetracks was 8.5 percent of play.

If Pennsylvania were to establish a 7,000 slot system with an 8.5 percent payout rate and if all net revenue was devoted exclusively to funding K-12 education, an estimated \$749 million could be raised for schools. This estimate is based on West Virginia's participation and payout rates, and is increased by 20 percent to account for the higher population and income in Pennsylvania.

### **Pennsylvania Slot Impact**

Dollars Played (Annual)	Dollars Won (Annual)	Payout Rate (%)	State Take (Annual)	Funds to K-12 Education (50%)	K-12 Funding (2001-02)	Change in Basic Education Funding (%)
\$ 8,822,424,000	\$ 8,072,517,000	91.5	\$ 749,907,000	\$ 374,953,000	\$ 6,726,000,000	5.5

However, education funding will not be the sole claimant for the after-payout slot revenue. In all likelihood a sizeable portion will be allocated to the racetracks (costs associated with operating the machines, construction/expansion of parking facilities, racing purses ), and host fees for the counties and municipalities in which the tracks are located. Lastly, some money should be set aside to cover the social costs created by gamblers who become addicted. In short, the \$749 million would be reduced significantly after these and other disbursements. It is reasonable to assume that no more than 50 percent will be available for education.

With the Commonwealth's K-12 education budget receiving half of the revenue (\$374 million), the additional revenue per-pupil would be \$208, or just 2.6 percent of Pennsylvania's total per-pupil spending of \$7,865 in 2001. Thus, slot machine revenue will have a minimal effect on the local property tax burden. Below is a sample of the potential property tax effects of slot revenues in six Allegheny County school districts. These estimates are based on the assumption that all districts would receive an equal disbursement per student from the slots. If the state's current allocation formula is followed, some districts will receive much less than \$208 per student.

#### Slot Disbursements in Allegheny County

School District	2001 Enrollment	Slot Disbursement	Effect on Property Tax	2001 School Property Tax Revenues	Slots as % of School Tax Revenue
Pittsburgh	37,612	\$ 208	\$ 7,823,296	\$ 127,888,301	6%
Mt. Lebanon	5,616	\$ 208	\$ 1,168,128	\$ 32,781,601	4%
Quaker Valley	1,932	\$ 208	\$ 401,856	\$ 14,509,907	3%
Keystone Oaks	2,631	\$ 208	\$ 547,248	\$ 15,172,314	4%
North Hills	5,082	\$ 208	\$ 1,057,056	\$ 26,283,939	4%
Riverview	1,349	\$ 208	\$ 280,592	\$ 5,826,412	5%

Presumably, to get the revenue from legalized slots machines, school districts would be required to reduce property taxes dollar for dollar. In Allegheny County, the slot revenue supplement would result in an average 4 percent reduction in millage rates. The school taxes on a \$100,000 home in any of these districts would fall an average of \$74. While a 4 percent drop in school property taxes is not a negligible amount, it is reasonable to ask whether it is worth starting up another large state program for such a small payoff.

Setting aside the moral and religious concerns that some opponents have about creating more state-sponsored gambling, the proposal to put slots at the state's four racetracks appears to offer neither a meaningful increase in education funding nor significant property tax relief. After accounting for the social costs that will result from increased gambling and the probable loss of revenue at the state's lottery, there may be no net benefit to Pennsylvania from legalized slot machines at racetracks.

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