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*The High Stakes of
Pittsburgh's Casino*

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Table of Contents

Key Findings	2
Introduction	3
Pittsburgh Casino Impacts	3
<i>State Taxes</i>	3
<i>City and County Revenues</i>	5
<i>Hockey Arena</i>	6
<i>Community Development</i>	6
<i>Lottery Sales</i>	7
Conclusion	8

Key Findings

- Upon reaching a full capacity of 5,000 slot machines, the Rivers Casino is expected to produce yearly slot revenue of over \$600 million according to estimates of the Pennsylvania Gaming Control Board
- That means the annual take for the state on that revenue for taxes to fund property tax relief, economic development, and the racehorse industry would be upwards of \$330 million
- Allegheny County and the City of Pittsburgh will receive a share of the annual revenue to pay for general government needs (in the case of the County) and legacy costs (in the case of the City)
- The casino is also contributing revenue for the new hockey arena and community development
- It is unclear what effect, if any, the opening of the slots parlor will have on lottery sales in Allegheny County. A recent state study found that in some counties hosting a slot parlor the sales of lottery products decreased from the previous year

Introduction

The opening of the Rivers Casino this month brings to a close a nearly five year wait for a casino in Pittsburgh following the approval of Act 71 of 2004, the law that legalized slot machine gambling in Pennsylvania. But the journey does not really end here. Consider that the casino will join eight others around the state that are part of a larger effort to accomplish numerous goals. For instance:

- Upon commencing business, the casino will begin paying taxes to three separate state funds that are aimed at, among other things, providing school property tax relief, assistance to volunteer fire companies and local law enforcement, economic development projects, and the horse racing industry;
- Its first year of operation will generate millions of dollars for the governments of Allegheny County and the City of Pittsburgh;
- Over the next thirty years it will contribute \$225 million for the new hockey arena;
- Over the next three years it will spend \$6 million on neighborhood and business needs.

The Pittsburgh casino will be the third “stand alone” facility, or Category 2 facility, to open its doors. Two other non-racetrack facilities are located in eastern Pennsylvania, and two others will be located in Philadelphia. Along with the Meadows in Washington County and the planned racetrack casino in Lawrence County, southwestern Pennsylvania will have three slot machine parlors.

This report will analyze the projected impacts the casino is likely to have on state taxes, local revenues, the hockey arena, community development, and lottery sales.

Pittsburgh Casino Impacts

State Taxes

The state taxes on each slot machine go to three different funds, as mentioned above: the State Gaming Fund, the Racehorse Development Fund, and the Economic Development and Tourism Fund. The tax rates are 34 percent, 12 percent, and 5 percent, respectively.

Here are the FY2008 statistics on the slot machine facilities: seven locations hosted 15,398 machines; \$17.2 billion was wagered and \$15.7 billion was paid out, resulting in gross terminal revenue of \$1.4 billion.

The state applied levies to direct revenues to the Gaming Fund (34%), Economic Development Fund (5%), and Racehorse Fund (12%) and a Local Share Assessment (4%) resulting in \$771 million in tax revenues.¹

The most recent projection available for the Rivers Casino comes from a Gaming Board Publication titled “Pittsburgh Category 2 Slot Machine Licensee Revenue Projections”, completed after the transfer of the license from the Barden Majestic Star group to the Rivers group. There is some discrepancy in the projection since one is that of the Gaming Board Task Force and the other is by the Joint Applicant. The yearly slot revenue is higher in the Task Force estimate in out years than in the second estimate.

Gaming Revenue from the Pittsburgh Casino: Two Forecasts²

	Year 1	Year 2	Year 3	Year 4	Year 5
PGCB					
<i># Machines</i>	3,250	4,250	5,000	5,000	5,000
<i>Yearly Slot Revenue(\$,000s)</i>	\$362,400	\$460,200	\$518,000	\$564,100	\$611,600
<i>Total Taxes (\$,000s)</i>	\$198,957	\$252,649	\$284,382	\$309,690	\$335,768
Joint Applicant					
<i># Machines</i>	3,250	4,250	5,000	5,000	5,000
<i>Yearly Slot Revenue (\$,000s)</i>	\$427,800	\$459,000	\$487,300	\$496,400	\$507,400
<i>Total Taxes (\$, 000s)</i>	\$234,862	\$251,991	\$267,527	\$272,523	\$278,562

Either way, both estimates show that the Rivers Casino would be expected to produce a cumulative tax amount of over \$1.3 billion in its first five years of operation. This money would go to property tax relief, volunteer fire companies, economic development projects in the region and around the state, and to help the racehorse industry.

Closer to home, both Allegheny County and the City of Pittsburgh are counting on revenue from the casino to assist their budgets and legacy costs in the coming years.

¹ Pennsylvania Gaming Control Board “2008 Annual Report” 2008 Gaming Revenue and Results” (http://www.pgcb.state.pa.us/files/communications/2008_PGCB_Annual_Report.pdf)

² Pennsylvania Gaming Control Board “Pittsburgh Category 2 Slot machine Licensee Revenue Projections” Total taxes estimated by applying the state tax (34%), Racehorse tax (estimated at 12% based on data from weekly and monthly revenue of the Gaming Board), Economic Development tax (5%) and Local Share Assessment (4%) against the estimated annual revenue. For the Racehorse Fund, the Board notes the following: “each active and operating gaming facility pays a daily assessment to this fund...80% is deposited weekly into a separate, interest bearing account for the benefit of the horsemen. Licensees combine these funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements...16% is used for the PA Breeding Fund, Sire stakes Fund, and Standardbred Breeders Development Fund...4% used to fund health and pension benefits for members of horsemen’s organizations”, from Gaming Board report “Economic Impact of Slot Machines on PA’s Pari-Mutuel Wagering Industry” (http://www.pgcb.state.pa.us/files/reports/2008_Pari-Mutuel_Benchmark_Report.pdf)

City and County Revenues

Both the County and City government are entitled to revenues from the casino because they serve as the host location for the facility. This comes from the Local Share Assessment described in the Act and varies based on the location and category of the casino and the class of county and municipality. Act 71 pledges 2 percent of the gross terminal revenue to the County and the same percentage, or \$10 million annually (whichever is greater) to the City of Pittsburgh.³

There are currently two initial estimates of the monies produced for the two governing bodies. The County's 2009 Comprehensive Fiscal Plan projects \$13.4 million for 2010 and \$20.7 million in 2011 to the general fund from the "host fee".⁴

The City's five year financial forecast is more bullish on the local host fee share and projects a partial amount of \$2.4 million for this year (based on the August opening) and a \$10 million annual amount in 2013.⁵

City and County Projected Revenues⁶

Year	City of Pittsburgh (\$,000s)	Allegheny County (\$, 000s)
2009	\$2,400	n/a
2010	\$9,000	\$13,405
2011	\$11,600	\$20,711
2012	\$10,000	n/a
2013	\$10,000	n/a

The law has no stipulations on how the County's share of the money has to be used. This is not the case with the City. A separate provision in Act 71 states that the gaming money is to be intercepted by the Intergovernmental Cooperation Authority (oversight board) and to be used either:

1. To reduce the debt of the second class city
2. To increase the level of funding of the municipal pension funds of the second class city; or
3. For any other purposes as determined to be in the best interest of the second class city by such Intergovernmental Cooperation Authority⁷

³ Act 71, 1403 (III) (B) and (IX) (I)

⁴ County of Allegheny, 2009 Comprehensive Fiscal Plan
(<http://www.county.allegheny.pa.us/budget/2009/FiscPlan09-1.pdf>)

⁵ Department of Community Development, Act 47 Amended Plan for the City of Pittsburgh
(http://www.city.pittsburgh.pa.us/council/assets/09_Ord16_Final_Amended_ACT47_Recovery_Plan_6-30-09.pdf)

⁶ Ibid. It is not clear how the estimates were produced and why there is such a big gap between estimates.

⁷ Act 71, Section 1403 (XV)

Hockey Arena

The casino has pledged \$7.5 million per year over thirty years to assist in the financing of the new hockey arena in Downtown Pittsburgh. It is one of three pieces of the puzzle the state assembled to pay for the new structure.

According to financial documents of the Sports and Exhibition Authority, two series of bonds were issued in October of 2007. Commonwealth Lease Series A, carrying a principal amount of \$252 million, and Commonwealth Lease Taxable Series B, a principal amount of \$61.2 million, a combined \$313 million. According to those documents the “first payment” from the casino is “due October 2009” and the “Authority has received written undertakings from [the original casino group] to contribute not less than \$7.5 million per year for 30 years to the cost of the New Arena project”.⁸

What if the money does not materialize? Then the SEA and the state will have to scramble to get the money. Remember that under the complicated and little publicized lease and leaseback arrangement the state has with the SEA, the Commonwealth is required to come up with the money if the casino defaults. Understandably, the bond underwriters were not overly confident in Barden’s ability to come up with the money to service the bonds (as it turns out, correctly so). Thus to get the bonds issued at reasonable interest rates, the SEA and the Commonwealth entered into a complex arrangement in which the state leases the arena from the SEA, and then the SEA subleases it back from the state. That is why under this arrangement the bonds were issued as Commonwealth Lease Revenue Bonds.

Therefore, the Commonwealth will be required to come up with funds to cover any shortfall in the casino’s responsibility to the debt service. The terms of the bond issuance state that the full faith and credit of the Commonwealth have not been pledged and any lease payment by the Commonwealth will have to be appropriated by the Legislature.

However, in light of the current budget crisis in Harrisburg, the chances of the Governor being able to convince the Legislature to approve any replacement funds for arena debt seem close to nil. At that point look for typical government chicanery and sleight of hand. The \$7.5 million will be miraculously found in some other gaming fund account or little known economic development account.

Community Development

The casino is heavily involved in assisting community development projects in the City. Under the original arrangement with the Barden Group, PITG Gaming, the casino pledged \$1.5 million over three years for neighborhood business district development and \$1.5 million over the same period for housing to the Northside Leadership Conference. It

⁸ Sports and Exhibition Authority of Pittsburgh and Allegheny County, “Financial Statements for the Years Ended December 31, 2007 and 2006”. (http://www.pgh-sea.com/images/MaherDuessel_SEAfinal2008.pdf) At the time of this writing there is some dispute between the new ownership group of the casino as to the timing of the first payment on the arena.

also pledged \$3 million for development in the Hill District, above and beyond its commitment to the hockey arena to be placed there.⁹ These commitments were emphasized by the Gaming Board during the hearing on reorganizing the ownership structure for the Category 2 license:

“The joint applicants, as the holders of the PITG license, will be bound by all community commitments and monetary pledges made by PITG and Don Barden, including \$3 million to the redevelopment of the Hill District, to contribute \$3 million to the Northside Leadership Conference, and \$7.5 million for 30 years to the multi-purpose arena project”¹⁰

Lottery Revenues

Slot machines represent the first major expansion of legalized gambling in Pennsylvania since the creation of the Lottery in 1971. The Lottery has added a number of new types of games before and since the legalization of slots in 2004 and the opening of the first slots parlor in November of 2006. A recent report by the Legislative Budget and Finance Committee measures the impact of the current operating slots parlors on lottery sales.¹¹

That report found that total lottery sales decreased slightly from 2006 to 2007 (\$3.097 million to \$3.081 million, a 0.5% drop) but increased back to \$3.104 million (a 0.7% boost) in 2008. By way of comparison, over \$17 billion was wagered at the operating slot parlors in FY2008.

Has the presence of slots gaming affected lottery sales? The Committee notes that “while not appearing to have an impact on Lottery sales statewide, we did, again, find that the presence of slots gaming facilities may be having some effect on Lottery sales in those particular counties that are host to a casino or racino”.¹²

From 2006 to 2008, four counties hosting a slots facility (Bucks, Erie, Luzerne, and Monroe) have seen back-to-back annual decreases in lottery sales. Close by Washington County, home to the Meadows racetrack, saw lottery sales grow from \$51.2 million in 2006 to \$51.3 million in 2007 to \$51.8 million in 2008 (growth rates of 0.3 and 1% respectively).

⁹ Mark Belko “Another North Side group seeking cut of casino action” *Pittsburgh Post-Gazette* September 29, 2007 (<http://www.post-gazette.com/pg/07272/821493-53.stm>) and “North Side group gets \$300,000 from Rivers Casino” *Pittsburgh Post-Gazette*, July 11, 2009 (<http://www.post-gazette.com/pg/09192/983263-53.stm>). Pennsylvania Gaming Control Board “Joint Application of PITG Gaming, LLC and Holdings Acquisition, LP, for Approval of the Reorganization, Change of Control, and Recapitalization of PITG Gaming, LLC and Other Relief in Connection Therewith” (http://www.pgcb.state.pa.us/files/adjudications/Final_Adjudication_PITG_20080829.pdf)

¹⁰ PA Gaming Board, Joint Application

¹¹ Legislative Budget and Finance Committee “An Assessment of the Impact of Slots Gaming on Pennsylvania Lottery Sales (2009 Update)” (<http://lbfc.legis.state.pa.us/reports/2009/27fs.PDF>)

¹² Ibid

Overall, the report notes that, when considering the change from 2007 to 2008, the statewide lottery sales grew 0.7 percent yet fell 1.7 percent in the seven counties with a slots facility. Lottery sales in the 26 counties adjacent to host counties grew 1.4 percent and the remaining 34 counties grew sales by 1.2 percent.¹³

How will the Rivers Casino affect lottery sales in Allegheny County and the region? The report shows that lottery sales increased in Allegheny County, rising from \$359 million in 2006 to \$368 million in 2008—a 2.5 percent increase. The 2008 sales figure translates into \$304 in sales per capita, higher than the statewide average of \$243 and 14th highest out of the state’s 67 counties. The County’s 2008 figure represents 12 percent of all statewide lottery sales.¹⁴

The Rivers Casino will be the first stand alone casino in all of Western Pennsylvania, sharing a geographic market with racetrack facilities in Washington County, Erie County, and Lawrence County. It will likely attract visitors that would not venture to the existing and planned racetrack facilities. That being said, the impact it will have on lottery revenues will be interesting item to watch in the coming years.

Metro Area Lottery Sales, 2006-2008¹⁵

County	2006 (000s)	2008 (000s)	Change (000s) (%)
Allegheny	\$359,435	\$368,999	\$9,564 (2.6)
Armstrong	\$22,052	\$22,674	\$622 (2.8)
Beaver	\$41,372	\$42,661	\$1,289 (3.1)
Butler	\$43,139	\$44,582	\$1,443 (3.3)
Fayette	\$44,131	\$46,720	\$2,589 (5.9)
Washington	\$51,218	\$51,883	\$665 (1.3)
Westmoreland	\$105,674	\$111,311	\$5,637 (5.3)
Total	\$667,021	\$688,830	\$21,089 (3.2)

Conclusion

Until now, without an operating casino in its midst, the City of Pittsburgh and Allegheny County have been recipients of gaming money generated by other slots parlors across the state. That money has allowed both governments to start to pay off old debts, begin an infrastructure fund, plan an arena, and set aside money for the convention center.

Now the rest of the state will turn its eyes to the Rivers Casino to be a conduit for growing the property tax relief fund, subsidize developments in their communities, and to help with firefighting, policing, and the horse racing industry. As a stand alone facility in the Commonwealth’s second largest City, the expectation will be for the money to materialize.

Similarly, many parties within the region will be counting on the casino to produce. The City and County governments will see millions of dollars for general government

¹³ Ibid

¹⁴ Ibid

¹⁵ Ibid

purposes. Financing for the hockey arena hinges on a steady revenue stream from the casino and, failing that, the taxpayers will have to come up with another source of money. All of this goes without mentioning the possible negative societal problems (crime, gaming addiction, etc.) that could arise from the venue.

To say the least, the stakes are high for Pittsburgh's casino.