

April 6, 2011

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.

The first slots parlor opened in November 2006, and as of January 2011, ten slots gaming facilities were located in ten counties across the Commonwealth (see Exhibit 1). In July 2010, Pennsylvania casinos began offering table games in addition to slots. As of October 2010, each casino offered table games.

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 report nor the 2009 report found substantial evidence that the operation of slots facilities had negatively impacted Lottery sales on a statewide basis. In 2010, we issued another memorandum report that also found that, while Lottery growth has slowed, Lottery sales had remained stable despite very sizable growth in slots wagering.

Table 1 and Exhibit 2 show that the trend of stable Lottery sales, but with little or no growth, continues. Exhibit 3 shows that Lottery net revenues have also remained stable.¹

While the rate of sales growth has slowed significantly since the introduction of casino gaming, we attribute the slowdown primarily to unprecedented growth in sales in the four-year period between FY 2002-03 and FY 2005-06. Various factors,

¹The 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.

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.

Exhibit 1

Pennsylvania Slots Casinos
(As of January 2011)

<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
Hollywood (Penn National)	Dauphin	February 2008
Sands Bethlehem	Northampton	May 2009
Rivers	Allegheny	August 2009
SugarHouse.....	Philadelphia	September 2010

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)

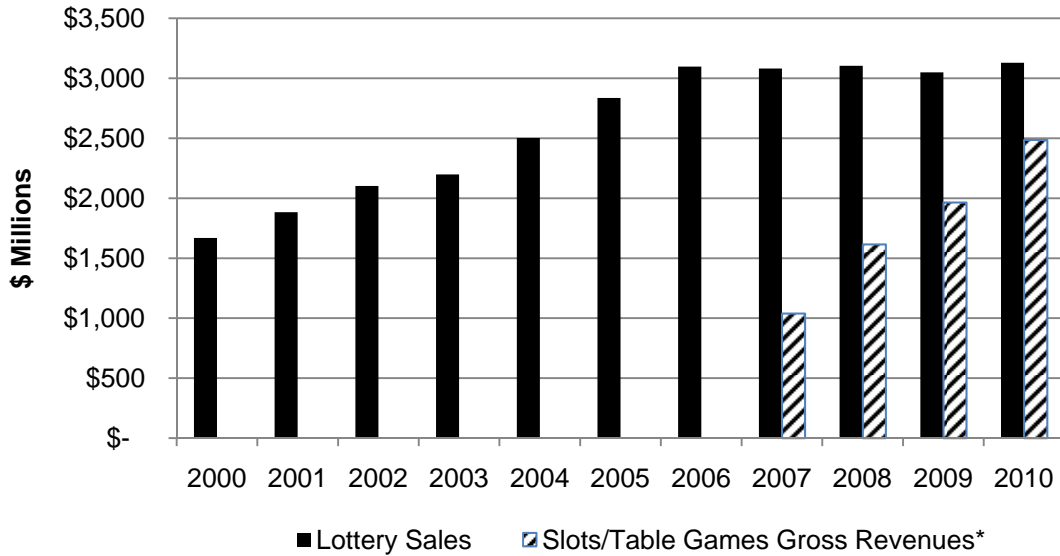
<u>CY</u>	<u>Lottery Sales</u>	<u>Slots/Table Games Gross Revenues*</u>
2000.....	\$1,669	-
2001.....	1,884	-
2002.....	2,103	-
2003.....	2,198	-
2004.....	2,502	-
2005.....	2,836	-
2006.....	3,097	-
2007.....	3,081	\$1,039
2008.....	3,104	1,616
2009.....	3,050	1,965
2010.....	3,140	2,486

*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

Growth in Lottery Sales and Casino Gross Revenues*
(Calendar Year)

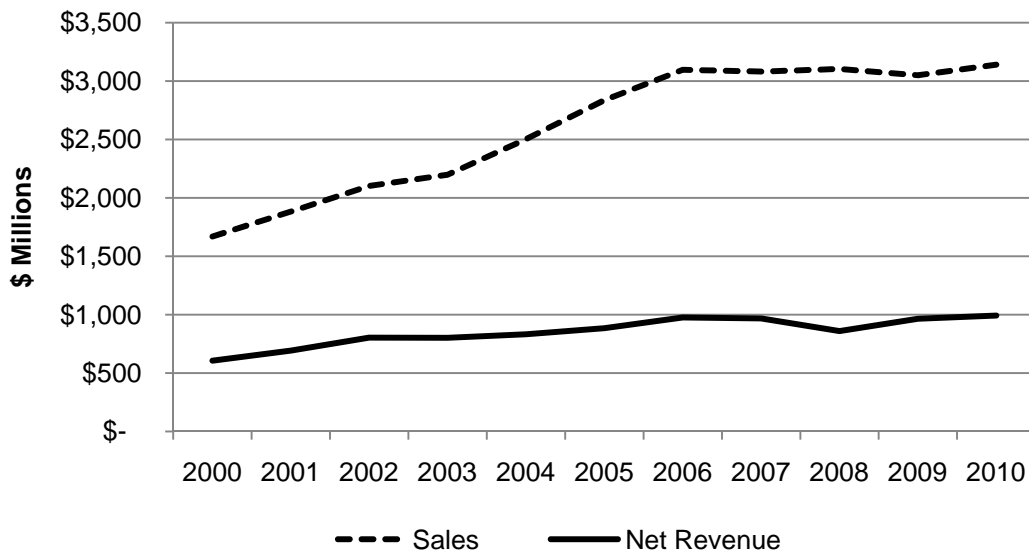


*Gross revenue is wagers minus payouts, with some adjustments.

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

Exhibit 3

Lottery Sales and Net Revenue
(Calendar Year)



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

As another means of assessing the impact of casinos on Lottery sales, we compiled the below data on Lottery sales by county proximity to a casino. Table 2 shows how Lottery sales have changed from year to year in counties that host a casino, that are adjacent to a casino, and that are neither host counties nor immediately adjacent to host counties.²

Table 2

Percent Changes in Lottery Sales in Counties Hosting and Surrounding a Pennsylvania Casino				
<u>Increase/Decrease in Lottery Sales From</u>	<u>Host Counties</u>	<u>Adjacent Counties</u>	<u>Non-Adjacent Counties</u>	<u>Statewide</u>
2006 to 2007	-5.4%	-0.6%	2.0%	-0.5%
2007 to 2008	-1.7	0.8	1.7	0.7
2008 to 2009	-2.6	-1.7	-1.0	-1.7
2009 to 2010	1.0	3.1	5.8	2.9

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

As Table 2 shows, in every year since slots gaming began, host counties have underperformed the statewide growth in Lottery sales, adjacent counties have performed at levels very close to the statewide average, and non-adjacent counties have performed at substantially higher levels than the statewide average. While not determinative, this data suggests that casinos have suppressed Lottery sales, at least in the casino host counties.

² 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.)