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Assessing Pittsburgh's Casino

Pittsburgh's casino is now open. Its first day of operations saw \$14 million wagered and gross profits for the casino \$1.29 million. In the midst of all of the excitement surrounding the slots parlor's debut, an important question remains to be addressed: how will the casino be assessed for property tax purposes? After all this is a private entity and thus subject to property taxes just like any other private business/home in Allegheny County. It will be interesting to see how this process unfolds and how much more property tax revenue the City, the Pittsburgh School District and the County will receive.

Newspaper reports note the Rivers Casino was built at a cost of \$780 million. The three taxing bodies of interest, Pittsburgh Public Schools (13.92 mils), City of Pittsburgh (10.8 mils) and Allegheny County (4.69 mils) have a lot at stake in the valuation of the casino and the resultant property tax collections. At nearly 30 mils combined, if the casino were assessed based on its reported construction value, it would owe nearly \$23 million annually in property taxes. The School District would collect nearly \$11 million, the City \$8.4 million, and the County \$3.6 million. With all three entities facing revenue constraints, this additional tax revenue would be most welcome.

But will the casino balk at paying this level of property taxes? Will they argue that with their obligations to the community, the new arena, and host fees for the City and County, they have paid enough? Then too, how does the \$780 million figure break down between construction and equipment (slot machines and supporting mechanical and electrical devices) costs?

Looking at some of the casinos already up and running in other counties provides interesting case studies for Allegheny County officials. In two counties—Luzerne and Delaware—the casinos have not been assessed and are thus not paying property taxes. The Mohegan Sun in Luzerne County entered into a payment in lieu of taxes (PILOT) agreement with the county, municipality, and school district that will expire in 2015.

In Delaware County, the casino was located in a Keystone Opportunity Zone and is therefore exempt from paying property taxes until 2013. This raises an important question. Why would any county or the Gaming Board choose a tax free zone to locate a casino? Wasn't the low license fee enough subsidy?

In Dauphin County, assessors struck a deal with casino owners to cap the assessment at \$200 million even though the casino cost \$310 million to build.

Meanwhile, Erie County officials are in litigation with casino owners regarding the current assessment of \$145 million (up from \$46 million). As an official from Erie noted, the problem they faced in setting the value is that the casino is still undergoing construction and the assessment is only temporary and may increase once the structure is completed. The key to the lawsuit brought by the casino owners is how much would the casino be worth if it was sold (market value). Owners of the casino argue that it has a low value in resale due to its limited use in another industry and the assessment should be lower. (But that would not be true if it were sold to another casino owner).

These four casinos provide a glimpse at possible scenarios for Allegheny County to learn from, although the Keystone Opportunity Zone example in Delaware County is not relevant. Undoubtedly, assessors in Allegheny County are going to encounter their own unique problems.

The most obvious problem is how to do the valuation. Will they do it on a cost basis, market value, or something else like an income valuation (ability to generate income from rents or leases used in conjunction with certain factors to calculate its value on the current market if sold)? There are parts of the casino which are not yet completed, such as a riverfront park with amphitheater, which could complicate any attempts at a final assessment. And if the final assessment is close to the building cost of \$780 million, will the casino owners attempt to negotiate a PILOT agreement with the three taxing bodies? These are just some of the questions Allegheny County officials need to take into consideration as they set upon the task of assessing the casino.

While the task of valuating this casino property may be complicated, the citizens of Pittsburgh and Allegheny County deserve a proper, accurate as possible and timely assessment of this facility. Delay in assessment means delay in collecting revenue. Even at an assessment as low as \$400 million, the additional revenue to local taxing bodies could lessen the pressure they might feel to raise taxes—something none of them can afford to do for competitive reasons.

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