

# ***POLICY BRIEF***

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## **Dueling Casinos**

When the Governor and Legislature decided that the fourteen slots licenses will be sold for \$50 million each, they not only miscalculated the value of the licenses but they also left the door wide open for controversy. In Pittsburgh, a major brouhaha is now front and center as a direct result of the subjectivity that will go into the Gaming Board's ruling on which applicant will receive the slots license.

Harrah's Entertainment, in conjunction with Station Square owner Forest City Enterprises, has fired the first volley in the rapidly heating controversy by claiming that their proposal will generate the most tax revenue for local and state governments. They project their casino will generate \$347.1 million in combined state gaming and local property taxes while the other applicants' plans will produce only \$230 million.

Of course, this must be viewed as highly speculative since no one knows how the casinos and ancillary developments will actually perform over the long run. What is known is that all three proposals will operate initially with 3,000 machines with roughly similar cost casinos (\$400 to \$500 million to build). The discrepancy can be found in the forecast revenues per machine at each casino. Harrah's is predicting a daily revenue rate of \$564 per machine for a 3,000-machine casino. Meanwhile, the industry brings in a range of \$200 to \$400 per day depending on location around the country. The consultant hired by the state estimated the daily revenue per machine for the Pittsburgh parlor will be \$285. In other words, Harrah's is claiming they can double the revenue rate the state's expert consultant says should be expected.

Had state officials let the slots license sell through an auction process, casinos dueling over who will produce the most revenue would be irrelevant because each applicant's revenue expectations would determine how high they would go in the bidding process. If Harrah's truly believes they can rake in twice the revenues of other applicants, Harrah's would easily win the license by out-bidding the other license seekers. Instead of awarding the license to the highest bidder, we are left with comparisons of proposals with promises, and claims with counter claims that will continue until the license is awarded.

This non-price competition for the stand alone parlors has been going on for a while as the three candidates for the City's only license have unveiled their plans. The license is to be awarded based on the "benefits package" afforded the community.

The most ambitious of the proposals belongs to Harrah's. Their proposed development at Forest City's Station Square complex is valued at \$1 billion. It will include not only a \$512 million casino but additional development with eating and drinking establishments, retail, condos and possibly an entertainment venue. While Harrah's is hoping that the Gaming Board is most

impressed by this resort on the Mon, critics are dismissing the idea that Pittsburgh will become a destination city for gamblers.

Their chief competition comes from another gaming company—the Isle of Capri. The Isle of Capri not only will build a \$400 million casino but their “package” also includes a new arena, valued at nearly \$300 million. They are also partnering with Nationwide Realty to develop the lower Hill and build office and residential space worth an additional \$400 million. Like Harrah’s, the development will include eating and drinking establishments, retail, and entertainment venues. The idea of an arena at no cost to taxpayers has come under fire from Forest City who notes that taxpayers will still be on the hook for costs such as site preparation and remediation.

The final proposal, from PITG Gaming, would have as its focal point a \$400 million casino with a 1,000 seat amphitheater along the Ohio River. Unlike the other proposals, this one does not promise additional development as most of the eating and drinking venues would be contained within the casino. This proposal lacks the flashiness of its competitors but the owner promises a community giveback if the proposal wins. However, he admittedly hosted the Pennsylvania House minority leader during the Super Bowl, raising concerns of his political connections.

The problem is that whoever wins will do so in a cloud of controversy. Clearly, the process has become an elaborate politically motivated show and tell: Who is the most politically connected, who has the most prominent ex-athlete on their application team, who has the most bells and whistles? The process has lost sight of the purported original purpose of having slots—to raise substantial revenues that would be used to roll back property taxes on Pennsylvanians. That goal would have been much better served by an auction that could have generated an estimated \$2 billion more in up front money that could have gone to immediate tax cuts.

One thing is very clear: state officials either deliberately or ill advisedly underestimated the value of these licenses. This is evidenced by the premiums being garnered through the sales of racetracks around the state and closer to home by the value of the packages being offered by applicants for the City’s stand alone parlor. Despite the charges that will be levied on slots revenues, these licenses are still worth hundreds of millions of dollars as demonstrated by the behavior of the applicants.

An auction would have let the market set the value and the state could have captured substantially more than the flat \$50 million fee. And just as important, an open auction would have been as free as possible of politics and added much needed transparency to the process.

And one more critical question: What if the winner of the slots license fails to deliver on all the big promises? Who will force them to go ahead with the corollary development—the Gaming Board? Not likely.

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