

***POLICY BRIEF***  
An electronic publication of  
The Allegheny Institute for Public Policy

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November 30, 2005

Volume 5, Number 47

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**Bargain Basement Price for Slot Machine Licenses**

When Governor Rendell took office, he went to work fulfilling a campaign promise—to bring legalized slot machine gambling to Pennsylvania. Revenues from slots were to be a near cure-all for Pennsylvania’s ills. For example, the revenues will be used to lower property taxes across the state, prop up the David Lawrence Convention Center, assist with paying debt at Pittsburgh International Airport and provide financial help to Pittsburgh. Eventually, the General Assembly passed legislation authorizing slots in July 2004.

Things have not gone well thus far as the news media has documented. Now, add to the existing litany of problems the fact that the state has almost certainly undervalued casino licenses. Legislation authorizing the slot machines set the price for a slot license at \$50 million even though experts argued that price would leave money on the table. One expert, Jeff Hooke, Chairman of the Maryland Tax Education Foundation, claimed, “(b) y the time the remaining licenses are flipped, the State of Pennsylvania will have lost over \$2 billion.”

Government officials rejected the arguments for holding an auction and now appear to have been terribly wrong. Recent sales of racetracks bear this out. Two racetracks have been sold since slots were legalized: the Meadows in Washington County and Pocono Downs in Luzerne County. A half interest in Chester Downs in Delaware County was sold one month prior to the passage of the legislation.

The parent company of the Meadows, Magna Entertainment, who bought the track in 2001 for \$53 million, just recently sold the track for \$225 million—an increase of \$172 million or 325 percent. The Pocono Downs, with an estimated value of \$20 million, was sold for \$280 million, an increase of \$260 million. Harrah’s bought half interest in Chester Downs for \$275 million. In addition to these payments, the new owners will still have to pay \$50 million for the licenses themselves and for improvements at the tracks to accommodate the slots machines. The new owners of the Pocono Downs, The Mohegan Tribal Game Authority has estimated it will cost \$175 million to upgrade the facility to handle slots while Harrah’s estimates it will spend \$100 million on upgrades at Chester Downs.

It is interesting to note that the three new owners of racetracks in Pennsylvania are experienced casino operators. The new owners of Pocono Downs, the Mohegan Tribal Game Authority are owners of the Mohegan Sun casino in Connecticut. Harrah’s Entertainment, Inc., is one of the nation’s leading casino operators with casinos in 12 other states. Two veteran casino operators from Las Vegas are part of the PA Meadows group that purchased the Meadows from Magna Entertainment.

What do these sales suggest about the true value of a slots license? The three new entrants into Pennsylvania's racing industry are all experienced casino operators, so it stands to reason that they know the true value of the licenses and paid the appropriate price for their new purchases. PA Meadows paid \$225 million for a track worth \$53 million—an increase of \$172 million. Add to this the price of the license, \$50 million, and the total value of the slot license can be approximated to be \$220 million. For a larger track such as Chester Downs, Harrah's Entertainment paid \$275 million for a one-half share of the track/casino. Add to that the \$50 million licensing fee and the total value of a slots license at a larger casino can be conservatively valued at \$325 million. If the licenses can be very conservatively estimated to average \$200 million each, then the 14 licenses (7 at racetracks, 5 stand alone parlors, and 2 resort casinos) could have netted the Commonwealth \$2.8 billion. Instead, by selling them at \$50 million, the state will collect \$700 million leaving \$2.1 billion on the table-- the amount Mr. Hooke, as quoted earlier, estimated. Even if the number is \$1.5 billion, it still represents a huge amount of money the state should have gone after rather than ill-advisedly settling for \$50 million per license.

The Governor and the Legislature went against the recommendations of experts by agreeing to sell slots licenses for a set fee instead of auctioning them to the highest bidder. Now it is clear that using the bidding process would have accomplished two things: First it would have brought transparency to the awarding of the licenses. And secondly, it would have allowed Pennsylvania to maximize slot license revenues.

By pre-qualifying bidders and establishing criteria such as setting restrictions on the number of licenses any group could acquire, doing background checks, and setting minimum financial requirements, the Commonwealth could have ensured that the auction process was as free as possible of political influences. The public would be well informed on who the bidders are and how much each license was truly worth. For such a highly contentious issue, the State should have insisted on the most transparent and open process and gotten the most from the sale of these licenses. The auction process would have done just that.

As it stands now, some racetrack owners have cashed in handsomely without lifting a finger.

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