

**February 3, 2010**

**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 Committee is to prepare such reports annually by March 15.

The first slots parlor opened in November 2006, and as of January 2010, slots gaming facilities were located in nine counties across the Commonwealth (see Exhibit 1). We have released three memorandum reports (2005, 2006, and 2007) and two complete reports (2008 and 2009) in response to Act 71. Neither the 2008 nor the 2009 report found any evidence that the operation of slots facilities had negatively impacted Lottery sales.

Rather than undertake another detailed analysis for 2010, we have summarized below the key information to assess the overall impact of slots gaming on the Lottery. Exhibit 2 shows that Lottery sales have managed to remain stable through the end of CY 2009, even with a very sizable growth in slots wagering. Exhibit 3 shows that Lottery net revenues have also remained stable.<sup>1</sup>

While the rate of sales growth has slowed in recent years (see Exhibit 2), we attribute the slowdown primarily to unprecedented growth in sales in the four-year period between FY 2002-03 and FY 2005-06 rather than to the introduction of slots gaming. Various factors, including a substantial expansion of the Lottery retailer network and Pennsylvania's entry into the multi-state Powerball jackpot game, led to the rapid growth in Lottery sales during these years.

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<sup>1</sup>The Department of Revenue reported that the increase in profit (despite a slight decrease in sales) experienced in CY 2009 is the result of a number of factors, including an increase in sales of higher profit products and a decrease in sales of lower profit products which resulted in a substantial reduction in prize liabilities; a substantial reduction in commissions paid to the Department's gaming system vendor as a result of a new contract that commenced on January 1, 2009; a reduction in Lottery operating expenses; and a reduction in interest losses as compared to CY 2008.

Exhibit 1

**Pennsylvania Slots Casinos**

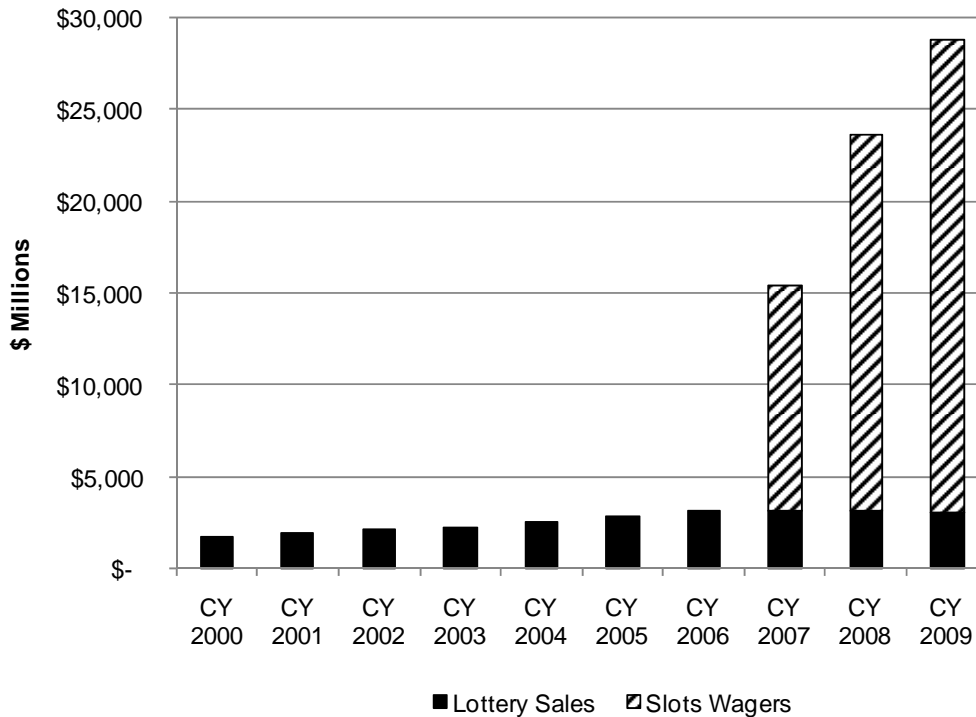
(As of February 2010)

<u>Casino</u>	<u>County</u>	<u>Opened</u>
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
Penn National .....	Dauphin	February 2008
Sands Bethlehem .....	Northampton	May 2009
Rivers .....	Allegheny	August 2009

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

Exhibit 2

**Total Slots Wagers and Lottery Sales**



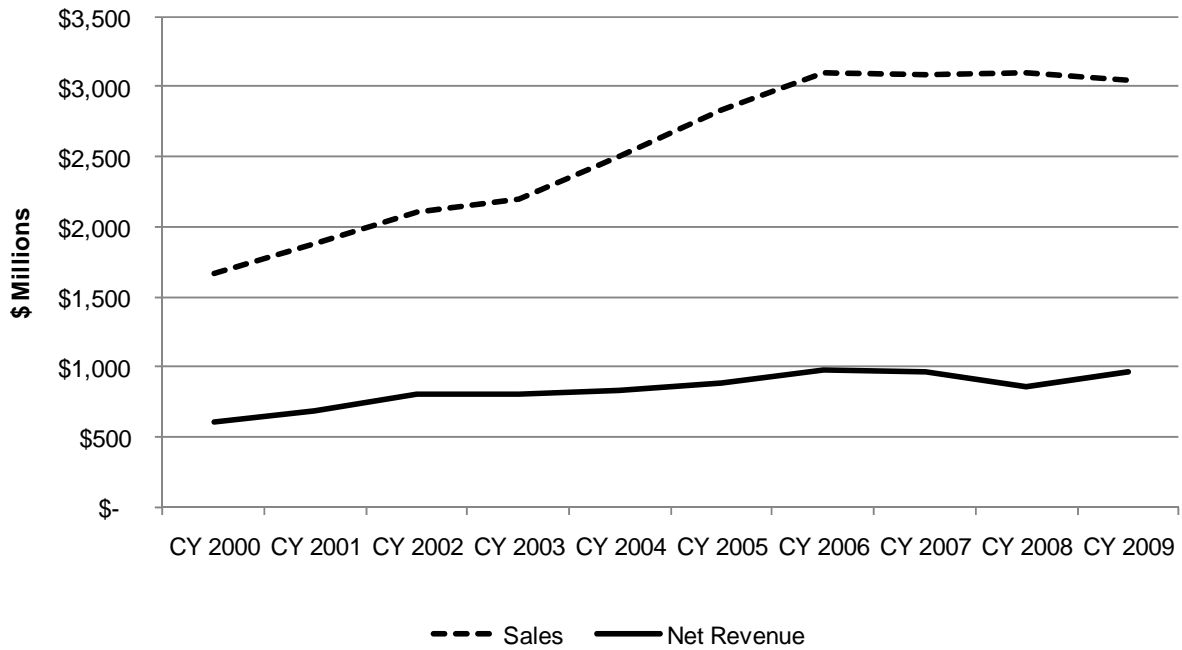
Source: Developed by LB&FC staff from information obtained from the Department of Revenue and the Pennsylvania Gaming Control Board.

Exhibit 3

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**Lottery Sales and Net Revenue**



Source: Developed by LB&FC staff from information obtained from the Department of Revenue.

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We therefore conclude again that the operation of slots facilities does not appear to have negatively impacted, at least in any significant manner, Pennsylvania Lottery sales or net revenues.