April 2013

TO: **Members of the Legislative Budget and Finance Committee**

FROM: **Philip R. Durgin, Executive Director**

SUBJECT: **Annual Report Required by Act 2004-71: The Impact of Slots Gaming on the Pennsylvania State Lottery**

As a major new entrant into the state's gaming market, many believed that slots gaming could adversely affect sales of the Pennsylvania State Lottery. Recognizing this concern, Act 71, 4 Pa.C.S. §1211(b) requires that the Legislative Budget and Finance Committee issue annual reports to the General Assembly analyzing the impact, if any, of implementing slots gaming on the Pennsylvania State Lottery.

The first slots parlor opened in November 2006, and as of January 2013, eleven slots gaming facilities were located in eleven counties across the Commonwealth (see Exhibit 1). In July 2010, Pennsylvania casinos began offering table games in addition to slots.

We have released six memorandum reports (2005, 2006, 2007, 2010, 2011, and 2012) and two complete reports (2008 and 2009) in response to Act 71. Prior to 2011, none of these reports found compelling evidence that the operation of slots facilities had a substantial negative impact on Lottery sales on a statewide basis. Our 2011 report, however, concluded that, based on a comparison of Lottery sales in host counties, counties adjacent to host counties, and non-adjacent counties, the casinos did appear to suppress Lottery sales, at least in those counties that host a casino.

Table 1 and Exhibit 2 show that, although Lottery sales initially had little overall growth since the introduction of casino gaming in Pennsylvania, Lottery sales grew by 5.3 percent in 2011 and by 9.9 percent in 2012. The impressive growth of Lottery sales over the past two years indicates that the impact of casinos on Lottery sales may be less significant than the previous data suggested.

Exhibit 1

Pennsylvania Casinos
(As of January 2013)

Casino	County	Opened
Mohegan Sun	Luzerne	November 2006
Parx (Formerly Philadelphia Park)	Bucks	December 2006
Harrah's Chester Downs	Delaware	January 2007
Presque Isle	Erie	February 2007
The Meadows	Washington	June 2007
Mount Airy	Monroe	October 2007
Hollywood (Penn National)	Dauphin	February 2008
Sands Bethlehem	Northampton	May 2009
Rivers	Allegheny	August 2009
SugarHouse	Philadelphia	September 2010
Valley Forge	Montgomery	April 2012

Source: Developed by LB&FC staff from information obtained from the Pennsylvania Gaming Control Board.

Table 1

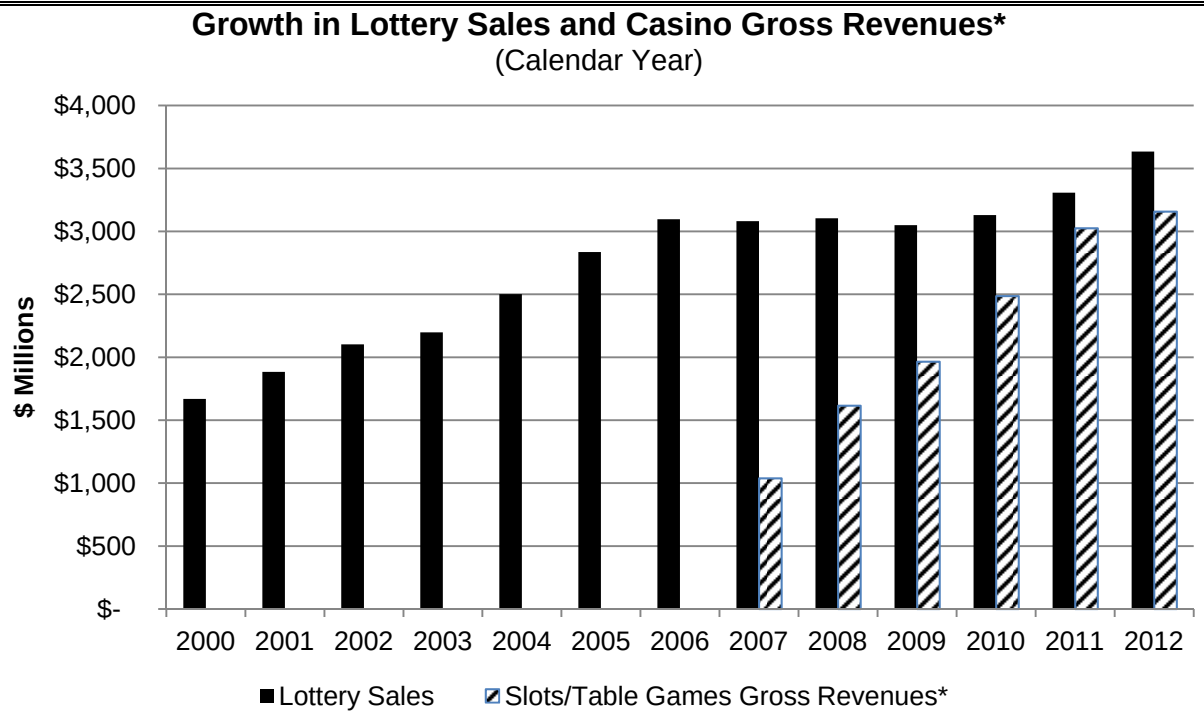
Lottery Sales and Casino Gross Revenues
($ in Millions)

CY	Lottery Sales	Slots/Table Games Gross Revenues*
2000	$1,669	-
2001	1,884	-
2002	2,103	-
2003	2,198	-
2004	2,502	-
2005	2,836	-
2006	3,097	-
2007	3,081	$1,039
2008	3,104	1,616
2009	3,050	1,965
2010	3,140	2,486
2011	3,307	3,025
2012	3,634	3,158

*Gross revenue is wagers minus payouts, with some adjustments.

Source: Compiled by LB&FC staff from PA State Lottery and PA Gaming Control Board Reports.

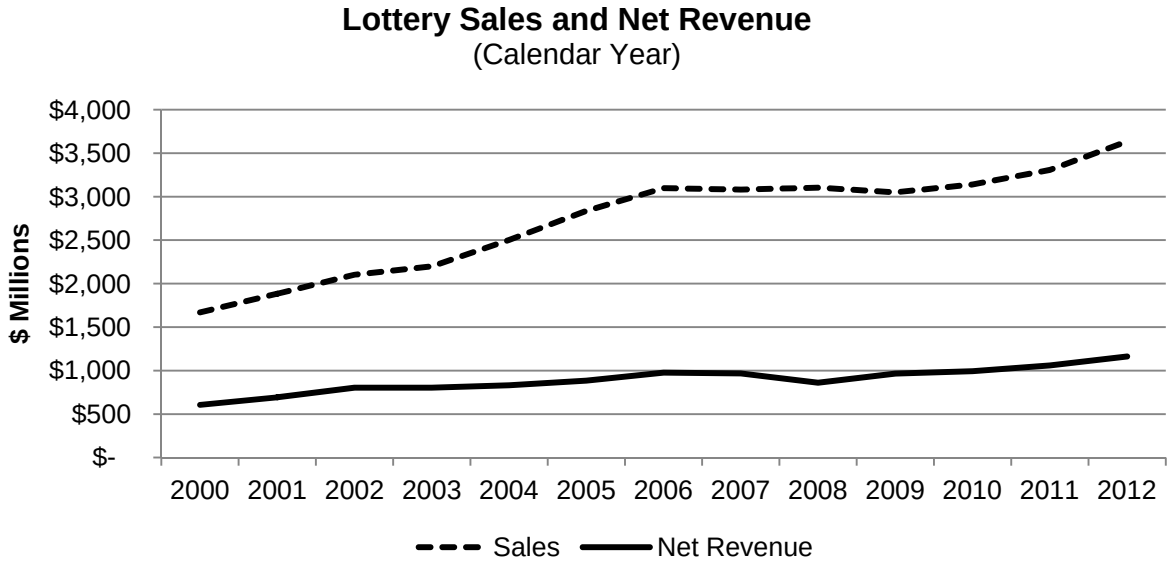
Exhibit 2



*Gross revenue is wagers minus payouts, with some adjustments.

Source: Compiled by LB&FC staff from PA State Lottery and PA Gaming Control Board Reports.

Exhibit 3



Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

As another means of assessing the impact of casinos on Lottery sales, we compiled the below data on Lottery sales for host counties (counties with a casino), non-host counties (counties that as of December 2012 did not host a casino), and the statewide average for all counties. Because casinos opened in different counties in different years, Table 2 is divided into six "cohorts," depending on when the casino opened.[1]

Table 2

Annual Percent Change in Lottery Sales in Counties Hosting a Pennsylvania Casino Compared to Non-host Counties

Annualized Percentage Increase/Decrease in Lottery Sales From	Host Counties	Non-host Counties*	Statewide Average
2006 to 2012	1.8% (5)	3.6% (56)	2.7%
2007 to 2012	1.9 (2)	4.0 (56)	2.8
2008 to 2012	1.0 (1)	4.9 (56)	4.0
2009 to 2012	3.2 (1)	7.2 (56)	4.5
2010 to 2012	3.7 (1)	8.8 (56)	7.6
2011 to 2012	11.8 (1)	11.0 (56)	9.9

*Includes only the 56 counties that currently do not host a casino.

Source: Developed by LB&FC staff from information obtained from the Pennsylvania State Lottery.

As Table 2 shows, with one exception, the annual growth in Lottery sales in counties that host a casino has significantly underperformed the growth in non-host counties and the statewide average during each of the relevant time periods. For example, the five counties in the cohort of counties that hosted a casino in 2007 had an annual increase in Lottery sales of only 1.8 percent between 2006 (the year before the casinos opened) and 2012, while the 56 counties that do not host a casino had annual growth in Lottery sales of 3.6 percent during this period. The one

[1] County status is based on its status for the majority of the year, e.g., a county where a casino opened in May would be considered a host county for that year; if the casino had opened in October, it would not be considered as a host county for that year (but would be in the following year's host county cohort).

exception is Montgomery County, where the Valley Forge Casino Resort, a Category 3 casino, opened in April 2012. Between 2011 and 2012 growth in Lottery sales in Montgomery County actually exceeded Lottery growth in both the non-host counties and the statewide average.

An analysis by Lottery staff suggests that the decline in Lottery sales in host counties may be more attributable to the demographics of Lottery customers than to the presence of a casino. In particular, they note that terminal-based numbers games have traditionally been more popular in urban areas than in the more rural areas of the state. The downward trend in terminal-based sales relative to instant ticket sales (instant ticket sales were 37 percent of total sales in FY 2001-02, compared to 61 percent of sales in FY 2011-12) may therefore account for much of the decline in Lottery sales in urban areas. As the casinos also tend to be located in urbanized areas, lower Lottery sales may be more attributable to this general trend of lower sales for terminal-based games than to the presence of a casino.

Response to This Report