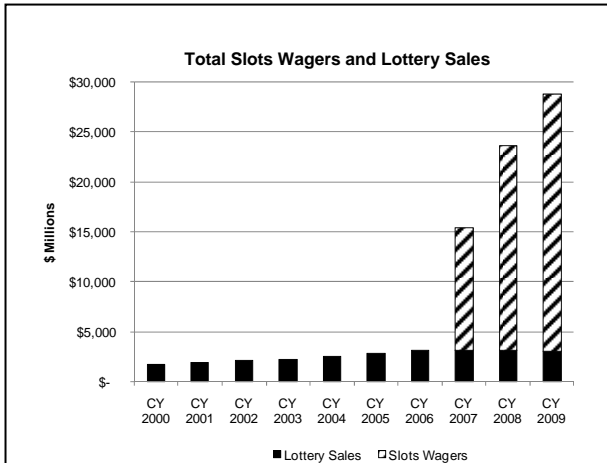


Report Highlights

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 2004-71 requires the Legislative Budget and Finance Committee to issue annual reports to the General Assembly analyzing the impact, if any, of implementing slots gaming on the Pennsylvania State Lottery. We found:

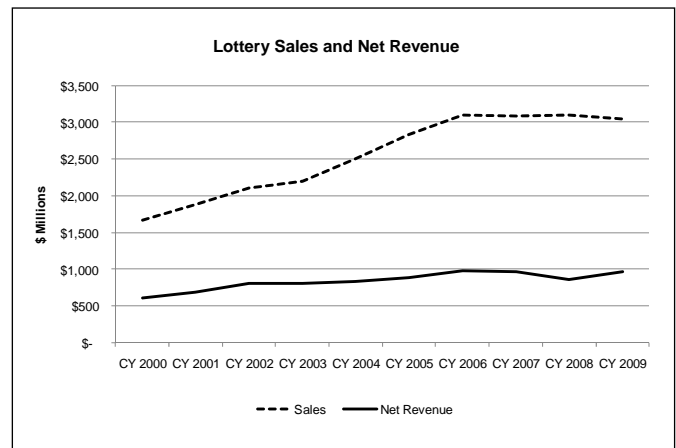
- **Nine slots gaming facilities are now operating in the Commonwealth.** The first slots parlor opened in November 2006. As of January 2010, nine slots gaming facilities were located in nine counties across the Commonwealth.
- **Lottery sales have managed to remain stable through the end of CY 2009, even with a very sizable growth in slots wagering.** As shown below, Lottery sales have remained stable despite the increase in slots wagering.



While the rate of sales growth has slowed in recent years, 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, also led to the rapid growth in Lottery sales during these years.

- **Lottery net revenues have also remained stable.** As shown below, Lottery net revenues increased in CY 2009 despite a small decrease in sales.



The Department of Revenue attributed the net revenue increase to a number of factors, including an increase in sales of higher profit products, a substantial reduction in commissions paid to the Department’s gaming system vendor; and a reduction in Lottery operating expenses.

Conclusion: We conclude 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.