

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

June 26, 2003

Volume 3, Number 30

One-Armed Bandits As A Cure-All

Aren't slot machines marvelous? They are going to save our schools, bail out the horse racing industry, create economic development and save the Penguins-- the Pittsburgh Penguins at least. No word yet whether whales or trees will be next.

The owner of a horse track and gaming operation in West Virginia wants to build a track in Allegheny County, get a slot license and donate \$60 million to the Penguins building fund. Of course to donate the \$60 million, he must first be granted one of the remaining track licenses (competition for the last license is stiff); slots at tracks need legislative approval, and he has to borrow the \$60 million. He has indicated he will pledge 2 percent of the track owner's share of the slots revenue to retire the debt and pay interest.

For that, he will need roughly \$6 million per year since it is unlikely that he will be eligible for tax-exempt interest rates. That means the track owner slot revenue will have to be \$250 to \$300 million per year. Track owners will get about 46 percent, which means total slot revenue would have to be \$650 million. Slot owners will be allowed to take about 8 percent of the amount played as their share and must pay out around 92 percent to players. Thus, players at the new track will have to pump \$8.1 billion into the 3,000 slot machines each year. That translates into \$370 per hour on average per machine, assuming 365 days of operation.

The West Virginia white knight's own slots at Mountaineer Park indicate that a more realistic play rate would be \$180 to \$200 per hour, about half the play rate necessary to fund the West Virginian's generosity to the Penguins.

Two other important points: (1) Four existing racetracks in Pennsylvania have been struggling financially and have been major proponents of slots at the tracks as a way to save the horse racing industry. If patron demand was inadequate at four tracks, why should we expect that eight tracks would be able to prosper? (2) As we noted in an earlier Policy Brief, the Penguins need money. The new arena is just one way to try to provide more revenues. There are better options to generate money for the team. Instead of offering help with a new arena, the white knight should offer to invest his millions directly into the Penguins, giving them a massive infusion of needed cash. Others in the region should follow that lead and provide the team with other substantial funds.

Moreover, if the Penguins enter into a ten-year, one dollar per year lease with the Sports and Exhibition Authority, they would be able to control the arena and extract much more revenue by capturing more hockey and non-hockey event revenues—an agreement they are seeking and expect at the new facility.

As a result, taxpayers (state, local and federal) would be spared having to spend \$160 million on a new facility for a team whose long-term prospects are questionable. The National Hockey League is not doing well financially, its television ratings are worse than abysmal and there is a strong possibility of a player strike or lockout after next season. Furthermore, we should not allow the team to hold the taxpayers hostage as the Pirates did with their threats to leave if they did not get a new stadium. The NHL is overextended and is in too many markets now. There is simply no place for a team to go. And even if there were, there are other teams in worse shape than Pittsburgh who would likely fill those spots ahead of the Penguins.

The state's \$90 million contribution could be much better used in helping Pittsburgh International Airport with its massive debt problems. The proposed RAD share of \$63 million could be better spent assisting the Pittsburgh Symphony and many other amenities it was enacted to help. The times demand that more efficient and appropriate solutions be found to solve the problems at hand. The taxpayers simply don't have money to throw around on questionable and unnecessary ventures.

Jake Haulk, Ph.D. President

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