

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

September 20, 2005

Volume 5, Number 37

Casino Fantasy

So now City Council wants to own a casino. On September 15, Council approved a resolution directing the Mayor to apply for a slots license. Council President Gene Ricciardi was quoted as saying, "Why should we take just a host fee of \$17 million and leave \$200 million on the table?" Understandably, the City would like to grab a bigger slice of the slots revenue. However, and it's a big however, the City's chances of owning a slots parlor are close to zero.

There are very large obstacles to Pittsburgh ever cutting the ribbon to open the doors to a City owned casino. First, the law authorizing slot machines in Pennsylvania makes no provision for a government or municipal authority to be eligible to acquire one of the limited number of gaming licenses. Only "persons" are eligible under the gaming law to own the non-racetrack slots licenses in Pittsburgh and Philadelphia. A reading of the qualifications and requirements sections of the law leave no doubt that the legislature had no intention of including governments as potential licensees.

It is important to keep in mind that the original plan for slots machines in Pennsylvania was to locate them at horse racing facilities as a way to generate funds to help the ailing racing industry. The slots would be owned and operated by the owners of the racetracks. Gaming law mandates that a substantial amount of the slots revenue at racetracks go into track improvements and a racehorse development fund.

As the legislation developed, it was expanded to include non-track gaming facilities in Pittsburgh, Philadelphia, (eventually other urban venues), and certain resort areas. Obviously, it would have been imprudent and economically foolish for the legislature to create a two tier gaming system--one tier to be privately owned and operated and the other tier to have government or authority ownership. In such a system, the government casinos would have an enormous competitive advantage. And beyond that concern, the opportunities and probabilities of mismanagement in government owned facilities are simply too great for the legislature to consider amending the gaming law to permit government ownership.

In any case, appeals to the legislature to amend the gaming law, which would cause still further delays in issuing licenses, would likely receive a very cold reception in Harrisburg.

Of course, given the flexibility of the Pennsylvania Courts and the legislature in their bizarre and self-serving interpretations of very plain Constitutional language, the City Council might find a judge who could find a rationale for defining government as a person or private business enterprise. One only needs to look at the recent experience of the legislative pay-grab for a vivid example of how far the clear meaning of Constitution language can be ignored or twisted.

But this process would take time and would inevitably bring suits and/or appeals from the private citizens and companies who are far along in the process of putting together their applications. If Pittsburgh were to start down the legal road with any prospect of success, Philadelphia would undoubtedly want to get into the game, throwing the entire licensing process into complete disarray.

In addition to the improbability of the City being granted a license, it is worthwhile to note that Mr. Ricciardi's assertion that the City would be leaving \$200 million on the table if it doesn't own the casino is pure hyperbole. The \$200 million is the projected revenue take for the casino, not the net income. Out of the \$200 million, the City would have to pay the principal and interest on the money borrowed to pay for a license, property, the structure, equipment and startup costs of the casino. And that assumes the City could find a lender for the huge sums that would be needed to do the project.

Off the top, the state would take 41 percent of the casino's gross revenue plus the amount necessary to cover the state's costs to administer the elaborate computerized accounting and control system as well as other Revenue Department expenses associated with administering the gaming funds. Then there are the costs of maintenance, operations, security, utilities, insurance, etc., involved with any large enterprise. And, given the nature of the slots operation, these expenses could be sizable. In short, after all these expenses and payments to the government, the \$200 million will have been whittled down considerably. Whether the remaining dollars would be greater than the \$17 million guaranteed under the current state law would depend on the success of the business over time and the ability to hold down costs, avoid strikes, and so on.

Finally, given the City's abominable record of financial management and the ongoing fiscal crisis that has led to distressed status and state oversight, it can only be hoped that the Act 47 team and the Governor managed Oversight Board will act quickly to dissuade the City from pursuing this casino fantasy.

Jake Haulk, Ph.D. President

Frank Gamrat Ph.D., Sr. Research Assoc.

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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>
