Report Highlights
The Current Condition and Future Viability of Casino Gaming in Pennsylvania

Senate Resolution 2013-273 calls on the LB&FC to study the current condition and future viability of gaming in the Commonwealth. The study is also to analyze the potential impact on online gaming and make recommendations for potential statutory and regulatory changes to sustain and maximize gaming revenue. The LB&FC contracted with Econsult Solutions, Inc. to conduct this study.

The study found:

➢ **Tax revenue from PA's 12 casinos grew strongly between 2006 and 2012 before dipping by 4% in 2013.** In 2013, total tax revenue from gaming was $1.38 billion, down from $1.44 billion in 2012. The drop off in tax revenues appears to be largely due to three factors: after 2 years of operations, the tax rate for table games drops from 14% to 12%; a nationwide trend of stagnating slot revenues; and increased competition from neighboring states.

➢ **PA casinos have made $3.1 billion in initial capital investments and annually produce about $2.9 billion in total output.** PA casinos directly employ about 16,650 people. Casino operations and induced spending from casino employees support about 25,500 jobs and produce about $3.0 billion annually in total economic output. Ongoing renovations and upkeep generate an additional $81 million annually in total output, supporting another 600 jobs.

➢ **In addition to generating gaming tax revenue, casino operations generate about $81 million annually in non-gaming tax revenues.** Non-gaming revenues include income, sales & excise, and business taxes.

➢ **PA casinos are facing competitive pressures from neighboring states.** PA casinos have benefited by "cannibalizing" gamers from NJ, WV, and DE. Now, however, PA casinos are vulnerable to this same type of cannibalization from OH, MD, and NY. OH is projected to go from no casinos in 2011 to 11 by 2014; MD from 2 in 2011 to 5 in 2014; and NY from 14 in 2011 to 18 in 2017.

➢ **Even with such completion, PA casinos should be able to generate an additional $215 million in revenue going forward (above the current $3.11 billion).** This projection assumes that the remaining racino and stand-alone casino licenses are issued. Revenues from these new casinos will help shield against losses from regional competition.

➢ **PA casinos also face in-state competition, particularly in the Philadelphia area.** Philadelphia and its suburbs currently host four casinos, and awarding a license to open a fifth casino appears imminent. While adding new casinos may generate additional tax revenues, too much competition can negatively impact the financial viability of existing casinos. SugarHouse (Philadelphia) and Harrah's (Chester) appear most vulnerable to a saturated market.

➢ **PA's effective gaming tax rate (44.5%) is competitive for the mid-Atlantic region.** The effective tax rate is calculated by dividing taxes collected into gross gaming revenue. Effective tax rates (2013) for surrounding states are: WV, 51.6%; DE, 50.0%; MD, 49.0%; NY, 45.6%, OH, 33.1% and NJ, 7.1%.

➢ **PA imposes rigid regulatory requirements on casinos, at least in some areas.** As competitive pressures increase, inefficiencies created by unnecessary regulatory policies become more problematic. The report identifies several regulations that could/should be reconsidered, including licensing of non-gaming employees; license duration for casino operators; restrictions on credit/cash advances and third party check cashing; restrictions on smoking and alcohol sales; and requirements for on-site police and Gaming Board officials presence. Overall, however, PA's regulatory costs on casinos as a percentage of gross gaming revenues is about average.

➢ **If PA authorized online gaming, ongoing revenues of $307 million, generating $113 million in annual tax revenues, appear realistic.** Revenues from online poker are estimated at $129 million and from online casino games, $178 million. Other opportunities discussed in the report for expanded gaming include sports betting, fantasy sports, prediction markets, small games of chance, and slots in airports.

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