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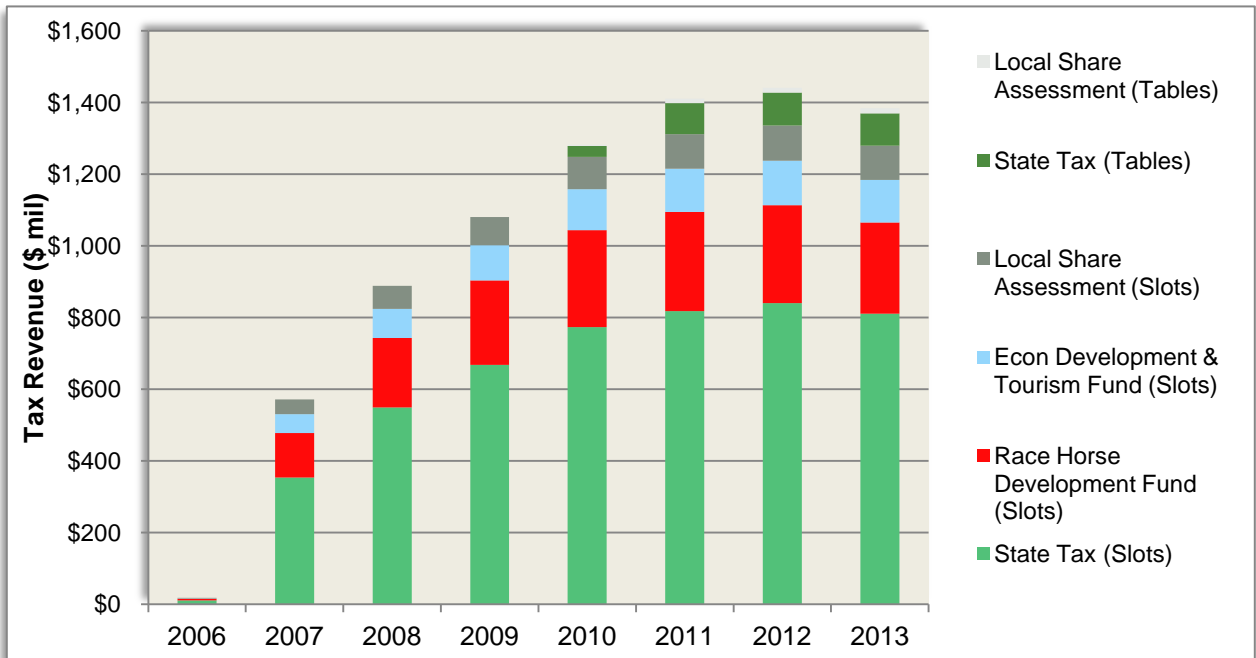
EXECUTIVE SUMMARY

Introduction

The Pennsylvania Legislative Budget and Finance Committee (PA-LBFC) engaged Econsult Solutions, Inc. to analyze the current condition of casino gaming in Pennsylvania, as well as the future gaming environment as a whole. This report was specifically authorized by the legislature in Pennsylvania Senate Resolution No. 273 on December 3, 2013 and in the Request for Proposal #2013-1 issued by the PA-LBFC on December 4, 2013, and its content and analysis respond to the directions in the resolution.

Pennsylvania legalized casino gaming in 2004, and the first casinos opened in 2006. Since then, tax revenue from the casinos has contributed \$8.1 billion in gaming tax revenues, in addition to property, wage, and other taxes. Tax revenue grew strongly from 2006 through 2012 due to the construction of new casinos and the introduction of gaming into regions that had no convenient casino options, before declining slightly in 2013 (see Figure 1.1).

FIGURE ES.1 – PENNSYLVANIA GAMING TAX REVENUES BY FUND, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

When gaming was introduced to Pennsylvania, adjoining states New Jersey, Delaware and West Virginia had commercial casinos and New York had Native American casinos, but for most



Pennsylvania residents these were not convenient options. Other contiguous states did not offer casino gaming. Since that time, Maryland, New York and Ohio have legalized and opened casinos, and each expects to see additional casinos come on line in the next few years. There are currently 12 casinos in Pennsylvania. A second Philadelphia casino license is expected to be awarded in the spring of 2014, and a decision on the application of a racino in Lawrence County is also expected in 2014. In addition, there is the potential for a third resort casino license in 2017.

The decline in tax revenue, the addition of new casinos in surrounding states as well as in Pennsylvania, and the potential for forms of gaming not currently permitted, all raise questions about what can be expected of gaming in Pennsylvania in the next five to ten years. Will the addition of casinos in surrounding states capture a significant percentage of gaming currently in Pennsylvania? Is the Pennsylvania market saturated, so that additional Pennsylvania casinos will not bring incremental revenue? Are there regulations or practices in Pennsylvania that impact casinos' competitiveness and profitability without offering a commensurate benefit to the state? Are there additional types of gaming that could expand the market?

This report addresses these questions, so the Commonwealth can conduct an informed dialogue as it considers potential changes in the gaming landscape. This study involved speaking with dozens of experts both in and outside of the gaming industry, reviewing a variety of reports and academic literature, and conducting analysis of an array of data on the industry.

Industry Overview

The Pennsylvania gaming industry generated a total of \$3.1 billion in total revenue and nearly \$1.4 billion in state and local taxes in 2013. Revenues grew steadily as a significant new supply of slot machines entered the market each year from 2006 and 2010, in addition to the implementation of table gaming starting in July 2010. Total gaming tax revenues have stabilized, falling slightly in 2013. The decline is a result of four broad trends:

- 1) Table Game Tax Rates - Table game effective tax rates have declined because casinos pay a higher rate in the first 24 months of table games. The majority of Pennsylvania casinos hit the 24 month cut-off midway through 2012, meaning that 2013 was the first year to fully incorporate the lower rates for most properties.
- 2) National Trends – Macro-gaming patterns regarding slot (decline) and table (growth) activities respectively may have contributed to the tax revenue decline.
- 3) Cannibalization -- The flight of previous revenue to nearby states (Ohio and Maryland) with new gaming venues may also be a contributing factor to the revenue decline.
- 4) Casino Openings – As casinos open in Ohio and Maryland, gamers deviate from their normal casino to investigate the new casino. Many of these gamers will return to their original casino, but the momentary shift will offset revenue.

Gaming tax revenues grew each year from 2007 to 2012, exceeding \$1.4 billion annually before falling slightly in 2013. Approximately 92% of tax revenue generated by Pennsylvania casinos in 2013 came from slot earnings.

Economic Impact

As of 2013, Pennsylvania casinos directly employed 16,665 people across the Commonwealth. The casino operations and induced spending¹ from casino employees produced a grand total of approximately \$2.9 billion in total output, supporting about 25,000 total jobs and \$1.0 billion in total labor income. Casinos also invested large sums to renovate and maintain their facilities. In total, \$224 million in additional capital expenditures have been spent by the twelve Commonwealth casinos on renovations and upkeep. Annualized, the twelve casinos spend approximately \$76 million per year on renovations and upkeep combined. These capital expenditures generated approximately \$80 million in total output, supporting an additional 600 jobs, and \$37 million in labor income. Including both of these components, annual operations of Pennsylvania casinos translates to \$3.0 billion in total output, approximately 25,000 jobs, and \$1.0 billion in labor income.

Excluding gaming revenues from slots, table games, and horse racing handle, Pennsylvania casinos also generate tax revenues for the Commonwealth from operations and renovation and upkeep expenditures. Counting only income, sales & excise, and business taxes, Pennsylvania casinos contribute approximately \$81 million in taxes, annually. Of this tax revenue, \$78.5 million is generated from operations, and \$2.3 million is generated from upkeep and renovations.

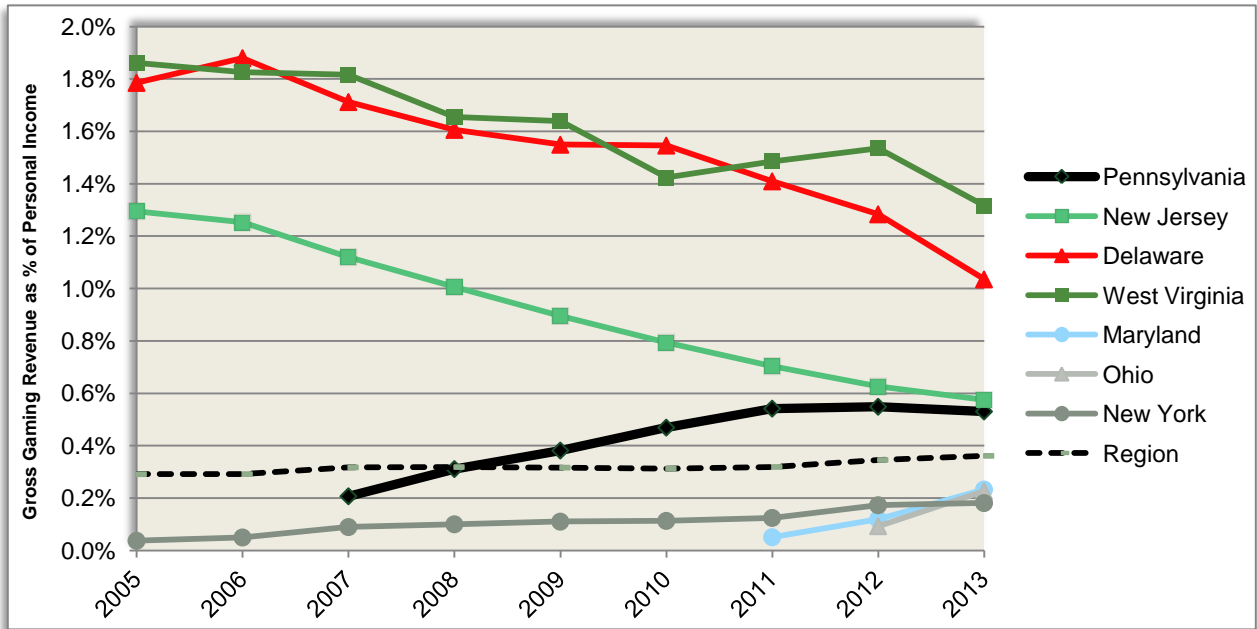
Regional Competitive Trends

Pennsylvania and the surrounding states, defined here as Delaware, Maryland, New Jersey, New York, Ohio, Virginia, and West Virginia, have seen a significant increase in casino supply in the aggregate. The Commonwealth was a beneficiary of an unsaturated market upon entry in 2006. Eight years later, Pennsylvania has recaptured patrons who had been previously crossing state lines and attracts more revenue than any state in the region, having passed New Jersey in 2012. The declining revenues in Pennsylvania as of the past two years can be attributed in part to the near full recapturing of in-state gamblers (from Atlantic City, etc.) and the entry of contiguous states Ohio and Maryland, whose gamblers previously provided significant revenues at certain Commonwealth casinos.

Since 2011, as each state begins to serve its locals as a greater share of its patronage due to legalization in contiguous states, casino revenue per capita and as a percentage of personal income has begun to converge (see Figure ES.2). If every state offers widespread gaming, the revenue per capita and as a percent of personal income will be nearly the same for all states. While outlying states show significant yearly changes as they converge to the mean, Pennsylvania has remained stable for the last three years. This can be attributed to approximately equal export and import in gaming patrons for the Commonwealth.

¹ The response by an economy to an initial change (direct effect) that occurs through re-spending of income received by a component of value added, in other words, the effect of employees spending their earnings within the economy.

FIGURE ES.2 – GROSS GAMING REVENUE AS PERCENTAGE OF PERSONAL INCOME FOR PENNSYLVANIA AND NEIGHBORING STATES, 2005-2013



Source: State Casino/Lottery Boards & Commissions, Bureau of Economic Analysis, Econsult Solutions, Inc. (2014)

The supply of casinos has increased significantly since 2006, and is projected to grow further through 2018. Casinos will continue coming on board in Ohio and Maryland over the next few years, but in the long-run the only state with concrete plans to add multiple casinos beyond the next two years is New York, which has yet to add full commercial casinos to their market.

Pennsylvania’s casino market does have some vulnerabilities at this stage. Additional casino openings in Ohio will continue to take some market share from casinos in the Greater Pittsburgh region. If New York locates casinos in Orange County or allows table gaming in New York City, table gaming revenue in Northeast casinos may be at risk. If New Jersey allows casinos at the Meadowlands or, less likely, in Camden or another location near Philadelphia, Philadelphia area revenue might be in jeopardy. However, Pennsylvania will not experience the types of decline seen in Atlantic City.

Future state gaming tax revenue will be impacted by both positive and negative factors. Expanded gaming supply in Pennsylvania (from a second Category 2 license in Philadelphia, a new Category 1 casino in Lawrence County or elsewhere, and a third Category 3 license in 2017) has the potential to increase tax revenues. There is a material threat, however, from loss of gamers to New York, Ohio, New Jersey and perhaps Maryland. Since most gaming revenue is generated from Pennsylvania residents, and some level of gaming from out of state will continue, Pennsylvania gaming tax revenue is likely to be relatively stable, with the potential for either an increase or a decrease, depending primarily on potential supply increases in New York and New Jersey. Revenue is also sensitive to long-term industry and demographic trends. A decrease in demand for slots gaming will have a greater impact on tax revenue than an increase in table game demand, due to the differential rates at which the two are taxed. However, gaming revenue

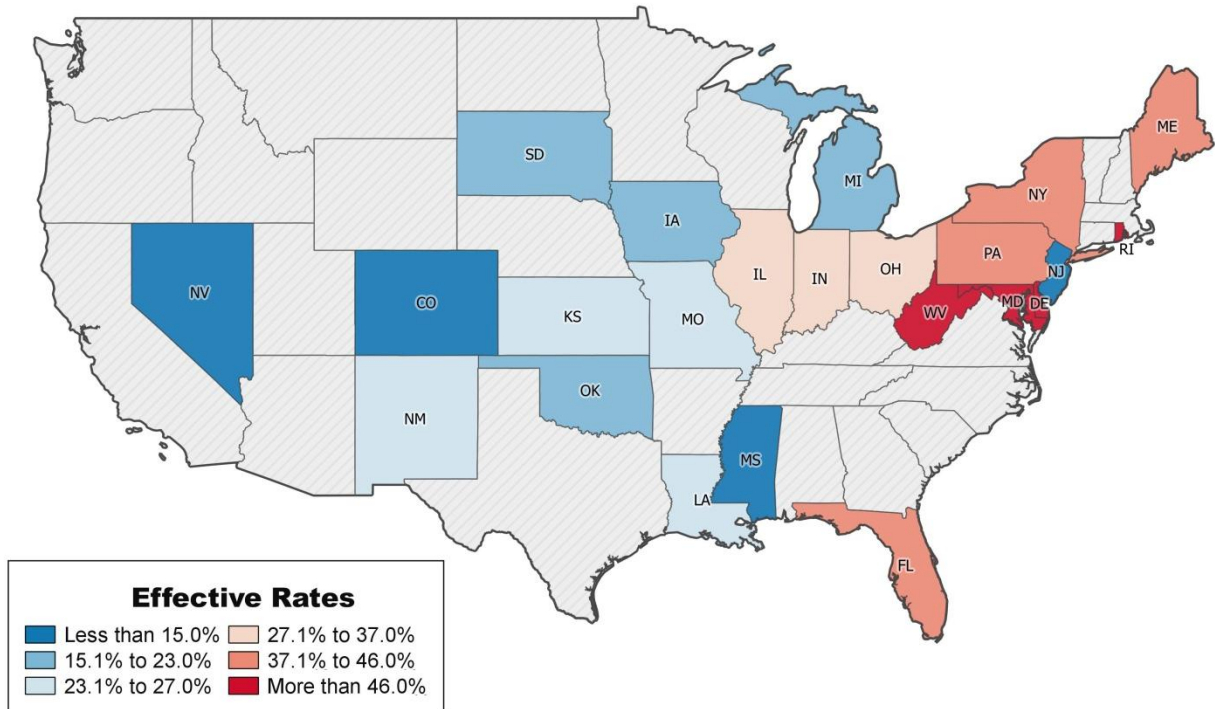
should be expected to see some increase over time due to normal growth in population and income.

Regulatory and Policy Landscape

Gaming has changed dramatically in the past decade with a national and regional increase in competition. Each state that permits commercial gaming employs a unique approach to regulating their gaming industry. Looking at these practices together can help illuminate potential areas for regulatory reform in Pennsylvania that could help the industry maintain competitive and financial sustainability.

Pennsylvania has the 5th highest effective tax rate in the nation. However, the nearby states of Maryland, West Virginia, and Delaware have higher rates, and New York and Ohio rank closely as well at 6th and 10th, respectively. While lower taxes would likely produce some positive economic and fiscal spillovers for the state, there is a great degree of uncertainty about whether the benefits will be worth the costs in forgone taxes, and given current conditions a tax cut is not likely the optimal policy response from the state.

FIGURE ES.3 – MAP OF EFFECTIVE GAMING TAX RATES BY STATE, 2012



Source: Various State Gaming Boards (2014), American Gaming Association (2013), Econsult Solutions, Inc. (2014)

However, there are a variety of possible regulatory reforms and changes the state could pursue to help improve the financial sustainability of the industry. In addition, some of these regulations will likely help increase revenues and state taxes. The challenge for any regulatory structure is to balance the interests of all parties. The balance is always tricky, and the appropriate regulatory approach can change over time as the industry changes.

With these concerns in mind, the evidence suggests there are several regulations that potentially disadvantage Pennsylvania gaming. The inclusion of regulations in this section does not constitute an endorsement of the modifying or removal of the regulatory or legislative requirements. Proper regulation is a balancing act and the result of a broader policy making process, and removing a regulation that inhibits casino revenue or adds costs might, on balance, still make sense in the policy context.

The following are a list of regulatory options that merit further consideration:

- Allowing alcohol sales beyond 2 am
- Improve approval time for new games
- Allow more flexibility in table game rules
- Allow for cash advance with credit cards on the gaming floor
- Let players cash third party checks and personal checks over \$2,500
- Decrease required state police presence
- Investigate potential for decreasing the cost of regulatory bodies
- Allow more flexibility for staffing requirements
- Remove or decrease non-gaming vender certification

Potential Sources of New Revenue

Overall there are several potential forms of new revenue that the state could explore. The largest potential new revenue source is Internet gaming (igaming). The forecasted revenues for this industry would be \$184 million in the first year and \$307 million after that. If the roll-out and regulation of igaming is done in a way to encourage growth, then the \$307 million forecast is possible within the first year. While there is a reasonable degree of uncertainty, the available evidence suggests the net effect igaming would be to complement and not cannibalize existing land-based casino revenues in the state.

TABLE ES.1 – SUMMARY OF POTENTIAL REVENUE SOURCES AND DIRECT TAX IMPACTS

Revenue Source	More Likely Substitute or Complement for PA Casinos?	Direct Tax Revenue
iGaming	Complement is most likely	\$68 million in the first year, and \$110+million annually thereafter
Sports Betting	Complement highly likely	\$20 million to \$110 million annually
Fantasy Sports	Complement highly likely	No taxes in short-run, uncertain in long-run
Prediction Markets	Neither	No taxes in short-run, uncertain in long-run
Small Games of Change	Substitution is possible	Uncertain, likely small unless adoption increases dramatically
Airport slots	Neither	\$3 to \$4 million/year per 100 machines at larger airports

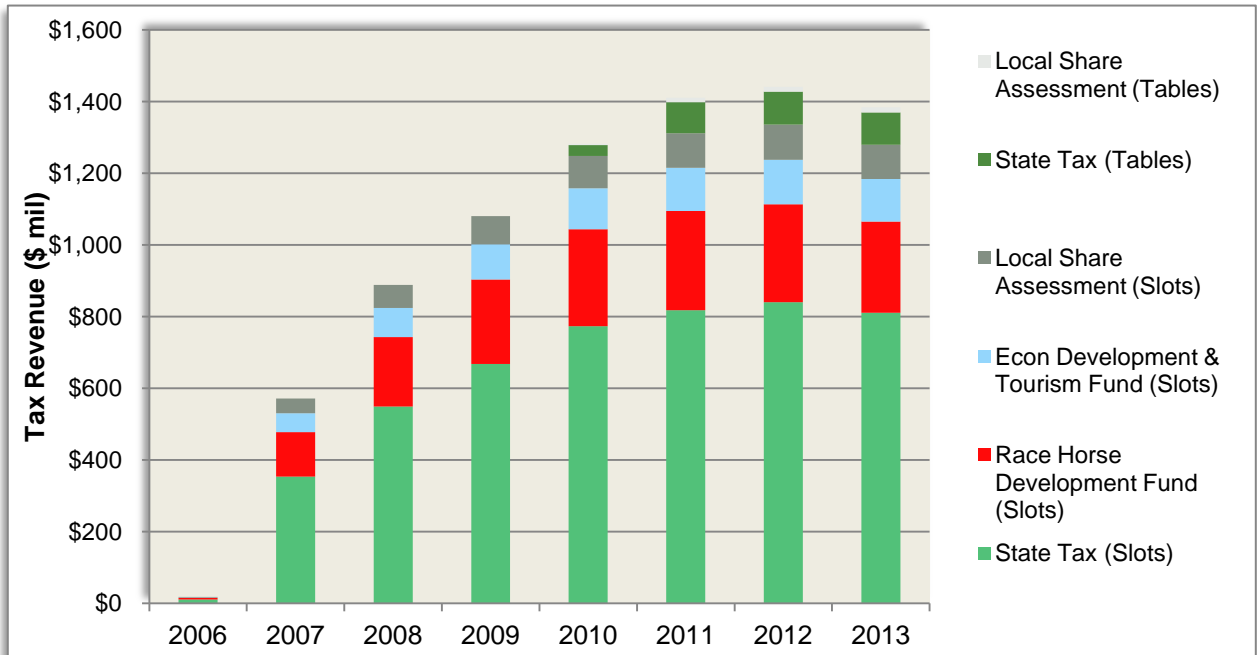
Source: Econsult Solutions, Inc. (2014)

1.0 INTRODUCTION

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FIGURE 1.1 – PENNSYLVANIA GAMING TAX REVENUES BY FUND, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

When gaming was introduced to Pennsylvania, adjoining states New Jersey, Delaware and West Virginia had commercial casinos and New York had Native American casinos, but for most Pennsylvania residents these were not convenient options. Other contiguous states did not offer casino gaming. Since that time, Maryland, New York and Ohio have legalized and opened casinos, and each expects to see additional casinos come on line in the next few years. In



Pennsylvania, a second Philadelphia casino license is expected to be awarded in the spring of 2014, and a decision on the application of a casino and racetrack (racino) in Lawrence County is also expected in 2014. In addition, there is the potential for a third resort casino license in 2017.

The decline in tax revenue, the addition of new casinos in surrounding states as well as in Pennsylvania, and the potential for forms of gaming not currently permitted, all raise questions about what can be expected of gaming in Pennsylvania in the next five to ten years. Will the addition of casinos in surrounding states capture a significant percentage of gaming currently in Pennsylvania? Is the Pennsylvania market saturated, so that additional Pennsylvania casinos will not bring incremental revenue? Are there regulations or practices in Pennsylvania that impact casinos' competitiveness and profitability without offering a commensurate benefit to the state? Are there additional types of gaming that could expand the market?

This report addresses these questions, so the Commonwealth can conduct an informed dialogue as it considers potential changes in the gaming landscape.

Organization of the Report

The report broadly follows the order of the five objectives set forth in the RFP. The analysis and exposition of topics naturally falls into slightly different groupings than those contained in the five objectives, so for expositional clarity, we have organized the report according to topics that go together. The remainder of this section shows how the sections in the report link to the objectives of the study.

Sections 2.0 and 3.0 address Objective A: *Assess the performance of Pennsylvania's casinos, both in generating tax revenues and as an economic development strategy, since 2004 and the impact on existing casinos as new casinos enter the marketplace. Assess the likely performance, over the next 5-10 years, of the tax revenue generating capacity of Pennsylvania's existing and new casinos and the ability to make adequate capital investment in the respective gaming facilities given the projected expansion of gaming in the states that border this Commonwealth.*

Section 4.0 addresses Objectives B: *Review Pennsylvania's statutory and regulatory requirements and compare them to contiguous states and other states that generate significant casino revenues (e.g., over \$1 billion in gross revenue annually). Based on this review, identify key Pennsylvania requirements that place casinos operating in Pennsylvania at a significant competitive disadvantage relative to other states including gaming tax rates and regulations.*

Section 4.0 also addresses Objective C: *Quantify at a statewide level (or at a regional level if feasible) the potential economic impact of Pennsylvania making statutory or regulatory changes to those provisions that place Pennsylvania casinos at a competitive disadvantage relative to other states. The economic impacts should include and separately identify the impacts to the casinos and to the other public and private entities that would be affected by such changes. Economic impacts should include both capital investments as well as jobs.*

Section 5.1 addresses Objective D: *Assess the potential impact of online gaming on the gaming industry, including the impact online gaming may have on the Commonwealth's tax revenues and employment at the Commonwealth's casinos.*

Sections 5.2 to 5.5 address Objective E: *Identify new products and approaches, including but not limited to, online gaming and betting on fantasy sports teams, that the General Assembly could consider to sustain and maximize gaming revenue in the Commonwealth. Estimate the potential revenue, both gross and to the Commonwealth, of the most promising options. Unless otherwise agreed to by the LB&FC, these estimates should assume (1) all online gaming activities would occur solely within Pennsylvania state borders, (2) any online gaming would occur through existing casinos, and (3) no additional casinos will be built beyond those already authorized under the statutes of the Commonwealth.*

Note:

In the PDF version of this report, click on the respective objectives to link to the section of the report that addresses the objective.



2.0 PENNSYLVANIA GAMING INDUSTRY PERFORMANCE

The Pennsylvania gaming industry, which did not exist until the passage of enabling legislation in 2004 and the opening of the first casinos in 2006, now consists of 12 casinos which generated a total of \$3.1 billion in total revenue and \$1.4 billion in state and local gaming taxes in 2013. There are six racinos (Category 1), four full-service stand-alone casinos (Category 2), and two resort casinos (Category 3). The initial legislation called for a total of up to 15 casino licenses; one more in each category has been authorized. A second Philadelphia casino license is expected to be awarded in the spring of 2014, and a decision on the application of a racino in Lawrence County, Pennsylvania, is also expected in 2014. In addition, there is the potential for a third resort casino license in 2017. Figure 2.1, produced by the Pennsylvania Gaming Control Board, shows the distribution of the twelve current casinos across a map of the Commonwealth.

FIGURE 2.1 – MAP OF PENNSYLVANIA COMMERCIAL CASINOS



Source: Pennsylvania Gaming Control Board (2014)

In addition to the twelve existing casinos, there is the potential for three others to be added in future years.

- 1) The Gaming Control Board is currently considering an application by Endeika Entertainment and Penn National Gaming Inc. for a Category 1 casino and harness racing track in Lawrence County. The proposed \$160 million facility, named Lawrence Downs Casino and Racetrack Resort, is slated to include 1,250 slot machines, 41 video games and 10 poker games, as well as a mile-long harness racing track. The application was

submitted on May 31, 2013, and the Gaming Control Board has historically issued decisions approximately 9-12 months after the submission date.

- 2) The Gaming Control Board has recently completed hearings on applications for a second Category 2 casino license in Philadelphia. This license was previously held by the Foxwoods casino group, but was revoked in 2010 after Foxwoods was unable to develop the casino. Five applicants have completed the application process, with locations and specifications varying by proposal. Projected costs for each casino range from \$400 million to \$700 million, with planned slot machines ranging from 2,050 to 3,000 and planned table games ranging from 81-150. Each project is also slated to include hotel and restaurant components. A decision is expected in the spring of 2014.
- 3) The Gaming Control Board is also legislatively authorized to award a third Category 3 casino license in 2017.

The section that follows will discuss historic supply and revenues for Pennsylvania's casinos, tax revenues for Pennsylvania, and the economic impact of the casinos for the state as a whole and on the individual casino level.

2.1 INDUSTRY SUPPLY

The growth in the number of casinos since the opening of the first in November 2006 has led to the installation of more than 26,900 slot machines at the peak, and approximately 26,600 as of February 2014. Table games have also grown, totaling 1,071 at the end of 2013. The win per position per day has been fairly steady at approximately \$250 for slot machines and \$310 for table games since the introduction of table games in 2010.

The casinos currently operating in Pennsylvania appear in the order in which they opened in Table 2.1, along with the category, county and city for each casino. This report will refer to the abbreviated name appearing in the table below to be used when discussing each individual casino.

TABLE 2.1 – LIST OF PENNSYLVANIA COMMERCIAL CASINOS, BY OPENING DATE²

Full Casino Name	Abbreviated Name	Open Date	Category	County	City
Mohegan Sun at Pocono Downs	Mohegan Sun	Nov-2006	1	Luzerne	Wilkes-Barre
Parx Casino	Parx	Dec-2006	1	Bucks	Bensalem
Harrah's Philadelphia Casino & Race Track	Harrah's	Jan-2007	1	Delaware	Chester
Presque Isle Downs	Presque Isle	Feb-2007	1	Erie	Erie
The Meadows Racetrack & Casino	Meadows	Jun-2007	1	Washington	Washington
Mount Airy Casino Resort	Mt. Airy	Oct-2007	2	Monroe	Mount Pocono
Hollywood Casino at Penn National Race Course	Penn National	Feb-2008	1	Dauphin	Grantville
Sands Casino Resort Bethlehem	Sands	May-2009	2	Northampton	Bethlehem
The Rivers Casino	Rivers	Aug-2009	2	Allegheny	Pittsburgh
SugarHouse Casino	SugarHouse	Sep-2010	2	Philadelphia	Philadelphia
Valley Forge Casino Resort	Valley Forge	Mar-2012	3	Montgomery	King of Prussia
Lady Luck Casino Nemacolin	Nemacolin	Jun-2013	3	Fayette	Farmington

Source: Pennsylvania Gaming Control Board (2014)

Table 2.2 shows the build up of Pennsylvania's casino supply and revenues on an annual basis from 2006 to 2013. Revenues grew steadily as a significant new supply of slot machines entered the market each year from 2006 and 2010, in addition to the implementation of table gaming starting in July 2010. Total revenues have stabilized, falling slightly in 2013.

TABLE 2.2 – PENNSYLVANIA COMMERCIAL CASINO SUPPLY AND REVENUE, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
Casinos	2	6	7	9	10	10	11	12
Average Slot Units	356	9,491	15,726	21,216	25,506	26,510	26,499	26,400
Average Table Units					348	900	1,016	1,058
Slot Revenue (\$ mil)	\$31.6	\$1,039.0	\$1,615.6	\$1,964.6	\$2,273.9	\$2,405.9	\$2,470.9	\$2,384.1
Table Revenue (\$ mil)					\$212.5	\$618.9	\$687.4	\$729.8
Total Revenue (\$ mil)	\$31.6	\$1,039.0	\$1,615.6	\$1,964.6	\$2,486.4	\$3,024.8	\$3,158.3	\$3,113.9

Source: Pennsylvania Gaming Control Board (2014)

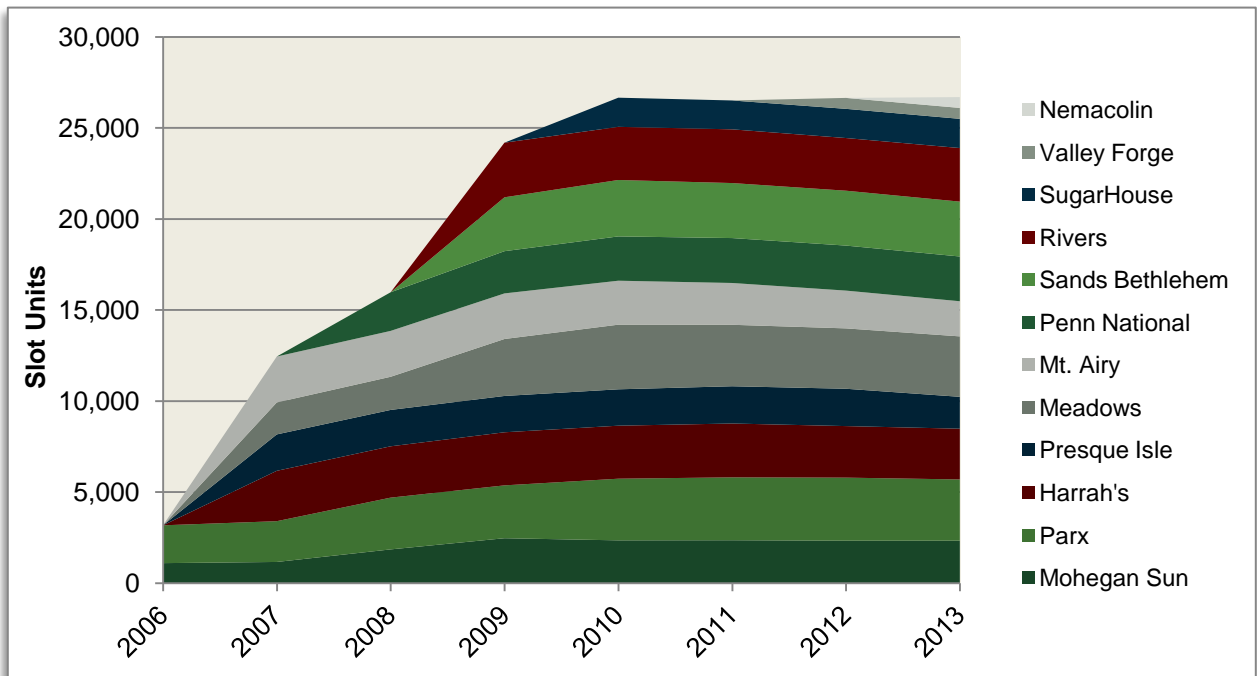
² A commercial casino is a for-profit casino licensed by the state. New York, Connecticut and other states also have Native American casinos. While commercial casinos are required to report a substantial amount of operational information to their State governments, reporting requirements for Native American casinos are less strict.

2.1.1 SLOT MACHINE SUPPLY AND REVENUE

Figure 2.2 illustrates the supply of slot machines in Pennsylvania on an annual basis per casino. The first slot machines opened in November 2006 at Mohegan Sun, and six casinos were active by the end of 2007, representing more than 12,000 units. Supply grew significantly in 2009 with the addition of Sands Bethlehem and Rivers, which helped increase the supply to nearly 25,000 units by the end of 2009. The last significant addition to supply came with the opening of SugarHouse in September 2010, bringing total units above 26,000. Since that time, additions from the openings of Category 3 casinos Valley Forge and Nemaquin have been offset by declines in the number of units at the Mount Airy and Presque Isle, resulting in a stable statewide supply of slots over the past three years.

Figure 2.3 illustrates the distribution of slot machine revenues in Pennsylvania by casino over the same time period. Significant year over year increases were achieved each year from 2008 to 2010, driven primarily by the addition of new casinos during the period. Growth slowed in 2011 and 2012 before posting a slight decrease in statewide slot revenues in 2013.³

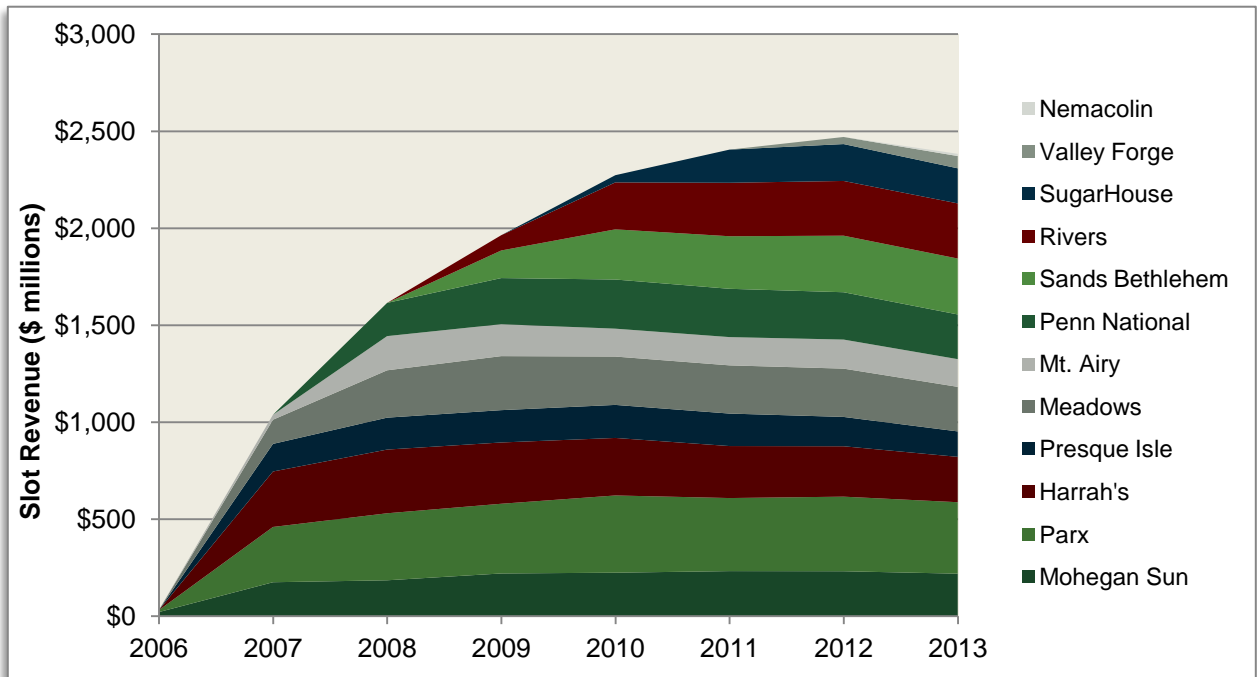
FIGURE 2.2 - SLOT UNITS BY PENNSYLVANIA COMMERCIAL CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

³ The data for Figure 2.2 and Figure 2.3 can be found in Appendix C.

FIGURE 2.3 – SLOT REVENUE BY PENNSYLVANIA COMMERCIAL CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

Table 2.3 shows year over year change in slot revenues by casino.⁴ Those casinos with a comparable baseline year form the “comparable casinos only” group shown at the bottom of the table.

A comparison of the annual growth rates for the “statewide total” and “comparable casinos only” lines illustrates the degree to which slot revenue growth is attributable to new supply entering the market versus growth in revenues at existing facilities. In 2008 and 2009, the existing casinos increased their slot revenue levels, even as new supply entered the market, helping to drive double-digit statewide slot revenue growth. From 2010 to 2012, slot revenues for existing casinos were generally flat, with statewide growth driven primarily by new supply. 2013 saw the first material decrease in slot revenues for existing casinos, as well as the first decrease in gaming revenues overall. Nine of the ten casinos that operated for the full year in both 2012 and 2013 saw a decrease in slot revenues in 2013, with Rivers posting the only gain.

⁴ Growth percentages are only shown in a given year for casinos that were operational for the full twelve months in both the year shown and the year prior, providing a valid basis for year over year comparison.

TABLE 2.3 – YEAR-OVER-YEAR SLOT REVENUE PERCENTAGE CHANGE, PENNSYLVANIA COMMERCIAL CASINOS

	Open Date	2008	2009	2010	2011	2012	2013
Mohegan Sun	Nov-2006	5.7%	19.0%	1.8%	3.6%	-0.3%	-5.4%
Parx	Dec-2006	21.2%	4.0%	10.8%	-5.4%	2.1%	-4.2%
Harrah's	Jan-2007	14.8%	-3.8%	-6.2%	-9.6%	-3.1%	-10.0%
Presque Isle	Feb-2007		1.4%	2.2%	-1.7%	-9.7%	-13.3%
Meadows	Jun-2007		14.1%	-10.5%	-0.2%	0.2%	-7.7%
Mt. Airy	Oct-2007		-6.7%	-12.6%	1.4%	2.8%	-4.7%
Penn National	Feb-2008			6.6%	-1.8%	-2.0%	-5.6%
Sands Bethlehem	May-2009				4.7%	7.6%	-1.1%
Rivers	Aug-2009				13.9%	2.3%	0.8%
SugarHouse	Sep-2010					11.2%	-5.0%
Valley Forge	Mar-2012						
Nemacolin	Jun-2013						
Statewide Total⁵		55.5%	21.6%	15.7%	5.8%	2.7%	-3.5%
Comparable Casinos Only⁶		15.1%	4.2%	-0.4%	-0.1%	1.2%	-5.1%

Source: Pennsylvania Gaming Control Board (2014)

2.1.2 TABLE GAME SUPPLY AND REVENUE

Figure 2.4 illustrates the annual supply of table games in Pennsylvania by casino. Table gaming began in July 2010, and was offered in all nine of the casinos open at that time. Three subsequent casinos have each opened with table games available in addition to slot machines. Table game supply grew significantly in 2011 and 2012 due to expanded offerings at several casinos, most notably Parx and Sands Bethlehem. Growth continued in 2013 with the opening of Nemacolin and another round of table additions at Sands Bethlehem, which more than offset supply reductions at Parx and Presque Isle.

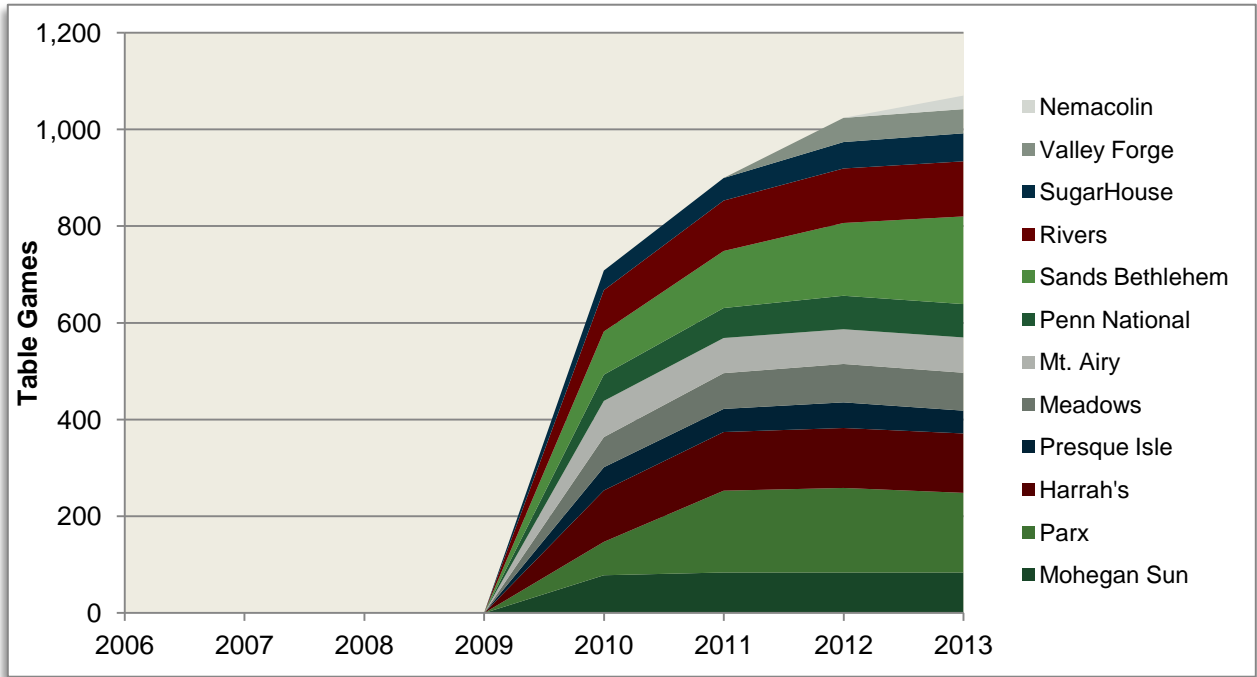
Figure 2.5 illustrates the annual distribution of table game revenues in Pennsylvania by casino. Revenue growth was significant in 2011, above and beyond what would be expected simply due to a full year of operation, and growth continued in 2012 and 2013. Table game revenues are distributed more unevenly than slot revenues, with the top three earners (Sands Bethlehem, Parx and Harrah's) accounting for 52% of total table revenue in 2013, compared to the 39% accounted for by the top three earners of slot revenue (Parx, Sands Bethlehem and Rivers).⁷

⁵ Change in total slot revenue from prior year for all casinos (including those opening during the year or the prior year).

⁶ Change in total slot revenue only among casinos open for the full year, and full prior year.

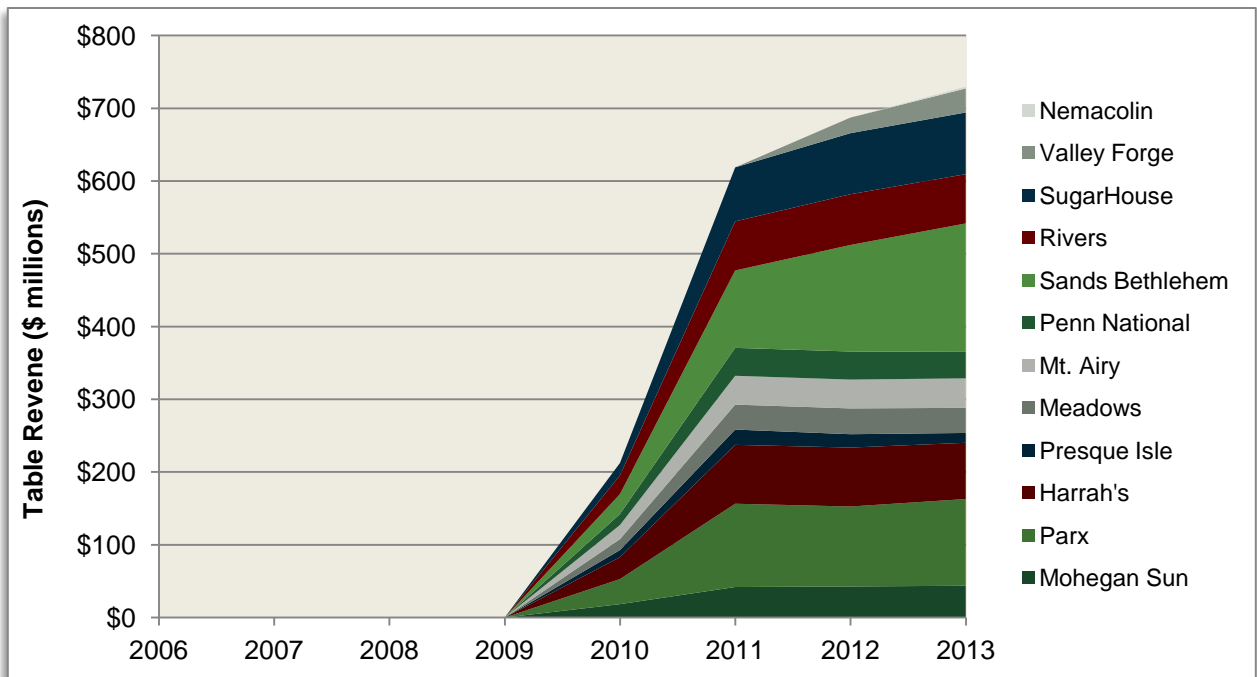
⁷ Data for Figure 2.4 and Figure 2.5 can be found in Appendix C.

FIGURE 2.4 – TABLE GAME UNITS BY PENNSYLVANIA COMMERCIAL CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.5 – TABLE GAME REVENUE BY PENNSYLVANIA COMMERCIAL CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

Table 2.4 shows year over year change in table game revenue by casino. Since table gaming began in July 2010, year over year comparisons are only possible beginning in 2012. Those casinos with a comparable baseline year form the “comparable casinos only” group shown at the bottom of the table. In both 2012 and 2013, table game revenues grew at existing casinos, as well as statewide.

Within the pool of existing casinos, however, there was variation in relative performance. Sands Bethlehem saw significant increases in revenues each year, consistent with their expansion in supply, while Presque Isle saw double-digit decreases in both 2012 and 2013. Four different casinos posted table revenue growth in one of the two years, but a loss in the other.

TABLE 2.4 – YEAR-OVER-YEAR TABLE REVENUE PERCENTAGE CHANGE, PENNSYLVANIA COMMERCIAL CASINOS

	Tables Date	2012	2013
Mohegan Sun	Jul-2010	1.7%	2.4%
Parx	Jul-2010	-4.0%	8.4%
Harrah's	Jul-2010	0.0%	-4.6%
Presque Isle	Jul-2010	-12.4%	-26.5%
Meadows	Jul-2010	3.3%	2.5%
Mt. Airy	Jul-2010	0.2%	2.2%
Penn National	Jul-2010	0.4%	-5.6%
Sands Bethlehem	Jul-2010	37.7%	20.5%
Rivers	Jul-2010	3.3%	-2.9%
SugarHouse	Sep-2010	13.1%	1.0%
Valley Forge	Mar-2012		
Nemacolin	Jun-2013		
Statewide Total⁸		11.1%	6.2%
Comparable Casinos Only⁹		7.6%	4.3%

Source: Pennsylvania Gaming Control Board (2014)

2.1.3 REVENUE PER POSITION

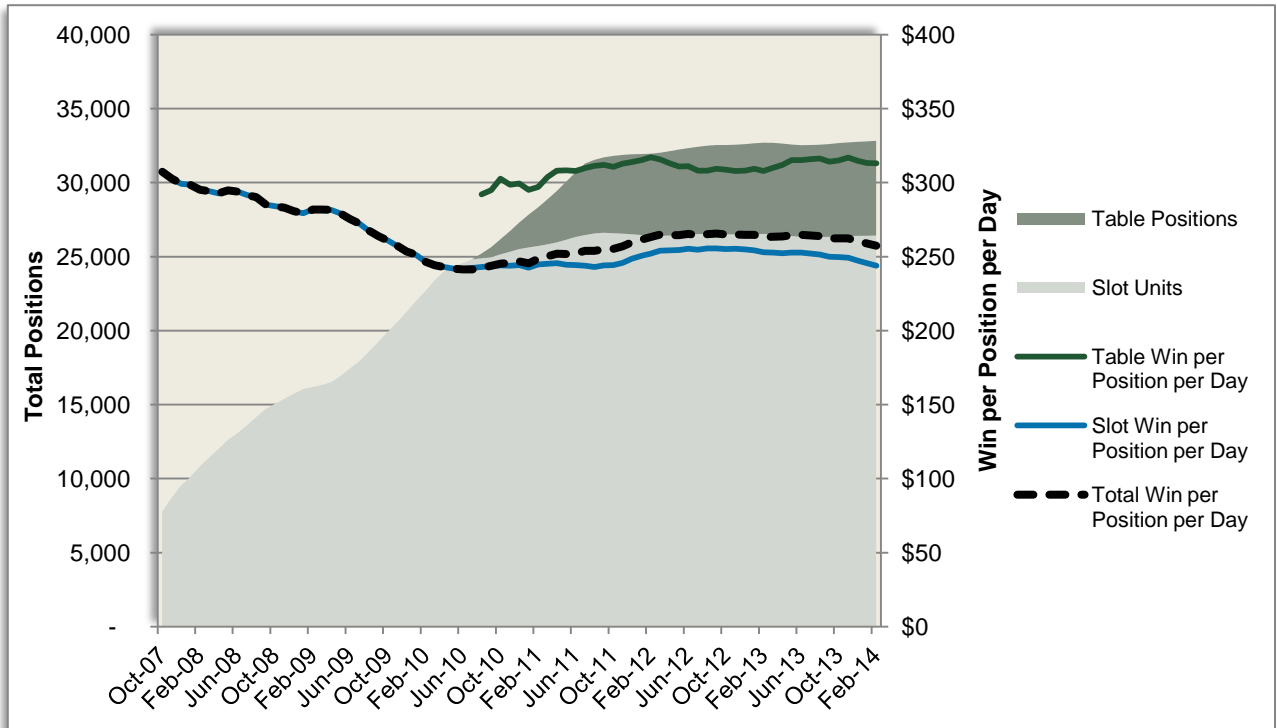
Calculating gaming revenue on a per position per day basis allows for an assessment of the impact of new supply on the profitability of existing properties. Figure 2.6 shows the twelve month trailing average of the number of slot and table positions, and win per position per day for slots, tables and total (slots plus tables). For slots, each machine represents one position, and thus the terms “position” and “unit” are interchangeable. For tables, an industry standard of six positions per table unit is used to calculate total positions.

⁸ Change in total slot revenue from prior year for all casinos (including those opening during the year or the prior year).

⁹ Change in total slot revenue only among casinos open for the full year, and full prior year.

Slot win per position per day was above \$300 for the first year of activity, but declined steadily to just under \$250 as the supply of slots increased in 2008 and 2009. Slot win per position per day stabilized in 2010 and 2011, and then ticked up slightly in 2012 before declining slightly in late 2013 and early 2014. Table game win per position per day grew slightly throughout the first year of operations and has remained largely stable since, increasing slightly in 2013. Total win per position grew with the introduction of table games, due to their higher win on a per position basis. The general trend in total win per position per day reflects the relative stability of win per position for both gaming types over the past three years.

FIGURE 2.6 – TOTAL POSITIONS AND WIN PER POSITION PER DAY (TRAILING 12 MONTHS) FOR PENNSYLVANIA COMMERCIAL CASINOS, JULY 2007 - MARCH 2014

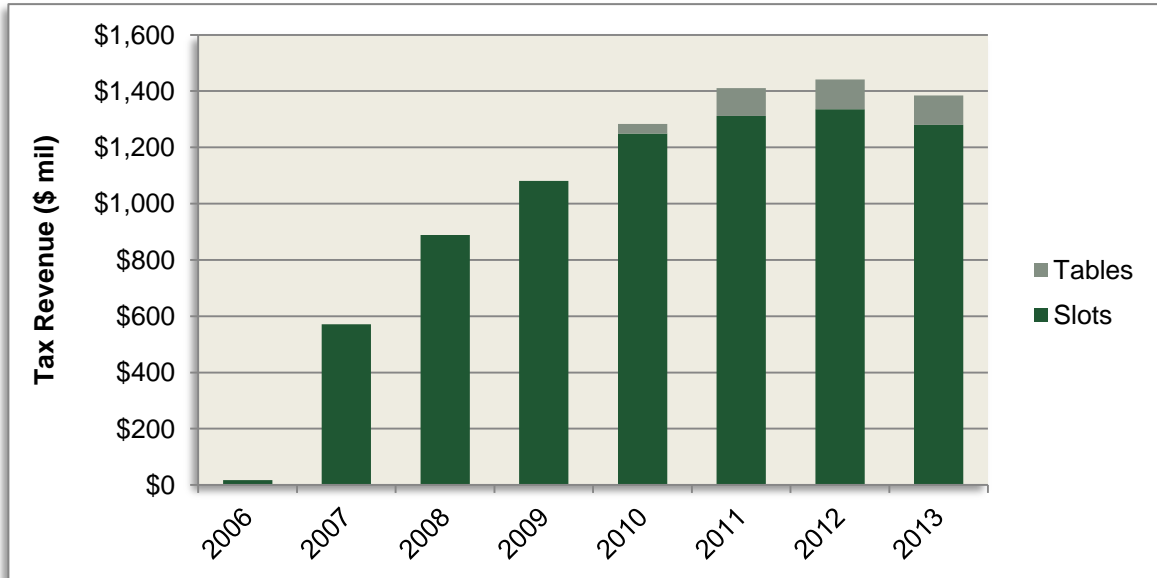


Source: Pennsylvania Gaming Control Board, Econsult Solutions Inc. (2014)

2.2 STATE AND LOCAL GAMING TAX REVENUES

Gaming tax revenues grew each year from 2007 to 2012, exceeding \$1.4 billion annually before falling slightly in 2013. 92% of tax revenue generated by Pennsylvania casinos in 2013 came from slot earnings. Figure 2.7 shows total state and local tax generation for Pennsylvania casinos on an annual basis.

FIGURE 2.7 – PENNSYLVANIA GAMING TAX REVENUES, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

Table 2.5 shows the distribution of slot and table revenues into the various statutorily mandated funds. For slots, 34% of revenues go to the state for property tax relief and wage tax relief in Philadelphia, 12% to the Pennsylvania Race Horse Development Fund, and 5% to the Economic Development and Tourism Fund. The county’s portion of Local Share Assessment is 2% of slot revenues, and the municipality’s portion is the greater of 2% of slot revenues or \$10 million annually (except for the Category 3 and Philadelphia casinos where there is no \$10 million minimum).¹⁰ Non Category 3 casinos with less than \$500 million in slot revenues therefore pay \$10 million plus 2% and have an effective Local Share Assessment of greater than 4%. For tables, the state general fund receives 12% (14% for the first two years of table game operations for each casino). The Local Share Assessment is 2% of table revenue. Further information on the distribution of the Local Share Assessment by casino is provided in Section 2.4 of this report.

¹⁰ The amount paid to the municipality cannot exceed 50% of their annual fiscal budget. In the event the amount owed by casinos exceeds that, the balance of the amount goes to the county.

The remainder of revenue is retained by the casinos and used for operating expenses, staff, overhead, development, and other expenses, as well as profit. The retained revenue percentage varies by casino and year depending on the relative distribution of slot and table revenues.

TABLE 2.5 – PENNSYLVANIA DISTRIBUTION OF GAMING TAX REVENUE BY FUND

Slot Revenue		Table Revenue	
Fund	Percentage	Fund	Percentage
State Tax – Property/Wage Tax Relief	34%	State Tax – General Fund ¹¹	12% or 14%
Pennsylvania Race Horse Development Fund	12%	Local Share Assessment	2%
Economic Development and Tourism Fund	5%		
Local Share Assessment	4% or 2% plus \$10 mil		

Source: Pennsylvania Gaming Control Board (2014)

Table 2.6 and Figure 2.8 show the annual distribution of casino tax revenues by fund. A total of \$8.1 billion was generated in state and local tax gaming revenue from 2006 to 2013. State tax revenue used to provide property tax relief has amounted to more than \$4.8 billion, while the Pennsylvania Race Horse Development fund has received the next largest share, at more than \$1.6 billion.

TABLE 2.6 – PENNSYLVANIA GAMING TAX REVENUE GENERATED BY FUND, 2006-2013 (IN \$ MIL)

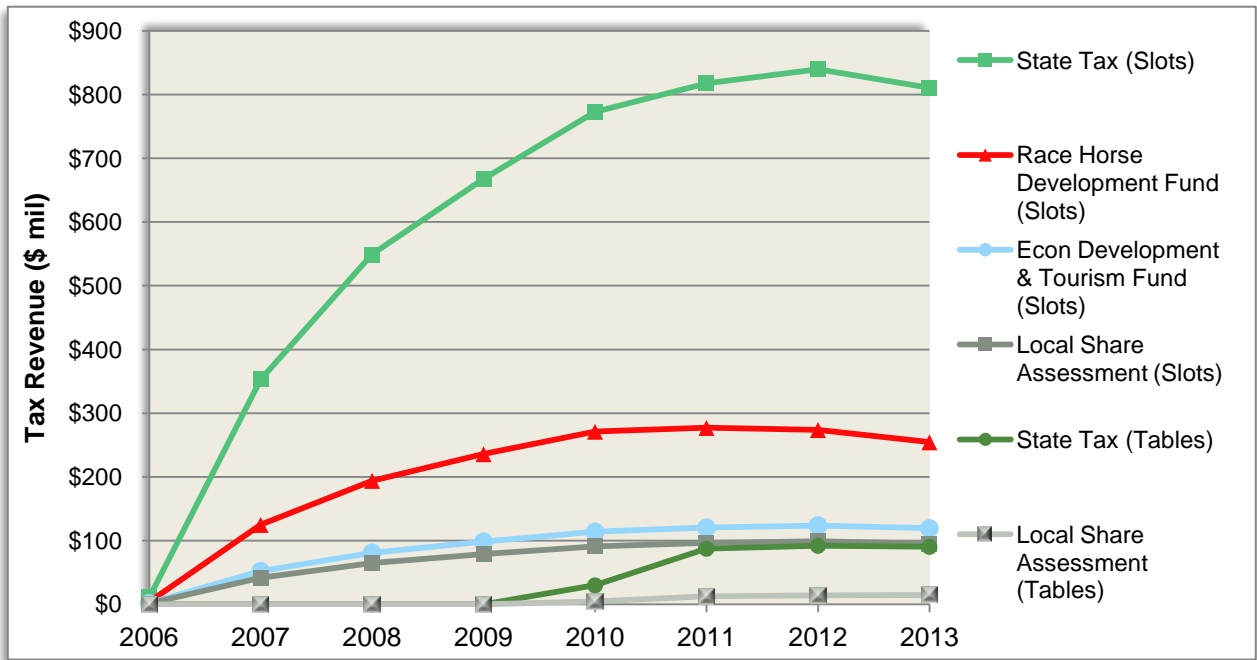
Revenue (\$ mil)	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Slot Tax Revenue	17.4	571.5	888.6	1,080.5	1,248.8	1,311.5	1,336.2	1,279.5	7,733.9
State Tax Revenue (property/wage tax relief)	10.7	353.2	549.2	668.0	773.1	818.0	840.1	810.6	4,823.1
Race Horse Development Fund	3.8	124.7	193.9	235.7	271.0	277.0	273.7 ¹²	254.4	1,634.1
Economic Development & Tourism Fund	1.6	52.0	80.8	98.2	113.7	120.3	123.5	119.2	709.3
Local Share Assessment	1.3	41.6	64.6	78.6	91.0	96.2	98.8	95.4	567.4
Total Table Tax Revenue					34.0	99.6	105.6	104.9	344.0
State Tax Revenue (general fund)					29.7	87.2	91.8	90.3	299.1
Local Share Assessment					4.2	12.4	13.7	14.6	45.0
Total Tax Revenue	17.4	571.5	888.6	1,080.5	1,282.8	1,411.1	1,441.8	1,384.4	8,077.9

Source: Pennsylvania Gaming Control Board (2014)

¹¹ In addition to traditional table games taxed at 12-14%, state statute allows for electronic table games, which are taxed at a rate of 35%. Currently, no casinos offer this option, although Parx and Rivers have taken advantage of it in the past, with statewide supply never rising above nine machines. Due to its insignificance in tax rate accumulation, this differential rate is generally not taken into account in this analysis.

¹² Despite the increase in the revenue base and a consistent tax rate for the Race Horse Development Fund, Pennsylvania Gaming Control Board data shows a decline in Race Horse Fund tax revenues for 2012.

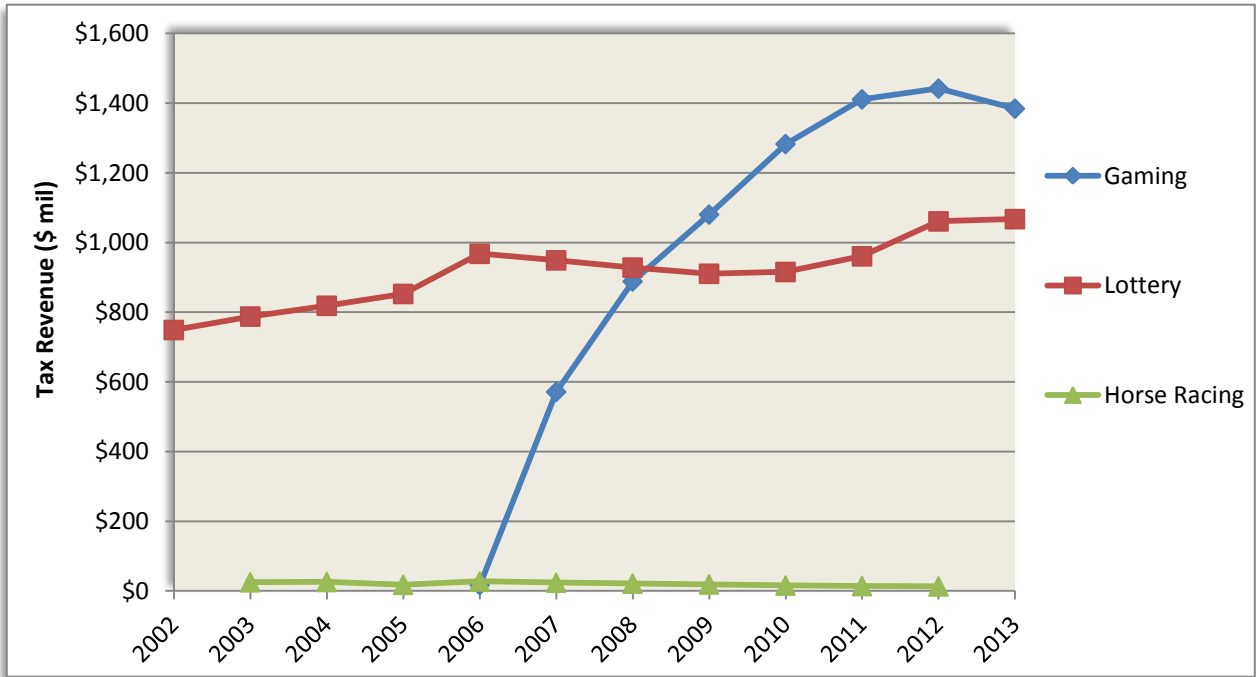
FIGURE 2.8 – PENNSYLVANIA GAMING TAX REVENUES BY FUND, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

Figure 2.9 compares tax revenue generated by the gaming, lottery and horse racing industries in Pennsylvania from 2002 to 2013. Lottery tax revenues grew consistently from 2002 to 2006 before dipping slightly from 2007 to 2011. In 2012 and 2013, the lottery generated more than \$1 billion in tax revenue. The gaming industries surpassed the lottery in tax generation in 2008, the second full year of gaming operations.

FIGURE 2.9 – PENNSYLVANIA GAMING, LOTTERY, AND HORSE RACING TAX REVENUES, 2002-2013



Source: Pennsylvania Gaming Control Board, PA Lottery, PA Racing Commission, Econsult Solutions, Inc. (2014)



2.3 ECONOMIC IMPACT

The economic impact to date of the gaming industry to the Commonwealth and to the community has been significant.¹³ This economic impact, typically measured by the economic activity and employment generated, comes from two basic sources: 1) a one-time construction period of impact generated by the capital investment and 2) the annual impacts of the casinos ongoing operations. Furthermore these economic impacts in turn generate fiscal impacts, i.e., tax revenues to the state and local governments.¹⁴

Since the passage of the slots gambling bill in Pennsylvania in 2004, developers have built twelve casinos in the Commonwealth, with six having a horse racing component (three thoroughbred and three standardbred tracks). Initial development expenditures over various construction periods of Pennsylvania casinos total approximately \$3.1 billion (see Table 2.7).

TABLE 2.7 – ECONOMIC IMPACTS OF INITIAL DEVELOPMENT OF ALL CASINOS WITHIN THE COMMONWEALTH OF PENNSYLVANIA

Casino Name	County	Initial Development Expenditures (\$M)	Opening Date	2013 Employment
Mohegan Sun	Luzerne County	\$267.0	Nov-06	1,732
Parx	Bucks County	\$191.8	Dec-06	1,825
Harrah's Philadelphia	Delaware County	\$405.0	Jan-07	1,672
Presque Isle	Erie County	\$186.0	Feb-07	916
Meadows	Washington County	\$284.0	Jun-07	1,260
Mount Airy Casino Resort	Monroe County	\$167.3	Oct-07	1,320
Penn National	Dauphin County	\$250.0	Feb-08	1,251
Sands Bethlehem	Northampton County	\$751.3	May-09	2,117
Rivers Casino	Allegheny County	\$372.3	Aug-09	1,782
SugarHouse Casino	Philadelphia County	\$102.8	Sep-10	1,104
Valley Forge Casino Resort	Montgomery County	\$53.5	Apr-12	1,180
Lady Luck Casino Nemacolin	Fayette County	\$55.6	Jul-13	506
Total		\$3,086.6		16,665

Source: Sands Bethworks Gaming (2014), Lady Luck Casino (2014), Valley Forge Resort Casino (2014), Caesars Entertainment (2014), HSP Gaming (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

This \$3.1 billion in capital investments generated about \$4.7 billion in total output,¹⁵ supporting 39,000 jobs, and \$2.2 billion in labor income.¹⁶ The construction and related development costs

¹³ See Appendix A for additional detail on the methodology and multiplier basis behind the economic impact analysis for Pennsylvania Casinos.

¹⁴ Econsult Solutions uses IMPLAN software and multipliers produced by the Minnesota IMPLAN group.

¹⁵ Output represents the value of industry production. For an industry, output represents the total value of sales plus/minus changes in inventories. Output includes the value of intermediate inputs unlike value added.

¹⁶ Labor income is employee and proprietor compensation inclusive of wages, fringe benefits, and payroll taxes paid.

associated with Pennsylvania casinos also are a source of fiscal impacts for the Commonwealth. Counting only income taxes, sales & excise taxes, and business taxes, the initial development of Pennsylvania casinos generated about \$123 million in tax revenue for the Commonwealth since 2006 (see Table 2.8).

TABLE 2.8 – ECONOMIC AND FISCAL IMPACTS OF INITIAL DEVELOPMENT OF ALL CASINOS WITHIN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$M)	Value Added ¹⁷ (\$M)	Output (\$M)	Income Tax (\$M)	Sales and Excise Taxes (\$M)	Business Taxes (\$M)	Total (\$M)
Initial Capital Investment	39,387	\$2,158	\$2,576	\$4,740	\$39.2	\$74.7	\$8.8	\$122.7

Source: Sands Bethworks Gaming (2014), Lady Luck Casino (2014), Valley Forge Resort Casino (2014), Caesars Entertainment (2014), HSP Gaming (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

As of 2013, Pennsylvania casinos directly employed 16,665 people across the Commonwealth. The casino operations and induced spending¹⁸ from casino employees produced a grand total of about \$2.9 billion in total output, supporting about 25,000 total jobs and \$1.0 billion in total labor income. Casinos also invested large sums to renovate and maintain their facilities. In total, \$224 million in additional capital expenditures have been spent by the twelve Commonwealth casinos on renovations and upkeep. Annualized, the twelve casinos spend about \$76 million per year on renovations and upkeep combined. These capital expenditures generated about \$80 million in total output, supporting an additional 600 jobs, and \$37 million in labor income. Including both of these components, annual operations of Pennsylvania casinos translates to \$3.0 billion in total output, about 25,000 jobs, and \$1.0 billion in labor income.

In addition to the \$1.4 billion in gaming tax revenues from slots, table games, and horse racing handle, Pennsylvania casinos also generate tax revenues for the Commonwealth from operations and renovation and upkeep expenditures. Counting only income¹⁹, sales & excise, and business taxes, Pennsylvania casinos contribute about \$81 million in non-gaming taxes, annually. Of this tax revenue, \$78.5 million is generated from operations, and \$2.3 million is generated from upkeep and renovations (see Table 2.9).

¹⁷ Gross value added is the value of output less the value of intermediate consumption (goods used as inputs for a final or finished good); it is a measure of the contribution to GDP made by an individual producer, industry or sector.

¹⁸ The response by an economy to an initial change (direct effect) that occurs through re-spending of income received by a component of value added, in other words, the effect of employees spending their earnings within the economy.

¹⁹ Income taxes only include the taxes paid on wages and earning to the Commonwealth. Figures were calculated using the effective collection rate (1.82%).

TABLE 2.9 – ANNUAL ECONOMIC AND FISCAL IMPACTS OF ONGOING OPERATIONS AND UPKEEP OF ALL PENNSYLVANIA CASINOS WITHIN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$M)	Value Added (\$M)	Output (\$M)	Income Tax (\$M)	Sales and Excise Taxes (\$M)	Business Taxes (\$M)	Total (\$M)
Casino Operations	24,879	\$1,016	\$1,863	\$2,912	\$18.5	\$54.0	\$6.4	\$78.5
Casino Upkeep and Upgrades (annualized)	607	\$37	\$46	\$80	\$0.7	\$1.3	\$0.2	\$2.3
Total	25,486	\$1,053	\$1,909	\$2,992	\$19.2	\$55.3	\$6.6	\$81.1

Source: Sands Bethworks Gaming (2014), Lady Luck Casino (2014), Valley Forge Resort Casino (2014), Caesars Entertainment (2014), HSP Gaming (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4 INDIVIDUAL CASINO PERFORMANCE AND IMPACTS

This section provides a brief history and overview of each of Pennsylvania's twelve casinos, in the order in which they opened. It includes information on their construction, current amenities, revenues and tax contributions on an annual basis. It also reviews the economic impact that each has had on the Commonwealth, both during the construction phase and through ongoing operations and upkeep.

2.4.1 MOHEGAN SUN AT POCONO DOWNS

The state's first casino opened at the Pocono Downs racetrack (Plains Township, Luzerne County) in November 2006. Mohegan Sun is owned by the Mohegan Tribe of Indians of Connecticut, a federally recognized Indian tribe. Phase II of the casino opened in 2008. The current facility is 400,000 square feet, which includes fifteen bars and restaurants, retail shops and a spa. In 2013, a \$50 million hotel opened to the public, which provided 238 guest rooms and 20,000 square feet of events and convention space. Some amenities at the new hotel include a fitness center, pool and room service.

The surrounding area experienced an increase in hospitality construction in recent years including renovations to a classic inn and major renovations at a nearby resort. These new developments were welcomed by county tourism officials who see the area becoming a destination spot.²⁰

As Plains is a 1st Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for public interest projects. In 2012, Plains Township received \$3 million as the host municipality.²¹ The county itself received \$12 million and 4 local municipalities received \$1 million each, funds that went to business district redevelopment, a medical center, sewer system upgrades and new police vehicles.²² According to Pennsylvania Gaming Control Board (PGCB) reports, since 2006, the Mohegan Sun has generated \$63 million in local share assessment taxes (\$9.7 million in 2013) from slots and table game revenues (4% and 2% of slot and table revenues respectively). These local share assessment funds are distributed through the Commonwealth Financing Authority, and have helped to assist northeastern Pennsylvanians affected by flood damages.²³

In addition to the local share payments Plains Township receives, the Mohegan Sun also pays property taxes on the racetrack and casino facility. In 2014, both Plains Township and Wilkes-Barre Area School District are due to collect about \$2.2 million combined from property taxes.

²⁰ Allabaugh, D. (2012, December 22). *Local hotel scene changing with slew of renovation projects*. Retrieved from Citizens Voice: www.citizensvoice.com

²¹ Allabaugh, D. (2013, April 27). *Community Leaders Voice Support for Mohegan Sun Casino*. Retrieved from Standard Speaker: www.standardpeaker.com/

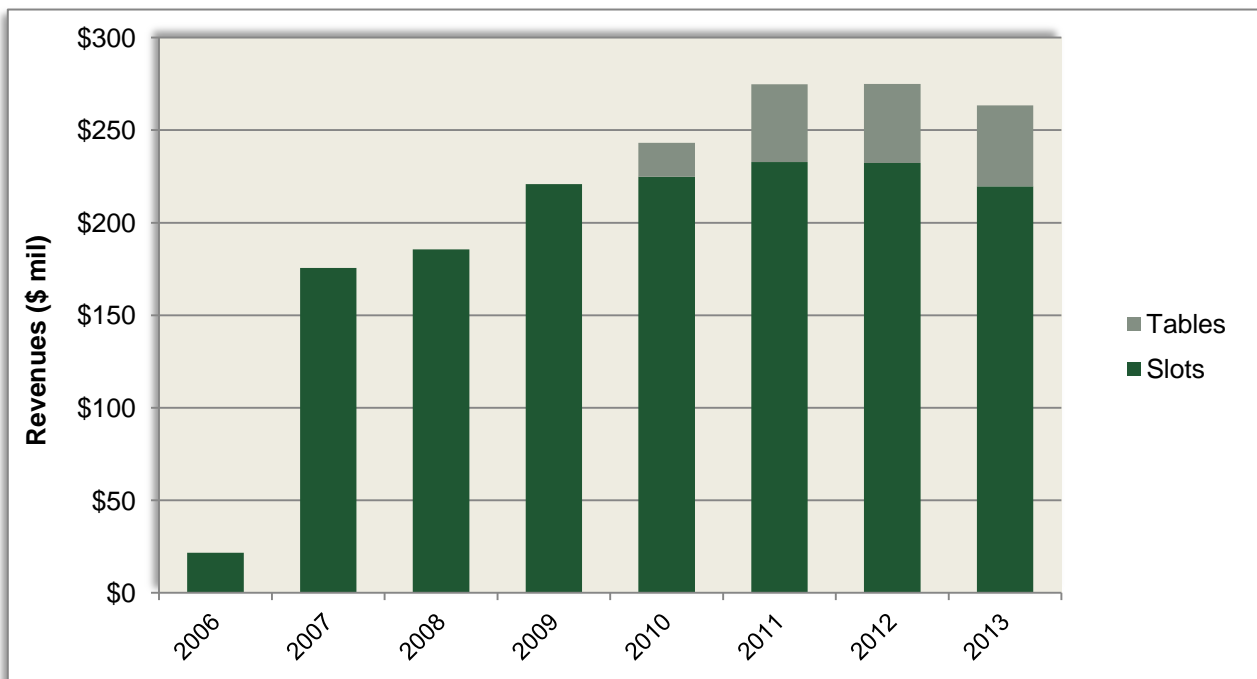
²² Allabaugh, D. (2013, March 21). *More than \$12 million in gaming grants distributed to Luzerne County communities*. Retrieved from The Times Tribune: www.thetimes-tribune.com/

²³ Swift, R. (2013, December 1). *Little-known agency controls state transportation funding*. Retrieved from newsitem.com: www.newsitem.com/

The nearby casinos, Mount Airy and Sands, opened in 2007 and 2009, respectively. Even after those openings, slot revenues continued to rise at Mohegan Sun until 2013, when they fell almost 6% from 2012. Slot revenues during the fiscal year ended June 30, 2013 were adversely impacted by the construction of the new hotel mentioned above. Table game revenues were also adversely impacted by the hotel construction in 2013 but were able to record increasing revenues in 2012 and 2013. As noted, a new hotel and convention center opened late last year. Some competition is already present in four New York casinos about two and a half hours away. Intrastate competition comes from the Mount Airy Casino and Sands Casino. Further, the legalization of small games of chance at bars and taverns could have an impact, albeit a small one, on gaming.

Mohegan Sun will likely see increased competition in coming years. Several new casinos have been authorized in New York State²⁴, and it is likely that one or more of the new casinos will compete with Mohegan Sun. Additionally, if table games become permitted in existing casinos in New York City, it would threaten Mohegan Sun’s revenue. Furthermore, if New Jersey permitted a casino in the Meadowlands, that would also threaten Mohegan Sun.

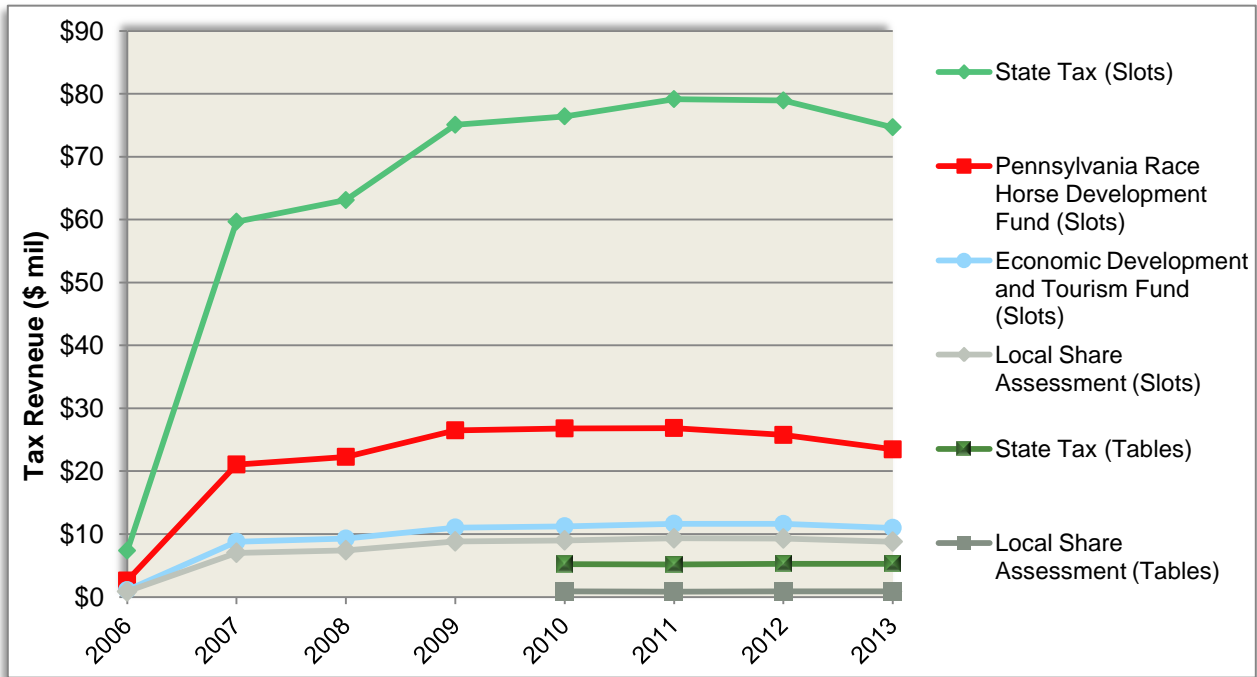
FIGURE 2.10 – ANNUAL SLOT AND TABLE REVENUE FOR MOHEGAN SUN, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

²⁴ Portfolio Media, Inc. (2013, November 8). *NY Voters Approved Casino Expansion-Now What?* Retrieved from Duane Morris: www.duanemorris.com

FIGURE 2.11 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR MOHEGAN SUN, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Plains being a 1st Class Township, only what's reported by PGCB

2.4.1.1 ECONOMIC IMPACT OF MOHEGAN SUN AT POCONO DOWNS

Breaking ground in 2005, capital investment expenditures were \$267 million between 2006 and mid-2010. These expenditures on construction include: architectural design services, legal services, furniture, and other items that generated nearly \$423 million in total economic impact for the Commonwealth, supporting about 3,800 jobs, and \$177 million in labor income (see Table 2.10).

The construction and related development costs associated with Mohegan Sun casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Mohegan Sun generated over \$10 million in tax revenue for the Commonwealth (see Table 2.10).

As of 2013, Mohegan Sun’s operations directly employed 1,732 people. Using IMPLAN Luzerne County specific multipliers, these jobs produced a grand total of about \$315 million in total output, supporting about 2,700 jobs and \$109 million in labor income. In addition to gaming and racing operations, Mohegan Sun has invested a significant sum of money into continued development and renovations of facility elements including the introduction of table games. Since mid-2010, Mohegan Sun has spent about \$33 million on renovations and upgrades. Annualized, Mohegan Sun has spent \$8 million on capital expenditures per year. These capital expenditures generated about \$9 million in total output, supporting an additional 80 jobs, and \$4 million in labor income. Including both of these components, annual operations of Mohegan Sun translates to \$330 million in total output, about 2,800 jobs, and \$113 million in labor income (see Table 2.10).

Excluding gaming revenues from slots, tables, and racing handle, Mohegan Sun also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, the casino generates about \$10 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.10).

TABLE 2.10 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE MOHEGAN SUN CASINO AT POCONO DOWNS IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	3,843	\$176.9	\$218.1	\$422.7	\$3.2	\$6.3	\$0.8	\$10.3
Casino Operations	2,729	\$109.1	\$199.7	\$315.2	\$2.0	\$5.8	\$0.7	\$8.5
Casino Upkeep and Upgrades (annualized)	80	\$3.7	\$4.8	\$9.1	\$0.1	\$0.1	\$0.0	\$0.3
Total (Annual Only)	2,809	\$112.8	\$204.5	\$324.3	\$2.1	\$5.9	\$0.7	\$8.7

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.2 PARX CASINO

The casino at Philadelphia Park (Bensalem Township, Bucks County) opened in December 2006 in an existing racetrack building, becoming southeastern Pennsylvania's first casino. It opened with 2,100 slot machines, 1,000 more machines than the state's first slots parlor, Mohegan Sun at Pocono Downs. In 2009, the casino (now called Parx) opened its permanent \$250 million facility. It added table games in 2010. In 2011, Parx opened an addition, Parx East, which featured more table gaming and a new restaurant. The casino's amenities include four restaurants and four bars. The 360 Bar, a bar and music venue, is popular at night. One of the restaurants, Chickie's & Pete's, is well known in the Philadelphia area for sports watching. The casino does not have a hotel, entertainment venue or significant retail shopping.

As Bensalem is a 2nd Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects.

According to PGCB reports, since 2006, Parx has contributed more than \$108 million to Bucks County, including \$17 million in 2013 via local share assessment (4% and 2% of slot and table revenues respectively). These funds have benefited Bensalem Township and adjacent municipalities. In 2013, \$3.7 million was awarded to Lower Bucks County communities, with funds going to streetscape improvements, Main Street work, upgrades for emergency personnel and public health projects.²⁵ In addition, Parx also does procurement and purchasing from local vendors.²⁶

In addition to the local share payments Bensalem Township receives, Parx Casino also pays property taxes on the racetrack and casino facility. In 2014, both Bensalem Township and Bensalem Township School District are due to collect about \$2.3 million combined from property taxes.

Parx is well positioned, geographically, to attract customers from the Philadelphia suburbs and Southern New Jersey, which includes prospective customers of the Atlantic City casinos. Competition for patrons comes from the other three Philadelphia area casinos as well as Atlantic City, three racinos in Delaware, a casino in Perryville, MD, the central and northeastern Pennsylvania casinos and two in the New York City area.

The other three Philadelphia area casinos opened in 2007, 2010 and 2012. Slot revenues increased from 2006 through 2012, decreasing slightly to \$368 million in 2013. Table revenue grew to \$115 million in 2011, and was \$119 million in 2013. Parx is the highest grossing casino in Pennsylvania. Parx has a significant amount of unused space that has been built but not filled out. This space could be used for an event center and additional gaming space.²⁷

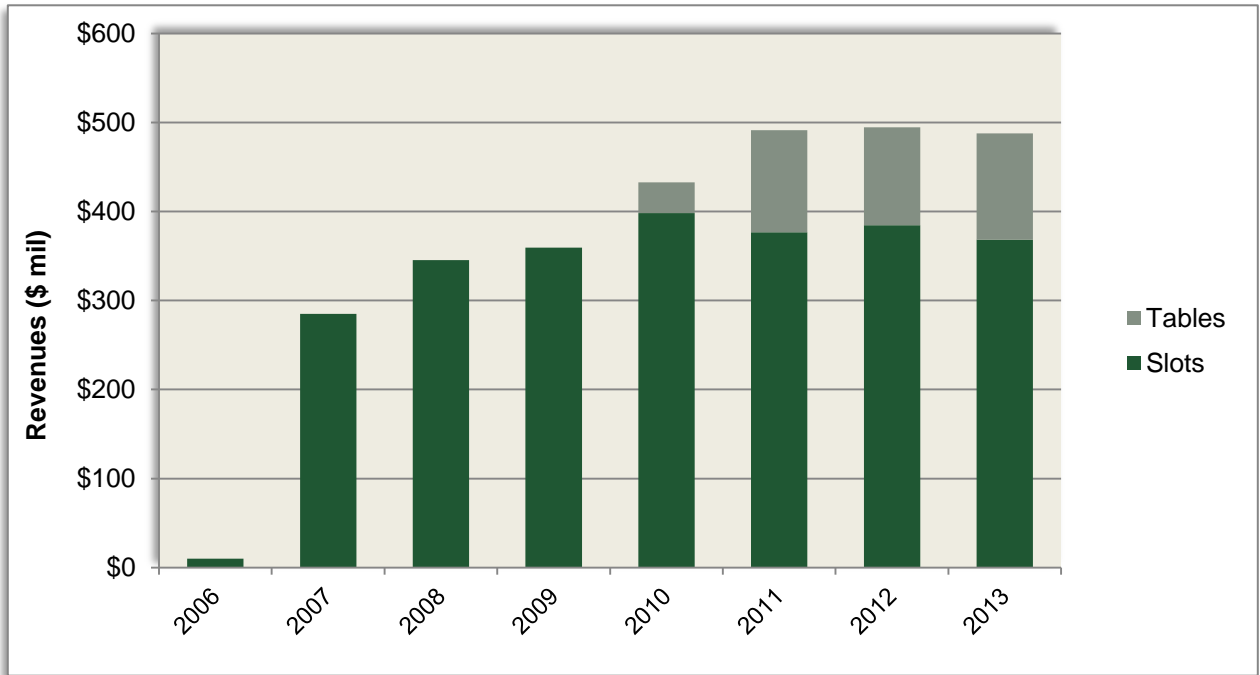
²⁵ Sofield, T. (2013, December 6). *JACKPOT: Local Towns Win Big with Casino Grants*. Retrieved from Levittown Now: www.levittownnow.com/

²⁶ Hart, J. (2011, December 15). *Doing Business with Parx Casino*. Retrieved from Bensalem Patch: bensalem.patch.com/

²⁷ Wanko, L. (2012, April 5). *Pennsylvania Overtakes New Jersey for Number Two Spot in Gaming*. Retrieved from NJTV News: www.njtvonline.org/

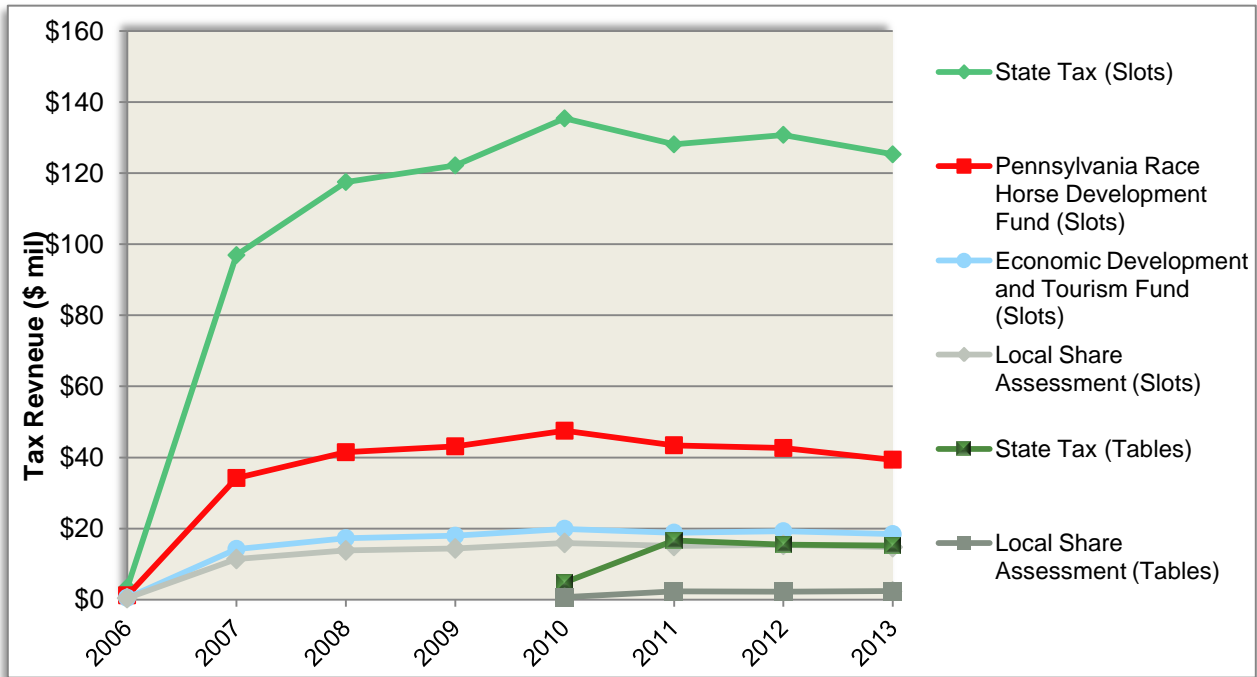
Revenues from Parx will likely be impacted by the second Philadelphia County casino. Parx will also likely be affected by the expansion of gaming in southern New York or in New Jersey outside of Atlantic City.

FIGURE 2.12 – ANNUAL SLOT AND TABLE REVENUE FOR PARX, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.13 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR PARX, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Bensalem being a 2nd Class Township, only what's reported by PGCB

2.4.2.1 ECONOMIC IMPACT OF PARX CASINO

Capital investments associated with Parx Casino cost about \$190 million. These expenditures on construction, architectural design services, administrative, furniture, and other items generated over \$286 million in total economic impact for the Commonwealth, supporting about 2,100 jobs, and \$140 million in labor income.

The construction and related development costs associated with Parx casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the capital investment expenditures of Parx generated about \$8 million in tax revenue for the Commonwealth (see Table 2.11).

As of 2013, Parx’s operations directly employed 1,825 people. Using IMPLAN county specific multipliers, these jobs produced a grand total of about \$307 million in total output, supporting about 2,700 jobs and \$103 million in labor income. In addition to racing and gaming operations, Parx has invested a significant sum of money into continued development and renovations of facility elements. Since mid-2010, Parx has spent about \$109 million on renovations and upgrades. Annualized, Parx has spent \$36 million on capital expenditures per year. These capital expenditures generated about \$38 million in total output, supporting an additional 270 jobs, and \$18 million in labor income. Including both of these components, annual operations of Parx translates to \$345 million in total output, about 2,900 jobs, and \$121 million in labor income.

Excluding gaming revenues from slots, table games, and racing handle, Parx also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Parx generates about \$9 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.11).

TABLE 2.11 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE PHILADELPHIA PARX CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	2,094	\$140.1	\$165.1	\$285.7	\$2.5	\$4.8	\$0.6	\$7.9
Casino Operations	2,664	\$102.9	\$195.2	\$306.7	\$1.9	\$5.7	\$0.7	\$8.3
Casino Upkeep and Upgrades (annualized)	268	\$18.3	\$22.2	\$37.7	\$0.3	\$0.6	\$0.1	\$1.0
Total (Annual Only)	2,932	\$121.2	\$217.4	\$344.4	\$2.2	\$6.3	\$0.74	\$9.3

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.3 HARRAH'S PHILADELPHIA CASINO & RACETRACK

The state's third casino, originally called Harrah's Chester, opened in a \$430 million facility in January 2007 (Chester City, Delaware County). It is owned by Caesars Entertainment. Local officials saw the opening as a catalyst for economic development, investment and job creation in a city that has high unemployment and poverty rates.²⁸ In 2012, casino officials changed the name from Harrah's Chester to Harrah's Philadelphia as a means to be more competitive and to draw on the regionalism of Caesars Entertainment's marquee property in the state. At the time of the name change, Harrah's brought in 200 more slot machines and debuted new dining options. Amenities include six restaurant and bar establishments.

Harrah's was constructed in a Keystone Opportunity Zone, a designation for a distressed geographic area where property owners receive state and local tax relief in exchange for new development and job creation. These benefits expired at the end of 2013, so Harrah's will have to pay property taxes that will benefit the county, city and local school district.²⁹ As Chester is a 3rd Class City, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects. However, the city of Chester has an agreement with Harrah's to provide it extra revenue as part of a redevelopment agreement in the form of an additional city consideration of 2% of slot revenues and another credit against the \$10 million minimum if 2% of slot revenues is less than that minimum. Through this arrangement, Chester is guaranteed at least \$10 million annually.³⁰ Outside of this arrangement, Harrah's also gives about \$6 million annually to Delaware County.³¹

According to PGCB reports, overall, Harrah's has contributed over \$84 million in local share payments since 2007 (4% and 2% of slot and table revenues respectively).

In addition to the local share payments Chester City receives, Harrah's Philadelphia will also pay property taxes on the racetrack and casino facility. In 2014, Chester City, Chester-Upland School District and Delaware County are due to collect about \$5 million combined from property taxes under current assessments and millage rates.

Harrah's is also involved in local charities and nonprofits. In recent years, the casino has given \$120,000 to the Chester Education Foundation, supported some of their employees with \$5,000 in forgivable loans towards down payments and closing costs for home purchases and donated over \$1 million for scholarships and grants.³²

Located in the Philadelphia area, Harrah's competes with the other three casinos in and around the city in addition to the three racinos in Delaware. Regional competition also comes from Atlantic City and two existing casinos in Maryland, with a third on the way in Baltimore³³, all under

²⁸ Milford, M. (2006, February 15). *Chester, PA, Depressed for Years, Awaits a Casino*. Retrieved from New York Times: www.nytimes.com

²⁹ Brubaker, H. (2013, December 26). *In Chester, Harrah's Losing its Tax Break*. Retrieved from philly.com: www.philly.com

³⁰ City of Chester, Redevelopment Authority of the County of Delaware

³¹ Kopp, J. (2012, April 3). *Harrah's to drop Chester, add Philadelphia in its rebranding*. Retrieved from Daily Times News: www.delcotimes.com/

³² Ives, C. (2013, June 18). *Harrah's Philadelphia partners with local art gallery for community enrichment*. Retrieved from examiner.com: www.examiner.com/

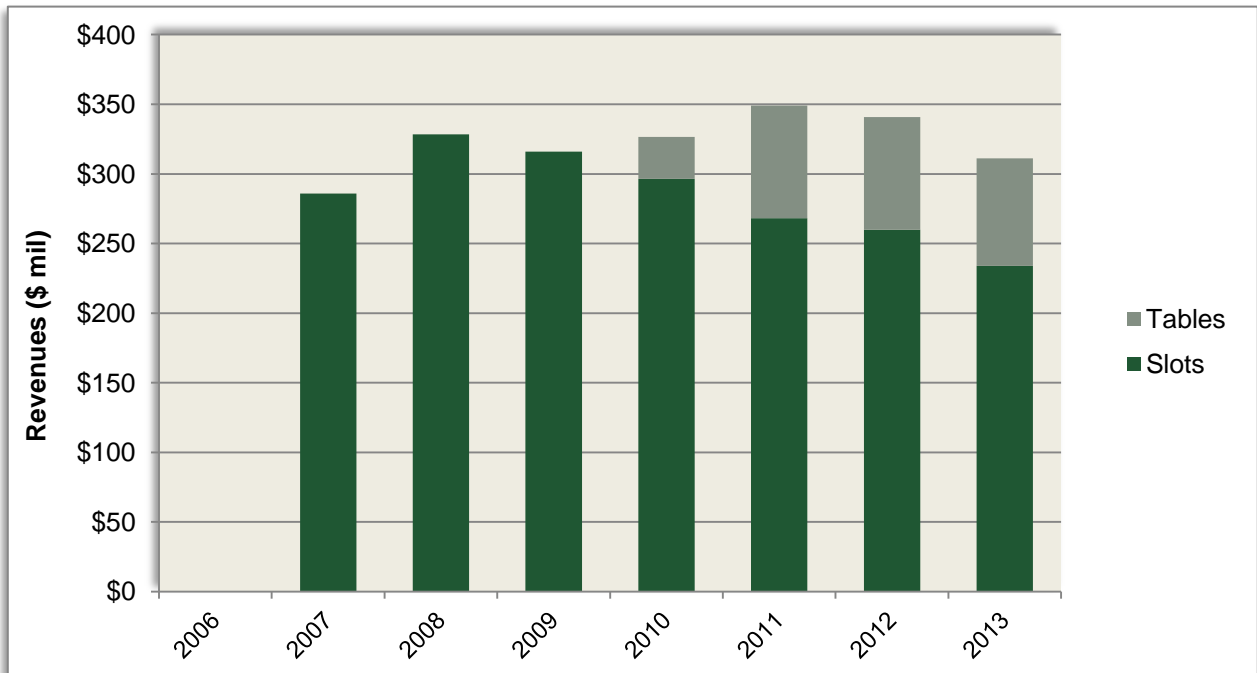
³³ Lac, J. F. (2014, March 7). *It's Boom Time in Maryland for Casino Hiring, with Horseshoe Opening This Summer*. Retrieved from The Washington Post: www.washingtonpost.com

two hours away. Looking elsewhere in Pennsylvania, the three other eastern casinos are under two hours away. Locally, the pending second Philadelphia casino may also attract a portion of Harrah’s customer base.

Slots revenues have declined from 2009 onward. They dropped 9.6% in 2011, which was SugarHouse’s first full year of operation, and 10% in 2013, which was Valley Forge’s first full year. Table revenues saw a minimal increase in 2012 from the previous year, yet experienced a 5% drop in 2013.

To mark Harrah’s 7th Anniversary in 2014, the casino is planning on expanding its gaming operations by opening a high-limit game room, introducing additional open-to-the-public tournaments and giving away trips.³⁴

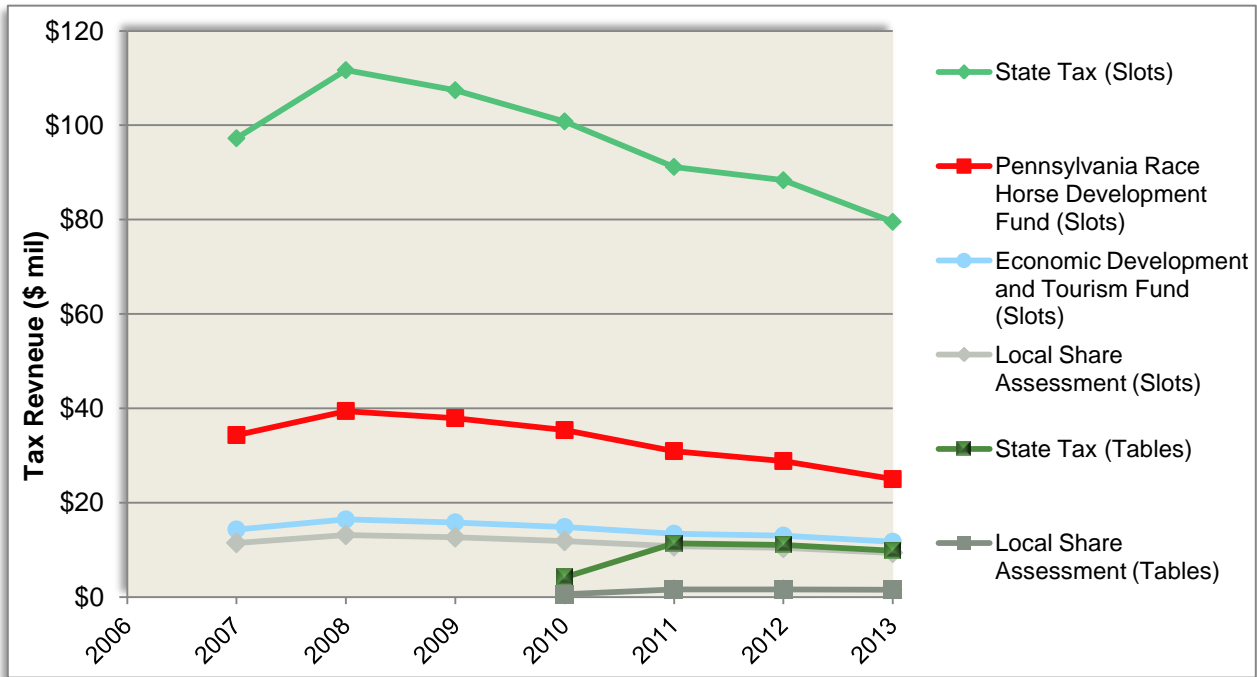
FIGURE 2.14 – ANNUAL SLOT AND TABLE REVENUE FOR HARRAH’S PHILADELPHIA, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

³⁴ Roncace, K. (2014, January 17). *Harrah's Philadelphia Celebrates 7th Anniversary with Contests and Give-aways*. Retrieved from NJ.com: www.nj.com

FIGURE 2.15 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR HARRAH’S PHILADELPHIA, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Chester being a 3rd Class City or its redevelopment arrangement, only what’s reported by PGCB

2.4.3.1 ECONOMIC IMPACT OF HARRAH’S PHILADELPHIA CASINO

Breaking ground in 2006, Harrah’s Philadelphia became the second casino, and only standardbred racetrack in the Philadelphia area. Caesars Entertainment estimates that initial capital development associated with Harrah’s Philadelphia cost about \$450 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated \$645 million in total economic output within the Commonwealth, supporting about 4,700 jobs, and \$307 million in labor income.

The construction and related development costs associated with Harrah’s casino are also the source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Harrah’s generated about \$18 million in tax revenue for the Commonwealth (see Table 2.12).

As of 2013, Harrah’s operations employed 1,672 people. Using IMPLAN Chester County specific multipliers, these jobs produced a grand total of about \$328 million in total output, supporting about 2,600 jobs and \$124 million in labor income. In addition to racing and gaming operations, Harrah’s has made annual renovation expenditures to its gambling and racing facilities. Since mid-2010 Harrah’s has spent about \$9 million on renovations and upgrades. Annualized, Harrah’s has spent about \$3 million on capital expenditures per year. These capital expenditures generated about \$3 million in total output, supporting an additional 20 jobs, and \$2 million in labor

income. Including both of these components, annual operations of Harrah's translates to 331 million in total output, about 2,600 jobs, and \$126 million in labor income

Excluding gaming revenues from slots, table games, and racing handle, Harrah's also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Harrah's generates about \$9 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.12).

TABLE 2.12 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE HARRAH'S PHILADELPHIA CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	4,749	\$306.6	\$366.9	\$644.7	\$5.6	\$10.6	\$1.3	\$17.5
Casino Operations	2,607	\$124.1	\$214.3	\$327.9	\$2.3	\$6.2	\$0.7	\$9.2
Casino Upkeep and Upgrades (annualized)	23	\$1.5	\$1.9	\$3.3	\$0.0	\$0.1	\$0.0	\$0.1
Total (Annual Only)	2,630	\$125.7	\$216.2	\$331.2	\$2.3	\$6.3	\$0.7	\$9.3

Source: Caesars Entertainment (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.4 PRESQUE ISLE DOWNS CASINO

The state's fourth casino, Presque Isle Downs, opened in February 2007 (Summit Township, Erie County). Owned by MTR Gaming Group, the property is also home to a thoroughbred racetrack. Because of its location in northwestern Pennsylvania, the casino can draw from intrastate, Ohio and New York patrons. In spring 2013, Presque Isle upgraded the casino floor by adding a new high roller room. Construction has also commenced on a Wyndham-branded hotel with 118 rooms directly across from the casino that is slated to open mid-2014 and will be managed by Presque Isle.³⁵ The casino facility houses four restaurants, an ice cream shop and three bars that host live music acts.

As Summit is a 2nd Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects. According to PGCB reports, since 2007, Presque Isle has contributed nearly \$45 million in local share payments to the County (\$5.5 million in 2013) (4% and 2% of slot and table revenues respectively). The restricted portion of the local share from Presque Isle is managed by the Erie County Gaming Revenue Authority, which distributes funds to the county. In 2012, the Authority received \$5.8 million, and since 2009, has awarded \$21 million in grants with monies going to local anchors like the Erie Art Museum, Erie Zoo, Erie County Historical Society and Experience Children's Museum, among others. The Authority has also funded \$2 million in new business development and \$3 million in low-interest loans meant to spur job growth in low-income areas. Furthermore, the unrestricted portion of the local fund is administered by the County as it sees fit and has gone to fund projects like the Erie Airport runway extension and improvements at nursing homes.³⁶

In addition to the local share payments Summit Township receives, Presque Isle also pays property taxes on the racetrack and casino facility. In 2014, both Summit Township and Fort Leboeuf School District are due to collect about \$800,000 combined from property taxes.

Slot revenues increased at Presque Isle until 2011, when they experienced a slight drop, and in 2012 when they declined almost 10% thanks in part to the Cleveland casino opening that year. Revenues dipped 13% in 2013, which saw the opening of yet another Ohio casino in North Randall. Table games also saw drops in revenue, dipping 12% between 2011 and 2012 and 27% in 2013.

Presque Isle competes with southwestern casinos, like Rivers Casino, located about two hours away, and Meadows Racetrack & Casino which is a little over two hours away. The new Lady Luck Nemaquin, which is about three hours away, also provides some competition and a potential racino in Lawrence County less than two hours away could also attract local patrons.³⁷ In addition, competition also comes from casinos in Ohio. Casinos in Cleveland, North Randall and Northfield, all less than two hours away, can attract and retain local crowds. Moreover, a new racino is slated to open in Youngstown, Ohio also less than two hours away, in 2014.³⁸ There is

³⁵ Guerriero, J. (2013, June 10). *Hotel construction near Erie casino starts*. Retrieved from Go Erie: www.goerie.com/

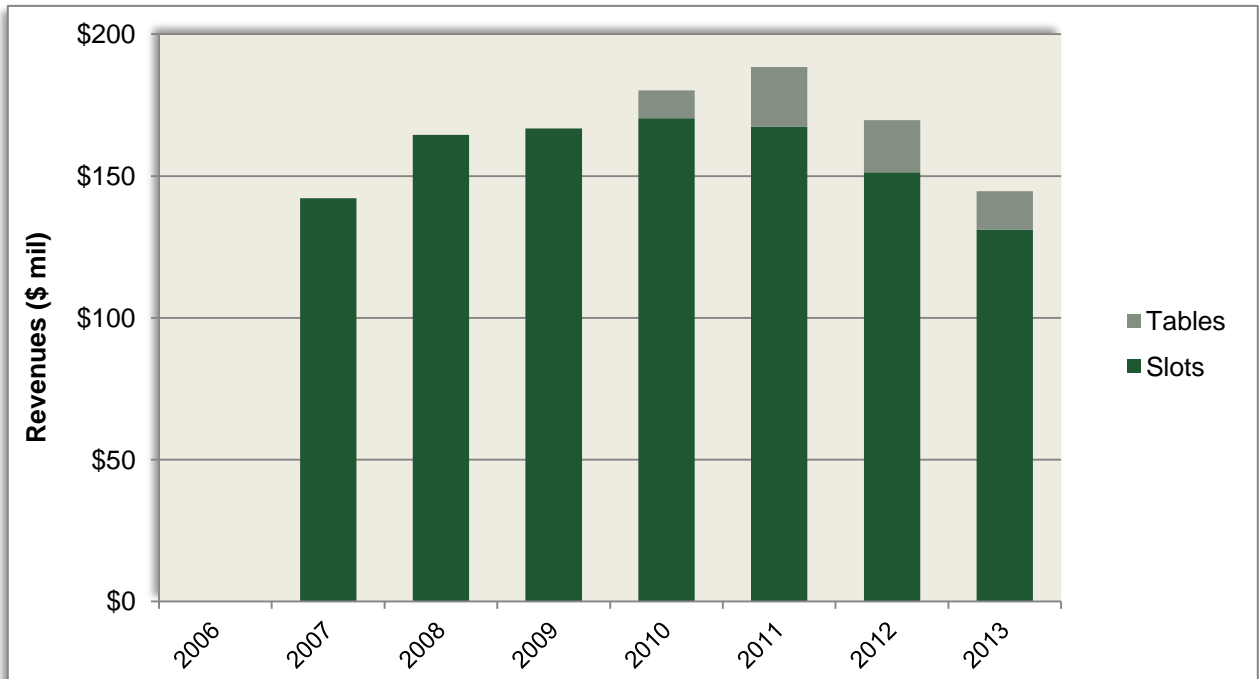
³⁶ Flowers, K. (2013, February 19). *Drop in casino revenues doesn't change grant process*. Retrieved from Go Erie: www.goerie.com/

³⁷ Casino Connection Staff. (2013, October 2). *Pittsburgh-Area Racino: Risky Business?* Retrieved from Casino Connection AC: www.casinoconnectionac.com

³⁸ The Associated Press. (2013, December 11). *2 More Racinos Opening in Ohio This Year and 3 More Next Year Mean Increasing Competition*. Retrieved from The Blade: www.toledoblade.com

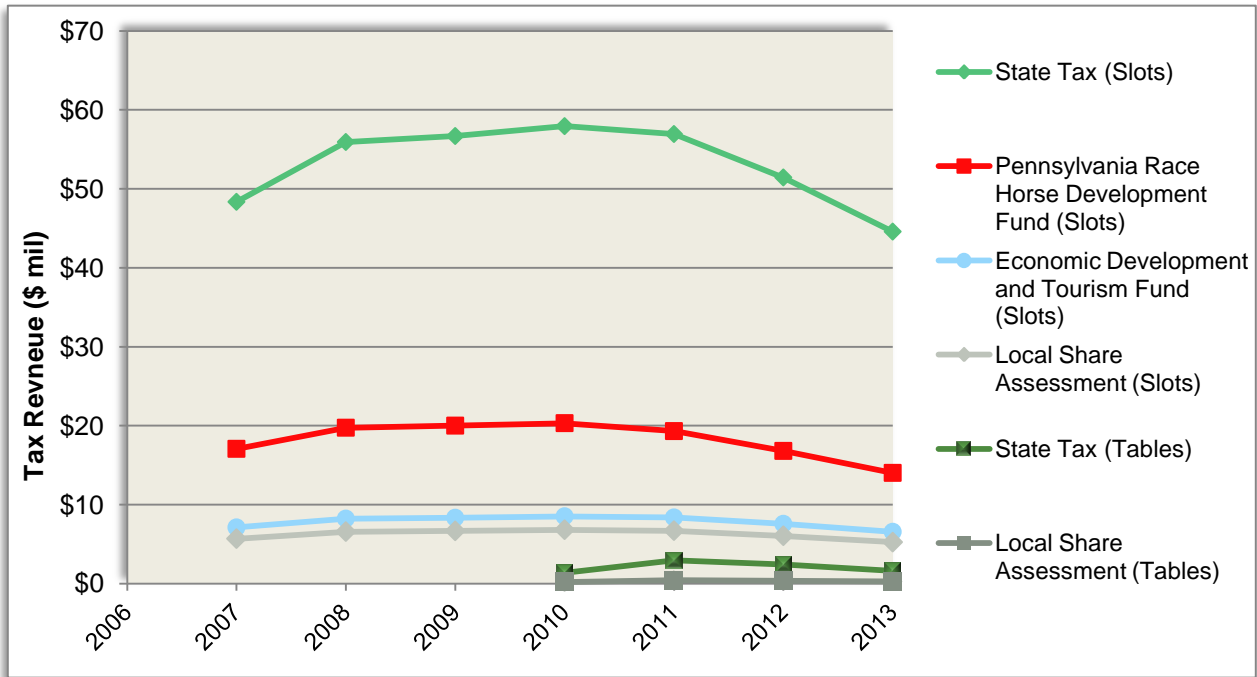
also competition from the Seneca Allegheny Casino in Salamanca, New York. As New York gears up for more casinos, potentially along the Pennsylvania border, new competition may emerge.

FIGURE 2.16 – ANNUAL SLOT AND TABLE REVENUE FOR PRESQUE ISLE, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.17 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR PRESQUE ISLE, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Summit being a 2nd Class Township, only what's reported by PGCB

2.4.4.1 ECONOMIC IMPACT OF PRESQUE ISLE DOWNS CASINO

Breaking ground in 2005, capital investments of the expanded racino cost about \$186 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated over \$265 million in total economic output for the Commonwealth, supporting about 2,700 jobs, and \$107 million in labor income.

The construction and related development costs associated with Presque Isle casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Presque Isle generated about \$6 million in tax revenue for the Commonwealth (see Table 2.13).

As of 2013, Presque Isle’s operations directly employed 916 people. Using IMPLAN Erie County specific multipliers, these jobs produced a grand total of about \$139 million in total output, supporting about 1,400 jobs and \$44 million in labor income. In addition to racing and gaming operations, Presque Isle has made annual renovation expenditures to its facilities. Since mid-2008 Presque Isle has spent about \$11 million on renovations and upgrades. Annualized, Presque Isle has spent about \$2 million on capital expenditures per year. These capital expenditures generated about \$2 million in total output, supporting an additional 20 jobs, and \$1 million in labor income. Including both of these components, annual operations of Presque Isle translates to \$141 million in total output, about 1,400 jobs, and \$44 million in labor income.

Excluding gaming revenues from slots, table games, and racing handle, Presque Isle also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Presque Isle generates about \$4 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.13).

TABLE 2.13 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF PRESQUE ISLE DOWNS CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	2,685	\$106.8	\$127.1	\$264.6	\$1.9	\$3.7	\$0.4	\$6.0
Casino Operations	1,333	\$43.1	\$85.9	\$138.4	\$0.8	\$2.5	\$0.3	\$3.6
Casino Upkeep and Upgrades (annualized)	22	\$0.9	\$1.1	\$2.2	\$0.0	\$0.0	\$0.0	\$0.0
Total (Annual Only)	1,355	\$44.0	\$87.0	\$140.7	\$0.8	\$2.5	\$0.3	\$3.6

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.5 MEADOWS RACETRACK AND CASINO

The Meadows Casino opened at the Meadows racetrack in June 2007 (North Strabane Township, Washington County), becoming the first casino in southwestern Pennsylvania. The racetrack itself, which hosts harness racing, had been in operation since 1963. Owned by Cannery Casino Resorts, the casino opened in a temporary facility and moved into permanent quarters in 2009. This new building contains 350,000 square feet of space. Between 2011 and 2013, Meadows added \$25 million worth of improvements, including a new parking garage, road improvements, new banquet space and the purchase of adjoining land. Amenities inside the facility include three restaurants, a food court, cigar bar, live music and bowling.

Beyond improvements made to the casino facility, tax revenues from The Meadows Racetrack and Casino benefit the County and community through local share contributions. As North Strabane is a 2nd Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects. According to PGCB reports, since 2007, the Meadows has generated about \$65 million in payments to the County (4% and 2% of slot and table revenues respectively). In 2013, the local share payment was about \$9.8 million, of which \$6.2 million to Washington County economic development programs that year.³⁹ North Strabane also gets \$2.5 million every year as the host municipality. This money has gone to fund community ball parks along with parking, a new fire station and fire trucks, road repairs and township pensions. The county has used the \$53 million it has received since 2008 on projects like building a business park complete with utilities, new playgrounds, bridge repairs and vocational development.⁴⁰

In addition to the local share payments North Strabane Township receives, The Meadows also pays property taxes on the racetrack and casino facility. In 2014, both North Strabane Township and Canon-McMillan School District are due to collect about \$800,000 combined from property taxes.

Slot revenues at Meadows were increasing until 2010 when winnings dipped 11% from the prior year. This decline coincides with the opening of Rivers Casino in Pittsburgh, which premiered in summer 2009. Slots revenues also declined 8% from 2012 to 2013, which coincides with the opening of the Lady Luck casino at Nemacolin. Table game revenues have been consistent over the past few years.

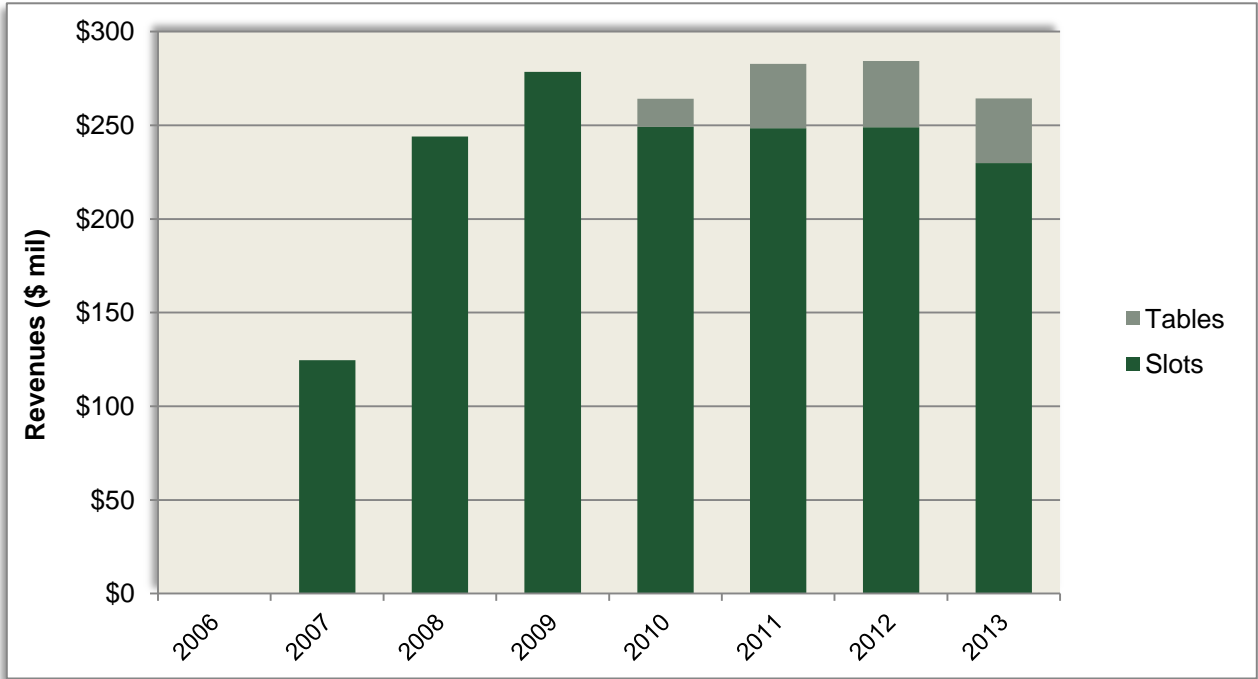
Today, Meadows shares the southwestern Pennsylvania market with Rivers Casino in Pittsburgh and Lady Luck Nemacolin in Farmington near the West Virginia border. Meadows also competes against casinos located in West Virginia. The Wheeling Island Hotel-Casino-Racetrack in Wheeling, is less than an hour away and the Mountaineer Casino in Chester is a slightly more than an hour away. A new racino in Youngstown, Ohio planned for 2014 will be less than two hours away. Moreover, if a new racino opens in Lawrence County, Pennsylvania, it would be less than two hours away, adding another venue in the western market.

³⁹ Meadows releases 2013 economic impact report. (2014, March 12). Retrieved from observer-reporter.com: www.observer-reporter.com/

⁴⁰ Timmins, A. (2013, May 19). *In Pennsylvania, Casino Seen as a Lifesaver*. Retrieved from Concord Monitor: www.concordmonitor.com

In late 2013, ground was broken for a new 155 room Hyatt Hotel, which will be connected to the casino via a bridge and is expected to be finished in 2015.⁴¹

FIGURE 2.22 – ANNUAL SLOT AND TABLE REVENUE FOR MEADOWS, 2006-2013

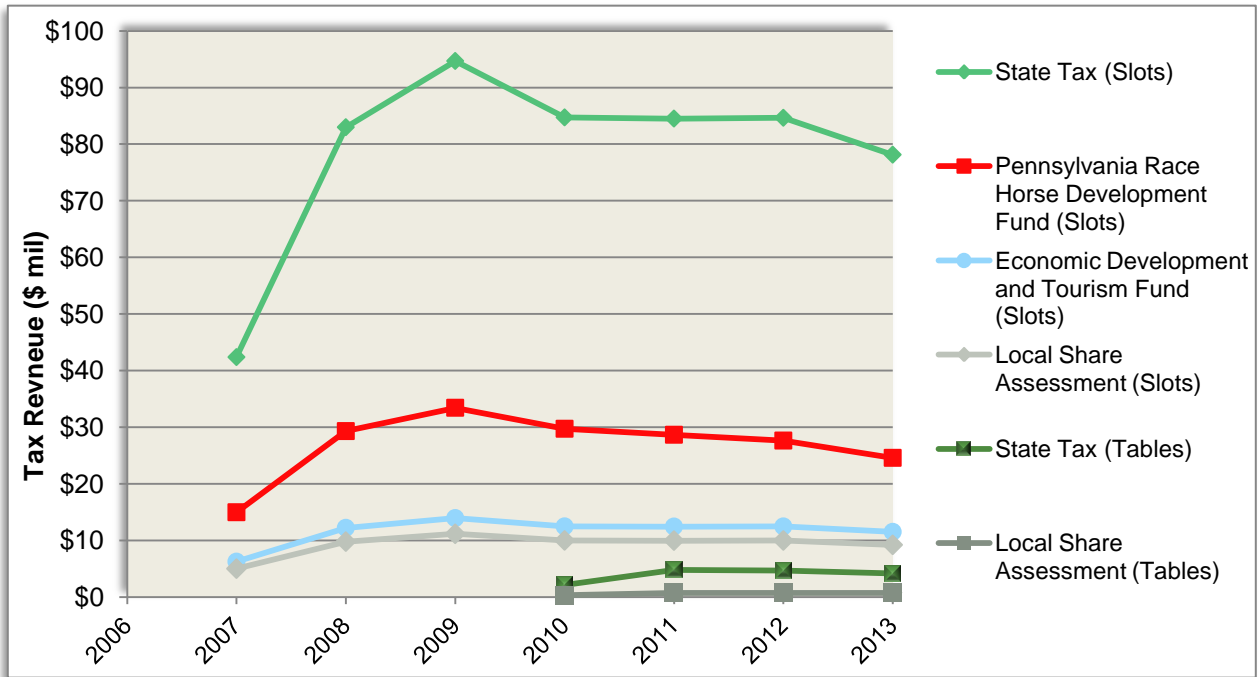


Source: Pennsylvania Gaming Control Board (2014)

⁴¹ Gough, P. J. (2013, December 12). *Ground broken for Meadows casino hotel*. Retrieved from Pittsburgh Business Times: www.bizjournals.com/pittsburgh



FIGURE 2.23 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR MEADOWS, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to North Strabane being a 2nd Class Township, only what's reported by PGCB

2.4.5.1 ECONOMIC IMPACT OF MEADOWS RACETRACK AND CASINO

Beginning in 2006, capital investments associated with the expansion of The Meadows Racetrack into a racetrack and casino facility cost about \$284 million. These expenditures on construction including: architectural design services, legal services, furniture, and other items generated over \$429 million in total economic output for the Commonwealth, supporting about 3,300 jobs, and \$212 million in labor income.

The construction and related development costs associated with The Meadows casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of The Meadows generated about \$12 million in tax revenue for the Commonwealth (see Table 2.14).

As of 2013, The Meadows’s operations directly employed 1,260 people. Using IMPLAN Washington County specific multipliers, these direct jobs produced a grand total of about \$178 million in total output, supporting about 1,800 total jobs and \$46 million in labor income. In addition to racing and gaming operations, The Meadows has made annual renovation expenditures to its gambling and racing facilities. Since mid-2011 The Meadows has spent about \$25 million on renovations and upgrades. Annualized, The Meadows has spent about \$8 million on capital expenditures per year. These capital expenditures generated about \$8 million in total output, supporting an additional 60 jobs, and \$4 million in labor income. Including both of these

components, annual operations of The Meadows translates to \$186 million in total output, about 1,800 jobs, and \$50 million in labor income.

Excluding gaming revenues from slots, tables, and racing handle, The Meadows also generates tax revenues for the Commonwealth from operations, upkeep and upgrades. Including the income, sales & excise, and business taxes, The Meadows generates nearly \$5 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.14).

TABLE 2.14 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE MEADOWS RACETRACK AND CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	3,284	\$212.3	\$252.6	\$428.9	\$3.9	\$7.3	\$0.9	\$12.1
Casino Operations	1,760	\$46.3	\$106.5	\$178.1	\$0.8	\$3.1	\$0.4	\$4.3
Casino Upkeep and Upgrades (annualized)	62	\$4.0	\$5.0	\$8.3	\$0.1	\$0.1	\$0.0	\$0.2
Total (Annual Only)	1,821	\$50.3	\$111.5	\$186.4	\$0.9	\$3.2	\$0.4	\$4.5

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.6 MOUNT AIRY CASINO RESORT

Mount Airy Casino Resort (Paradise Township, Monroe County) opened in October 2007 as the first category 2 casino in Pennsylvania. The property was formerly the historic Mount Airy Lodge, which dated back to 1898 and was a prominent getaway for New Yorkers in the 1950s and 1960s but had fallen into disrepair. The property underwent a \$400 million renovation, re-opening with 188 rooms, a spa and salon, nightclub, retail shopping and meeting space. In 2012, the resort added an 18-hole golf course and an indoor/outdoor pool. Also in 2012, the resort received the AAA Four-Diamond award. The casino resort is owned by the family of businessman Louis DeNaples.

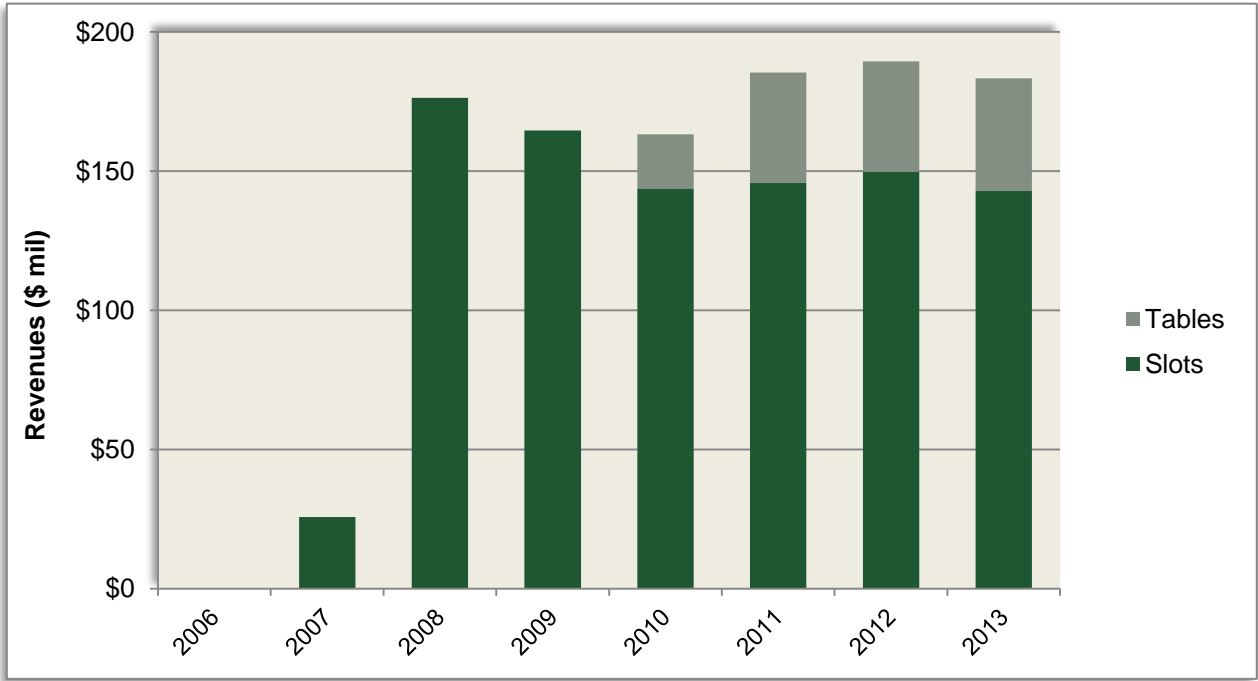
Table games were added to the casino in 2010, and have performed steadily, generating approximately \$40 million in revenue per year. However, after opening with 2,500 slots, Mount Airy has reduced the supply of slots each year, and now features less than 2,000. Slot revenues have declined from a peak of \$176 million in 2008 to \$143 million in 2013.

A reason for this decline is likely due to increased competition. Mount Airy competes with Mohegan Sun and Sands Casino. The four Philadelphia areas casinos as well as four New York casinos, which are located in the New York City and Catskills areas, are also about two hours away. Hollywood Casino in central Pennsylvania is less than two hours distance. Mount Airy faces the same threats as Mohegan Sun from additional New York and New Jersey casinos.

Despite decreasing revenues, the Mount Airy Casino Resort still provides benefits to its neighbors through local share taxes. Monroe County, adjacent counties and local municipalities have benefited from the local share taxes generated by Mount Airy. As Paradise is a 2nd Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects. According to PGCB reports, since 2007, Monroe County and surrounding counties have received about \$40.7 million from Mount Airy Casino Resort in the form of local share payments (\$6.5 million in 2013) (4% and 2% of slot and table revenues respectively). \$1.5 million of these funds was awarded in 2014 for repairs to historical structures, public works rehab, road repair and well upkeep. An additional \$11.8 in gaming funds was allocated by the Commonwealth Financing Authority to support public safety and infrastructure projects in Monroe and five of the six contiguous counties.⁴² The other contiguous county, Luzerne, receives local share funding from Mohegan Sun.

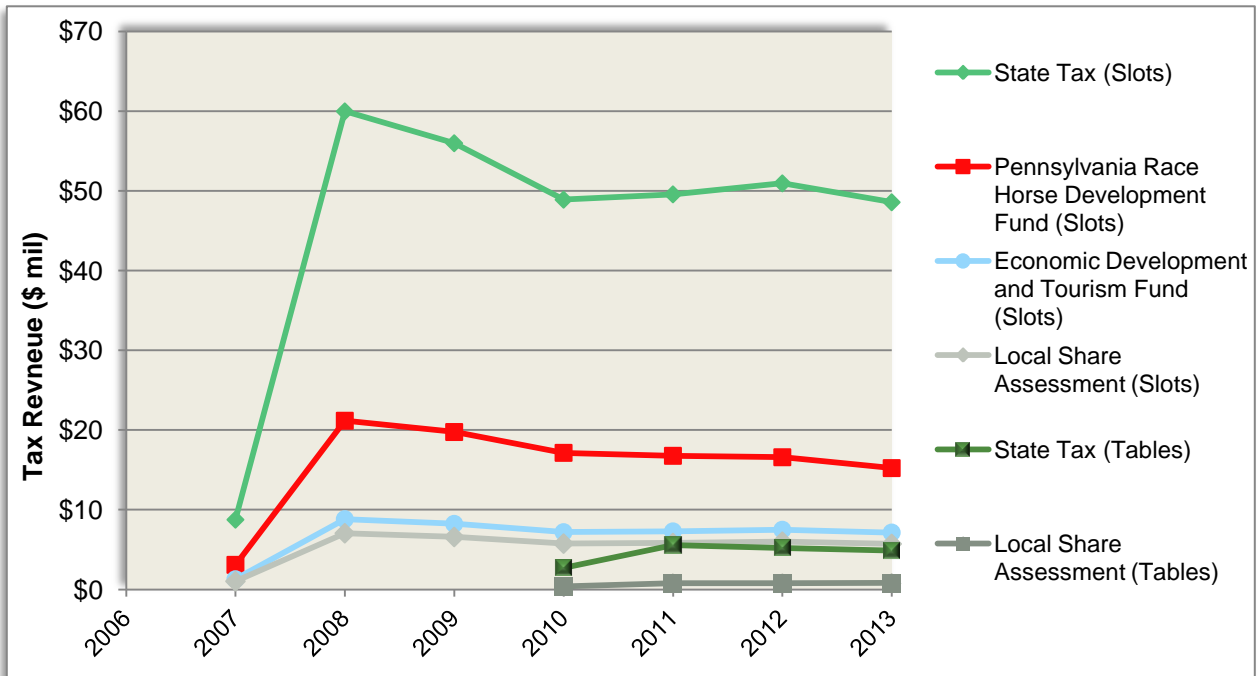
⁴² 69 News. (2014, March 20). *Monroe County getting \$1.5 million in grants*. Retrieved from 69 News: www.wfmz.com/

FIGURE 2.18 – ANNUAL SLOT AND TABLE REVENUE FOR MOUNT AIRY, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.19 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR MOUNT AIRY, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE The graph does not reflect any additional revenue due to Paradise being a 2nd Class Township, only what's reported by PGCB

2.4.6.1 ECONOMIC IMPACT OF MOUNT AIRY CASINO RESORT

Breaking ground in 2006, Mount Airy Resort and Casino became the second casino to open in the Northeast Pennsylvania region, and the first full resort casino with hotel rooms to open in the Commonwealth. Capital investments of the resort cost about \$167 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated over \$246 million in total economic output for the Commonwealth, supporting about 2,600 jobs, and \$105 million in labor income (see Table 2.15).

The construction and related development costs associated with Mount Airy Resort and Casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Mount Airy Resort and Casino generated about \$5 million in tax revenue for the Commonwealth.

As of 2013, Mount Airy Resort and Casino's operations directly employed 1,320 people. Using IMPLAN Monroe County specific multipliers, these jobs produced a grand total of about \$215 million in total output, supporting about 1,900 jobs and \$71 million in labor income. In addition to gaming operations, Mount Airy Resort and Casino has made annual renovation expenditures to its facilities. Since mid-2008 Mount Airy Resort and Casino has spent about \$6 million on renovations and upgrades. Annualized, Mount Airy Resort and Casino has spent about \$1 million on capital expenditures per year. These capital expenditures generated about \$1.3 million in total output, supporting an additional 10 jobs, and \$400,000 in labor income. Including both of these components, annual operations of Mount Airy Resort and Casino translates to \$216 million in total output, about 2,000 jobs, and \$72 million in labor income.

Excluding gaming revenues from slots and table games, The Mount Airy Resort and Casino also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Mount Airy Resort and Casino generates about \$6 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.15).

TABLE 2.15 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE MOUNT AIRY RESORT AND CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	2,622	\$85.2	\$105.4	\$246.2	\$1.6	\$3.0	\$0.4	\$5.0
Casino Operations	1,941	\$71.1	\$136.8	\$214.6	\$1.3	\$4.0	\$0.4	\$5.7
Casino Upkeep and Upgrades (annualized)	13	\$0.4	\$0.6	\$1.3	\$0.0	\$0.0	\$0.0	\$0.0
Total (Annual Only)	1,954	\$71.6	\$137.4	\$215.9	\$1.3	\$4.0	\$0.4	\$5.7

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.7 HOLLYWOOD CASINO AT PENN NATIONAL

Hollywood Casino opened as a 365,000 square foot venue at the Penn National racetrack in February 2008 (East Hanover Township, Dauphin County). The racetrack itself opened in 1972. The casino is owned by Penn National Gaming and when the property opened, it featured a five-story garage, a Hollywood theme and banquet facilities. Amenities include eleven bars and restaurants and live music.

Hollywood is the first casino in the Harrisburg/Hershey area and the aim was to create a dedicated facility from the start that incorporated gaming into the racing atmosphere instead of opening in a temporary space in an isolated location. The model for the casino was Penn National's own Charles Town Races & Slots in eastern West Virginia.⁴³

Penn National's upgrade of the standalone thoroughbred racetrack into a combined racino has also paid benefits to Dauphin County. As East Hanover is a 2nd Class Township, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal projects. According to PGCB reports, since 2008, Hollywood Casino at Penn National Racecourse has contributed about \$58 million in local share assessment payments, including nearly \$10 million in 2013 (4% and 2% of slot and table revenues respectively). In early 2014, Dauphin County Commissioners granted \$11 million to the county from the casino's local share. East Hanover and surrounding townships received \$2.6 million for local improvements and projects. Some of the monies in the host/contiguous municipalities went to debt reduction and municipal complex construction. Funds for the rest of the county went to bridge replacement, streetscape and storm water improvements, sewer and water improvements, new ambulances and park improvements.⁴⁴

In addition to the local share payments East Hanover Township receives, Hollywood Casino at Penn National Racecourse also pays property taxes on the racetrack and casino facility. In 2014, both East Hanover Township and Lower Dauphin School District are due to collect about \$1.3 million combined from property taxes.

Hollywood Casino's model, Charles Town Races & Slots, also creates competition as it is two hours away. Other inter-state competition includes three casinos in Maryland which are around two hours away and a casino that's anticipated to open in Baltimore in 2014 that will be less than two hours away. Because of its location in Pennsylvania, intrastate competition comes from the three northeastern casinos, which are less than two hours away, as well as the four southeastern casinos which are also less than two hours away.

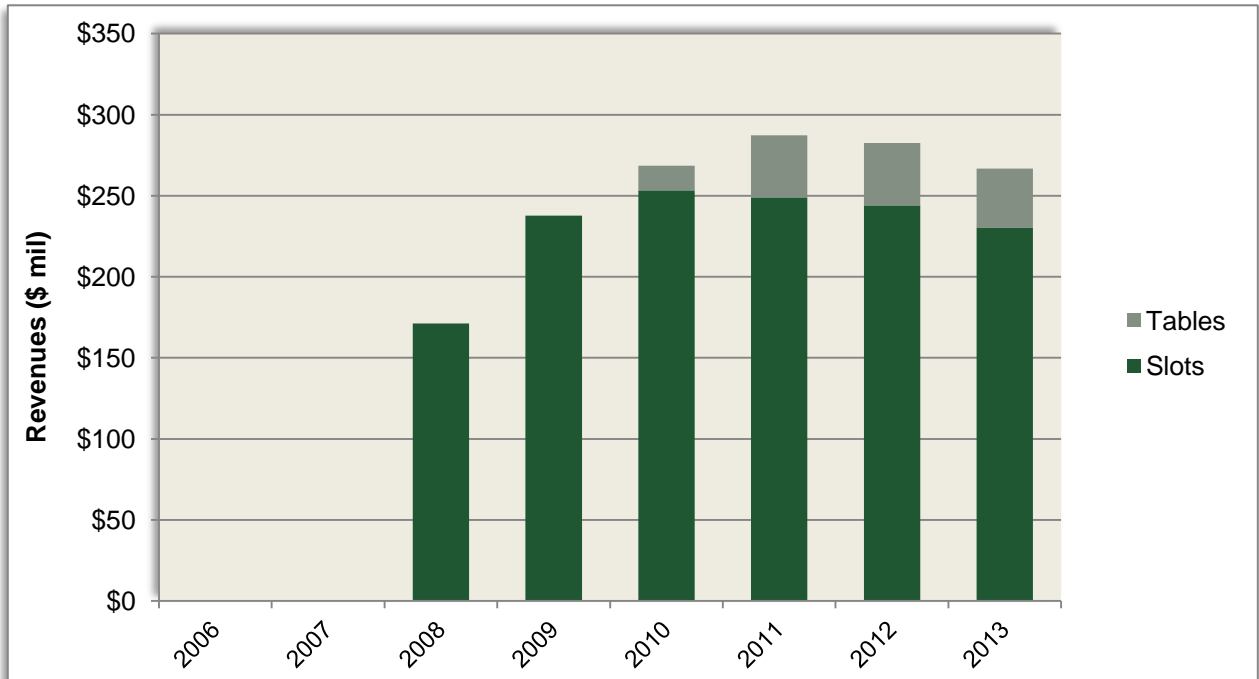
Slot revenues at Hollywood Casino started to decline slightly in 2011, with reductions every following year (down 2% in 2012 and 6% in 2013). Some of this is due to the presence of the casinos in eastern Pennsylvania, a few of which came online in this timeframe, as well as the

⁴³ Pamley, S., & Worden, A. (2008, February 13). *Gaming take triggers tax relief in Penna. The budget chief said gambling revenue had reached \$570 million.* Retrieved from philly.com: www.philly.com

⁴⁴ *Dauphin County Commissioners Award Over \$11 million in Gaming Grants for Local Projects.* (2014, February 12). Retrieved March 2014, from Dauphin County, PA: www.dauphinc.org

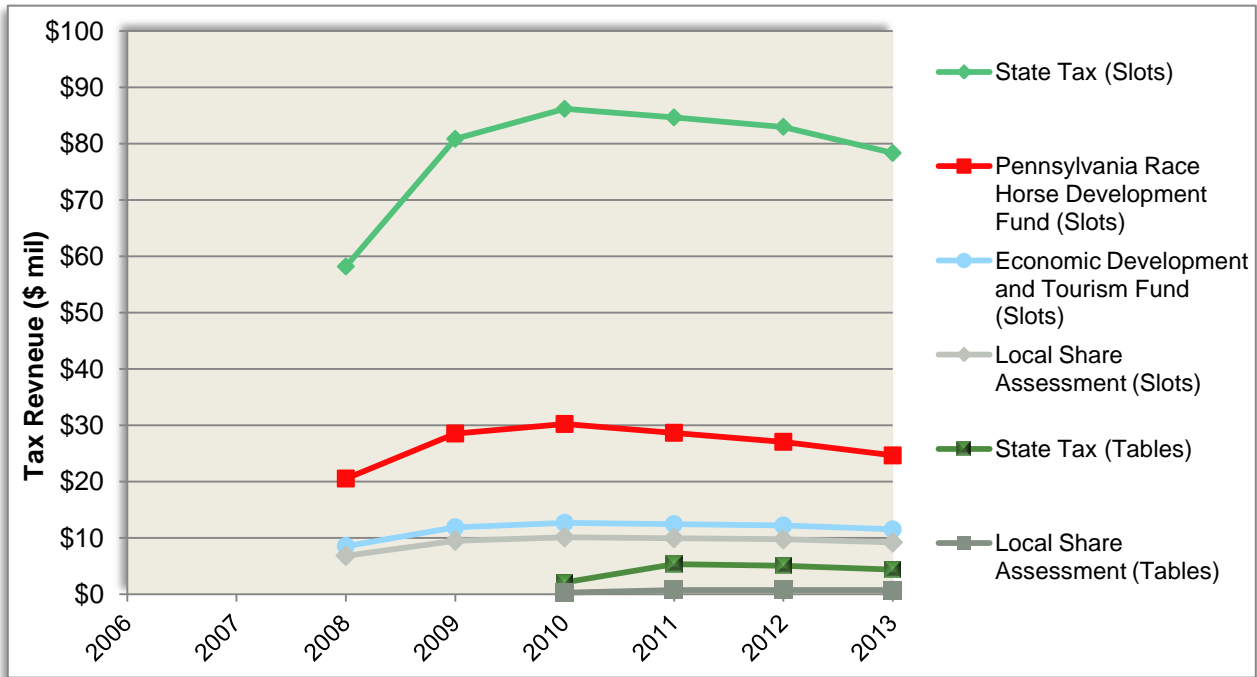
casinos in Maryland which opened between 2010 and 2013. Table revenues have been mainly consistent but showed a drop of 6% between 2012 and 2013.

FIGURE 2.20 – ANNUAL SLOT AND TABLE REVENUE FOR HOLLYWOOD CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.21 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR HOLLYWOOD CASINO, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to East Hanover being a 2nd Class Township, only what's reported by PGCB

2.4.7.1 ECONOMIC IMPACT OF HOLLYWOOD CASINO AT PENN NATIONAL

Breaking ground in 2007, Penn National Gaming estimated that capital investment expenditures associated with the expansion of Hollywood Casino at Penn National Race Course cost about \$250 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated \$355 million in total economic output for the Commonwealth, supporting about 2,900 jobs, and \$165 million in labor income (see Table 2.16).

The construction and related development costs associated with Hollywood casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Hollywood generated about \$9 million in tax revenue for the Commonwealth.

As of 2013, Hollywood’s operations directly employed 1,251 people. Using IMPLAN Dauphin County specific multipliers, these jobs produced a grand total of about \$191 million in total output, supporting about 1,700 jobs and \$60 million in labor income. In addition to racing and gaming operations, Hollywood has made annual renovation expenditures to its gambling and racing facilities. Since mid-2009 Hollywood has spent about \$9 million on renovations and upgrades. Annualized, Hollywood has spent about \$2 million on capital expenditures per year. These capital expenditures generated about \$2 million in total output, supporting an additional 20 jobs, and \$1 million in labor income. Including both of these components, annual operations of Hollywood translates to \$194 million in total output, about 1,800 jobs, and \$61 million in labor income.

Excluding gaming revenues from slots, table games, and racing handle, Hollywood also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Hollywood generates about \$5 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.16).

TABLE 2.16 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE HOLLYWOOD CASINO AT PENN NATIONAL IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	2,930	\$165.4	\$195.3	\$354.8	\$3.0	\$5.7	\$0.7	\$9.4
Casino Operations	1,746	\$59.8	\$119.5	\$191.4	\$1.1	\$3.5	\$0.4	\$5.0
Casino Upkeep and Upgrades (annualized)	17	\$1.0	\$1.2	\$2.2	\$0.0	\$0.0	\$0.0	\$0.0
Total (Annual)	1,763	\$60.8	\$120.7	\$193.6	\$1.1	\$3.5	\$0.4	\$5.0

Source: Penn National Gaming (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.8 SANDS CASINO RESORT BETHLEHEM

The \$830 million Sands Casino Resort Bethlehem opened in May 2009 on the site of the old Bethlehem Steel Company property (Bethlehem City, Northampton County).⁴⁵ Sands was the second category 2 casino in Pennsylvania and opened with nearly 3,000 slot machines. Since that time, Sands has continued to expand its amenities and attendant economic impact.

Upon its legalization in July 2010, Sands added table gaming, debuting with 89 units, the second most in the state. Sands has repeatedly increased its table game offerings, and in 2013 featured the highest supply of table games (at an average of 181) and highest table game revenue (\$177 million) in the state. At its license renewal hearing in October 2013, the casino indicated its intention to further expand table game offerings in the future.⁴⁶

In May 2011, Sands added a 302 room hotel to the casino complex. Hotel occupancy has run in the mid-70 percent range. The next year, the Sands Bethlehem Center opened, with a capacity of near 4,000 for concerts and nightclub and restaurant facilities. Further expansion plans for the site have been rumored to include a Convention Center, second hotel and a Bass Pro Shops.⁴⁷ In December 2013, Governor Corbett announced that Bethlehem has been designated a City Revitalization and Improvement (CRIZ) zone, increasing the chances of further development.⁴⁸

As Bethlehem is a 3rd Class City in more than one 3rd Class County, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater, keeping 80% of it with the rest going to another 3rd Class City. Sands pays a host fee (local share assessment) of nearly \$20 million annually to Lehigh Valley communities, including \$9.5 million to Bethlehem.⁴⁹ It is also the biggest contributor to a special services taxing district for improvements on the former Bethlehem Steel plant, having contributed nearly \$27 million to date.⁵⁰ It has also provided support for other non-profits on the property, such as the ArtsQuest Center at Steel Stacks.⁵¹

In addition to the local share payments Bethlehem City receives, the Sands Casino Resort also pays property taxes on the casino and resort facility. In 2014, both Bethlehem City and Bethlehem Area School District are due to collect about \$10.9 million combined from property taxes.

In 2012, Northampton municipalities received more than \$700,000 in gaming grants from Sands' local share. The funds were awarded by the Gaming Revenue and Economic Redevelopment Authority. Some of the funding went towards public works projects, new road construction, police

⁴⁵ Includes license fees and non-gaming components of the casino resort

⁴⁶ Olanoff, L. (2013, October 15). *Sands Casino Resort Bethlehem: We must add amenities to remain competitive*. Retrieved from Lehigh Valley Live: www.lehighvalleylive.com/

⁴⁷ Olanoff, L. (2013, August 15). *Bass Pro Shops, second hotel eyed for former Bethlehem Steel Corp. site, memo says*. Retrieved from Lehigh Valley Live: www.lehighvalleylive.com/

⁴⁸ Assad, M. (2013, December 30). *Bethlehem projects win favorable tax treatment*. Retrieved from The Morning Call: articles.mcall.com/

⁴⁹ Assad, M., & Radziewich, N. (2014, April 9). *Sands Bethlehem casino to be sold to Tropicana?* Retrieved from The Morning Call: articles.mcall.com/

⁵⁰ Byrnes, M. (2013, January 17). *Bethlehem Steel's Redevelopment: Winners and Losers in Public-Private Partnerships*. Retrieved from The Atlantic Cities: www.theatlanticcities.com/

⁵¹ Moser, J. (2012, October 5). *Popularity prompts Sands Bethlehem Event Center upgrades*. Retrieved from The Morning Call: articles.mcall.com/

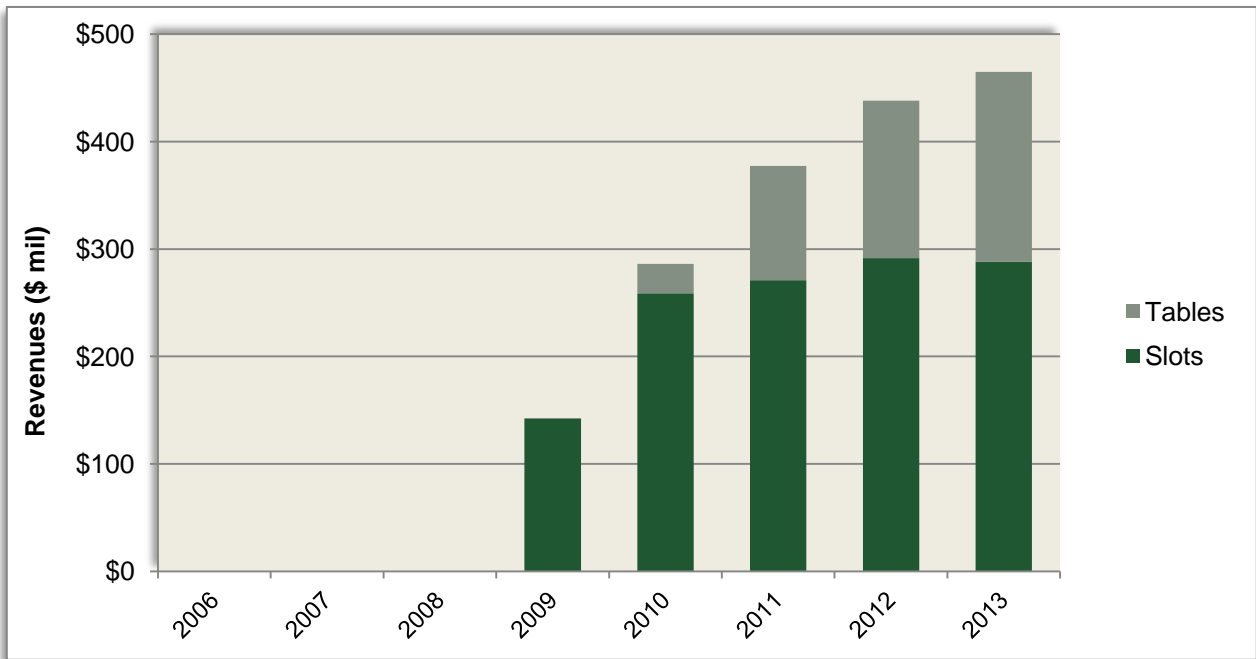
vehicles and additional security.⁵² Also, because a portion of the City of Bethlehem lies within Lehigh County, municipalities there have also received local share funds. In 2012, three municipalities received nearly \$150,000 to fund police and public safety related endeavors.⁵³

The Sands competes with all the eastern Pennsylvania casinos, which are between an hour and two hours away. In addition, the casinos of Atlantic City are a little over two hours away and four existing casinos in New York are between two and two and a half hours away. Future competition may also come from the new Vegas-type New York casinos, some of which could be built on the border of the two states, about two hours away.

Even with new casinos coming online in eastern Pennsylvania, Sands slots revenues continued to increase until 2013 when they experienced a slight 1% drop. Table revenues have also continued to grow.

Sands officials are anticipating new competition and would like to develop more land near their premises to draw additional visitors. The recent designation as a CRIZ will also help with the growth in business in the area. Moreover, the casino plans to expand their event center and table games to remain competitive in the overall Northeastern U.S. market.⁵⁴

FIGURE 2.31 – ANNUAL SLOT AND TABLE REVENUE FOR SANDS BETHLEHEM, 2006-2013



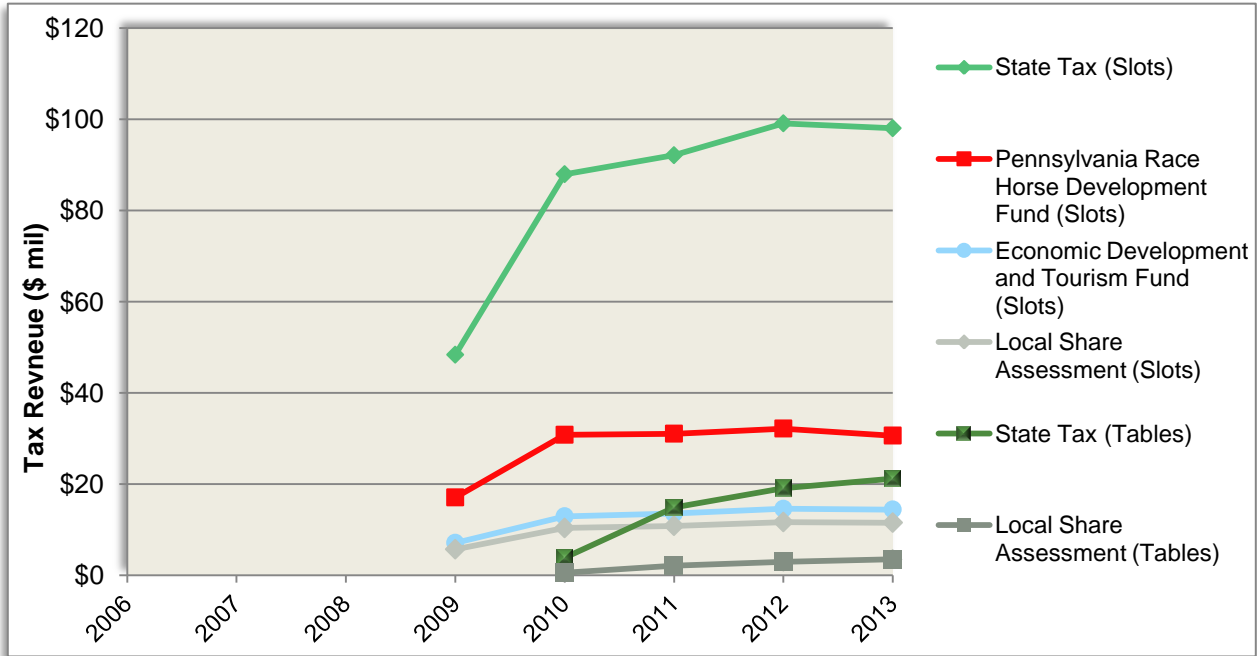
Source: Pennsylvania Gaming Control Board (2014)

⁵² Rowan, T. (2012, August 28). *Northampton County municipalities awarded more than \$700,000 in gaming grants*. Retrieved from Lehigh Valley Live: www.lehighvalleylive.com/

⁵³ McEvoy, C. (2012, August 22). *Sands Casino Resort Bethlehem revenues to benefit three Lehigh County police departments*. Retrieved from Lehigh Valley Live: www.lehighvalleylive.com/

⁵⁴ Pedersen, B. (2014, April 3). *Sands Event Center to expand*. Retrieved from LVB.com: www.lvb.com/

FIGURE 2.32 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR SANDS BETHLEHEM, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Bethlehem being a 3rd Class City, only what's reported by PGCB

2.4.8.1 ECONOMIC IMPACT OF SANDS CASINO RESORT BETHLEHEM

Breaking ground in 2007, Las Vegas Sands Corporation estimates that capital investment expenditures for the gaming and entertainment facility in Bethlehem, Pennsylvania were \$751 million between 2006 and 2012. These expenditures on construction, architectural design services, administrative, furniture, and other items generated over \$1.2 billion in total economic impact for the Commonwealth, supporting about 10,800 jobs, and \$518 million in labor income (see Table 2.17).

The construction and related development costs associated with Sands Casino Resort casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Sands Casino Resort generated about \$29 million in tax revenue for the Commonwealth.

As of 2013, Sands Casino Resort's operations directly employed 2,117 people. Using IMPLAN Northampton County specific multipliers, these jobs produced a grand total of about \$403 million in total output, supporting about 3,300 jobs and \$156 million in labor income. In addition to gaming operations, Sands Casino Resort has invested a significant sum of money into continued development and renovations of facility elements including the introduction of table games. Since late 2012, Sands Casino Resort has spent about \$6 million on renovations and upgrades.. These capital expenditures generated about \$6 million in total output, supporting an additional 52 jobs, and \$3 million in labor income. Including both of these components, annual operations of Sands

Casino Resort translates to \$409 million in total output, about 3,300 jobs, and \$159 million in labor income.

Excluding gaming revenues from slots and table games, The Sands Casino Resort also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, The Sands Casino Resort generates about \$12 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.17).

TABLE 2.17 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE SANDS CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	10,775	\$518.1	\$613.7	\$1,195.0	\$9.4	\$17.8	\$2.1	\$29.3
Casino Operations	3,276	\$156.3	\$266.1	\$402.6	\$2.8	\$7.7	\$0.9	\$11.4
Casino Upkeep and Upgrades (annualized)	52	\$2.6	\$3.2	\$5.9	\$0.0	\$0.1	\$0.0	\$0.1
Total (Annual Only)	3,328	\$158.9	\$269.2	\$408.6	\$2.8	\$7.8	\$0.9	\$11.5

Source: Las Vegas Sands (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.9 RIVERS CASINO

The Rivers Casino (Pittsburgh City, Allegheny County) opened as a 500,000 square foot facility in summer 2009 on the banks of the Ohio River near Heinz Field and PNC Park, home of the Steelers and Pirates, respectively. Expectations from gaming officials were high that this casino in Pennsylvania's second largest city would bring added revenue to the state to help with property tax relief.⁵⁵ Local business owners also welcomed the casino as a potential driver of traffic to the north side of Pittsburgh.⁵⁶ In 2013, Rivers completed \$1 million in renovations, mainly to the gaming floor by adding additional slots and table games. Amenities at Rivers include four restaurants, a buffet, four bars and a venue for music. In addition, its location along the riverfront provides for views of the Pittsburgh skyline and a river walk leads to nearby bars, restaurants and the sports stadiums.

As Pittsburgh is a 2nd Class City, it is entitled to 2% of slot revenues or \$10 million annually, whichever is greater. If the 2% doesn't meet the \$10 million minimum, the remainder will be collected and deposited in the city treasury. As of late 2013, the local share assessment from Rivers has contributed over \$18 million to Allegheny County and over \$36 Million to Pittsburgh. The Pittsburgh allocation has gone to fund pensions, capital projects, retiree health care and life insurance, debt reduction and other municipal purchases. County funds have gone towards brownfield development, commercial and residential development, open space preservation and programs for the arts. The table revenues from Rivers are specifically set aside for helping to fund Allegheny libraries and the Monroeville Convention and Visitors' Bureau. To date, about \$4 million has been allocated for these programs.^{57,58} The casino also had arrangements with community development groups in the North Side and Hill District neighborhoods to give them \$1 million a year for three years for revitalization efforts and neighborhood and community programs. This arrangement ended in 2012.⁵⁹ In addition, an agreement has also been made by Rivers to provide \$7.5 million a year to help fund the new sports arena, the CONSOL Energy Center. This is in place until 2038 and to date \$37.5 million has been collected for the new stadium.⁶⁰

In addition to the local share payments the City of Pittsburgh receives, the Rivers Casino also pays property taxes on the casino facility. In 2014, both the City of Pittsburgh and Pittsburgh Public Schools are due to collect about \$1.1 million combined from property taxes

Being in the western Pennsylvania market, Rivers competes with Lady Luck Nemacolin, Meadows and Presque Isle in Erie, as well as two casinos in West Virginia and three casinos in the Cleveland area, all of which are about two hours away. The Meadows draws crowds from western Pennsylvania that are enticed less by amenities, and go for the gambling aspect only.

⁵⁵ Belko, M. (2009, July 29). *New Rivers Casino set to open Aug. 9*. Retrieved from Pittsburgh Post-Gazette: www.post-gazette.com/

⁵⁶ Niedermier, K. (2011, December 9). *Cleveland's new casino is taking some cues from Pittsburgh's experience*. Retrieved from 89.7 WKSU: www.wksu.org/

⁵⁷ Montarti, E. (2013, September). *Gaming Money in Allegheny County: Tracking the Dollars*. Retrieved from Allegheny Institute for Public Policy: www.alleghenyinstitute.org/

⁵⁸ Erdley, D. (2013, June 24). *Rivers Casino taxes will fund projects*. Retrieved from TribLive: www.triblive.com/

⁵⁹ Belko, M. (2013, April 18). *Rivers Casino won't extend agreement with Pittsburgh's North Side, Hill District*. Retrieved from Pittsburgh Post-Gazette: www.post-gazette.com/

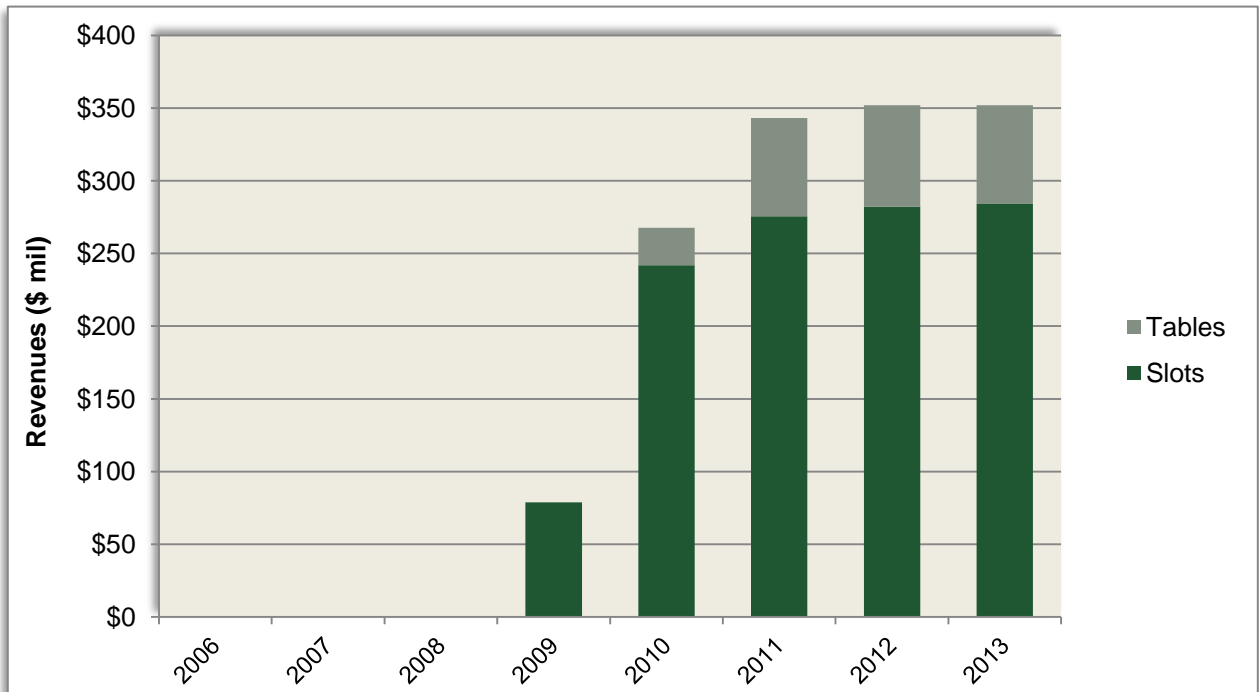
⁶⁰ *RIVERS CASINO MAKES \$4.7 MILLION PAYMENT TO SEA FOR CONSOL ENERGY CENTER*. (2014, March 31). Retrieved from Rivers Casino: www.riverscasino.com/

Future competition will come from a possible racino in Lawrence County as well as a new racino in Youngstown, a little over an hour away.

Rivers' slot revenues have been increasing since opening in 2009, however they have been on a declining rate since 2012. Table revenues declined by 3% in 2013. Much of this slow growth can be attributed to Meadows Casino and patrons who prefer a casino in a suburban setting rather than having to come into a city for their gaming needs.

After completing renovations in 2013, casino officials are considering adding a hotel at their site, something that was originally intended when the plans came together. With the Meadows breaking ground for a new Hyatt Hotel, officials are looking at this option as a way to remain competitive and attract distant visitors for overnight stays.⁶¹

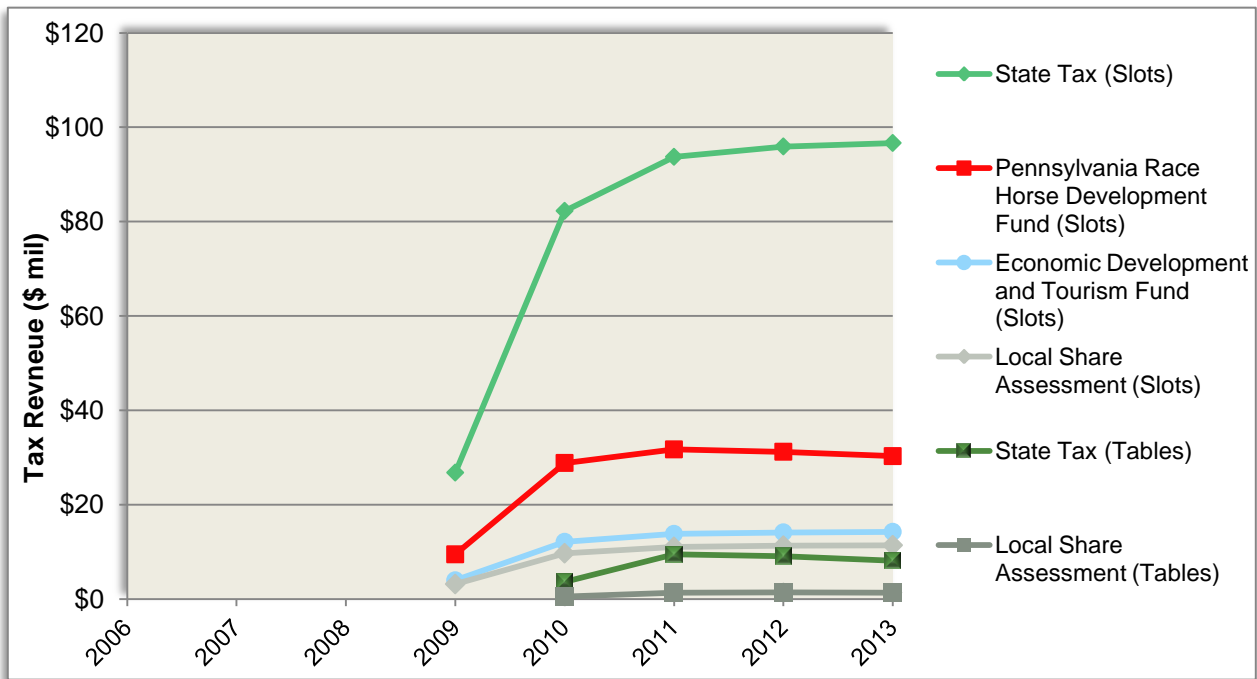
FIGURE 2.34 – ANNUAL SLOT AND TABLE REVENUE FOR RIVERS, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

⁶¹ Fontaine, T. (2013, October 10). *Hotel considered at Rivers to keep casino competitive with others in state*. Retrieved from TribLive: www.triblive.com/

FIGURE 2.35 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR RIVERS, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

NOTE: The graph does not reflect any additional revenue due to Pittsburgh being a 2nd Class City, only what's reported by PGCB

2.4.9.1 ECONOMIC IMPACT OF RIVERS CASINO

Breaking ground in late 2007, capital investment expenditures of the standalone casino were about \$372 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated over \$609 million in total economic output for the Commonwealth, supporting about 4,300 jobs, and \$307 million in labor income.

The construction and related development costs associated with the Rivers Casino also are a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Rivers Casino generated about \$18 million in tax revenue for the Commonwealth (see Table 2.18).

As of 2013, Rivers Casino operations directly employed 1,782 people. Using IMPLAN Allegheny County specific multipliers, these jobs produced a grand total of about \$337 million in total output, supporting about 2,800 jobs and \$124 million in labor income. In addition to racing and gaming operations, Rivers Casino has made annual renovation expenditures to its facilities. Since mid-2011 Rivers Casino has spent about \$13 million on renovations and upgrades. Annualized, Rivers Casino has spent about \$6 million on capital expenditures per year. These capital expenditures generated about \$7 million in total output, supporting an additional 50 jobs, and \$4 million in labor income. Including both of these components, annual operations of Rivers Casino translates to \$344 million in total output, about 2,800 jobs, and \$128 million in labor income.

Excluding gaming revenues from slots and table games, Rivers Casino also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, Rivers Casino generates about \$10 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.18).

TABLE 2.18 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE RIVERS CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	4,284	\$307.3	\$366.6	\$609.1	\$5.6	\$10.6	\$1.3	\$17.5
Casino Operations	2,760	\$123.9	\$217.7	\$336.6	\$2.3	\$6.3	\$0.7	\$9.3
Casino Upkeep and Upgrades (annualized)	50	\$3.6	\$4.4	\$7.3	\$0.0	\$0.1	\$0.1	\$0.2
Total (Annual Only)	2,810	\$127.5	\$222.1	\$343.9	\$2.3	\$6.4	\$0.8	\$9.5

Source: PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.10 SUGARHOUSE CASINO

The SugarHouse casino opened its doors along the Delaware River waterfront (Philadelphia City) in September of 2010. With 51,794 square feet of gaming floor area, it is the tenth largest casino in the Commonwealth. Its amenities include two restaurants, two bars, outdoor patio, and live entertainment.

SugarHouse is active in supporting local community organizations. Since 2009, SugarHouse granted \$2.18 million to the Penn Treaty Special Services District (PTSSD), which is a community organization that serves to improve the Delaware River Waterfront, and assist local communities along the waterfront. The PTSSD funds have also gone to support other local neighborhood organizations such as the New Kensington Community Development Corporation, Fishtown Action, East Kensington Neighbors Association, Northern Liberties Neighbors Association, and the South Kensington Community Partners. SugarHouse currently has an agreement for continued donations to the PTSSD through October of 2025.⁶²

Besides PTSSD, SugarHouse also supports the School District of Philadelphia. Each year the first \$5 million of its local share assessment goes to the School District. In 2013, the local share assessment to Philadelphia County was \$8.9 million, a slight decrease from 2012's assessment of \$9.3 million.⁶³ Overall, SugarHouse has contributed over \$28 million since 2010 to the local share fund.

In addition to the local share payments the City of Philadelphia receives, the SugarHouse Casino also pays property taxes on the casino facility. In 2013, both the City of Philadelphia and School District of Philadelphia collected about \$5.1 million combined from real estate, business privilege, use & occupancy, and settlement taxes.

SugarHouse is the first casino in Philadelphia County and currently is one of four in the Pennsylvania portion of the Philadelphia Metropolitan Statistical Area (MSA). SugarHouse's location gives it easy access to Center City Philadelphia, as well as nearby highway access to New Jersey, Maryland, Delaware, and other counties in Pennsylvania. It not only faces competition from Harrah's Philadelphia in Chester County, Parx Casino in Bucks County and Valley Forge Casino Resort in Montgomery County, but also three racinos in Delaware, as well as the Atlantic City, New Jersey casinos. Therefore, SugarHouse caters to the local audience of gamers within the county, those that go via a daytrip, and overnight visitors to the City that may be visiting for a reason other than casino gaming.

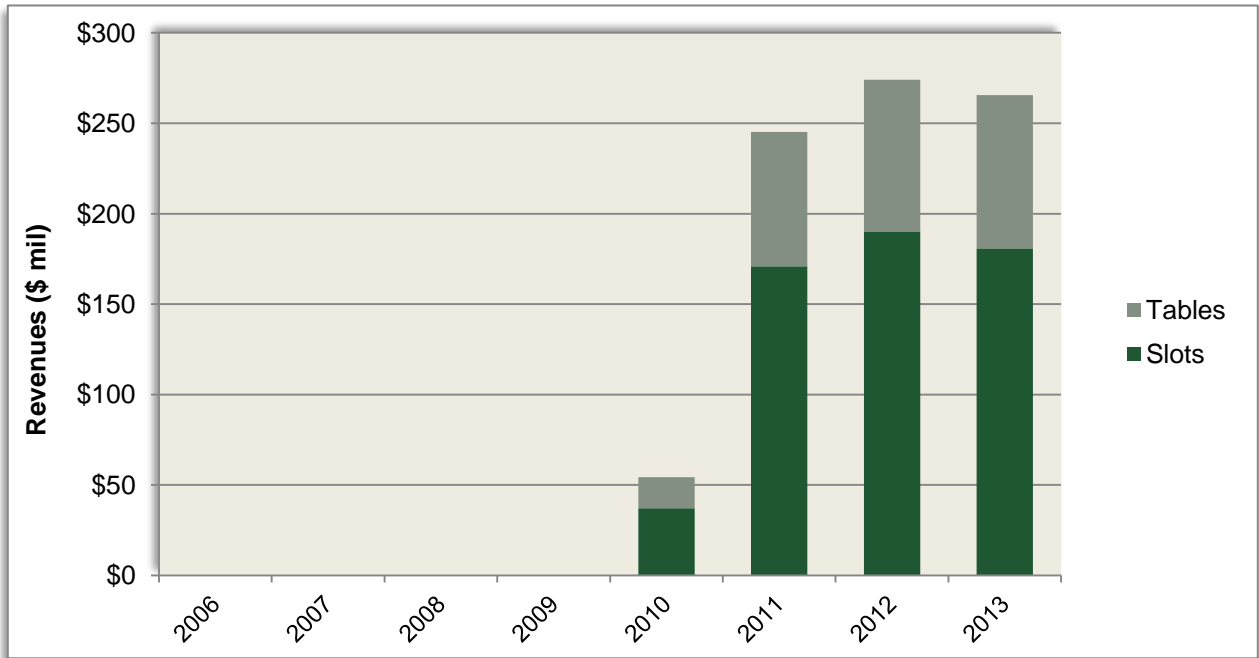
Slot revenues at SugarHouse declined by 5% from 2012 to 2013 after increasing in from 2010 to 2012. Table game revenues, on the other hand, increased modestly by 1% from 2012 to 2013. Despite the small increase in table game revenue overall total gaming revenue decreased by 3.1% in 2013, after increasing by 12% the year before. Some of this decline is likely due to the presence of Valley Forge Casino Resort, and increase competition from bordering states.

⁶² Newhouse, S. (2013, October 29). *Community grants from SugarHouse will soon increase*. Retrieved from Northeast Times: www.northeasttimes.com/

⁶³ Pennsylvania Gaming Control Board

In October of 2013, SugarHouse was approved for a \$155 million expansion that would upgrade and increase the current gaming floor to 85,000 square feet, construct a seven-story parking garage, add a VIP lounge, multiple restaurant options, poker room, and 30,000 square feet of event space. These additions will allow the casino to serve more patrons and offer a better gaming experience.⁶⁴

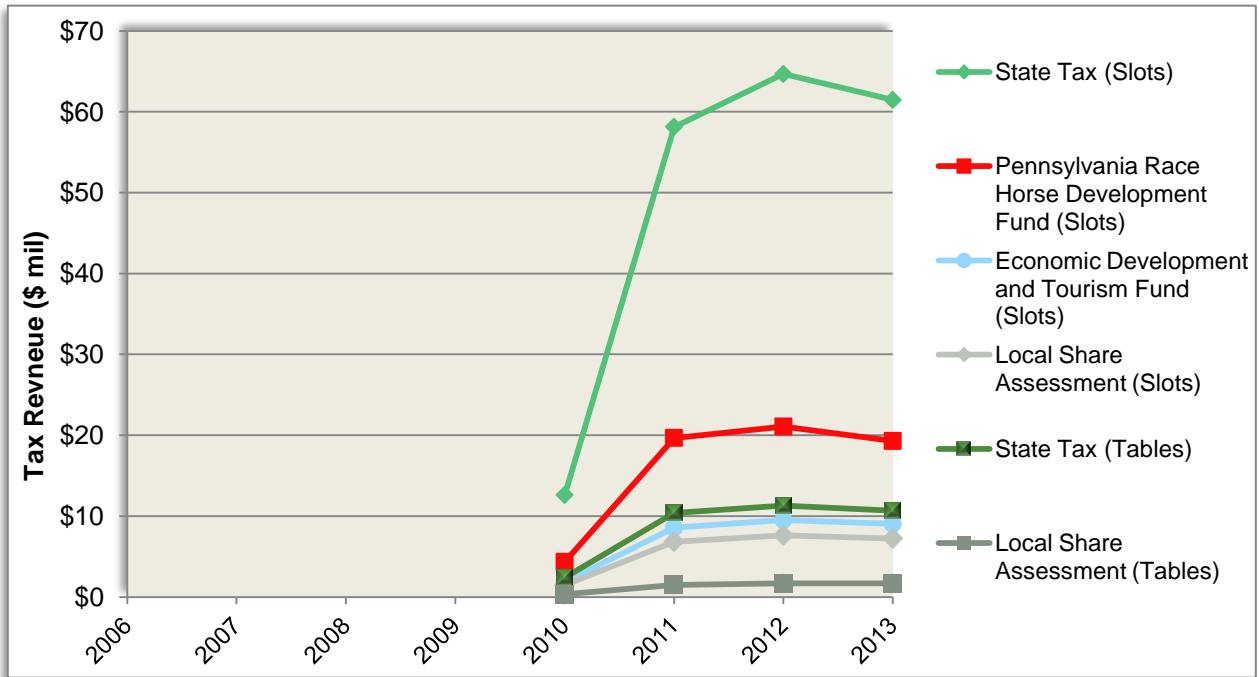
FIGURE 2.37 – ANNUAL SLOT AND TABLE REVENUE FOR SUGARHOUSE, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

⁶⁴ Lin, J. (2013, October 26). *SugarHouse expansion plans unveiled*. Retrieved from [philly.com: articles.philly.com/](http://philly.com/articles/philly.com/)

FIGURE 2.38 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR SUGARHOUSE, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

2.4.10.1 ECONOMIC IMPACT OF SUGARHOUSE CASINO

Breaking ground in 2009, SugarHouse became the first casino to open up in Philadelphia County and the third to open up in the Philadelphia area. HSP Gaming estimates that capital investments, which called for a standalone casino facility, cost an estimated \$103 million. These expenditures on construction, architectural design services, legal services, furniture, and other items generated \$159 million in total economic output for the Commonwealth, supporting about 1,100 jobs, and \$80 million in labor income (see Table 2.19).

The construction and related development costs associated with SugarHouse casino are also a source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of SugarHouse generated about \$4 million in tax revenue for the Commonwealth.

As of 2013, SugarHouse’s operations directly employed 1,104 people. Using IMPLAN Philadelphia County specific multipliers, these jobs produced a grand total of about \$213 million in total output, supporting about 1,600 jobs and \$85 million in labor income. In addition to racing and gaming operations, SugarHouse has made annual renovation expenditures to its gambling and racing facilities. Since mid-2011, SugarHouse has spent about \$5 million on renovations and upgrades. Annualized, SugarHouse has spent about \$3 million on capital expenditures per year. These capital expenditures generated about \$3 million in total output, supporting an additional 20 jobs, and \$1 million in labor income. Including both of these components, annual operations of

SugarHouse translates to \$215 million in total output, about 1,600 jobs, and \$86 million in labor income.

Excluding gaming revenues from slots and table games, SugarHouse also generates tax revenues for the Commonwealth from operations. Including the income, sales & excise, and business taxes, SugarHouse generates about \$6 million in annual tax revenues from casino operations and upkeep & upgrades (see Table 2.19).

TABLE 2.19 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE SUGARHOUSE CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	1,080	\$79.8	\$93.3	\$158.9	\$1.5	\$2.7	\$0.3	\$4.5
Casino Operations	1,647	\$87.5	\$145.5	\$222.1	\$1.6	\$4.2	\$0.5	\$6.3
Casino Upkeep and Upgrades (annualized)	19	\$1.4	\$1.7	\$2.8	\$0.0	\$0.1	\$0.0	\$0.1
Total (Annual Only)	1,665	\$88.9	\$147.3	\$224.9	\$1.6	\$4.3	\$0.5	\$6.4

Source: HSP Gaming (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.11 VALLEY FORGE CASINO RESORT

The state's first Category 3 casino opened in April 2012 (Upper Merion Township, Montgomery County) near the Valley Forge National Historical Park and the King of Prussia Mall. The \$165 million facility opened on the grounds of the Valley Forge Convention Center and also includes two hotels. Being a Category 3 facility, patrons are required to either spend \$10 in establishments at the resort, stay at one of the hotels, attend an event at the convention center, or purchase membership cards.⁶⁵ When the hotel rooms underwent a \$2.8 million renovation in 2013 and in 2014, a new high-roller room was added. Amenities at the casino include nine restaurant and bar establishments, a spa, live music, a pool and comedy acts. The resort also hosts sporting events, like kickboxing and mixed martial arts, that draw specific crowds.

As Upper Merion hosts a Category 3 facility, it is entitled to 2% of slot revenues, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for municipal and economic development projects. In 2013, Upper Merion received \$1.6 million from the casino's local share for the general fund which was to be used towards the operating budget. Montgomery County also received \$1.6 million from Valley Forge. According to PGCB reports, total local share payments have been about \$5 million since its opening in 2012 (4% and 2% of slot and table revenues respectively). The casino also distributed \$128,000 to local nonprofit groups, county organizations and some area high school graduates for scholarships. The Upper Merion Board of Community Assistance also received \$140,000 to distribute to nonprofits and scholarship funds.⁶⁶ The County's share is distributed by the Commonwealth Financing Authority and in 2012, a bill was introduced by local legislators to divert these funds from the Authority to provide for direct funding for county parks and historic sites and other local amenities.⁶⁷

In addition to the local share payments the Upper Merion Township receives, the Valley Forge Casino Resort also pays property taxes on the casino and resort facility. In 2014, both the Upper Merion Township and Upper Merion Area School District are due to collect about \$300,000 combined from property taxes.

As a casino in the southeastern market, Valley Forge competes with the other three area casinos, racinos in Delaware and the Atlantic City casinos. Maryland and other eastern Pennsylvania casinos are also about two hours away. The second Philadelphia casino will also bring in audiences who want the casino experience outside of a resort-type atmosphere. To stay competitive and attract patrons who may be put off by the spending needed to gamble if they are not attending a conference or staying at the hotels, Valley Forge looks to non-casino attractions, like the sporting events, comedy shows and music, where target demographic groups can spend on entertainment they are interested in and gain access to the casino floor.

As 2013 was the first full year of operation, any change from 2012 would not reflect a full year's difference. Slot revenue was \$63 million in 2013 while table revenue was \$33 million. Being a

⁶⁵ Parnley, S. (2012, April 1). *Pennsylvania's newest casino opens at Valley Forge*. Retrieved from philly.com: articles.philly.com/

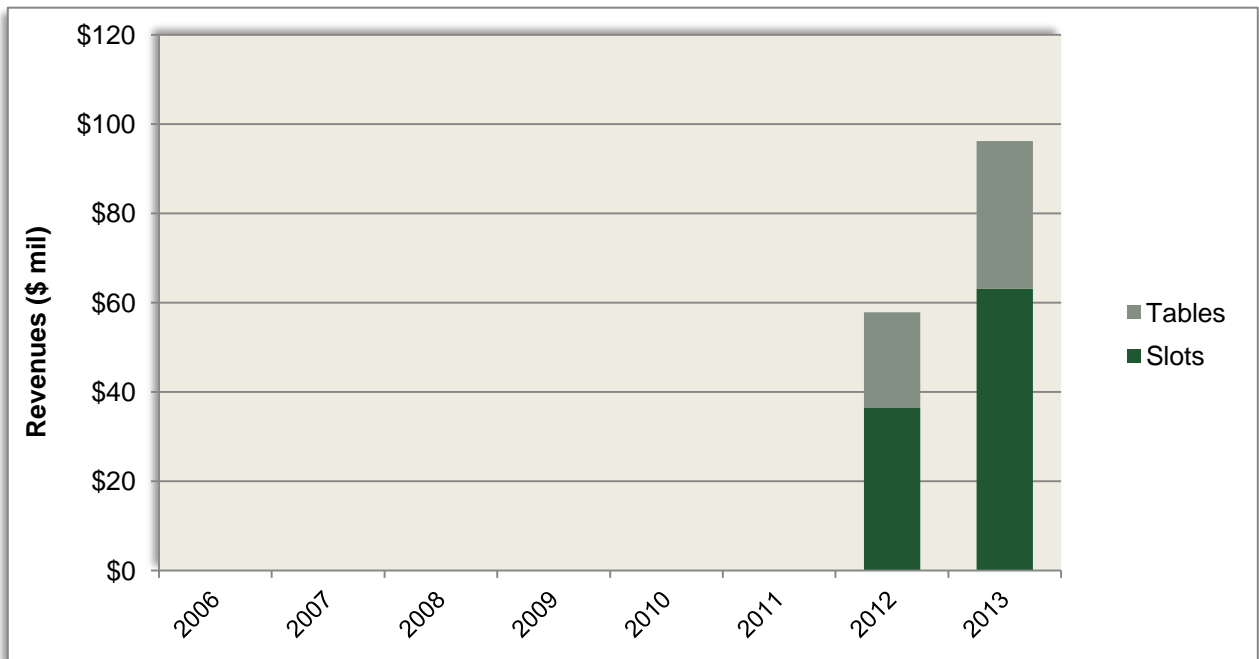
⁶⁶ Rotenberg, C. (2014, March 28). *Valley Forge Casino Resort adds to coffers of Upper Merion Township, Montgomery County and organizations*. Retrieved from The Times Herald: www.timesherald.com/

⁶⁷ Rotenberg, C. (2014, 3 April). *House bill would change distribution of Valley Forge Casino Resort revenue*. Retrieved from Main Line Media News: www.mainlinemedianews.com/

Category 3 facility, Valley Forge is not allowed more than 600 slot machines and 50 table games and it has already reached those numbers.

As of February 2014, the convention center was undergoing \$1 million worth of renovations in electronic upgrades, lighting, climate control and meeting room redesign. These are efforts to attract new and diverse business groups to host events at the space and to partake in other options like the casino.⁶⁸ Valley Forge also introduced a promotion with US Airways that allows casino guests to use their player points towards the airline’s frequent flyer program.⁶⁹

FIGURE 2.40 – ANNUAL SLOT AND TABLE REVENUE FOR VALLEY FORGE, 2006-2013

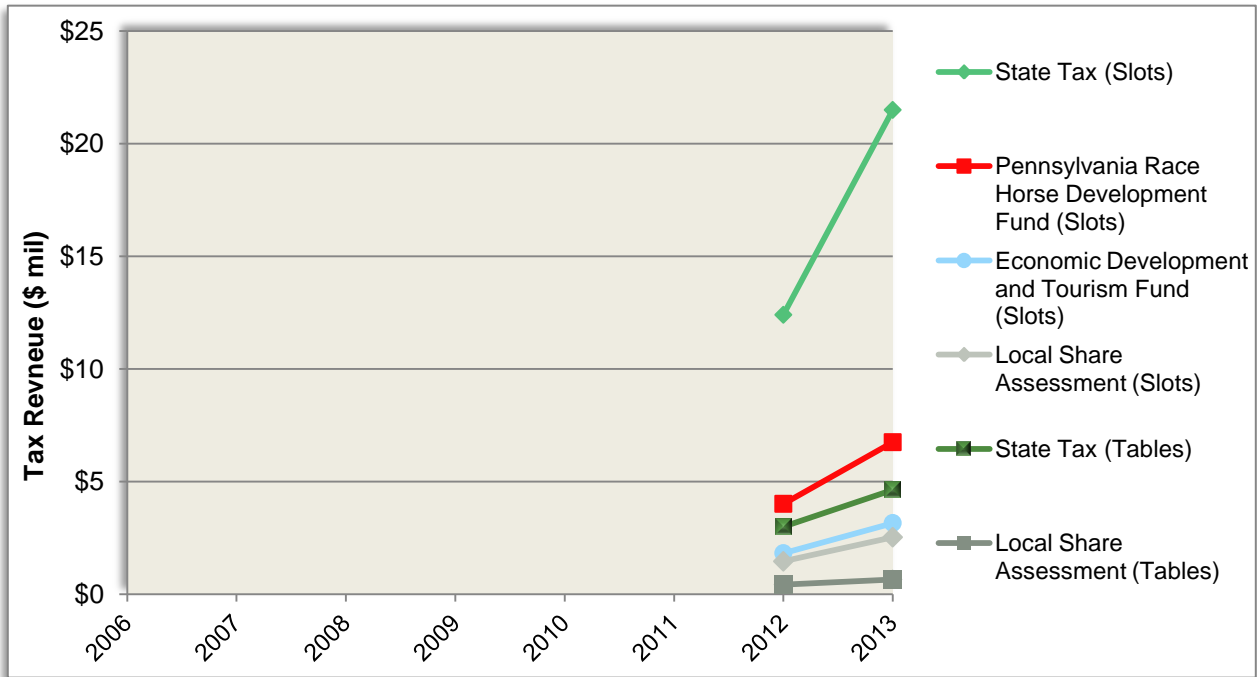


Source: Pennsylvania Gaming Control Board (2014)

⁶⁸ Parks, J. (2014, February 24). *Valley Forge Casino Resort undergoing renovation*. Retrieved from Philly.com: www.philly.com/

⁶⁹ The Associated Press. (2014, April 2). *Pa. casino: Gamblers can earn airline miles*. Retrieved from The Washington Times: www.washingtontimes.com/

FIGURE 2.41 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR VALLEY FORGE, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

2.4.11.1 ECONOMIC IMPACT OF VALLEY FORGE RESORT CASINO

After its 2012 opening, Valley Forge Casino Resort estimated that initial capital investment expenditures for the gaming facility were \$53 million. These expenditures on construction, architectural design services, administrative, furniture, and other items generated over \$68 million in total economic impact for the Commonwealth, supporting about 420 jobs, and \$37 million in labor income (see Table 2.20).

The construction and related development costs associated with Valley Forge Casino Resort are also the source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of Valley Forge Resort Casino generated about \$2 million in tax revenue for the Commonwealth.

As of 2013, Valley Forge Casino Resort’s operations employed 1,180 people. Using IMPLAN Montgomery County specific multipliers, these jobs produced a grand total of about \$202 million in total output, supporting about 1,700 jobs and \$70 million in labor income. Since the casino is relatively new, it has not made any significant renovations or major upkeep expenditures. Therefore, the only annual ongoing impacts are from ongoing operations.

Excluding gaming revenues from slots and table games, Valley Forge Resort Casino also generates about \$5 million in tax revenues for the Commonwealth from operations. Since the casino is relatively new, it is yet to make any significant renovations or additions. Therefore, the

only fiscal impacts generated from the Valley Forge Resort Casino are from casino operations (see Table 2.20).

TABLE 2.20 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE VALLEY FORGE CASINO IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	424	\$36.9	\$43.0	\$68.0	\$0.7	\$1.2	\$0.2	\$2.1
Casino Operations	1,710	\$69.1	\$128.3	\$202.0	\$1.3	\$3.7	\$0.4	\$5.4

Source: Valley Forge Casino Resort (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

2.4.12 LADY LUCK CASINO AT NEMACOLIN

The state's second Category 3 casino opened in July 2013 (Wharton Township, Fayette County) on the grounds of the Nemacolin Woodlands Resort. The casino is operated by Isle of Capri Casinos, Inc. The Nemacolin resort itself was originally a private reserve and opened to the public as a resort in the 1980s. It houses a AAA Five-Diamond hotel as well as a Five-Diamond restaurant. The \$60 million casino opened with 600 slot machines (limit for Category 3) and 28 table games. Amenities at the casino include two restaurants and live music but being at a destination resort, there is a diverse range of activities including two golf courses, over fifteen dining and bar options, a spa, outdoor activities and shopping.

Located in southwestern Pennsylvania, Lady Luck competes with Rivers and Meadows, as well as out-of-state competition from two casinos in West Virginia which are about two hours away. A new racino planned for Youngstown, Ohio will also introduce a new facility in this market as well as a potential racino in Lawrence County. In addition, Rocky Gap in Maryland is about an hour away. Being a destination resort, however, competition for travelers and vacationers also comes from other areas in the region, like the Laurel Highlands, that have their own unique attractions and lodging options. Moreover, with a range of activities at the Nemacolin resort, especially outdoor options in the warmer months, a shift away from people going to the casino to enjoy these other programs may occur. And just like Valley Forge, patrons must spend \$10, stay at the resort or be a member at one of the resort amenities to enter the casino.⁷⁰ This may deter some day-time patrons from entering the casino floor.

Revenues from Lady Luck's slots were \$11.1 million and \$2.3 million from table games in its first six months of operation. As Wharton hosts a Category 3 facility, it is entitled to 2% of slot revenues, as long as it doesn't exceed 50% of the fiscal year's budget. Any remaining money will be allocated by the county for county projects. During this period, gaming revenues have also translated into over \$500,000 in local share assessment funds to Fayette County (4% and 2% of slot and table revenues respectively from PGCB reports).

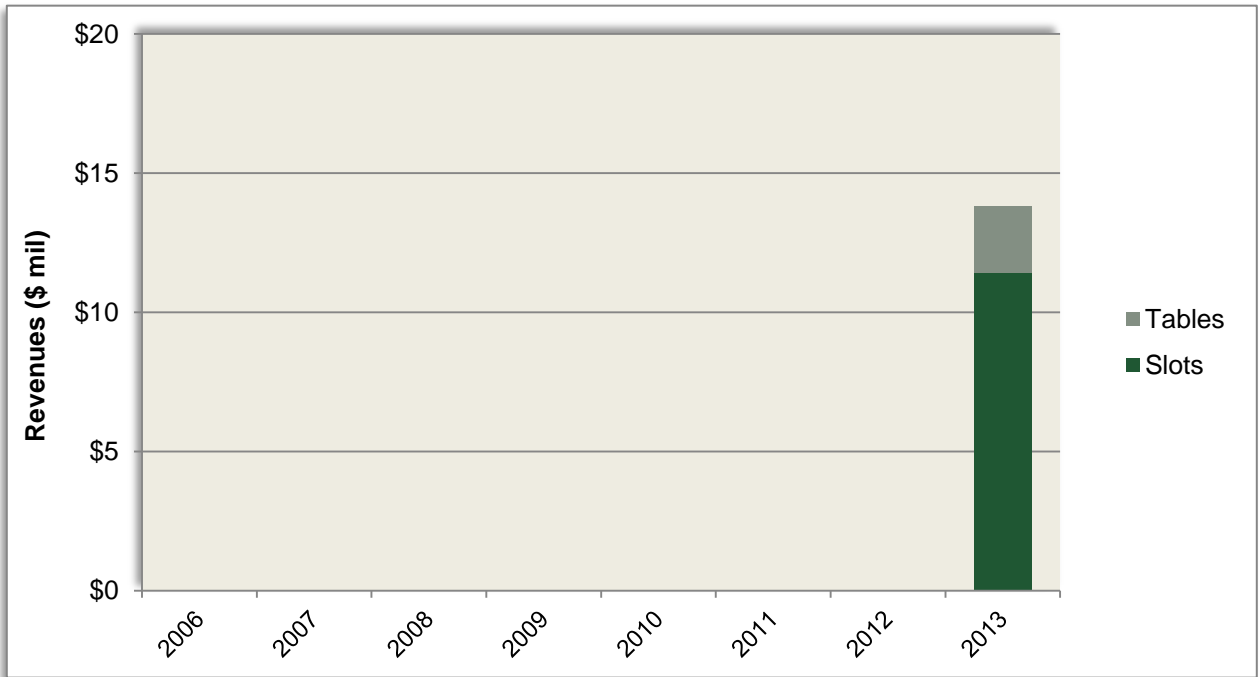
In addition to the local share payments the Wharton Township receives, the Lady Luck Casino at Nemacolin also pays property taxes on the casino facility. In 2014, both the Wharton Township and Uniontown Area School District are due to collect about \$100,000 combined from property taxes.

In 2014, the Nemacolin resort will start \$30 million worth of renovations, this will include renovations to lodging and convention and meeting space.⁷¹

⁷⁰ <http://www.nemacolin.com/casino/access>

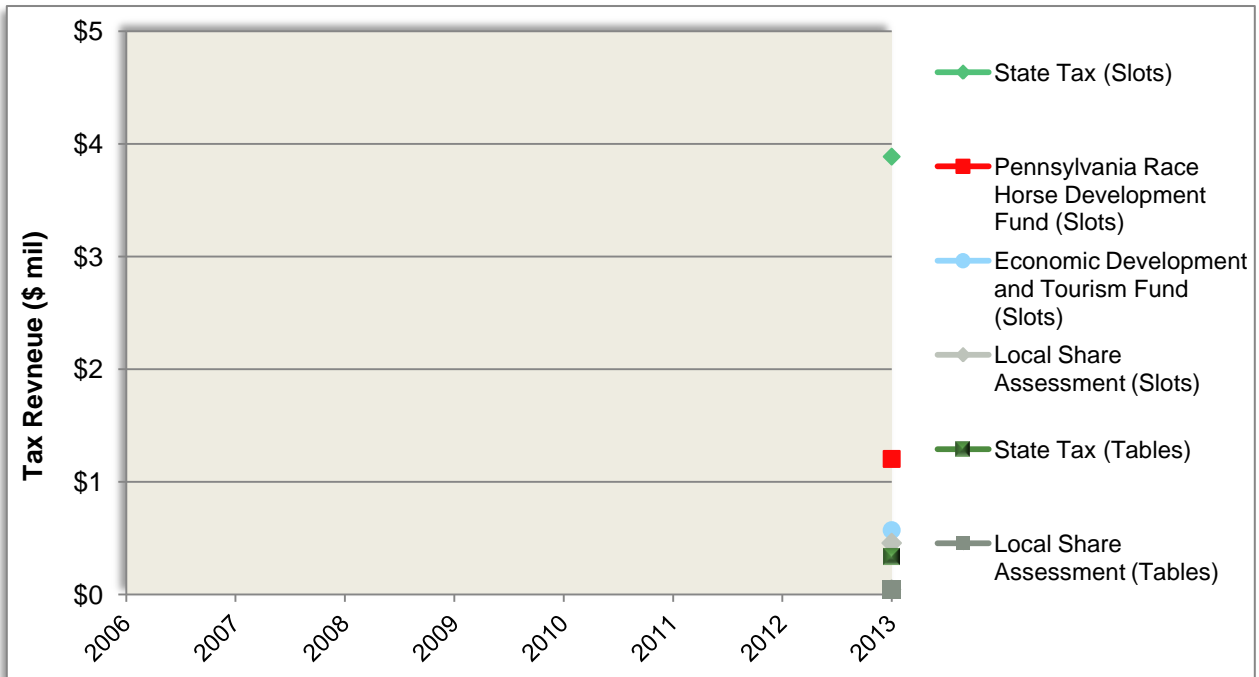
⁷¹ <http://www.nemacolin.com/experience/overview/history>

FIGURE 2.43 – ANNUAL SLOT AND TABLE REVENUE FOR NEMACOLIN, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

FIGURE 2.44 – DISTRIBUTION OF GAMING TAX REVENUE BY FUND FOR NEMACOLIN, 2006-2013



Source: Pennsylvania Gaming Control Board (2014)

2.4.12.1 ECONOMIC IMPACT OF LADY LUCK CASINO AT NEMACOLIN

After completing construction in July of 2013, The Lady Luck Casino at Nemacolin became the newest casino in the Commonwealth. Lady Luck Casino at Nemacolin estimates capital investment expenditures for the gaming facility were \$55 million including a \$12.5 million licensing fee. These expenditures on construction, architectural design services, administrative, furniture, and other items generated over \$61 million in total economic impact for the Commonwealth, supporting about 600 jobs, and \$23 million in labor income.

The construction and related development costs associated with Lady Luck Casino at Nemacolin are also the source of fiscal impacts for the Commonwealth. Including income taxes, sales & excise taxes, and business taxes, the initial development of the casino generated about \$1 million in tax revenue for the Commonwealth (see Table 2.21).

As of 2013, Lady Luck Casino’s operations employed 506 people. Using IMPLAN Fayette County specific multipliers, these jobs produced a grand total of about \$76 million in total output, supporting about 700 jobs and \$23 million in labor income. Excluding gaming revenues from slots and table games, Lady Luck Casino also generates about \$2 million in tax revenues for the Commonwealth from operations (see Table 2.21). Since the casino is less than a year old, it is yet to make any significant renovations or additions. Therefore, the only annual fiscal impacts calculated were from casino operations.

TABLE 2.21 – ECONOMIC AND FISCAL IMPACTS OF CAPITAL INVESTMENT, ONGOING OPERATIONS, AND UPKEEP & UPGRADES OF THE LADY LUCK CASINO AT NEMACOLIN IN THE COMMONWEALTH OF PENNSYLVANIA

Type	Employment	Labor Income (\$ mil)	Value Added (\$ mil)	Output (\$ mil)	Income Tax (\$ mil)	Sales and Excise Taxes (\$ mil)	Business Taxes (\$ mil)	Total (\$ mil)
Initial Capital Investment	616	\$22.9	\$28.4	\$61.2	\$0.4	\$0.8	\$0.1	\$1.3
Casino Operations	707	\$23.1	\$47.1	\$75.8	\$0.4	\$1.4	\$0.2	\$2.0

Source: Lady Luck Casino (2014), PA Gaming Control Board (2013), IMPLAN (2013), Econsult Solutions (2014)

3.0 THE CHANGING COMPETITIVE LANDSCAPE

As surrounding states expand casino gaming, Pennsylvania will see a negative impact. Just as Pennsylvania recaptured gaming revenue going to New Jersey, other states are introducing gaming and will recapture a significant amount of gaming revenue from Pennsylvania. The decline in state tax revenue from 2012 to 2013 in part is attributable to just this type of recapture. This section investigates the supply of casinos in Pennsylvania and surrounding states, both in the past and projected into the future, and looks at historic revenue by state. We construct a model of gaming behavior to estimate the potential impact of new casino openings in Pennsylvania and in surrounding states, and we investigate the ability of Pennsylvania casinos to reinvest in their properties in light of regional competition and Pennsylvania’s tax rates. We summarize the results of our competitive analysis by noting that there will be net revenue growth from additional Pennsylvania casinos, and there will be cannibalization by new out of state casinos. However, our analysis suggests that Pennsylvania is not in danger of experiencing anywhere near the decline in revenue seen in Atlantic City in recent years.

3.1 DECOMPOSITION OF PENNSYLVANIA’S 2013 GAMING TAX REVENUE DECLINE

In 2013, Pennsylvania saw its first decrease in both total gaming revenue and State & Local Tax Revenue (Table 3.1) since legalizing casino gaming in the Commonwealth.

TABLE 3.1 – PENNSYLVANIA GAMING TAX REVENUE CHANGE, 2012-2013

	State	Local	Total
Slots	-\$29,524,611	-\$27,157,478	-\$56,682,089
Tables	-\$1,565,074	\$848,957	-\$716,117
Total	-\$31,089,685	-\$26,308,521	-\$57,398,206

Source: Pennsylvania Gaming Control Board (2013)

This decline in total tax revenue can be attributed to a combination of several factors:

- 1) Table Game Tax Rates – Some tax revenue loss is directly attributable to the reduced state tax rate on table game revenue provided for by the legislation enabling table games. For the first 24 months of table game operations, casinos pay 14% of table game revenue to the state general fund. The rate then drops to 12%. The majority of Pennsylvania casinos hit the 24 month cut-off midway through 2012, meaning that 2013 was the first year to fully incorporate the lower rates for most properties.
- 2) National Trends – Macro-gaming patterns regarding slot (decline) and table (growth) activities respectively may have contributed to the tax revenue decline.

- 3) Cannibalization -- The flight of previous revenue to nearby states (Ohio and Maryland) with new gaming venues may also be a contributing factor to the revenue decline.
- 4) Casino Openings – As new casinos open in Ohio and Maryland, gamers deviate from their normal casino to investigate the new casino. Many of these gamers will return to their original casino, but the temporary shift will offset revenue.

The tax revenue effect of the decrease in the table game tax rate is approximately \$7 million. The calculation is reached by comparing potential state slot tax revenues in 2013 with each casino's effective 2012 tax rate and its 2012 table game revenues. The rate change accounts for a relatively small proportion of the tax revenue decrease in 2013.

Though precise data is not available, anecdotal evidence indicates that slot machine revenue was down nationwide from 2012 to 2013. For example, as a relatively isolated market with high gaming volume, Nevada serves as an indicator of gaming trends. Year-over-year casino revenue change for 2013 in Nevada was -0.4% for slots and +7.9% for table games. Casinos also opened throughout 2012 and 2013 in Ohio and Maryland. The Ohio casinos in Cleveland and other locations attracted gamers that had been going to Rivers and Presque Isle. For example, revenue fell nearly 15% for Presque Isle. Some of this revenue loss may be temporary as gamers who would normally go to Presque Isle try out the new Ohio casinos. Much of the other portions of the revenue loss are permanent because the new casinos are more convenient than Presque Isle for some patrons.

Finally, Table 3.2 provides a snapshot of revenue change for Pennsylvania casinos by region⁷² for 2013. Both the Philadelphia and Central region may have been affected by the market entry of Maryland's Rocky Gap and Maryland Live! casinos.

TABLE 3.2 - TOTAL GAMING REVENUE CHANGE BY PENNSYLVANIA REGION, 2012-2013

	2012	2013	Net Change	% Change	% of 2013 Total
Greater Philadelphia	\$1,167,354,249	\$1,160,640,738	(\$6,713,511)	-0.6%	37.3%
Greater Pittsburgh	\$636,240,444	\$630,141,660	(\$6,098,784)	-1.0%	20.2%
East	\$902,477,554	\$911,769,431	\$9,291,877	1.0%	29.3%
Central	\$282,601,312	\$266,761,833	(\$15,839,479)	-5.6%	8.6%
Northwest	\$169,644,305	\$144,614,929	(\$25,029,376)	-14.8%	4.6%
Total	\$3,158,317,863	\$3,113,928,590	(\$44,389,273)	-1.4%	

Source: Pennsylvania Gaming Control Board (2013), Econsult Solutions (2014)

In summation, Pennsylvania's tax revenue decline in 2013 is partially explained by the expiration of a 14% table tax rate for most Pennsylvania casinos, the national trend in stagnating slot revenues, confirmed by comparison to Nevada data and analysis of industry experts, and also to

⁷² Regional casino breakdown: Greater Philadelphia – Parx, Harrah's, SugarHouse, Valley Forge; Greater Pittsburgh – Meadows, Rivers, Nemacolin; East – Mohegan Sun, Mount Airy, Sands Bethlehem; Central – Penn National; Northwest – Presque Isle.

a large extent by increased competition from neighboring states and new operators in those territories.

Results for the first quarter of 2014 released by the Gaming Control Board show continued erosion of slot revenues, which fell 7%, and stability in table revenues, which grew 1% (see Table 3.3). Total casino revenue declined 5%, while total tax revenue, which is more heavily dependent on slot revenues, fell 7%.

However, as Gaming Control Board Executive Director Kevin O'Toole noted in the data release, "it is likely that the amount of revenue generated was negatively impacted by the significant amounts of snow and extreme cold weather that affected all parts of Pennsylvania."⁷³ Snowy conditions reduced consumers' ability to travel throughout the winter, and caused casino closures in some cases. Given average daily slot revenue of \$6.3 million, a week of closures statewide would account for the slot revenue drop of \$44 million by itself.

TABLE 3.3 – PENNSYLVANIA CASINO REVENUE AND GAMING TAX REVENUE, Q1 2013-2014

Revenues and Tax Revenues	Q1 2014	Q1 2013	% Chg	Net Difference
Average Slot Units	26,600	26,383	0.8%	217
Slot Revenue (\$ mil)	569.2	613.5	-7.2%	-44.4
Slot Taxes (\$ mil)	304.4	329.7	-7.7%	-25.4
Average Table Games	1,090	1,039	4.9%	51
Table Revenue (\$ mil)	183.8	182.1	0.9%	1.7
Table Taxes (\$ mil)	22.9	22.5	1.2%	0.3
Total Revenue (\$ mil)	753.0	795.6	-5.4%	-42.7
Total Taxes (\$ mil)	352.3	327.2	-7.1%	-25.1

Source: Pennsylvania Gaming Control Board (2014)

⁷³ Pennsylvania Gaming Control Board. (2014, February 5). January Slot Machine Revenue Reported by Pennsylvania Gaming Control Board: Figures Likely Impacted by Harsh Weather.

3.2 REGIONAL COMPETITIVE TRENDS

Pennsylvania and the surrounding states, defined here as Delaware, Maryland, New Jersey, New York, Ohio, Virginia, and West Virginia, have seen a significant increase in casino supply in the aggregate. The Commonwealth was a beneficiary of an unsaturated market upon entry in 2006. Eight years later, Pennsylvania has recaptured patrons who had been previously crossing state lines and, as seen in Table 3.4, attracts more revenue than any state in the region, having passed New Jersey in 2012. The declining revenues in Pennsylvania as of the past two years can be attributed in part to the full recapturing of in-state gamblers (from Atlantic City, etc.) and the entry of contiguous states Ohio and Maryland, whose gamblers previously provided significant revenues at certain Commonwealth casinos.

TABLE 3.4 – CASINO SUPPLY AND REVENUE FOR PENNSYLVANIA AND NEIGHBORING STATES, 2013

State	Data Year	Casinos	Slots	Tables	Slot Revenue	Table Revenue	Slot + Table Revenue
Pennsylvania	2013	12	26,499	1,058	\$2,384,098,225	\$729,830,365	\$3,113,928,590
New Jersey	2013	12	25,305	1,567	\$2,063,825,728	\$798,243,190	\$2,862,068,918
New York ⁷⁴	2013	9	17,621	0	\$1,925,565,095	\$0	\$1,925,565,095
Ohio	2013	8	11,394	419	\$818,725,480	\$251,884,383	\$1,070,609,863
West Virginia	FY 2013	5	8,364	344	\$660,414,431	\$208,907,416	\$869,321,847
Maryland	2013	4	6,635	127	\$579,865,775	\$168,810,395	\$748,676,170
Delaware	2013	3	6,748	189	\$373,996,300	\$58,062,138	\$432,058,438

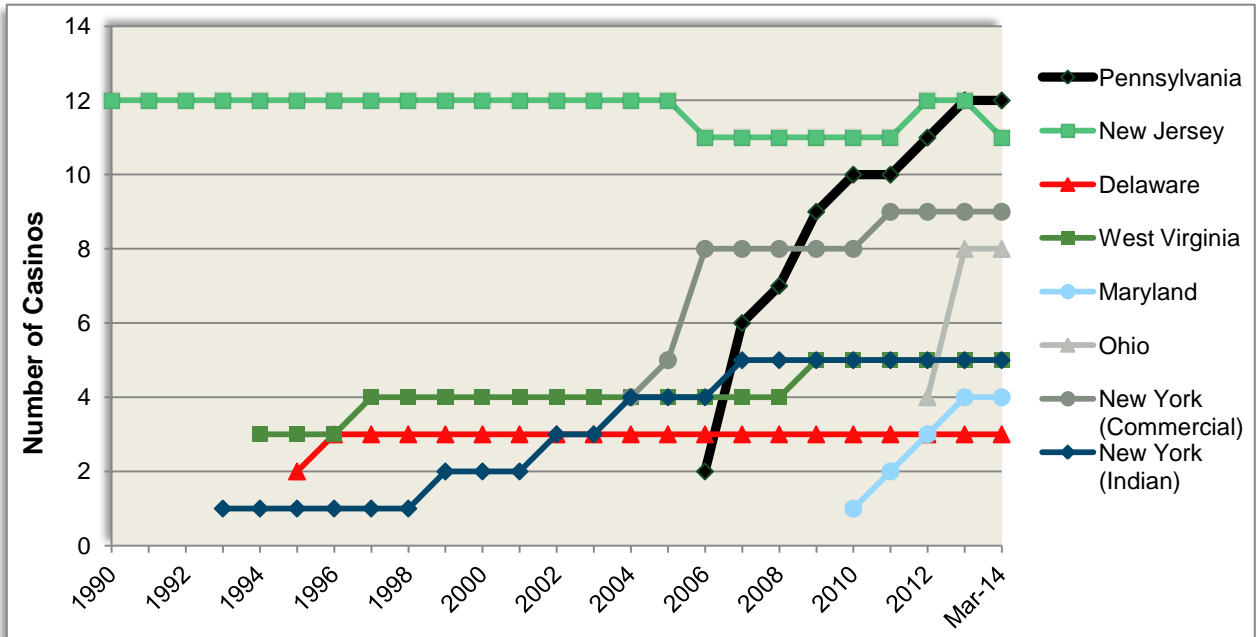
Source: State Casino/Lottery Boards & Commissions

3.2.1 SNAPSHOT

At the beginning of 2000, there were 21 casinos in 4 states (New Jersey, West Virginia, Delaware and New York) in the regional market (see Figure 3.1). Nearly a decade and a half later, every state in the study except for Virginia has legalized commercial gaming, and the casino supply, in terms of the total number of casinos, has nearly tripled (see Figure 3.2).

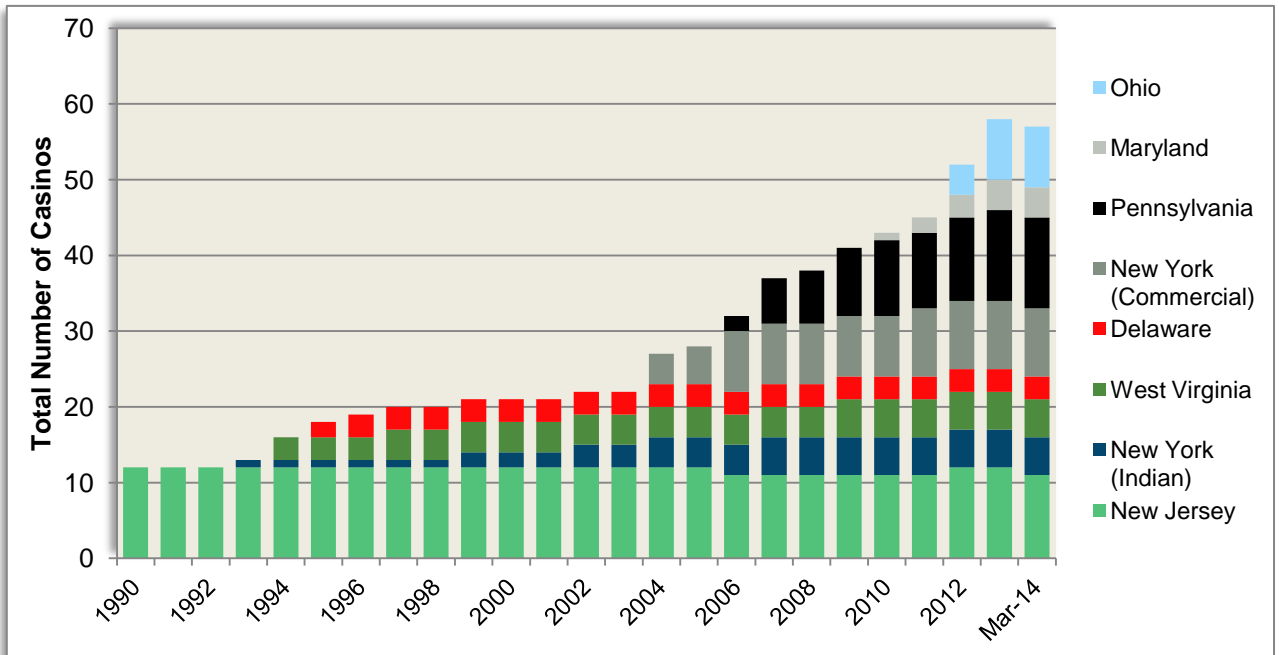
⁷⁴ Does not include Indian-style casinos

FIGURE 3.1 – CASINO SUPPLY FOR PENNSYLVANIA AND NEIGHBORING STATES, 1990-2014



Source: State Casino/Lottery Boards & Commissions

FIGURE 3.2 – TOTAL CASINO SUPPLY FOR PENNSYLVANIA AND NEIGHBORING STATES, 1990-2014

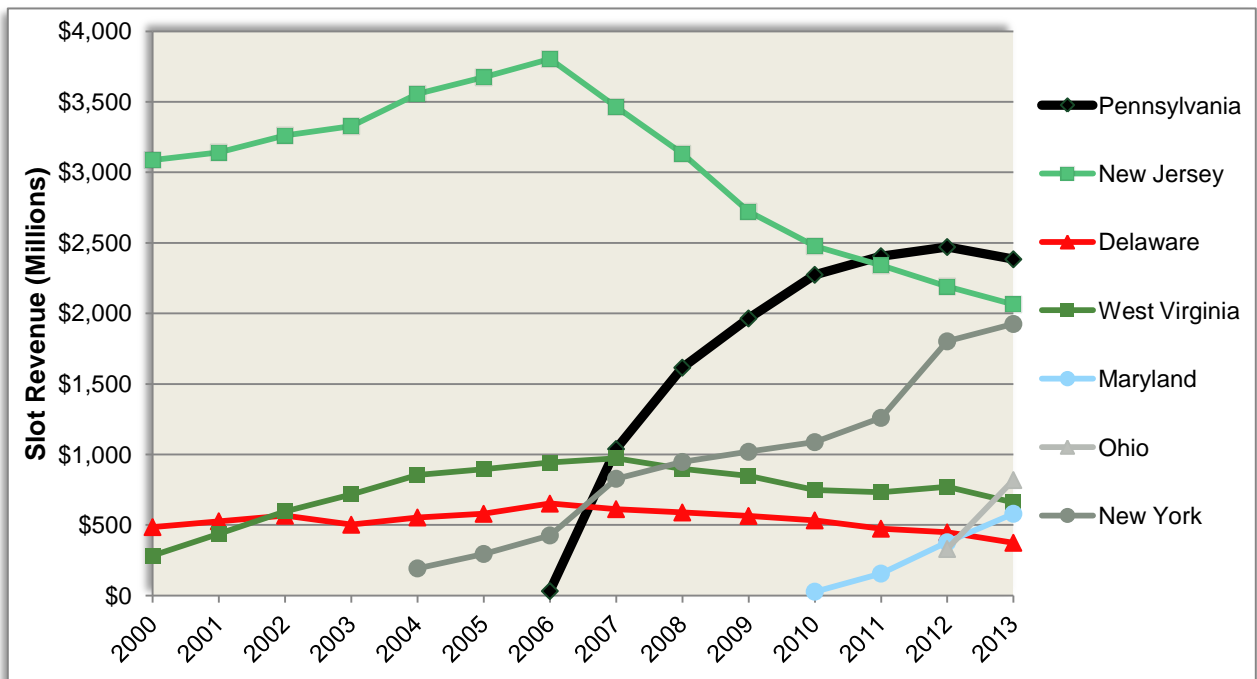


Source: State Casino/Lottery Boards & Commissions

3.2.2 SUPPLY AND REVENUE TRENDS, BY STATE

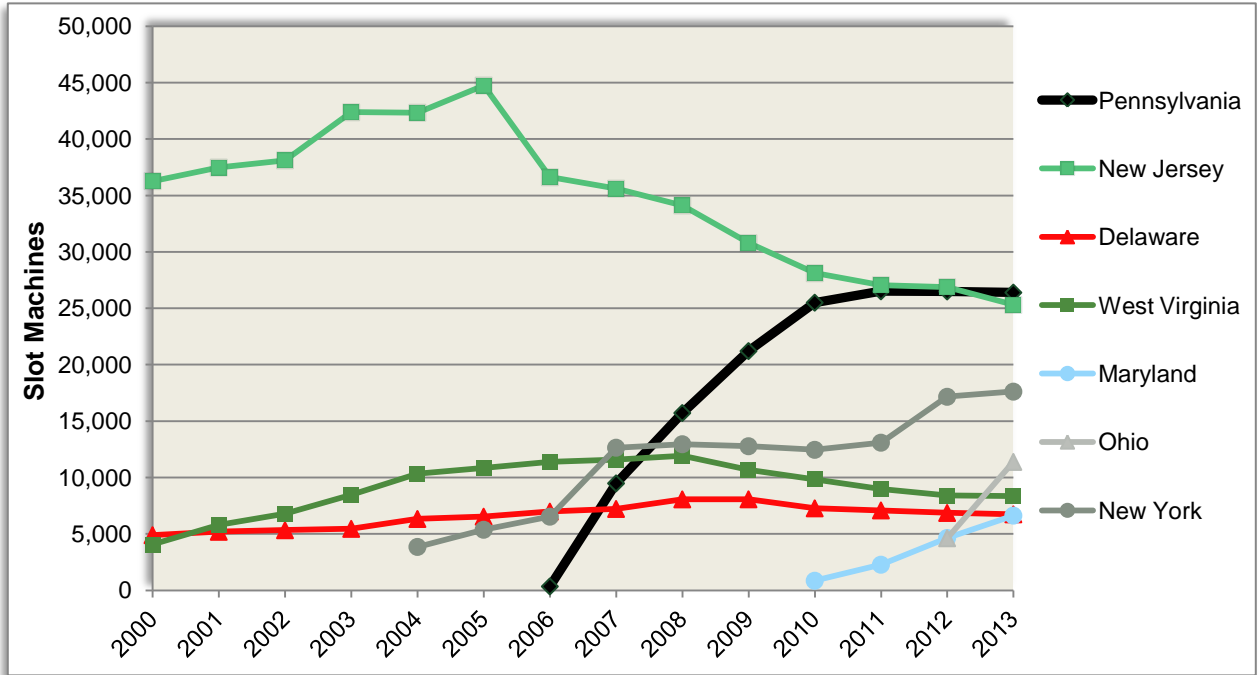
Pennsylvania’s entry into the market in 2006 has clearly cannibalized Atlantic City’s revenues in both slots (Figure 3.3) and tables (Figure 3.5), even though Pennsylvania did not introduce table games until 2010. The only metric in which New Jersey has not declined is in table supply (Figure 3.6) despite a decrease in table revenue by more than 40% from its peak in 2006, illustrating the over-supply of Atlantic City tables and likelihood of contraction to come. Also evident in Figure 3.3 is the negative impact of Ohio and Maryland’s entry on Pennsylvania revenue growth over the past three years.

FIGURE 3.3 – SLOT REVENUE IN COMMERCIAL CASINOS IN PENNSYLVANIA AND NEIGHBORING STATES, 2000-2013



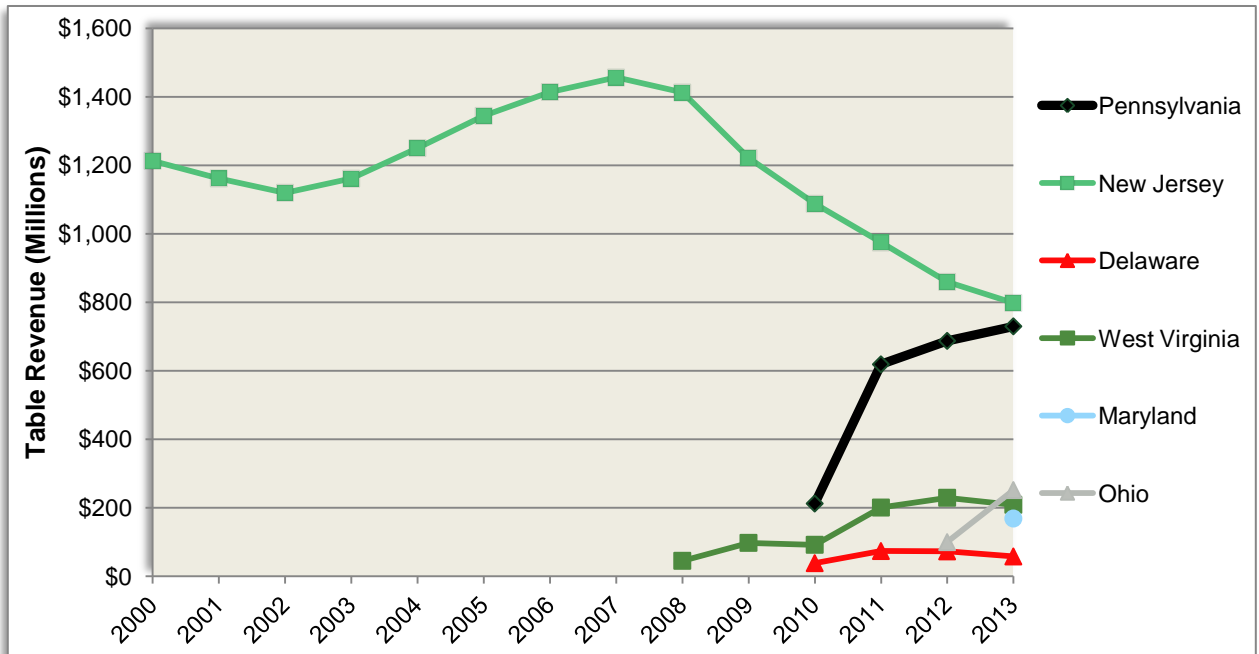
Source: State Casino/Lottery Boards & Commissions, Econsult Solutions, Inc. (2014)
 *Note that WV numbers for both slots and tables are fiscal based.

FIGURE 3.4 – SUPPLY OF SLOT MACHINES IN COMMERCIAL CASINOS IN PENNSYLVANIA AND NEIGHBORING STATES, 2000-2013



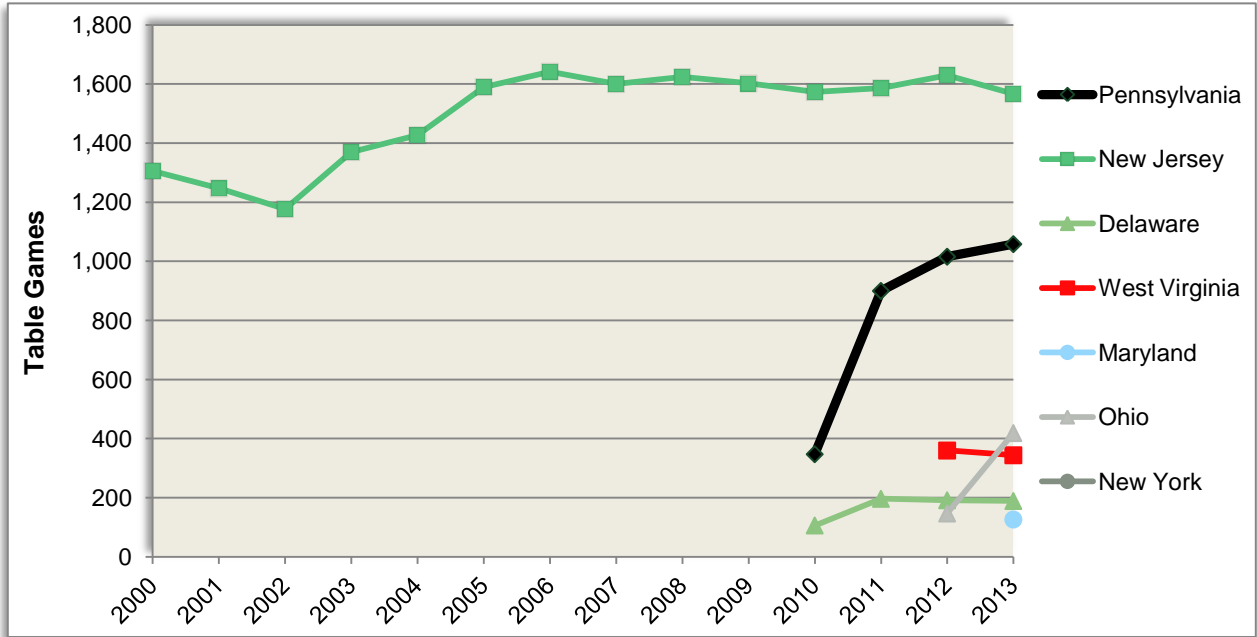
Source: State Casino/Lottery Boards & Commissions (2014)

FIGURE 3.5 – TABLE REVENUE IN COMMERCIAL CASINOS IN PENNSYLVANIA AND NEIGHBORING STATES, 2000-2013



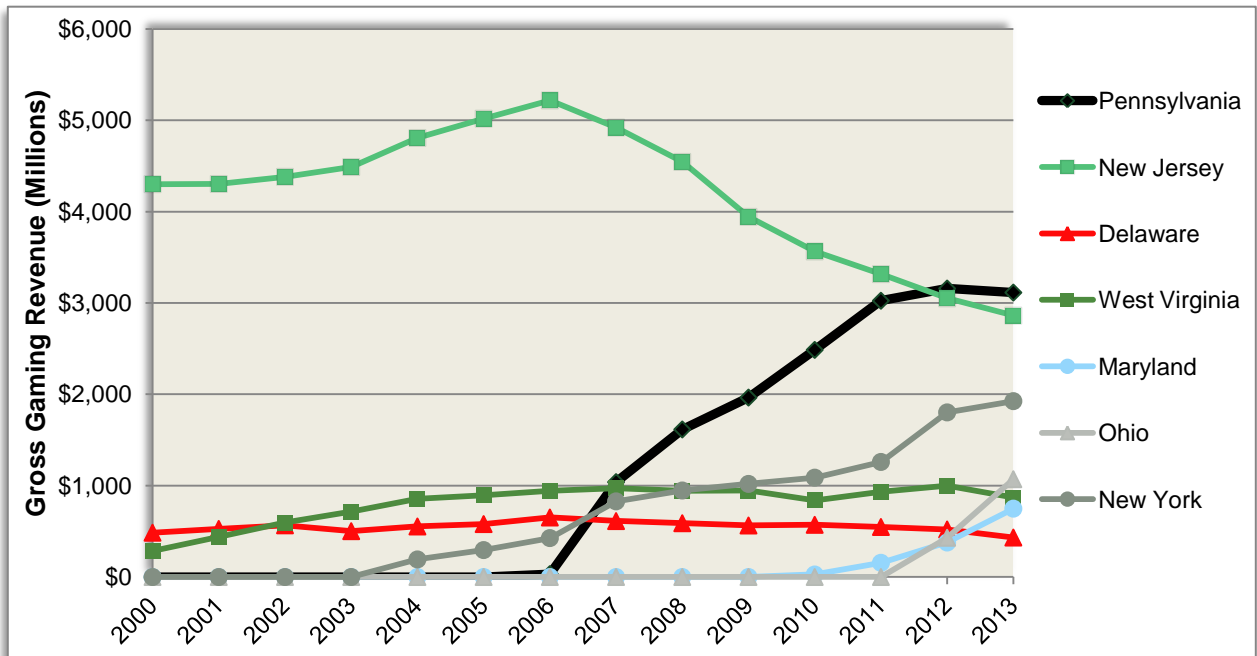
Source: State Casino/Lottery Boards & Commissions (2014)

FIGURE 3.6 – SUPPLY OF TABLE GAMES IN COMMERCIAL CASINOS IN PENNSYLVANIA AND NEIGHBORING STATES, 2000-2013



Source: State Casino/Lottery Boards & Commissions (2014)
 Note: Table game supply data for West Virginia not available prior to FY 2012

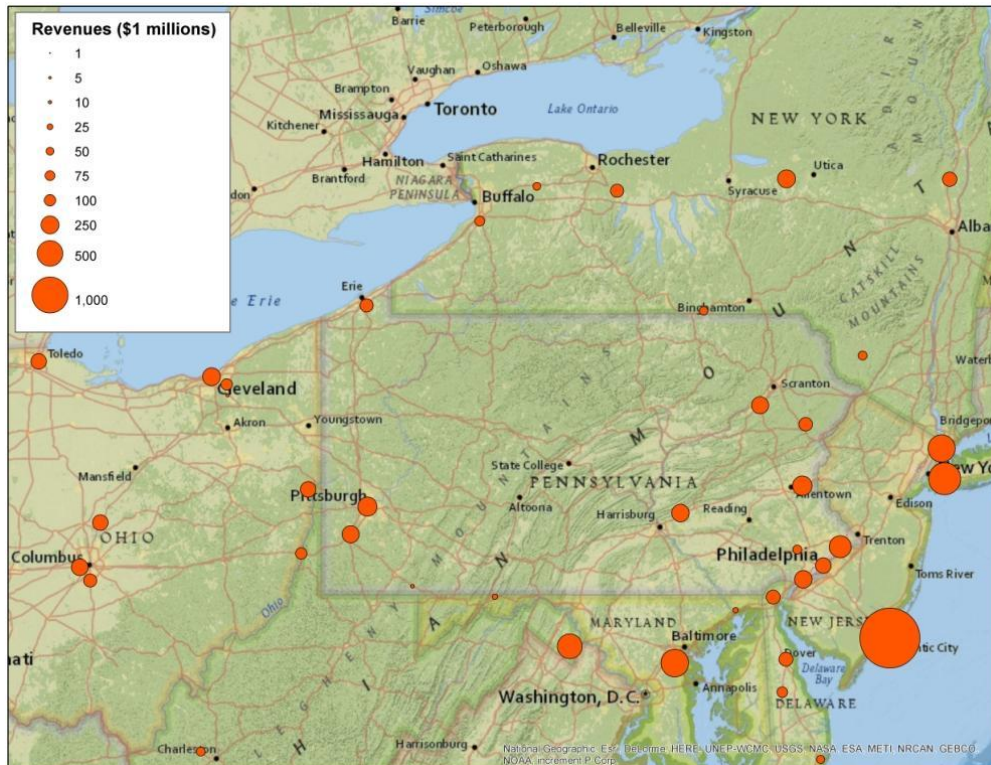
FIGURE 3.7 – TOTAL SLOT AND TABLE REVENUE IN COMMERCIAL CASINOS IN PENNSYLVANIA AND NEIGHBORING STATES, 2000-2013



Source: State Casino/Lottery Boards & Commissions (2014)

Figure 3.8 identifies the location and gross gaming revenue of casinos in Pennsylvania and neighboring states.

FIGURE 3.8 – MAP OF REVENUES BY COMMERCIAL CASINO, 2013



Source: State Casino/Lottery Boards & Commissions (2014)

To better compare revenue streams across states of different population sizes, Figure 3.9 and Figure 3.10 show total casino revenue per capita and as a percentage of real personal income, respectively. The main takeaways from the output are:

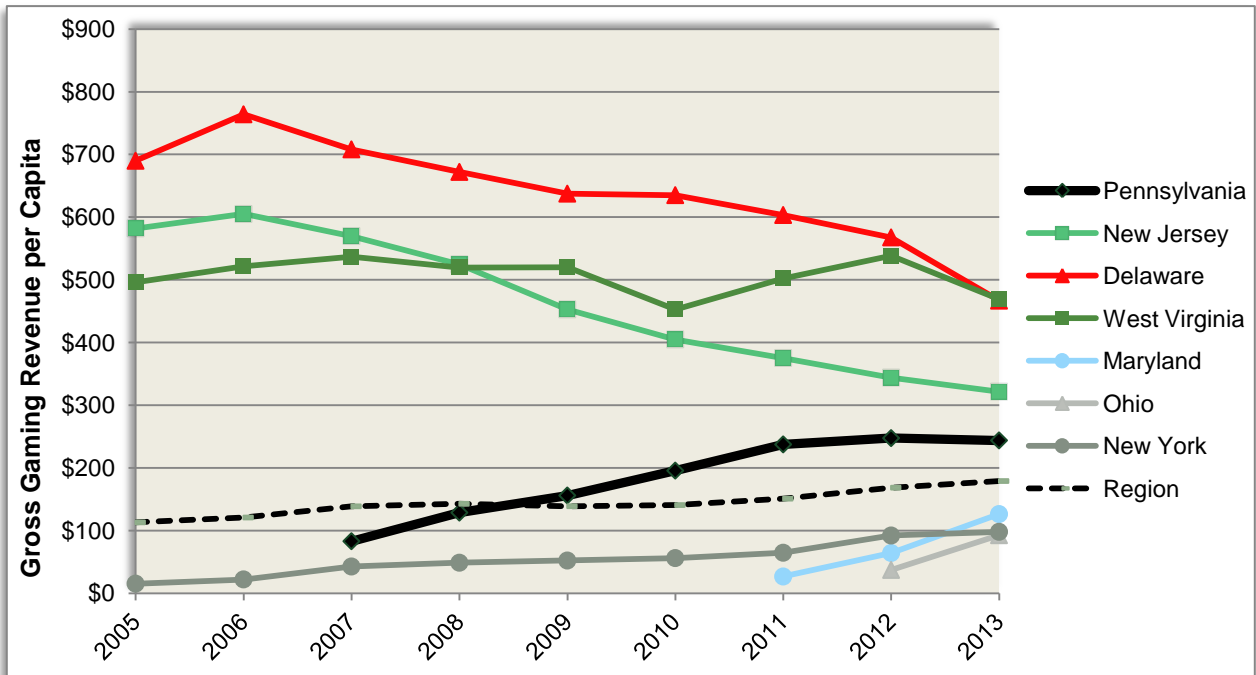
- 1) **Convergence in revenues:** Since 2011, as each state begins to serve its locals as a greater share of its patronage due to legalization in contiguous states, casino revenue per capita and as a percentage of personal income has begun to converge. If every state offers widespread gaming, the revenue per capita and as a percent of personal income will be nearly the same for all states.
- 2) **Declines for early market entrants:** With the exception of New York, states with casinos in place for a significant time period have seen significant decreases in gaming revenue per capita and as a percentage of personal income.
- 3) **Pennsylvania as a representation of the long-term average:** While outlying states show significant slope as they converge to the mean, Pennsylvania has remained stable for the

last three years. This can be attributed to equal export and import in gaming patrons for the Commonwealth.

- 4) Increasing regional average: Average revenue per capita and revenue as a percentage of personal income for the region is increasing as Pennsylvania, Ohio, and Maryland build out their gaming infrastructure.

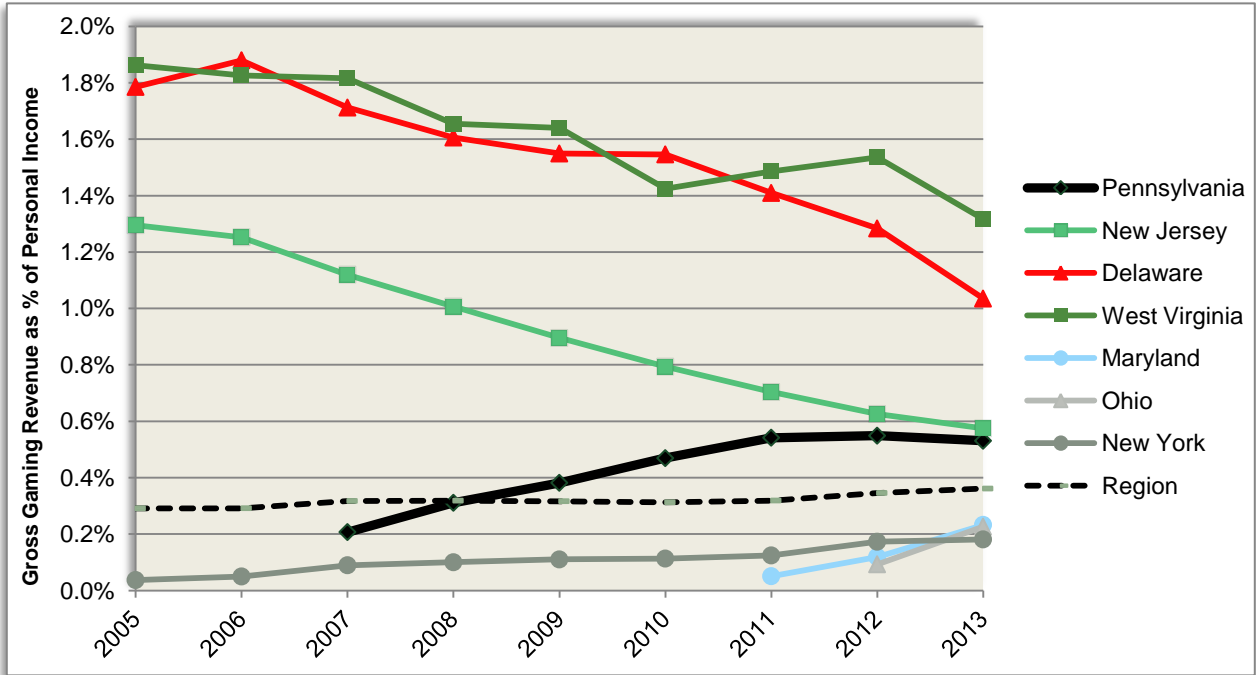
Every state is different because some, such as Pennsylvania and New Jersey, are surrounded by gaming states, and others, such as Maryland, share borders with non-gaming states. In addition, many of the gaming states have not yet fully built out their casinos, so revenue per capita is diluted by unserved and underserved areas. Pennsylvania is nearly fully built out and at the same time is surrounded by gaming states. Some of the surrounding states are still building out, but much of the recapture that is likely to happen has already occurred.

FIGURE 3.9 – GROSS GAMING REVENUE PER CAPITA FOR PENNSYLVANIA AND NEIGHBORING STATES, 2005-2013



Source: State Casino/Lottery Boards & Commissions, U.S. Census, Econsult Solutions, Inc. (2014)

FIGURE 3.10 – GROSS GAMING REVENUE AS PERCENTAGE OF PERSONAL INCOME FOR PENNSYLVANIA AND NEIGHBORING STATES, 2005-2013

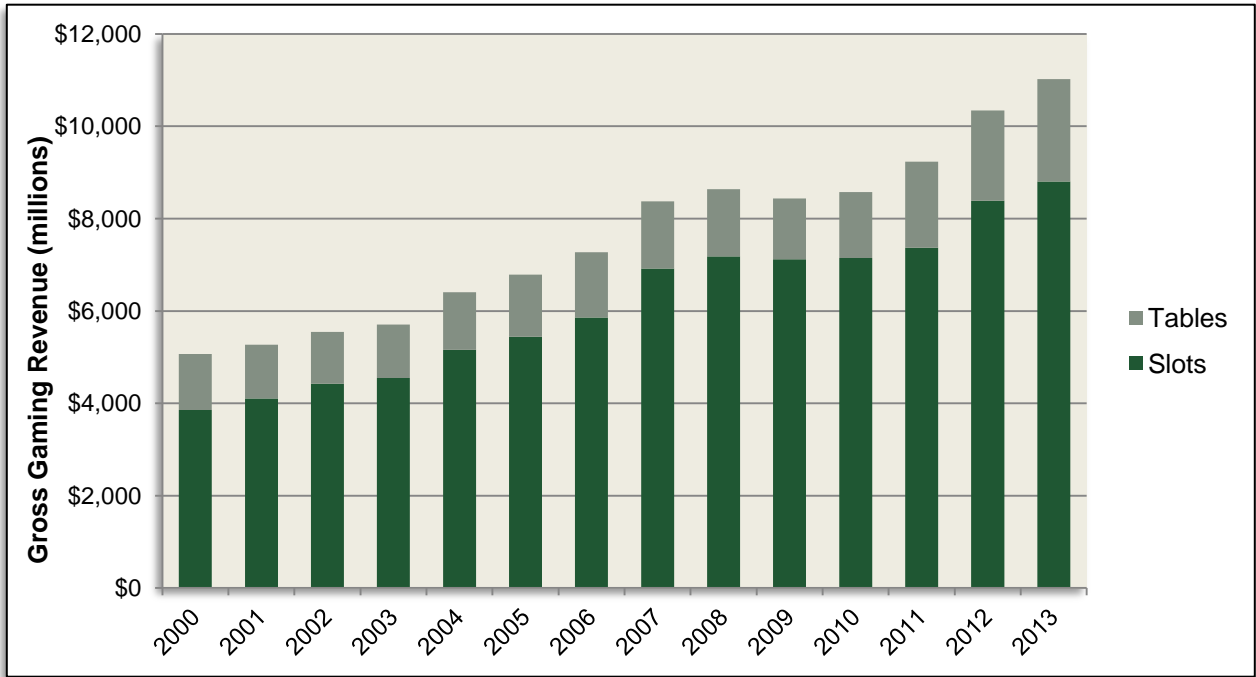


Source: State Casino/Lottery Boards & Commissions, Bureau of Economic Analysis, Econsult Solutions, Inc. (2014)

3.2.3 TOTAL REGIONAL REVENUE

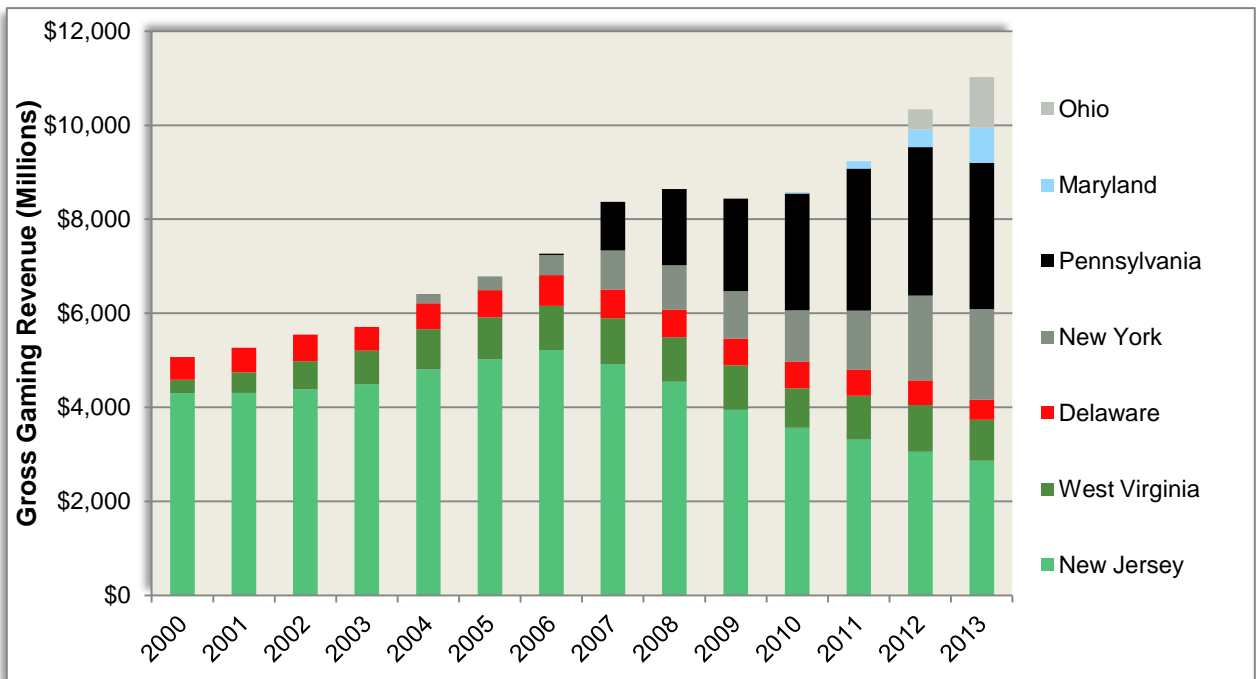
Although individual states have felt the impacts of saturation and entry, the regional market in the aggregate has seen steady growth (see Figure 3.11). Slot growth has been the more stable of the two streams since 2000, while table growth appears more susceptible to the overall economic environment. Table revenues have also been bolstered by Pennsylvania’s entry in 2010, the opening of the Casino Club at the Greenbrier Hotel in West Virginia in the same year, and the addition of table games to Maryland and Ohio.

FIGURE 3.11 – TOTAL REGIONAL SLOT AND TABLE REVENUE, 2000-2013



Source: State Casino/Lottery Boards & Commissions (2014)

FIGURE 3.12 –REGIONAL COMMERCIAL GROSS GAMING REVENUE BY STATE, 2000-2013



Source: State Casino/Lottery Boards & Commissions (2014)



3.2.4 SUPPLY FORECAST AND SUMMARY, BY STATE⁷⁵

The supply of casinos has increased significantly since 2006, and is projected to grow further through 2018. Table 3.5 indicates the considerable ramp up of supply since 2006, as well as the stabilization over the next five years. The only state with plans to add multiple casinos is New York, who has yet to add full commercial casinos to their market. Figure 3.13 shows the growth of casino supply through 2018 in the region.

TABLE 3.5 – HISTORIC AND PROJECTED REGIONAL CASINO SUPPLY BY STATE, 2006-2018

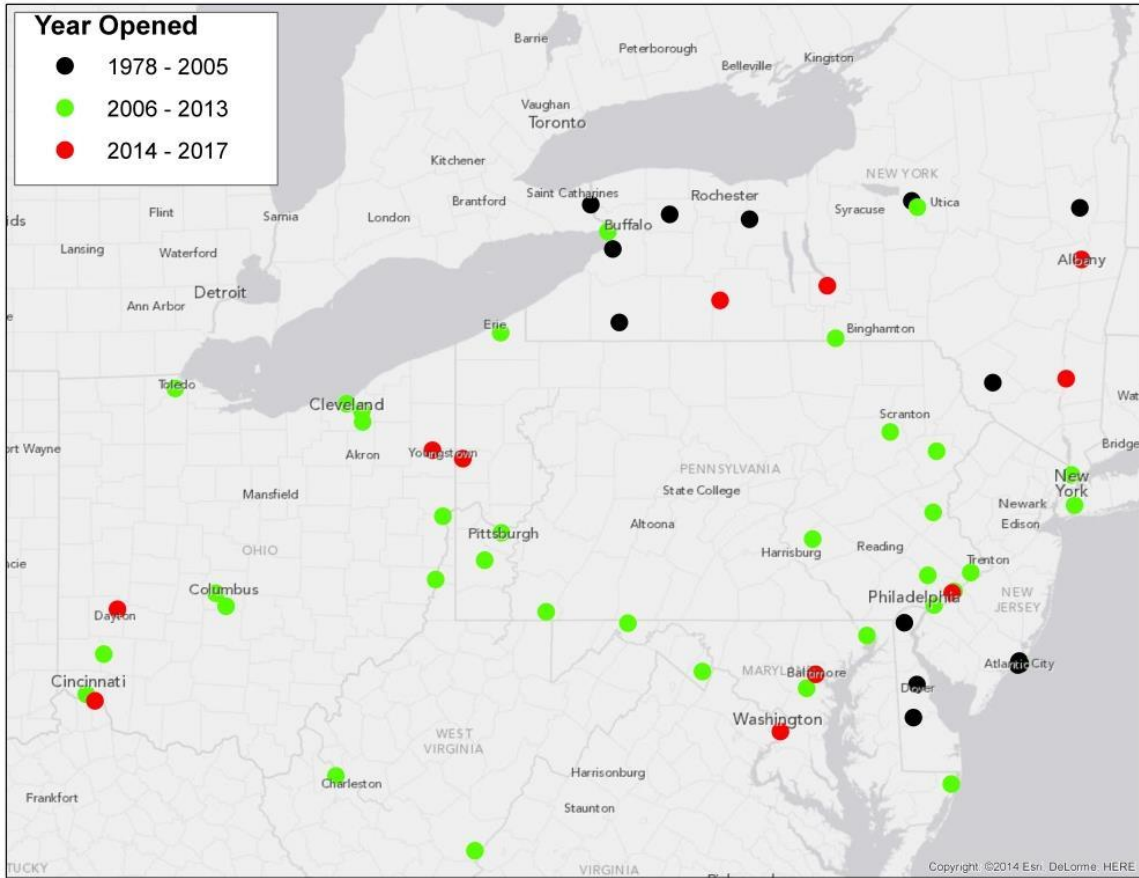
State	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Pennsylvania	2	6	7	9	10	10	11	12	12	12	14	14	14
New Jersey	11	11	11	11	11	11	12	12	11	11	11	11	11
New York ⁷⁶	12	13	13	13	13	14	14	14	14	14	16	18	18
West Virginia	4	4	4	5	5	5	5	5	5	5	5	5	5
Delaware	3	3	3	3	3	3	3	3	3	3	3	3	3
Maryland					1	2	3	4	5	5	6	6	6
Ohio							4	8	11	11	11	11	11
Total	32	37	38	41	43	45	52	58	57	61	65	67	67

Source: State Casino/Lottery Boards & Commissions (2014)

⁷⁵ For Pennsylvania, the second Philadelphia casino and potential Lawrence County racino are the assumed to be forthcoming. The four planned New York commercial casinos have not been licensed yet, and their exact locations are not known. However, the legislation specified some regions that are either confirmed to get a casino or are in the running. Therefore, this analysis assumes a casino is placed strategically in designated regions; in locations far enough from other casinos but near major highways and cities." Besides Lawrence County, only authorized casinos appear on this map.

⁷⁶ Includes Indian-style casinos

FIGURE 3.13 – MAP OF HISTORIC AND PROJECTED MID-ATLANTIC COMMERCIAL CASINO DEVELOPMENT, 1978-2017



Source: Econsult Solutions (2014)

The sections that follow will review the history of gaming and the current development and regulatory landscape for each of the states surrounding Pennsylvania, as well as Virginia, which does not currently feature gaming but has discussed doing so.

3.2.4.1 DELAWARE

Delaware first legalized slot machine gaming in 1994 at three Delaware race tracks, and permitted table games starting in 2010. Delaware has suffered significant revenue decreases due to increased competition from Pennsylvania and other nearby states in recent years. To counteract this trend, Delaware implemented online poker in November 2013. Initial revenue from

internet gaming was lower than expected, averaging \$132,000 in state revenue in the first three months.⁷⁷

The three racinos requested a package of tax reductions in the FY 2014 budget, and instead received a one-time infusion of \$8 million split between the three of them. The state also created a panel to produce recommendations to keep Delaware's casinos economically viable over the long-term. The panel recommended:⁷⁸

- Sharing vendor costs: Starting in FY 15, taxpayers would pay 75% of vendor costs, which are currently borne entirely by the casinos. This would have an estimated impact of \$9.9 million per year.
- Reduce tax on table games: The tax on all table game revenues would be reduced from 29.4% to 15%. It would also reduce funding for purses at horse races, which are allocated 4.5% of this tax.
- Eliminate the annual \$1 million table game tax.

In February 2014, Delaware announced an online poker partnership with Nevada, which had launched a similar program in March 2013, in which poker players logging on in both states would be pooled and could play against each other, with each state receiving a cut of the proceeds reflecting the distribution of players at the table. This agreement, which may be implemented by the summer of 2014, is seen as part of a long-term strategy to build scale in online poker to increase revenues. New Jersey, with its significant population base, is reportedly being courted as a key partner, but it is taking a wait-and-see approach.⁷⁹

There are no current plans for additional casinos.

3.2.4.2 MARYLAND

Maryland legalized gaming and authorized five licenses in 2008. Four casinos are now open and the last of the original licenses, Horseshoe Casino Baltimore, will open in late-summer of 2014. Table games were approved via referendum in 2012, along with a sixth casino which will be located at the National Harbor in Prince George County. The sixth casino is scheduled to open in 2016 and be operated by MGM.

Maryland has taken advantage of its accessibility from Washington, D.C. and northern Virginia, neither of which have legalized casino gaming in any form. Maryland's slot tax rate is 67%, the highest rate in the country. Without any form of legalization on the horizon in Virginia, Maryland stands to avoid some of the cannibalization experienced by other states in the region.

⁷⁷Tetreault, S., & Stutz, H. (2014, February 25). Nevada, Delaware signing online poker partnership. Retrieved from Review Journal: www.reviewjournal.com

⁷⁸Larson, S. (2014, March 26). Delaware Casino Bailout Plan Is Analyzed by Lottery & Gaming Commission. Retrieved from Legal US PokerSites: <http://www.legaluspokersites.com/>

⁷⁹Tetreault, S., & Stutz, H. (2014, February 25). Nevada, Delaware signing online poker partnership. Retrieved from Review Journal: www.reviewjournal.com

3.2.4.3 NEW JERSEY

Casino gaming was legalized in Atlantic City in 1976. For 30 years, the state benefited from the industry's regional monopoly on legal gaming, and the low tax rate induced significant capital investment from operators throughout the decades. Atlantic City currently has 11 casinos. All have large hotels attached, and several of them are multi-billion dollar investments, much larger and more amenitized than casinos in nearby states.

Atlantic City has experienced a significant decrease in revenues from Pennsylvania's adoption of gaming, especially the four Philadelphia area casinos, which is reflected in the operators' financial performance. Operating profits for 2013 declined by 35% compared to 2012. In January 2014, the Atlantic Club Casino Hotel closed, decreasing the number of casinos to 11, and the struggling Revel Casino Hotel, which opened in 2012, filed for Chapter 11 protection in 2013. There is widespread expectation among industry experts that one or more Atlantic City casinos will close as supply shrinks to meet the lower demand.⁸⁰

In 2011, New Jersey Governor Chris Christie announced a five-year moratorium on casino expansion outside Atlantic City. The expiration of the moratorium is approaching, and there is widespread speculation of casinos in Meadowlands or southern New Jersey casinos to capture the New York and Philadelphia markets more directly.⁸¹

New Jersey's most recent regulatory reform has been the legalization and implementation of Internet Gaming (iGaming). While many forecasts overestimated the market, monthly iGaming revenues have broken the \$10 million threshold and New Jersey has far surpassed Nevada and Delaware in daily traffic - keeping in line with more conservative predictions. As of January 31, 2014, almost 200,000 accounts had been created and forecasts anticipate that almost tripling by the end of 2014.⁸²

3.2.4.4 NEW YORK

Native American tribes have been operating casinos in upstate New York since 1993, but commercial gaming was not legalized in the state until 2001, with the first commercial slots facility opening in 2004. There are currently 5 Indian-style casinos and 9 commercial casinos in New York. Table games are not allowed at the commercial casinos.

The most significant development in New York's gaming world has been the opening of Resorts World New York in Queens, which boosted commercial revenue in the state by over 40% in its first year of operation in 2012.

In November of 2013, New York approved a constitutional amendment to allow four new commercial casinos offering tables and slots to be constructed over the next seven years in

⁸⁰ Brubaker, H. (2014, January 13). Casino closure reflects gambling's new reality. Retrieved from Philly.com: articles.philly.com

⁸¹ Brennan, J. (2013, December 14). Meadowlands casino – the faint hum is starting to get a little bit louder. Retrieved from NorthJersey.com: blog.northjersey.com

⁸² Ash, L. (2014, February 17). Online gamblers in N.J. expected to triple in 2014. Retrieved from USA Today: www.usatoday.com

accordance with the March 2013 “Upstate New York Gaming Economic Development Act”. The act includes regional prohibitions in the New York City area and some territories in upstate New York to minimize cannibalization, and the authorization of up to 1,000 video lottery terminals at two Long Island OTBs (off-track betting facilities). After the first wave in the first seven years, three more licenses may be authorized by the Legislature.⁸³

A bill introduced to the New York Senate in March seeks to legalize and regulate online poker within the state.

3.2.4.5 OHIO

Ohio has seen several casino openings in recent months as part of the build-out from gaming legislation of 2009. Eight facilities are currently operational (four casinos and four racinos) and the three remaining authorized racinos (in the Youngstown, Cincinnati and Dayton areas) are expected to open by the end of 2014.⁸⁴ In the Cleveland area, Horseshoe Cleveland has been in operation for two years, Thistledown Racino in North Randall opened in April of 2013, and Hard Rock Rocksin Northfield Park opened with over 2,000 video lottery terminals in December 2013. Sometime in fall 2014, Hollywood Gaming at Mahoning Valley Race Course will open near the Pennsylvania border.

Gross casino revenue data through March 4, 2014, which reflected the first completed 12 month period with all four casinos operating, was \$839 million, well below the \$1.9 billion anticipated by gaming advocates prior to legalization.⁸⁵ Some of this revenue constitutes the recapture of Ohio patrons from western Pennsylvania casinos, including Presque Isle, Rivers and Meadows.

Once the remaining authorized facilities open, the state’s four major metropolitan markets will be well served by gaming locales. Recent regulatory debate in Ohio has focused on more limited forms of gaming, such electronic gaming at VFW and fraternal organizations and online skill game arcades.

There are no further casinos planned beyond 2014.

3.2.4.6 WEST VIRGINIA

West Virginia legalized slot machines at racetracks in the 1994, strategically granting licenses along the Ohio, Pennsylvania, Maryland, and Virginia borders. Table games followed via state and local referenda in the late 2000’s.

⁸³ NYS Gaming Commission. (n.d.). Upstate NY Gaming & Economic Development Act. Retrieved from www.gaming.ny.gov

⁸⁴ Associated Press. (2013, December 11). 2 more racinos opening in Ohio this year and 3 more next year mean increasing competition. Retrieved from The Blade: www.toledoblade.com

⁸⁵ iGaming Business. (2014, March 10). Ohio falls short of expected gambling revenue in first year. Retrieved from iGaming Business: www.igamingbusiness.com

Since Ohio's legalization of casino gaming in 2009 and the increasing competition from Pennsylvania casinos, West Virginia has seen revenues stagnate. The state and its operators find themselves in a similar situation as other earlier legalizers of gaming in the region, searching for strategies to prevent further cannibalization. They have included:

- Augmenting West Virginia's four original racinos in 2010 with gaming at the Greenbrier hotel and resort.⁸⁶
- The Hollywood casino at Charles Town Races announcing plans for a 1,200 seat performance hall, part of a similar strategy to attract visitation with amenities beyond gaming.⁸⁷
- Reducing the casino tax revenue dedicated to the thoroughbred and greyhound racing industries from 15% to 10% in the FY 2014 budget, with the state retaining the difference to close a budget deficit.⁸⁸

Proposals for a sixth casino in Pendleton County have been considered by the legislature on multiple occasions, but have not been successful. The proposed \$80 million casino and hotel would have been located at the Fisher Mountain golf course property.⁸⁹ No other expansion of gaming is anticipated.

3.2.4.7 VIRGINIA

Virginia is one of 11 states with no commercial or Indian casinos. Though it has seen legislation introduced to allow for legalized gaming, *The Washington Post* reports⁹⁰ that "conventional wisdom in the industry is that Virginia isn't in play." The \$925 million casino complex built by MGM resorts overlooking the Potomac River in Maryland reflects the belief that Virginia gamers will continue to have to cross state lines, and the Post reports that "even the most ardent proponents of casino gaming in the Old Dominion think it doesn't stand a chance."

⁸⁶ The Associated Press. (2014, March 20). W.Va. gov. to sign bill with Greenbrier tax breaks. Retrieved from The Washington Post: www.washingtonpost.com

⁸⁷ Lawrence, C. (2014, March 4). Casino at Charles Town 'more than ready to compete'. Retrieved from MetroNews: www.wvmetronews.com

⁸⁸ McVey, J. (2014, March 14). Accord reached on House Bill 4333. Retrieved from The Journal: www.journal-news.net

⁸⁹ Unknown. (2012, February 23). Fisher Mtn. Eyes Casino/Resort Hotel. Retrieved from Fisher Mountain Golf Club & Resort: www.fishermountain.com

⁹⁰ Du Lac, J. F. (2014, February 4). Long-shot Va. casino bill put on hold until 2015. Retrieved from Washington Post: www.washingtonpost.com

3.3 GRAVITY/OTHER MODEL OF PROJECTED REVENUES GIVEN A FEW FUTURE COMPETITION SCENARIOS

3.3.1 OVERVIEW

In order to estimate the impact of future competition on Pennsylvania's existing casinos and the overall PA gambling industry, the standard technique of a gravity model is utilized. This approach is an adaptation of a technique used in general retail demand modeling, and has been utilized by gaming industry experts for decades. Recent examples of prominent gaming experts using gravity modeling for casino demand studies include:

- Spectrum Gaming Group's 2013 "Gambling Impact Study" prepared for the State of Florida Legislature.
- The Innovation Group's 2011 "Pennsylvania Gaming Market Assessment & Competitive Analysis" prepared for the PA Treasury Dept.
- Cummings Associate's 2013 "Projected Gaming Revenues and Impacts of the New Horseshoe Casino in Downtown Baltimore".
- Christiansen Capital Advisors' 2012 "Gaming Study and Economic Impact Analysis" prepared for the Rhode Island Department of Finance.

While the particulars of gravity models vary from study to study, the general framework is the same. The analysis assumes that a consumer's demand for gaming at a particular casino is a function of several factors: Distance from that casino, availability of nearby gaming alternative, the supply of gaming located at the casino, and demographics.

To produce a model, these assumptions about individual behavior must be aggregated to a greater geographic market area. In this study we utilized zip code level data as the consumer unit. To ensure maximum coverage of visitors to Pennsylvania casinos, this study utilized zip code level data from Pennsylvania, Ohio, New York, New Jersey, Maryland, West Virginia, and Delaware.

The model proceeds in the following steps:

- 1) Predict zip code level participation in gaming using gaming demand factors above combined with estimated or assumed parameters
- 2) Predict zip code level gross gaming win per gaming participant in similar manner
- 3) Predict what each casino's share of the zip code level will be
- 4) Calibrate the model to match real world data on facility level revenues

Steps 1) and 2) of the model require estimating total gaming demand for each zip code in the market area. The demand is broken into two components: participation (casino gamers / adult

population, and gross gaming win per gamer.⁹¹ Participation is estimated in step 1), and gross gaming win per gamer is estimated in step 2).

The variables used to predict the components of gaming demand are based on a review of the available literature on gravity models, econometric analysis of confidential player data supplied to ESI by some PA casinos, Harrah's 2006 Profile of the American Gambler, and discussions with industry experts. From these sources we identified median household income, education level, family structure, age groups, and casino access as being the most important determinants to include.

The last variable, casino access, is measured using drive times to nearby casinos. Both distance to closest casino and a measure that captures overall supply are used. The latter combines information on the total number of slots and tables at nearby casinos, weighted by both the distance of each zip code to the casino and individual casino's "power ratings". A standard measure often used in gravity models, these power ratings reflect "each facility's ability to attract revenues from the surrounding population based on gravity-model analysis" (Cummings, 2013). Across a variety of gaming markets, Cummings (2013) finds that these ratings typically range from 80 to 110. Following Cummings, in our gravity model these power ratings affect the how gamer spending levels, facility market share, and the "reach" of the casino in terms of distance. For our initial power ratings we adopt the estimates given in Cummings (2013).

The third step in the model involves estimating what share of a given zip code's total gaming demand will go to each gaming facility. In other words, for each zip code it determines the market share for every casino. This step utilizes standard gravity model calculations that relate market share to distance, competition, and the aforementioned power ratings: the farther a casino is a from a particular zip code, the lower its share of that zip code's gaming market it attains.

The final step is the calibration of the gravity model's parameters to fit the real world market data on casino revenues. This ensures that the model reflects the actual demand of the Pennsylvania gaming market. The results of the calibration exercise are compared to and in consistent with findings from Innovation Group's 2010 study, and with the market data and discussions from Pennsylvania casinos.

3.3.2 GRAVITY MODEL CAVEATS

The use of gravity models to forecast casino revenues remains a standard approach in the literature. The model created by ESI uses real-world data and published parameters to the extent possible. However, several important caveats are in order. First, gravity models remain a tool used by the industry and consultants, however as Clyde Barrow argues "[t]here has been almost no academic literature on gravity modeling in the casino industry".⁹² As a result, many parameters remain to an unknown degree at the subjective discretion of the modeler. Important

⁹¹ Alternative demand specifications exist. For example, Innovation Group's 2010 study utilizes participation, visits, and win per visit. However, utilizing just participation and win per gamer is an accepted approach, and was taken in, for example, Spectrum's 2013 study of the Florida gaming market.

⁹² Barrow, Clyde. "GRAVITY MODELS AND CASINO GAMING: A REVIEW, CRITIQUE, AND MODIFICATION". Working paper, forthcoming.

inputs like the extent to which new competition leads to increased participation and spending versus simple cannibalization should be an empirical question with publicly available studies presenting transparent methodologies and results that are open to critique. However, due in part to the fact that gravity models are the tools of consultants and industry rather than academics, this debate has not been made public. As a result when the possible approval of a new casino is being debated, it is often the case both incumbents and entrants are able to present models with different results about cannibalization.

The uncertainty surrounding these models continues to grow in a time when participation rates are being affected by cyclical factors like the Great Recession, but also factors which may be structural, such the stagnating of median wages. Some significant portion of the future of gaming depends on the household income growth in PA and surrounding areas. Despite the ability of forecasters to offer up predictions about what these growth rates will be, the extent to which stagnating wages represent a temporary versus permanent aspect of the economy remain highly uncertain.

In addition, the inclusion of greater and greater levels of amenities makes gravity modeling more difficult. These amenities add to the demand for gaming, which then makes the ability of a casino to attract new gamers a function of how well its amenities address market needs. An accurate assessment of, for example, whether a restaurant or event space will be a draw would require its own gravity model, however even then the importance of unmeasurable feature qualities makes this an extremely difficult task in its own right.

Finally, as Clyde Barrow has argued, the difficulty of using gravity models for forecasts grows as a market becomes more saturated, as is the case with the Pennsylvania region. The problem, he believes, is that:

Another difficulty in evaluating the impact of proposed new facilities in congested markets is that gravity models were originally designed to measure the comparative gravity of *two* competing regions or facilities. However, as the distance between casinos shrinks in congested and saturated markets, gravity modelers confront the difficulty of evaluating multiple overlapping market areas, which the traditional contour map has difficulty representing and which the standard gravity model has difficulty processing as new exponents overlap with already overlapping exponents. One can simply assign market share to a cluster of facilities based on gravity factors, but this requires more accurate gravity factors and it also evades the problem of the quality of travel networks and location (direction of travel) in selecting a casino.⁹³

For all of these reasons, gravity modeling to forecast the future of the Pennsylvania casino industry should be seen as at best indicative of potential magnitudes of change with a large amount of uncertainty in both positive and negative directions.

⁹³ Barrow, Clyde. "GRAVITY MODELS AND CASINO GAMING: A REVIEW, CRITIQUE, AND MODIFICATION". Working paper, forthcoming.

3.3.3 MODELING RESULTS

The baseline model used for the analysis assumes that a second Philadelphia casino will be built, and that a Lawrence County casino will be built as well. Table 3.6 below shows the total revenues for PA casinos, broken out by the state of residence for casino patrons. The addition of the two new Pennsylvania casinos is projected to increase total gaming revenue by a net of \$383 million. This will be the result of \$483 million in revenues for the new casinos, and \$100 million in total cannibalization from existing PA casinos.

TABLE 3.6 – MODEL RESULTS 1: ADDITION OF PENNSYLVANIA CASINOS

State	PA Casino Gross Gaming Revenue, Current (\$ mil)	PA Casino Gross Gaming Revenue with Two Additional PA Casinos (\$ mil)	Net Growth (\$ mil)
Delaware	42	45	3
Maryland	66	68	2
New Jersey	391	455	64
New York	299	305	6
Ohio	105	139	34
Out of Market	238	250	11
Pennsylvania	1,950	2,211	261
West Virginia	23	24	1
Grand Total	\$3,114	\$3,496	\$383

Source: Econsult Solutions, Inc. (2014)

While this provides an important look at the future of the casino industry in the state, the true impact of these casinos cannot be considered in isolation. From the end of 2013 through 2020 there are at least eleven new casinos scheduled to be built in nearby competitor states. This includes four regional casinos in New York sometime in the next few years, two that were opened in Ohio in late 2013 and three more coming in 2014, and two coming to Maryland within the next few years. To estimate the impact of these casinos on the state the gravity model is re-run using publicly available data and, where necessary, conservative assumptions, about the size and power of these casinos (referred to as Phase I). Table 3.7 below compares the revenues in Pennsylvania with these regional casinos coming online to the new baseline where only the two new Pennsylvania casinos have been added. The new impact of the new competition is a decline in Pennsylvania revenues of \$167 million.

However, due to the addition of the two Pennsylvania casinos, revenues still remain \$215 million above their current level.⁹⁴ Overall, these results show that the two additional Pennsylvania casinos help shield the state against revenue losses from regional competition.

TABLE 3.7 – MODEL RESULTS 2: PHASE 1, REGIONAL COMPETITION AND NEW PENNSYLVANIA CASINOS

Gamer Residence	PA Casino Gross Gaming Revenue, Baseline (\$ mil)	PA Casino Gross Gaming Revenue with New Regional Competition (\$ mil)	Net Growth (\$ mil)
Delaware	45	45	0
Maryland	68	61	-7
New Jersey	455	443	-12
New York	305	268	-38
Ohio	139	105	-34
Out of Market	250	203	-47
Pennsylvania	2,211	2,183	-28
West Virginia	24	23	-1
Grand Total	\$3,496	\$3,329	\$-167

Source: Econsult Solutions, Inc. (2014)

To put these revenue forecasts into 2020 nominal terms that account for household population and income growth, a conservative 2% nominal annual growth factor will be used. As discussed above, the trends in household income growth are highly uncertain and any actual forecasts used would have extremely large margins of error. For those reasons, a conservative and illustrative simple growth rate of 2% is used instead. This allows for around 1.5% to 2% inflation, and 0% to 0.5% general gaming demand growth. In addition, this accounts for the impact of other factors on demand, including demographics.

Related to these growth rate assumptions, one concern often voiced about the future of gaming is that changing demographics are negatively affecting the industry, as much of the current industry demand is concentrated among senior citizens. While changing preferences and demographics are a constant challenge for gaming and other industries, casino operators are optimistic about their ability to attract new consumers. They indicated that there is no “demographic cliff” and that changes in demographics are a gradual process that they have an ongoing ability to respond to. In addition, the gaming by demographic is not as tilted towards older players as is often assumed. An annual survey for the 2013 State of the States from the American Gaming Association found that “Young people age 21-35 exhibit the highest rate of casino visitation, with nearly four out of 10 (39 percent) having gone to a casino in the past year” (AGA, 2013). In short, while

⁹⁴ The \$215 million comes from comparing the \$3.329 billion of PA casino gross gaming revenue with regional competition to the current \$3.114 billion.

demographics present a constant challenge to the industry, and which may or may not negatively affect future revenues, they are not an existential threat.

It is important to note that improved trends in median household income growth could increase revenues to the industry significantly, and this estimate is conservative. Overall, the effect of controlling for industry growth magnifies the losses to \$188 million (see Table 3.8).

TABLE 3.8 – MODEL RESULTS 2: PHASE 1, REGIONAL COMPETITION AND NEW PENNSYLVANIA CASINOS IN 2020

Gamer Residence	PA Casino Gross Gaming Revenue, Baseline, 2020 (\$ mil)	PA Casino Gross Gaming Revenue with New Regional Competition (\$ mil)	Net Growth
Delaware	50	50	-0)=
Maryland	77	68	-8
New Jersey	512	499	-13
New York	344	302	-42
Ohio	156	118	-38
Out of Market	281	228	-53
Pennsylvania	2,490	2,459	-31
West Virginia	27	26	-1
Grand Total	\$3,938	\$3,749	\$-188

Source: Econsult Solutions, Inc. (2014)

In the longer run there exists the possibility of even more entrants into the regional market. The next scenario will consider a possible 2025 regional competition level that includes a large casino in the Meadowlands and one in Camden. Table 3.9 below shows the revenues that would occur under this Phase 2 regional competition. For comparison, the table also shows the Phase 1 level of regional competition. If only Phase 1 competition continued, then in 2025, it would cannibalize the PA casino industry by \$111 million, reducing it to \$3.2 billion. PA casinos would lose (and NJ casinos would gain) \$43 million of PA resident spending and \$38 million of New Jersey resident spending.

TABLE 3.9 – MODEL RESULTS 3: PHASE 2, REGIONAL COMPETITION, NEW PENNSYLVANIA CASINOS, AND NEW NEW JERSEY CASINOS

Gamer Residence	PA Casino Gross Gaming Revenue, Phase 1 (\$ mil)	Pa Casino Gross Gaming Revenue With Meadowlands and Camden (in \$ mil)	Net Growth
Delaware	45	44	0
Maryland	61	60	0
New Jersey	443	405	-38
New York	268	246	-22
Ohio	105	103	-1
Out of Market	203	198	-4
Pennsylvania	2,183	2,140	-43
West Virginia	23	22	0
Grand Total	\$3,329	\$3,219	\$-111

Source: Econsult Solutions, Inc. (2014)

Table 3.10 below scales the results to include the impact of general revenue growth through 2025. This magnifies the losses to Pennsylvania to \$138 million, with total revenues reaching just under \$4 billion.

TABLE 3.10 – MODEL RESULTS 3: PHASE 2, REGIONAL COMPETITION, NEW PENNSYLVANIA CASINOS, AND NEW NEW JERSEY CASINOS IN 2025

State	PA Casino Gross Gaming Revenue, Phase 1, 2025 (\$ mil)	Pa Casino Gross Gaming Revenue With Meadowlands and Camden (in \$ mil)	Net Growth
Delaware	55	55	(0)
Maryland	76	75	(1)
New Jersey	551	503	(48)
New York	333	306	(27)
Ohio	130	128	(2)
Pennsylvania	252	246	(6)
West Virginia	2,715	2,661	(54)
Out of Market	28	28	(0)
Grand Total	\$4,140	\$4,002	\$(138)

Source: Econsult Solutions, Inc. (2014)

3.4 CAPITAL INVESTMENTS

The minute a casino opens, it starts to age. As with many other types of hospitality properties, casinos need to stay fresh so they can continue to attract customers, and there are several important reasons for this need. Frequent visitors need to experience new features at the casino property lest the experience grow stale. Similarly, casinos that don't reinvest in their properties age with heavy use and the passage of time and begin to feel worn and out of date, even if there is diligent daily maintenance. Further, as the preferences of gamers change, the casinos need to adjust their physical plant to cater to those tastes.

In addition to investments in the casino itself, there is the need to invest in amenities, which supplement the gaming experience and attract gamers to the facility, thereby increasing gaming activity. These amenities include restaurants, hotels, event space, conference centers, spas, and retail shopping, among others. For example, if there is a show or concert at a casino, some of the people who attend the show will visit the gaming floor afterward. The development of amenities is particularly helpful for distinguishing a casino from competitors. As the market becomes more competitive and as new, convenient, casinos open in nearby states, Pennsylvania casinos need to offer reasons for customers to visit them instead of a casino in another state.

3.4.1 REINVESTMENT IN AMENITIES

However, reinvestment and expansion of amenities is not easy in a high tax rate environment because taxes and operating expenses consume most of a casino's revenue, leaving little to pay for capital upgrades. Pennsylvania's tax rate is 55 percent for slot machines and 14 percent for table games. The majority of casinos' revenue comes from slot machines and so, based on the 2013 mix of slots and table revenue, the blended tax rate is approximately 45 percent. All of a casino's operating expenses, including personnel, utilities, insurance, marketing, promotions, local taxes, and other expenses must come from the remaining 55 percent. Casinos also earn revenue from non-gaming amenities, but these are not large in comparison to gaming activities.

Casino operating expenses are approximately 25 – 30 percent of revenue, so taxes plus operating expenses are 70 - 75 percent of revenue. The casino is left with 25-30 percent to pay non-operating expenses, debt service, depreciation, and future capital expenditures, and return money to the owners of the casino. The relatively small residual means that funds for large, significant investments are limited.

There appears to be room for minor capital investment, and we observe that Pennsylvania casinos are continuing to make investments, such as the upgrading of slot machines, the reconfiguration of gaming spaces and the addition of non-gaming activities.⁹⁵ However, there are casinos with significant raw, unfinished space within the existing building envelope that is not economic to develop at this time.

⁹⁵ Revenues from these non-gaming activities are not subject to PA gaming taxes.

3.4.2 CASINO INVESTMENT IS LINKED TO MARKET SIZE AND TAX RATE

Broadly speaking, the size of the market, the number of alternative gaming establishments, and the tax rate combine to determine how much capital can be invested in a property. The market and the number of gaming alternatives determine the potential revenue, and the tax rate determines what the casino has left over. The remaining revenue needs to pay for the building, operations, and profit. It is not sensible to build a larger facility than the revenue and tax rate can justify. Every casino's situation is slightly different, and for any given casino, there is an additional level of calculation involved, because amenities draw patrons from other casinos. In competitive markets, casinos have the incentive to invest enough to keep the gaming floor fresh and to pursue low cost improvements, purely to protect their market share. In less competitive markets, there is still an incentive to invest, but it is not as strong.

The fact that market size matters to casino investment implies that there should be continuing investment in the years ahead. If gaming grows as the population grows and as income increases, there will be additional net revenue for the casinos. This will occur because some of a casino's costs are fixed, such as debt service or the \$10 million minimum local share, and so an increase in revenue will lead to a more than proportional increase in profits. These increased profits can then be used to pay for expansions and improved amenities.

3.4.3 CROSS STATE INCENTIVES

Another important consideration matters for casino owners who operate other casinos in the region. If taxes are too high in Pennsylvania, casinos have an incentive to steer their high value customers to New Jersey or another low tax state where they operate even if the high tax state is convenient for the high value customer. A study from one of our experts, Mike Ahlgren, provided empirical evidence that higher taxes lead casinos to shift marketing spending to other locations across state lines.⁹⁶ We note that this incentive is much stronger for high value slots gamers than it is for high value table gamers because the tax differential between states for slots is much greater than for table games. For example, the Pennsylvania rate for slots is 55% and the New Jersey rate is 10%, so the difference is 45%. The Pennsylvania rate for table games is 14% and the New Jersey rate is 10%, so the difference of 4% is much less significant.

The tax differential has implications for where casinos spend capital dollars as well. Companies with properties in multiple states have the incentive to invest capital in low tax states so that gamers are more likely to go to the low tax properties.

Fortunately for Pennsylvania, as indicated in Section 4, most contiguous states have similar tax rates and face the same economic calculus. New Jersey is a clear outlier in this respect, with much lower slots tax rates and marginally lower table game rates.

A fuller discussion of the impact of the tax rate is found in Section 4.3.

⁹⁶ Ahlgren, Mikael Bengt. "Impact of the 2003 Illinois Gaming Tax Rate Increase on Marketing Spending and Cross-State Substitution." (2012).

3.5 FINANCIAL SUSTAINABILITY

The continuing growth of casinos outside the Commonwealth and the prospect of up to three additional casinos in Pennsylvania raise questions about the impact of the new supply on the twelve existing casinos in Pennsylvania. Which casinos will be strongly impacted? Will any of the existing casinos close? What other kinds of impacts can be expected? We have used the gravity model, expert opinions, and other financial analyses to inform our thinking about the impact to the casinos.

The existing Pennsylvania casinos primarily serve the local markets, and depend largely on the local population for their revenue. Conversely, they do not depend greatly on travelers from far away, and so the impact of events that occur far away is minimal. The northeastern Pennsylvania casinos are somewhat of an exception because they serve the densely populated New York and northern New Jersey markets where there is currently no strong competition, at least not for table games. This fact implies that most of the threat to existing casinos, to the extent that there is one, is from new casinos in or near Pennsylvania.

No casino is immune to competition, though the threats and impacts vary greatly from one casino to another. Casinos that primarily serve local Pennsylvania markets, and will not see new nearby entrants, should not expect to see significant impacts to their revenue. Some existing casinos that will see new gaming options open nearby, however, are at risk of seeing a financial impact, even a significant impact.

We note that the increased competition that the existing casinos are experiencing, both from within the state and from outside, is a possibility that was foreseeable at the time the casinos applied for a license. Pennsylvania's authorizing legislation enabled 15 casinos, including two in Philadelphia, and there was always the potential for other states to follow Pennsylvania's lead in permitting gaming. Indeed, Pennsylvania's success helped pave the way for other states to enact gaming legislation.

3.5.1 PHILADELPHIA AREA CASINOS

In the Philadelphia area the major challenge to the existing casinos – Harrah's, Parx, Sugarhouse, and Valley Forge – will be the introduction of the second casino in the City of Philadelphia. The exact impact will depend on which of the five applicants is chosen, but it is clear that there will be some cannibalization. The most vulnerable casino is Sugarhouse, which is near Center City Philadelphia and is closest to all five of the proposed sites. Furthermore, Sugarhouse is smaller and has fewer non-gaming amenities than any of the proposed casinos. We expect that Sugarhouse will see a significant reduction in revenues once a second Philadelphia casino opens. The next most vulnerable is Harrah's, especially if the one of the South Philadelphia casinos is selected, both because it is the next closest casino and because it has been struggling recently. Both Center City and the South Philadelphia sites are less than 15 minutes from Harrah's Chester location, and all will offer more amenities than Chester has now. We expect that Parx and Valley Forge will experience an impact from a second Philadelphia casino, but not large enough to cause significant financial harm.

A new casino out of state in the Meadowlands might affect Parx somewhat because Parx is the closest Philadelphia area casino to parts of central New Jersey that might be attracted to a Meadowlands Casino. The other Philadelphia area casinos would not experience a significant impact from a Meadowlands casino.

If New Jersey decides to permit gaming in Camden, Trenton, Cherry Hill or other suburban Philadelphia locations, there could be a significant impact on some Philadelphia area casinos. For southern New Jersey residents near Philadelphia, the Philadelphia area casinos are a draw, but for much of southern New Jersey, Atlantic City is an attractive option. There is excellent highway access to Atlantic City, the casinos have extensive amenities, and are able to offer valuable promotions due to the low tax rate. Furthermore, the bridges into Pennsylvania serve as a physical deterrent to many southern New Jersey residents.

3.5.2 PITTSBURGH AREA CASINOS

The existing Pittsburgh area casinos – Rivers, Meadows and Lady Luck (Nemacolin) – face increased competition from Ohio casinos and from the proposed Lawrence Downs racino in Mahoning Township, Lawrence County, about one hour north of Pittsburgh.

Many of the Ohio casinos have already opened. The Horseshoe casino in downtown Cleveland and others in the suburbs are much more convenient for people in the Cleveland area than Rivers in Pittsburgh or Presque Isle. The most significant new competitor from Ohio will be the new casino in Youngstown, which is scheduled to open this year. Much of the potential loss to gaming from Ohio has already occurred, but the new Youngstown casino will undoubtedly erode Pittsburgh area casino revenues at the margin. However, it should not cause financial distress to these casinos.

The Lawrence Downs casino will be located between Rivers and Presque Isle, and will have revenue impacts on both casinos. The Mahoning Township location for Lawrence Downs is approximately one hour from Rivers and more than two hours from Presque Isle, suggesting that its impact will primarily be on Rivers. However, the new Youngstown, Ohio casino will compete for mostly the same patrons that the Lawrence Downs casino would attract, and so the incremental impact on Rivers or Presque Isle will not be large.

3.5.3 NORTHEAST PENNSYLVANIA CASINOS

The northeastern casinos – Mount Airy, Mohegan Sun, and Sands – are vulnerable primarily to the potential casinos in the Meadowlands, table games in New York City, and casinos in southern New York, in approximately that order of threat. The northeastern casinos serve a mixture of local gamers, vacationers who game as one element of their vacation, and gamers who travel from out of state to gamble. The former two categories will continue to patronize these casinos regardless of what happens in New York and New Jersey. The traveling gamers mostly come from New York and northern New Jersey and are an important part of gaming in northeastern Pennsylvania.

The authorized New York casinos, which have yet to be licensed, will not be in New York City. However, they could be located close enough to New York City and northern New Jersey that they could attract some gamers who currently come to Pennsylvania. Adding table games in New York City, especially at the current slots-only facilities, would attract many gamers who currently travel to Pennsylvania, but there would be a substantial number of northern New Jersey residents who would still find it more convenient to travel to Bethlehem rather than to New York City.

Meadowlands would have a significant impact on Sands, Mohegan and Mount Airy. Because the Meadowlands site is in New Jersey, many additional New Jersey and even some New York residents will find it easier to get to the Meadowlands than Bethlehem. All three casinos could see some revenue impact, especially the Sands, which has the highest revenue of the three.

3.5.4 CENTRAL

The only casino in the central part of the state – Hollywood – does not face significant competition from yet-to-be built Maryland casinos, and will not be significantly affected by the new Philadelphia or Lawrence County casinos, should their licenses be awarded. There is the potential that a third category 3 license will open near Hollywood, which would affect them, perhaps significantly.

3.5.5 NORTHWEST

The only casino in the Northwest, Presque Isle, has already been affected by the opening of Ohio casinos and faces increased competition from the 2014 opening of a casino in Youngstown, Ohio casino and from Lawrence Downs, should that casino be licensed. It also may be affected by a New York license. Thus, Presque Isle faces competition from three sides.

3.5.6 OVERALL IMPACT

In general, new competition has the potential to impact some existing casinos significantly. For example, Sugarhouse and Presque Isle each have less than \$200 million in slots revenue currently and both will face new competition in the next several years from newly constructed casinos.

For the casinos that are likely to be significantly impacted, it is impossible to predict whether the revenue decrease will be large enough to force capital restructuring or even bankruptcy. Some casinos may need to be recapitalized at a new, and lower, basis. Current ownership will try hard to avoid default on debt, and several owners have the resources to maintain control of casinos even if operating income shrinks to the point it cannot cover casino specific debt service.

Even if some casinos do default on their debt or go bankrupt, we do not expect that any of the existing casinos will close permanently. The gaming market is large and we believe there are untapped gamers who will enter the market. The physical plant exists for the current casinos, and

casinos that have their debt restructured will be able to return to the market with a new, lower cost structure

3.6 CONCLUSIONS REGARDING COMPETITION

Pennsylvania has been very successful in its implementation of casino gaming, rapidly becoming the second largest gaming state and generating considerable state and local tax revenues. A great deal of this revenue was previously leaving the state, and thus has been re-captured. Pennsylvania is also attracting gamers from contiguous states, especially New York and New Jersey. The effect of out of state visitation on northeast casinos in particular is evident from the slot and table revenue figures.

However, large growth in gaming revenue from Pennsylvania residents is unlikely to occur in the near future. The Pennsylvania gaming market is not currently saturated, as there are unfilled market niches both for Pennsylvania residents and gamers visiting Pennsylvania with a primary purpose other than gaming. These growth segments, however, are not large enough to lead to significant revenue growth of the kind seen in the past seven years. Most Pennsylvania casinos draw on a primarily local clientele, generating their market through convenience rather than superior amenities.

Pennsylvania's casino market does have some vulnerability at this stage. Additional casino openings in Ohio will continue to take some market share from casinos in the Greater Pittsburgh region. If New York locates casinos in Orange County or allows table gaming in New York, table gaming revenue in Northeast casinos may be at risk. If New Jersey allows casinos at the Meadowlands or, less likely, in Camden or another location near Philadelphia, Philadelphia area revenue might be in jeopardy. However, Pennsylvania will not experience the types of decline seen in Atlantic City.

Future state gaming tax revenue will be impacted by both positive and negative factors. Expanded gaming supply in Pennsylvania (from a second Category 2 license in Philadelphia, a new Category 1 casino in Lawrence County or elsewhere, and a third Category 3 license in 2017) has the potential to increase tax revenues. There is a material threat, however, from loss of gamers to New York, Ohio, New Jersey and perhaps Maryland. Since most gaming revenue is generated from Pennsylvania residents, and some level of gaming from out of state will continue, Pennsylvania gaming tax revenue is likely to be relatively stable, with the potential for either an increase or a decrease, depending primarily on potential supply increases in New York and New Jersey. Revenue is also sensitive to long-term industry and demographic trends. A decrease in demand for slots gaming will have a greater impact on tax revenue than an increase in table game demand, due to the differential rates at which the two are taxed. However, gaming revenue should be expected to see some increase over time due to normal growth in population and income.

4.0 THE REGULATORY LANDSCAPE

Information on the regulatory environment in other states can inform thinking about Pennsylvania's regulatory environment and the potential benefits that might arise from changes to the regulations. The first part of this section compares taxes and regulations in Pennsylvania to other states. The next part identifies regulations that are disadvantaging Pennsylvania relative to competitors. The last part examines the potential impact to Pennsylvania if some of these regulations were to be changed.

The states used for comparison purposes are the states that are contiguous to Pennsylvania and the states that have at least \$1.0 billion in Gross Gaming Revenue (GGR). There are eleven states with GGR greater than \$1.0 billion, and three additional states that are contiguous to Pennsylvania, for a total of 14 comparison states, as shown in Table 4.1.

TABLE 4.1 – GROSS GAMING REVENUE FOR PENNSYLVANIA COMPARED TO OTHER STATES, 2012

State	Number of Casinos	Gross Gaming Revenue (\$ mil)	Comparison State? (Y/N)
Nevada	265	\$10,860	Yes
Pennsylvania	11	\$3,158	-
New Jersey	12	\$3,051	Yes
Indiana	13	\$2,614	Yes
Louisiana	18	\$2,404	Yes
Mississippi	30	\$2,251	Yes
New York	9	\$1,802	Yes
Missouri	13	\$1,769	Yes
Illinois	10	\$1,639	Yes
Iowa	18	\$1,467	Yes
Michigan	3	\$1,417	Yes
West Virginia	5	\$999	Yes
Colorado	41	\$766	No
Rhode Island	2	\$528	No
Delaware	3	\$521	Yes
Ohio	4	\$430	Yes
Florida	6	\$428	No
Maryland	3	\$378	Yes
Kansas	3	\$341	No
New Mexico	5	\$242	No
Oklahoma	2	\$113	No
South Dakota	35	\$107	No
Maine	2	\$99	No
Total	513	\$38,384	14

Source: Various State Gaming Boards (2014), American Gaming Association (2013)⁹⁷

⁹⁷ Where figures did not agree, data from state gaming boards was used.

4.1 REGULATORY COMPARISON WITH SELECTED STATES

The casino gaming industry is a complex one to regulate. There is a generally agreed upon public responsibility to ensure security, transparency, and legality that requires a higher level of regulatory oversight than in many other industries. Gaming operators on the other hand require the flexibility to compete in an industry with an increasingly intense level of competition. Individuals have an interest in both ensuring the casinos can serve their demands as both consumers, voters, and oftentimes neighbors. Importantly, and often missed, is that with the high effective tax rate, both the government and individuals have an interest in casino's operating effectively as part-owners of these facilities. Overall, all parties have incentives to ensure that unnecessary or overly burdensome regulations do not create economic disincentives for the gaming industry.

Gaming has changed dramatically in the past decade with a national and regional increase in competition. As a result, the need for effective and responsive regulatory structures is greater than it has ever been. Each state that permits commercial gaming employs a unique approach to regulating their gaming industry. Looking at these practices together will illuminate where there is agreement, and conflict, in gaming industry regulation.

Though there are many facets to regulatory structure, regulations in the gaming industry can be divided into six major categories: licensing, reporting, operations, monitoring and enforcement, disciplinary actions, and oversight. States approach these issues in many different ways, but each state addresses all of these issues in their regulations. Though these are six separate categories, each category contributes to the efficiency and execution of the others.

4.1.1 LICENSING

State regulations cover a number of requirements and procedures. The most common instruments used across states are gaming licenses. Casino operators are required to maintain a license in every state that they operate, but the process and cost of obtaining and maintaining these licenses differs greatly from state to state. As each state has formulated the types of casinos and gaming venues that are allowed to operate differently, the costs and conditions of each license vary significantly. One important example is the fees associated with casino licenses, which can be a strong barrier to entry in some states. Pennsylvania requires a license fee of \$50 million for slots and \$16.5 million for table games for Category 1 or Category 2 casino operators, and \$5 million for slots and \$7.5 million for tables for Category 3 casino operators. Table 4.2 below shows license fees and casino formats for Pennsylvania and other selected states.

TABLE 4.2 – LICENSE FEES FOR CASINO OPERATORS AND CASINO FORMATS FOR SELECTED STATES

State	License Fees - Upfront	License Fees - Ongoing	Casino Format
Pennsylvania	Slot Machine License: \$50 million (Category 1 and 2), \$5 million (Category 3) Table Game Licenses: \$16.5 million (Category 1 and 2), \$7.5 million (Category 3)	Management Company License: \$1.5 million (Category 1 and 2), \$0.15 million (Category 3)	Land-based and racetrack casinos with slots and table games
Delaware	None	\$3 million table game license fee (annual)	Racetrack Casinos with publicly-run video lottery terminals and table games with distributions to operators
Illinois	\$125 million	None	Riverboat
Indiana	\$250 million (slot machines in racetracks)	\$100 per EGD (electronic gaming device), annual after first five years	Riverboats, land-based and racetrack casinos with slots and table games
Louisiana	none	3.5% of net gaming proceeds, and \$100,000 (annual)	Riverboat, land-based and racetrack casinos with slots and table games
Maryland	\$3 million for each 500 VLTs	None	Land-based, slots only
Michigan	\$50,000	\$25,000 (annually)	land-based
Mississippi	None	\$5,000 (annual). Variable fee based on number of games (annual)	Dock-side, Land-based
Missouri	\$50,000 (upfront)	\$25,000 (annual)	Riverboat
Nevada	None	Varies by Size	Land-based
New Jersey	\$200,000	\$150,000 (annual)	Land-based
New York	\$50 million	None	Racetrack Casinos with publicly-run video lottery terminals with distributions to operators
Ohio	\$50 million	None	Land-based and Racetrack Casinos with publicly-run video lottery terminals with distributions to operators
West Virginia	\$1.5 million	\$2.5 million (annual)	Racetrack casinos with publicly run video lottery terminals and table games with distributions to operators, one land based commercial casino

Source: State Casino/Lottery Boards & Commissions (2014), American Gaming Association (2013)

Though states such as Indiana and Illinois demand higher upfront costs than Pennsylvania, a number of states provide less expensive entry conditions. In addition to casino operators, many states require other parties involved in casino gaming to hold licenses as well. Depending on the state, employees, contractors, suppliers, and vendors may be required to obtain gaming licenses. Many states also require consultants and outside directors, (managers and directors from outside the gaming industry that are brought on usually for their expertise is specific non-gaming areas

such as finance or technology), to be licensed as well. Industry experts believe that because the licensing process is often costly and time consuming, many professionals are not willing to be involved with the industry, reducing the availability of highly skilled professionals for casino operators. In Pennsylvania these requirements are more burdensome than in most other states, as both gaming and non-gaming employees must be licensed.⁹⁸ Only two other states in this comparison – Delaware and Michigan – require non-gaming employees, such as bar staff, to be licensed. In addition, Pennsylvania requires outside directors to obtain gaming specific licenses. These directors are often considered as key gaming employees, though their actual performance is often non-gaming in nature. Table 4.3 below shows license requirements for Pennsylvania and selected states.

TABLE 4.3 – INDIVIDUAL LICENSE REQUIREMENTS FOR SELECTED STATES

State	Must Outside Directors be licensed? (Y/N)	Must Non-Gaming Employees be Licensed? (Y/N)
Pennsylvania	Yes	Yes
Delaware	No	Yes
Illinois	Yes	No
Indiana	Yes	No
Louisiana	Yes	No
Maryland	Yes	No
Michigan	Yes	Yes
Mississippi	Yes	No
Missouri	Yes	No
Nevada	Yes	No
New Jersey	Yes	No
New York	Yes	No
Ohio	Yes	No
West Virginia	Yes	No

Source: American Gaming Association (2013)

Notably, casino employees in Pennsylvania cannot obtain a license of their own accord; any employee must be sponsored and supported by a casino to apply for a license. The cost of these licenses is seldom absorbed by the employees themselves. Usually, the application and training is paid for by the casino hiring the employee. Further, a license obtained for employment at one casino is not valid for employment at another casino. In the event that a casino employee leaves one casino and is hired by another, that employee must be sponsored by the new casino, and licensed again. As such, these requirements can be seen as an additional ongoing cost to the casinos, as the cost is incurred for every new employee the casino hires.

⁹⁸ Gaming service providers generally must be registered or certified.



Rigid licensing practices make these efforts more costly and difficult. Licensing often involves a number of applications, as well as documentation such as background checks, fingerprinting, and applicant interviews. Compared to other states, Pennsylvania's application process is relatively burdensome. Using application forms other than the standard forms developed by the International Association of Gaming Regulators (IAGR) creates difficulty for gaming professionals attempting to operate in multiple locations, due to the need for different or additional application efforts. Most notably, the processing time associated with individual licenses is significantly longer than in other states with comparable data. Table 4.4 below shows application requirements processing time for Pennsylvania and selected states. In addition, data on average processing time across some states was made available by one of the PA casino operators, as well as the Michigan State Gaming Board. The comparisons indicate that New Jersey and Nevada require a week or less and Michigan requires two weeks or less for license approval. License approval in Pennsylvania can take from two to six weeks. Casino operators have indicated this delay presents a significant cost in hiring more employees.

TABLE 4.4 – EMPLOYEE AND INDIVIDUAL APPLICATION REQUIREMENTS FOR SELECTED STATES

State	Accept Electronic Fingerprints? (Y/N)	Can license interviews be conducted by video conference?	Accept IAGR Standard Application? (Y/N)	Require Supplement to IAGR Application? (Y/N)
Pennsylvania	No	No	Yes	Yes
Delaware	No	yes (telephone)	Yes	Yes
Illinois	No ⁹⁹	No	No	N/A
Indiana	No	No	No	N/A
Louisiana	No	Yes	Yes	Yes
Maryland	No	No	No	N/A
Michigan	Yes	Yes	Yes	Yes
Mississippi	No	No	Yes	Yes
Missouri	No	No	No	N/A
Nevada	Yes	No	Yes	Yes
New Jersey	Yes	No	Yes	Yes
New York	No	No	No	N/A
Ohio	No	Yes	Yes	Yes
West Virginia	Yes	No	Yes	Yes

Source: State Casino/Lottery Boards & Commissions (2014), American Gaming Association (2013)

For many states, all of these licenses are subject to periodic renewal. License duration varies from state to state, as do the procedures and requirements for renewal. Frequency of renewal and intensity of review contribute strongly to the cost of a gaming license. Table 4.5 below shows license duration for various license types in Pennsylvania and selected states.

⁹⁹ Electronic fingerprints are accepted for video gaming terminal locations

TABLE 4.5 – LICENSE TERM LENGTH FOR SELECTED STATES

State	License Term for Casino Operators	License Term for Individuals	License Term for Suppliers
Pennsylvania	3 Years	3 Years	3 Years
Delaware	Perpetual	3 Years with renewal term of 4 Years	2 Years
Illinois	4 years (riverboats); 1 year (video gaming terminals)	1 Year	1 Year
Indiana	1 Year	1, 2, or 3 Years	1 Year
Louisiana	5 Years	2 Years	5 Years
Maryland	15 Years	3 Years	3 Years
Michigan	5 Years	2 Years	5 Years
Mississippi	3 Years	3 Years	3 Years
Missouri	4 Years	2 Years	1 Year
Nevada	Perpetual	Perpetual	Perpetual
New Jersey	Perpetual	Perpetual	Perpetual
New York	Perpetual	Perpetual	Perpetual
Ohio	3 Years	3 Years	3 Years
West Virginia	1 Year	1 Year	1 Year

Source: American Gaming Association (2013)

While states such as West Virginia and Indiana have shorter license durations, the majority of states offer long license duration, or even indefinite duration. The two states other than Pennsylvania with the largest gaming industries and longest history of regulation - Nevada and New Jersey - both utilize perpetual licenses. Those states without ending terms for licenses still require periodic reports and validations, but do not require licensees to conduct a full license renewal. This is particularly important for supplier companies, which provide the products necessary for casinos to do business. Depending on regulatory requirements, these renewals may involve in-person interviews, credit checks, background checks, and other procedures. These requirements can all be costly, with costs significantly increasing when required over shorter license durations.

4.1.2 REPORTING

Similar to license renewal, many states require casinos to submit a variety of periodic reports to the state gaming authority. Though all states require some regular documentation from casinos, a number of states require reports on such things as ownership structure, equipment inventory, supplier contracts, and similar documentation on a periodic basis. These requirements are often duplicative, as much of the information in these periodic reports is available to the relevant agencies through other sources, or are required more frequently than the substantial changes that would need to be reported occur. In some cases, the required documentation inhibits

business operations. For example, in a number of states, a casino must submit a request to the gaming agency to obtain a loan or similar capital device. If this request can only be filed after a specific capital device is located, it can significantly delay or prevent a casino from obtaining funds at competitive market rates. Instead, some states allow casinos to apply for advanced approvals that can be used when a suitable loan or other instrument is found. Table 4.6 shows requirements for various reports in Pennsylvania and selected states.

TABLE 4.6 – PERIODIC REPORTING REQUIREMENTS FOR SELECTED STATES

State	Periodic Contract Reports? (Y/N)	Periodic Foreign Gaming Reports? (Y/N)	Periodic Loan Activity Reports? (Y/N)	Is shelf approval available for debt or equity issues, and if so, how long is it valid?	Periodic Licensee Ownership Structure Reports? (Y/N)
Pennsylvania	Yes	No	No	No	No
Delaware	Yes	No	No	No	No
Illinois	Yes	No	No ¹⁰⁰	No	No
Indiana	Yes	No	N/A	No	Yes
Louisiana	No	No	No	Yes	Yes
Maryland	No	No	Yes	No	Yes
Michigan	Yes	No Requirement	Prior Approval	Varies	Prior Approval
Mississippi	Yes	No	No	3 years	No
Missouri	Yes	No	No	No	No
Nevada	No	Yes	Yes	3 years	Yes
New Jersey	No	No	Yes	Yes	No
New York	No ¹⁰¹	No	No	No	No
Ohio	No	No	No	No	Yes
West Virginia	Yes	No	No	No	No

Source: American Gaming Association (2013)

4.1.3 OPERATIONS

Beyond the licensing and reporting requirements imposed by states, regulations governing the conduct of daily casino operations can impose significant costs on casinos. Many aspects of casino operations can be subject to regulatory control. Depending on the state, a casino may face restrictions on types of games, non-gaming attractions and amenities, credit activities, and other restrictions.

Many states restrict the forms of payment and credit that casinos may accept. In Pennsylvania, a casino can only accept checks from an individual to the casino. This is not the case in many states. It is common for casinos to accept third party checks, so long as they are valid. Further,

¹⁰⁰ Annual reports are required for suppliers.

¹⁰¹ Except for construction contracts.

many states permit casinos to extend credit to players. Restricting these practices often inconveniences players and guests, and prevents a casino from earning additional revenue.

States offer a range of regulations governing the sale and consumption of alcohol and tobacco products. For example, while casinos are often a 24/7 business, in some, including Pennsylvania, alcohol cannot be served past certain hours. Some casino operators have indicated that this reduces demand for gaming and revenues. Similarly, bans on smoking or restriction of smoking to certain areas, may deter some consumers from staying at certain casinos, or visiting them at all. Table 4.7 and Table 4.8 show select crediting and alcohol and tobacco regulations for Pennsylvania and other selected states.

TABLE 4.7 – CREDIT ADVANCES, CHECK CASHING, AND COMPLEMENTARY SERVICE RESTRICTIONS FOR SELECTED STATES¹⁰²

State	Credit/Cash Advances by Casino Permitted? (Y/N)	Third Party Check Cashing by Casino Permitted? (Y/N)	Free Drink Offers by Casino Permitted? (Y/N)
Pennsylvania	Yes ¹⁰³	No	Yes
Delaware	Yes	No	No
Illinois	Yes	No	No
Indiana	Yes	No	No
Louisiana	Yes	No	Yes
Maryland	Yes	No	No
Michigan	Yes	No	Yes
Mississippi	Yes	No	Yes
Missouri	No	No	No
Nevada	Yes	Yes	Yes
New Jersey	Yes	No	Yes
New York	Yes	No	Yes
Ohio	Yes	No	No
West Virginia	Yes	No	Yes

Source: State Casino/Lottery Boards & Commissions (2014), American Gaming Association (2013), American Casino Guide (2014)

¹⁰² Figures in this table reflect both review of relevant regulations, as well as interviews with casinos in each state.

¹⁰³ While Pennsylvania regulations prohibit casinos from directly extending credit to patrons, or allowing the use of credit cards to advance cash while on the casino floor, interviews with various casinos shows that credit and cash advances are permissible, with limitations, through the use of third parties and transactions off of the casino floor.

TABLE 4.8 – OPERATING HOURS, LIQUOR HOURS, AND SMOKING RESTRICTIONS FOR SELECTED STATES

State	Casino Operating Hours	Alcohol Sale Hours	Smoking Zones? (Y/N)
Pennsylvania	24 hours	9am-2am	Yes - in 25% of casino gaming floors ¹⁰⁴
Delaware	24 hours	9am-1am	No
Illinois	22 hours (must close for two hours each 24 hour period)	9:30am to 4:00am	No
Indiana	24 hours	7am-3am	Yes
Louisiana	24 hours	24 hours	Yes
Maryland	24 hours	24 hours	No
Michigan	24 hours	7am-2am	Yes
Mississippi	24 hours	24 hours	Yes
Missouri	24 hours	6am-3am	Yes
Nevada	24 hours	24 hours	Yes
New Jersey	24 hours	24 hours	Yes - in 25% of casino gaming floors
New York	24 hours (Indian-style casinos) 8am-4am (pari-mutuel)	10am -4am	No
Ohio	24 hours	5:30am-2:30am	No
West Virginia	24 hours	7am-2am	Yes

Source: State Casino/Lottery Boards & Commissions (2014), American Casino Guide (2014), Various Casinos (2014)

PA casino operators have indicated that Pennsylvania's strict regulations on cash and credit in casinos set it apart from most other states. These restrictions are viewed as aggressive and unfriendly to both casino operators and their patrons; such opinions are what led many states to employ more lenient regulation towards cash, credit, and check handling. Similarly, Pennsylvania's regulation of smoking and drinking in casinos is more restrictive than many other states.

¹⁰⁴ May expand smoking section to 50% of the gaming floor if the casino can show that it earns more revenue per position in a smoking section than in a non-smoking section

4.1.4 MONITORING/ENFORCEMENT

One of the most notable and substantial regulations is the requirement for on-site enforcement and monitoring in casinos. Many states require various levels of police or gaming agency presence on a regular basis. Such regulations have significantly high personnel costs associated with them. These costs are passed down to the casinos in the form of taxes or higher operating expenses. While some enforcement presence is valuable, too strict a requirement can be costly. Recent reform to the New Jersey Gaming Act reflected this reality, as much of the on-site enforcement and regulatory presence were eliminated. Table 4.9 shows police and gaming agency presence requirements in Pennsylvania and selected states, per every 1,000 gaming positions, as well as total State Gaming Board employment per 1,000 gaming positions for selected states.

TABLE 4.9 – POLICE AND INSPECTOR REQUIREMENTS FOR SELECTED STATES, PER 1,000 GAMING POSITIONS¹⁰⁵

State	Police Required on Casino Premises	Gaming Board Officials Required on Casino Premises	Total Gaming Board Staff ¹⁰⁶
Pennsylvania	4	4	9
Delaware	-	-	-
Illinois	3	-	7
Indiana	Included in Board Officials	4	7
Louisiana	No Requirement	No Requirement	-
Maryland	-	-	-
Michigan	No Requirement	No Requirement ¹⁰⁷	12
Mississippi	1	1	-
Missouri	5	-	-
Nevada	No Requirement	1	2
New Jersey	-	-	2
New York	-	-	-
Ohio	-	-	-
West Virginia	-	-	20

Source: State Casino/Lottery Boards & Commissions (2014)

The presence of enforcement and regulatory personnel in Pennsylvania casinos is significantly higher than most other states. Given comparable data, only Nevada has a greater presence, which is due entirely to the size of the gaming industry in that state. Considering the difference in industry size, Pennsylvania's enforcement presence is still greater than in Nevada. When

¹⁰⁵ Data is included for states where available. Some states, such as New Jersey, do not make staffing information publically available.

¹⁰⁶ Total Gaming Board Staff includes officials and inspectors, as well as all licensing, financial, and any other staff employed by each state's gaming board. Generally, police committed to gaming enforcement are not included in this measure.

¹⁰⁷ 17 employees reported on staff in the Casino Operations Unit for FY 2012.

expressed in terms of gaming positions, Pennsylvania's enforcement presence is four to five times greater than Nevada, and noticeably greater than most other states. Such a presence brings substantial costs. As with other regulatory costs, the burden is passed from the state to the gaming industry. Taxes and fees applied to the gaming industry fund the police and regulators tasked with monitoring the industry. As discussed before, these costs are often transferred again, from casino to consumer.

4.1.5 DISCIPLINARY ACTIONS

Beyond the planned and controlled regulatory burdens facing the gaming industry, significant costs and complications arise through compliance issues, penalties, and fines. Penalties are difficult to quantify and compare concisely, as each individual incident may be handled very differently. While states establish general guidelines as to what constitutes a violation, there is usually a great deal of room for interpretation as to how to deal with such violations. Some states may penalize conduct even if it does not violate any state level statutes, as long as it does violate a casino's own stated guidelines. This lack of consistency does not allow for simple metrics to discuss the cost and burden of gaming penalties. Nonetheless, it is important to understand that fines and penalties serve an important purpose by incentivizing casinos to uphold safe, legal, and equitable conduct in their properties. However, while fines provide a significant amount of funds to state agencies, the severity of those fines should be carefully constructed to address the infraction at hand, and not to maximize income to the governing body. To better understand the landscape of fines and penalties in the gaming industry, example cases, as well as generalized ranges, are presented in Table 4.10.

TABLE 4.10 – PENALTIES AND FINES TO CASINOS FOR COMPLIANCE VIOLATIONS

State	Penalties to Casinos for Significant Non-Compliance - Example	Penalties to Casinos for Non-Compliance – Average per Violation
Pennsylvania	\$65,000 fine for allowing persons under the age of 21 to gamble at slot machines	\$5,000 - \$30,000
Delaware ¹⁰⁸	-	-
Illinois	\$50,000 penalty for altering organizational structure without Board approval. \$800,000 and license suspensions for mailing promotional materials to self-excluded persons	\$25,000 - \$50,000
Indiana	\$65,000 fine for improper disclosure of confidential information	\$5,000 - \$15,000
Louisiana	Over \$200,000 in fines for a slot scam conducted by a casino employee	\$5,000 - \$10,000
Maryland	\$20,000 for permitting underage persons to gamble	\$5,000 - \$10,000
Michigan	\$425,000 for improper business deals, and lack of written contracts	\$100 - \$30,000
Mississippi	\$25,000 fine for self-exclusion violations	\$5,000 - \$10,000
Missouri	\$45,000 fine for serving alcohol to an intoxicated person	\$10,000
Nevada	\$1 million for casino employees caught selling drugs and promoting prostitution	Varies
New Jersey	\$105,000 for insufficient staffing in security areas	Varies
New York	\$1,000 for operating casino before license approval	Varies
Ohio	\$100,000 security key violations and for submitting problem gambling ads without the problem gambling hotline number	Varies
West Virginia	\$25,000 for video lottery terminals located outside a designated gaming area	\$1,000-\$25,000

Source: State Casino/Lottery Boards & Commissions (2014)

Table 4.11 shows penalties to casinos for underage gambling, as well as the penalties to those who enter the casinos underage. Across all states, the penalty to casinos is significantly larger than the penalty to the one conducting the offense. In some states, the punishment for offenders is the loss of driving privileges or, theoretically, jail time, whereas in Pennsylvania the penalty is a misdemeanor fine.

¹⁰⁸ As casinos in Delaware are primarily owned by the state, figures on fines and penalties are not included here, as they are largely incomparable with other states

TABLE 4.11 – PENALTIES AND FINES TO CASINOS AND OFFENDERS FOR UNDERAGE GAMBLING VIOLATIONS¹⁰⁹

	Penalties to Casinos for Underage Persons - Examples and Averages	Penalties to Offender for Underage Persons - Examples and Averages
Pennsylvania	\$10,000 or higher per incident	Misdemeanor fines (\$1,000)
Delaware ¹¹⁰	-	Misdemeanor fines (\$1,000)
Illinois	\$125,000 for 15 incidents of underage gambling	Sentence shall be less than 1 year, fine not to exceed \$2,500
Indiana	\$10,500: Issue involving underaged person, multiple entry infractions (no account of gambling or other conduct).	Up to \$1,000 fine and up to six months in jail
Louisiana	\$10,000 per incident	Imprisoned not more than six months, fined not more than \$500
Maryland	\$5,000 per incident	None (pending legislation)
Michigan	Issue warnings to casinos often when an underage person is present. Uncommon for gaming boards	Up to 93 days in jail, and a fine valued at less than \$200
Mississippi	-	Fined not more than \$500 or imprisoned for more than 90 days
Missouri	\$10,000-\$12,500 per incident	\$500 fine
Nevada	\$100,000 for 9 separate incidences, all involving underage persons gambling and drinking	\$1,000 fine and up to six months in jail
New Jersey	\$10,000 fine or more	\$500 - \$1,000 fine, driver's license suspension for six months
New York	\$500 - \$25,000	-
Ohio ¹¹¹	-	\$1,000 fine and up to six months in jail
West Virginia	\$25,000	-

Source: State Casino/Lottery Boards & Commissions (2014)

4.1.6 COST AND EFFICIENCY

Taxes and fees claim a large portion of gaming revenues and, in return, these taxes provide services, development, and control, in the gaming industry and the economy at large. In order to preserve the best interests of the industry, states, and the general population, care should be taken to monitor the tradeoffs between these interests. Table 4.12 compares agency cost to gaming revenue and gaming tax revenue for Pennsylvania and selected states. It is important to note that this is an imperfect measure of regulatory costs. Many states spread the cost and

¹⁰⁹ Unless otherwise noted, fines or penalties were not included if data was unavailable

¹¹⁰ As casinos in Delaware are primarily owned by the state, figures on fines and penalties to casinos are not included here, as they are largely incomparable with other states

¹¹¹ Data on fines to casinos for underage gambling not available

responsibilities of the gaming industry through a number of departments and administrative efforts. Pennsylvania, for instance, utilizes both the Gaming Control Board, as well as the State Police, in the enforcement of the gaming industry. Only considering the expenditures made by the Gaming Control Board, does not reflect the full regulatory cost for some states. Conversely, some states have statutory requirements on the percent of gaming revenues that are remitted to the state for general administrative purposes. New York, for instance, requires 10% of revenues be collected to fund administration for the Lottery Department. These administrative costs include certain provider costs, and central monitoring system, in addition to personnel and general administration. These differences make cross-state comparisons difficult and imperfect.

TABLE 4.12 – COST OF GAMING AGENCY AS COMPARED TO GGR AND GAMING TAX REVENUE FOR SELECTED STATES¹¹²

	Cost of Regulations (\$ mil)	Total Gaming Tax Revenue (\$ mil)	Gross Gaming Revenue (\$ mil)	Regulation Cost as a Percent of Tax Revenue	Regulation Cost as a Percent of Gross Gaming Revenue
Pennsylvania	\$33.9	\$3,142.0	\$1,487.0	2%	1.1%
Delaware	-	\$526.7	\$217.4	-	-
Illinois	\$42.8	\$1,551.3	\$574.3	7%	2.8%
Indiana	\$21.5	\$2,614.0	\$806.6	3%	0.8%
Louisiana	\$0.9	\$2,404.0	\$579.5	0%	0.0%
Maryland	-	\$377.8	\$218.2	-	-
Michigan	\$17.0	\$1,417.0	\$319.8	5%	1.2%
Mississippi	\$16.1	\$2,251.0	\$272.7	6%	0.7%
Missouri	\$22.7	\$1,744.8	\$464.2	5%	1.3%
Nevada	\$42.9	\$10,905.4	\$868.6	5%	0.4%
New Jersey	\$55.6	\$3,051.0	\$254.8	22%	1.8%
New York	\$182.5	\$1,802.0	\$822.7	22%	10.1%
Ohio	\$8.3	\$691.1	\$225.4	4%	1.2%
West Virginia	\$17.5	\$948.8	\$402.5	4%	1.9%

Source: State Casino/Lottery Boards & Commissions (2014), American Gaming Association (2013)

Each gaming board is constantly trying to improve their regulations and procedures to match the gaming industry. A representative of the Pennsylvania Gaming Board recently had this to say, regarding their aims and efforts.

Thank you for the opportunity to provide input into the Legislative Budget and Finance Committee's study on the current condition and future viability of gaming in this Commonwealth, specifically with respect to any recommendations for how Pennsylvania statutes, regulations or policies can be modified to help sustain and maximize gaming revenue and the positive impacts of gaming.

¹¹² Comparable administration costs for Delaware and Maryland were unavailable

The Pennsylvania Gaming Control Board (“PGCB”) has no recommendations at this time, and remains dedicated to protecting the people of Pennsylvania and patrons of casinos through strict, efficient enforcement of the law and regulations that pertain to the operation of casinos. Within that context, the PGCB also understands that strict enforcement can be accomplished without overly burdensome regulation, and often makes changes to its policies and regulations to avoid excessive regulation when such changes make sense for both us as regulator and the industry we regulate. The PGCB is committed to continuing this practice, as well as strictly implementing and enforcing any legislated changes to the Pennsylvania Race Horse Development and Gaming Act as they occur.

4.2 REGULATIONS DISADVANTAGING PENNSYLVANIA GAMING

The challenge for any regulators structure is to balance the interests of all parties. The balance is always tricky, and the appropriate regulatory approach can change over time as the industry changes. With these concerns in mind, the evidence suggests there are several regulations that potentially disadvantage Pennsylvania gaming. The inclusion of regulations in this section does not constitute an endorsement of the modifying or removal of the regulatory or legislative requirements. Proper regulation is a balancing act and the result of a broader policy making process, and keeping a regulation that inhibits casino revenue or adds costs might, on balance, still make sense in the policy context.

There are different ways that regulatory reform can affect a casino’s financial position, and as a result, the state’s tax revenues. For example, some regulatory changes primarily affect a casino’s cost structure, and hence its profitability, but do not significantly affect gaming revenue or have an impact on state tax receipts, apart from corporate income tax. Regulations that increase profitability will, however, help the casino afford capital investments needed to stay fresh and competitive. As a result these will improve the sustainability and probability of survival of casinos. Other regulations directly affect the revenue potential of a casino by increasing demand directly, and as a result would increase tax revenues. Finally, some regulations will lower variable costs which will give casinos the incentive to increase output, which in turn will increase gross gambling revenue and taxes.

To differentiate between these types of regulatory savings and to help understand the kinds of economic benefits the state will realize, each regulatory change will be categorized as one or more of three types of improvements for a casino:

- Improve sustainability and probability of survival
- Increase demand (direct GGR and tax increase)
- Decrease variable costs (indirect GGR & tax increase)

In addition, where possible the potential impacts on individual casinos have been estimated. For most regulations there is insufficient information to quantify the likely impacts, however in a few instances estimates were provided by casino operators and we have scaled these to apply to the entire state. These should be seen as highly uncertain and mostly indicative.

Finally, it is noted where certain public agencies may be adversely affected by the potential change or removal of regulation.

Alcohol sales end at 2:00 am.

Casinos cannot serve alcohol after 2:00, which is consistent with closing times at Pennsylvania taverns. Some Pennsylvania casinos, particularly those in urban areas, report a sharp decline in patronage at 2:00, as gamers leave the facility. Other casinos are in locations where most customers have left by 2:00 anyway, or have decided for business purposes that they do not want to serve alcohol after 2:00.

Alcohol in Pennsylvania is completely controlled by the Liquor Control Board. By the statutes in the Gaming Act, any Pennsylvania Casino is considered a restaurant establishment for the purposes of the Liquor Control Board. Casinos must, therefore, stop any alcohol sales by 2am. This regulatory model is not the most commonly taken approach among states with casinos. For almost every state, the requirements and rules governing alcohol sales in casinos are specific to casinos. In Maryland, Mississippi, and Louisiana, for instance, casinos have no “last call”, though most other establishments are required to stop serving alcohol at certain times (see Table 4.8).

Compared to states with 24 hour drinking laws, this likely reduces the demand for casino gaming in Pennsylvania.

- Regulatory impact type: 2) increase demand (direct GGR and tax increase)
- Potential impact: not quantified

Approval time for new games

There is regular innovation in the gaming industry, with slot machine manufacturers bringing out new machine models and new games on existing models. Each model and each new game must be approved by the PGCB before it can be put on the floor. Casino operators have stated that approval time is longer in Pennsylvania than in other states, and this delay causes frustration for gamers searching for the latest devices.

- Regulatory impact type: 2) increase demand (direct GGR and tax increase)
- Potential impact: not quantified

Game Rules

Pennsylvania has specific requirements on many table game rules. For example, the state requires that the house must stand on a soft 17 in blackjack, which occurs when the combination of cards held by then dealer to reach 17 includes an ace which is counted as an 11 (aces can be counted as 11 or 1 in blackjack). In other states, casinos are not required to stand on a soft 17. The Pennsylvania regulation tips the odds slightly in favor of the player, and as a result leads to less revenue for the casino.

- Regulatory impact type: 2) increase demand (direct GGR and tax increase)
- Potential impact: not quantified

Cash Advance and Personal Checks

High value patrons do not want to carry significant amounts of cash with them when they visit casinos. In many other states, they are able to get cash advances on their credit cards on the casino floor. However, casinos in PA cannot do cash advance with a credit card or similar instrument on the gaming floor. In addition, while personal checks are allowed to be cashed they are limited to \$2,500. Some operators felt that these regulations discourage high-value patrons and create inconveniences which do not increase security for gamers or the casino. Other than Pennsylvania, only Missouri restricts the ability of casinos to advance cash or credit to players (see Table 4.7). Allowing a casino to extend advances on the basis of credit cards reduces risk of robbery or other criminal activity to the player, as they do not need to physically transport any of their funds. The additional burden associated with physically managing funds can be enough to deter high profile or regular players.

- Regulatory impact type: 2) increase demand (direct GGR and tax increase)
- Potential impact: not quantified

Third Party Checks

Pennsylvania casinos cannot accept third party checks as funds. In New Jersey and other states it is common for winners at a casino to take their winnings in the form of a check, and bring the check to a nearby casino to continue gaming. As Table 4.7 indicates, Pennsylvania is one of only two states in our regulatory comparison sample that provides language in its statutes explicitly forbidding third party check cashing. However, almost every state includes specific and strict language controlling or banning the extension of such privileges to excluded persons, or persons otherwise recognized as potentially problematic. For high profile, professional, or semi-professional gamblers, being able to transfer funds and checks from other casinos or institutions directly with a casino is an important courtesy, and potentially a deciding factor for visiting a casino. If a player feels their valid funds will be restricted or disallowed at a casino, they will likely not give patronage to that casino.

- Regulatory impact type: 2) increase demand (direct GGR and tax increase)
- Potential impact: not quantified

State Police

Pennsylvania casinos are required to pay for a state police presence in the casinos. Police presence in casinos is mandated through state policy, but the control and execution of those efforts is under purview of the state police, not the Gaming Control Board. In contrast, many states, such as Indiana and Missouri, consolidate the powers and responsibilities into one enforcement effort. In Indiana specifically, each agent stationed at a casino is a sworn law enforcement officer, and so has the power to inspect casino conduct, and enforce where necessary. Having the control and monitoring separated between two divisions, as in Pennsylvania, can increase costs and decrease efficiency due to communication and coordination issues, as well as increasing costs through the allocation of administration and overhead from different departments (see Table 4.9).

In addition, several casino operators indicated that the mandated level of police presence may not be needed. Louisiana and Michigan, for instance, have no statutory requirement for police or regulator presence at casinos in the state. (see Table 4.9)

- Regulatory impact type: 1) Improve sustainability and probability of survival
- Potential impact: not quantified
- Affected agency: decreased employment and revenue for State Police

Regulatory Body Size

Pennsylvania's rate of coverage by regulators is close to the highest in the nation. In terms of total gaming board staff, only Nevada surpasses Pennsylvania. However, when normalized by the number of casinos in the state, there are almost 15 times more gaming board employees per casino in Pennsylvania than in Nevada. While staffing information for the New Jersey Department of Gaming Enforcement is not publicly available, experts have indicated that New Jersey has cut down significantly on its regulatory presence in casino day-to-day activities. Other states that regulate and manage their casino markets more than Nevada or New Jersey also expend much less man-power for daily regulation of casinos. In addition, the calculations in Table 4.12 of regulatory cost as a percent of gross gaming revenue suggest that Pennsylvania has room for improvement when compared to states like Nevada.

One possible explanation is that the size of the Pennsylvania Gaming Control Board operations was appropriate when the industry was new and growing, but now as the industry matures the required size is smaller.

- Regulatory impact type: 1) Improve sustainability and probability of survival
- Potential impact: 0.25% of industry gross gaming revenue
- Affected agency: decreased employment and revenue for Gaming Control Board

Staffing Requirements

The Gaming Control Board's regulation regulations § 465a.35 mandates a minimum number of floorpersons that depends on specific table game types. For example, it requires one floorperson per every three craps tables. In addition, it provided a minimum required ratio of supervisors to floorpersons. Data provided to ESI by a casino operator suggest that Pennsylvania casinos have more supervisors per table than other states.

Additional requirements specify the level of security that casinos must have. Importantly, some casinos have indicated that their requirements do not vary by time of day despite the fact that the need for security staffing almost certainly varies by level of casino traffic. While there does not appear to be any regulation that specifies a particular levels of security, regulation § 465a.14 mandates that casinos "submit minimum staffing submission with regard to its security department", and some casino operators have told us that the same level of security staff is required on a weeknight at 5am as on a Friday night during peak hours.

An alternative is to follow New Jersey in allowing operational flexibility by letting casinos set their own staffing levels. Specifically, NJ Regulation 13:69D-1.12 allows that "Each casino licensee shall at all times ensure the proper operation and effective supervision of all authorized games in

the casino.” It is not clear there is an interest to the state in ensuring a level of management beyond what a casino would find optimal.

- Regulatory impact type: 3) Decrease variable costs (indirect GGR & tax increase)
- Potential impact: \$20m to \$24m in cost savings

Non-Gaming Vender Certification or Registration

Pennsylvania requires those who sell non-gaming services to casinos and their employees to be registered or certified. However, as illustrated in Table 4.3 many other states do not have this requirement. Casino operators and local economic development experts have both indicated that these requirements are unduly burdensome and prevent many businesses from partnering with casinos. In particular, these requirements are prohibitive for local small businesses.

- Regulatory impact type: 3) Decrease variable costs (indirect GGR & tax increase)
- Potential impact: not quantified

A few additional regulatory options are noted here; however without any statement that these would result in increased revenues or lower costs, or that we have judged them to be disadvantaging the Pennsylvania casino industry. These are simply included for consideration.

Entry Fee for Category 3 Casinos

Patrons can only enter a category 3 casino if they are resort guests, or if they pay a \$10 entry fee, or otherwise pay at least \$10 for non-gaming merchandise, such as food, before entering the gaming floor. This \$10 fee discourages drop in gamers and sends them elsewhere. There are currently two category 3 casinos, Valley Forge and Lady Luck in Nemaquin, which are very differently situated.

The Valley Forge casino is in the Philadelphia suburbs and competes for customers with Parx, SugarHouse, Harrah’s and even Hollywood and Sands. Valley Forge has been judged a success by most experts we spoke with, despite the restraints placed on category 3 casinos, in particular, the \$10 entry fee and limit of 600 slot machines. Removal of the \$10 entry fee and allowing additional slots would increase gaming at Valley Forge, but most of the marginal increase in gaming would likely come at the expense of the competing Pennsylvania casinos. Most out-of-state visitors to Valley Forge, for example, need to drive by another casino to get to Valley Forge, so its ability to attract out-of-state visitors is limited.

Changing the “rules of the game” to, in essence, allow Valley Forge to operate like a category 2 casino could, however, result in policy consequences/concerns that might outweigh the marginal additional tax revenue the casino could generate. For example, category 3 (resort) licensees were required to pay a licensing fee of \$5 million, compared to the \$50 million license fee required of category 1 and 2 licensees. The existing category 1 and 2 resorts would see this as grossly unfair if Valley Forge were allowed to operate in much the same manner as a category 1 or 2 resort.

From an economic standpoint, the business plans of the competing casinos were developed under the understanding that, if a resort casino license was issued in the Philadelphia area, it

would not be drawing members of the general public; its clientele would be drawn from guests who were staying overnight at the resort hotel or had some other connection to the resort (e.g., eating dinner at a resort restaurant). Changing fundamental rules that benefit some casinos mostly at the expense of others creates regulatory uncertainty. This uncertainty can extend well beyond the specific \$10 entry fee regulation, as casinos may wonder whether other fundamental rules may change and disadvantage them. Casinos facing this kind of uncertainty may be less likely to make revenue enhancing investments. In the long-run, the risk of these costs to the state are potentially significant.

To some extent, these concerns might be mitigated if the Pennsylvania Gaming Control Board decides not to award the second Philadelphia category 2 casino license. Presumably the existing casinos considered the likelihood of a second category 2 casino in Philadelphia in their original business plans. If this license is not awarded, the existing category 1 and 2 casinos would benefit from less local competition than expected, which would likely outweigh the costs to them of increased competition from Valley Forge. This report, however, assumes that all currently authorized casino licenses will be issued, including a second category 2 license in Philadelphia.

Regulatory Complexity

Some casino operators and experts have suggested that the regulation of the industry by four separate agencies (Department of Revenue, Gaming Control Board, Attorney General, and State Police) creates undue complexity and inefficiency for the industry. It was suggested that reporting to a single regulatory agency would save time costs and effort as well as helping ensure operational efficiency.

IT System Regulation

One casino operator indicated that the regulatory requirements in § 466a.1, § 465a.11, and § 461b.5 collectively limit casinos from cost efficient IT infrastructure and operations. The casino operator believe that these regulations provide a significant cost burden. Specifically, § 466a.1 requires that:

- a) All aspects of a slot machine licensee's slot computer system shall be located within the licensed facility in accordance with technical standards under § 466b.1 (relating to slot computer systems).

The casino operator believes that changing this regulation would allow a significant cost savings.

4.2.1 CAPITAL INVESTMENT INCENTIVES

As noted, it is in Pennsylvania's interest to provide its casinos incentives to make significant investments in their physical plants, for both enhanced casino operations and non-gaming amenities. This investment is necessary for competitive purposes and to maintain positive local economic development and employment impacts.

Our analysis suggests that certain Pennsylvania casinos, by virtue of their location and existing customer bases, may be more vulnerable than others to the expected increase in interstate gaming competition. They will have to operate more efficiently, market more aggressively and perhaps offer newer, more competitive products to help make Pennsylvania casinos more

competitive. One idea is to establish some type of financial incentive for greater capital investment in the casinos for both gaming and non-gaming purposes.

Our analysis suggests that, at this time, Pennsylvania's direct gaming tax rates are not necessarily more harmful to the industry than tax rates in other jurisdictions (see next section). However, that may change if neighboring states adjust their rates for competitive purposes. Pennsylvania could examine a reinvestment program that would allow casinos to use a percentage of certain types of capital expenditures to offset a portion of their remittance of slots and/or table gaming taxes collected. This percentage could be higher for casinos deemed more threatened by interstate competition.

4.3 TAX COMPARISON WITH SELECTED STATES

One of the most important policies facing any casino gaming industry is tax policy. As Table 4.13 below shows, the industry began with low tax rates, at 7% and 8% for Las Vegas and New Jersey respectively. But over time a common and important motivation for states to legalize gaming has been for the purposes of tax revenues. The increasing focus on taxation can be seen in Table 4.13 below, which shows the highest tax rate each state imposed on the casino industry at the time of legalization. Over time these rates have generally increased, and has led to most states having tax rates that are higher than found in most non-gaming industries. This section will address the question of whether lower taxes are desirable for the state in terms of economic and fiscal impacts.

TABLE 4.13 – TOP TAX RATES AT TIME OF GAMING LEGALIZATION BY STATE

	Highest Rate at Adoption	Year Established
Nevada	6.8%	1931
New Jersey	8.0%	1978
Iowa	24.0%	1991
Colorado	20.0%	1991
Illinois	50.0%	1991
Iowa	23.2%	1991
Mississippi	12.0%	1992
Rhode Island	72.7%	1992
Louisiana	21.5%	1993
Missouri	21.0%	1994
West Virginia	56.7%	1994
Indiana	40.0%	1995
Delaware	56.9%	1995
Michigan	24.0%	1999
New Mexico	46.0%	1999
New York	65.0%	2004
Oklahoma	41.8%	2005
Maine	49.1%	2005
Florida	50.0%	2006
Pennsylvania	55.0%	2007
Maryland	67.0%	2008
Kansas	25.0%	2009
Ohio	33.0%	2010
Massachusetts (casinos)	25.0%	2011
Massachusetts (slots)	40.0%	2011

Source: Spectrum Gaming (2013)

An important step in determining the optimal gaming tax rate for a state is to look at comparison states both within the regional market and beyond.

Table 4.14 below describes the taxation of slots and tables for casino markets with more than \$1 billion in revenue, as well as states contiguous to Pennsylvania. The three lowest tax states are Mississippi, New Jersey, and Nevada, which all tax tables and slots equally and at rates below 10%. Most other states have higher rates, and some states have graduated tax rates.

TABLE 4.14 – GAMING TAX RATES FOR PENNSYLVANIA AND COMPETITIVE STATES

State	Slots	Tables	Comments/Other
Delaware	53.5%	29.4%	43.5% of slots to state and 10% to increase horse racing purses, 29.4% of table to state and 4.5% to increase horse racing purses.
Illinois			Graduated tax from 15-50% of gross gaming revenue, \$2-3 admissions tax
Indiana			Riverboat and Land-based Casinos: Graduated tax from 15-40% of gross gaming revenue, \$3 admissions tax; Racinos: Graduated slot tax from 25-35% of gross gaming revenue
Iowa			Graduated tax with maximum rate of 22%; Racetracks with tables and slots and exceeding \$100 million in revenue: maximum rate of 24%
Maryland	67.0%	20.0%	
Michigan	19 % tax on gross gaming revenue		
Mississippi	Graduated tax from 4-8%		
Missouri	21% tax on gross gaming revenue		\$2 admissions tax
Nevada			Graduated tax with maximum rate of 6.75%
New Jersey	8% tax on gross gaming revenue		Community investment alternative obligation of 1.25% of gross gaming revenue (or an investment alternative 2.5% on gross gaming revenue)
New York	60.0-69.0%		
Ohio	Land-based casinos: 33% tax on GGR Racinos (VLT): 33.5% effective tax rate		
Pennsylvania	55.0%	14.0-16.0% ¹¹³	35% for electronic table games ¹¹⁴
Rhode Island	59.9-61.3%	16.0-18.0%	
West Virginia	54.0%	35.0%	

Source: American Gaming Association (2013), State Gaming Agencies (2014)

Except for New Jersey, states contiguous to Pennsylvania have moderate to high flat rates, with separate rates for slots and tables. The comparison of simple tax rates suggests that despite frequent claims that Pennsylvania taxes its casinos higher than other states; nearby states have taxes in a similarly high range. Pennsylvania's 55% tax on slots and 14-16% tax on tables compares favorably to West Virginia's rates, for example, which are nearly the same as Pennsylvania for slots and even greater for table games. New York's tax rates are 5-14% higher for slots, and Delaware pays a slot rate that is in the mid-40% range and a table rate that is more than double Pennsylvania's. While Pennsylvania's rates are high compared to New Jersey and Nevada, they do appear generally competitive to most other states in the region.

¹¹³ By statute, table games are taxed at 16% for the first two years of operations, with the rate reducing thereafter to 14%. Ten of Pennsylvania's twelve casinos are currently at the lower 14% rate.

¹¹⁴ PA casinos are permitted by statute to offer electronic table games. No casinos currently offer this option, although Parx and Rivers have taken advantage of it in the past, with statewide supply never rising above nine machines. Due to its insignificance in tax rate accumulation, this differential rate is generally not taken into account in this analysis.

Though, simple comparisons of tax rates do not perfectly capture the tax burden. For example, in Pennsylvania, the horse racing industry receives a share of the revenues from the 55% slot tax and the 14-16% table tax. In Delaware, the funds to the horse racing industry do not come out of the 43.5% slots tax, but instead the horsemen receive 10% of gross gaming revenues. Another differentiation for Delaware arises because it only has racinos, which mean all gaming establishments that pay the 10% “tax” also benefit from the horsemen fund. In contrast, Pennsylvania casinos that are not racinos do not benefit. An additional complication can be seen in the fact that 7% of gross revenues go to slots vendors in Delaware. However, absent this “tax” the racinos would have to pay slots vendors anyway, so again whether this should be counted as a tax or a regular expense of doing business is unclear – Table 4.15 below treats payments to the horsemen fund as part of the tax rate but does not include vendor fees.

With the understanding that the measures of taxation are necessarily imperfect, it is still useful to consider the effective tax rates across states. Table 4.15 below shows the percent of gaming revenue paid in gaming specific taxes as a measure of effective tax rates, and Figure 4.1 below displays the same information on a map. Pennsylvania has the 5th highest effective gaming tax rate in the nation. However, the nearby states of Maryland, West Virginia, and Delaware rank higher, and New York and Ohio rank closely as well at 6th and 10th, respectively. Thus, Pennsylvania is within the general range of nearby comparison states with the exception of New Jersey. While New Jersey’s rates are low for the region, it is important to remember that casinos in Atlantic City must also have a minimum of 200 hotel rooms, which prior to 2011 was 500 rooms. This is an expensive requirement that offsets some of the low taxes.

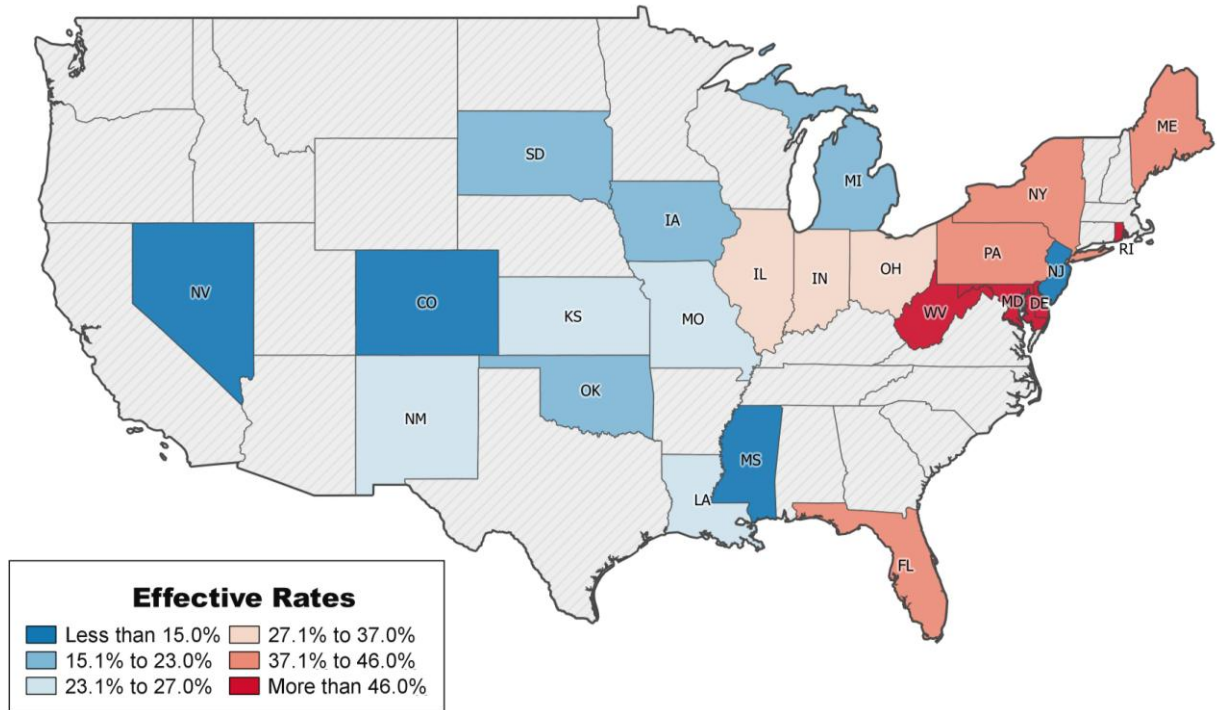
TABLE 4.15 – EFFECTIVE GAMING TAX RATES BY STATE, 2012

State	Number of Casinos	Gross Gaming Revenue (\$ mil)	Taxes (\$ mil)	Effective Tax Rate	Effective Tax Rate Rank
Rhode Island	2	\$528.0	\$329.0	62.3%	1
Maryland	3	\$377.8	\$218.2	57.8%	2
West Virginia	5	\$999.2	\$509.3	51.0%	3
Delaware	3	\$520.6	\$260.3	50.0%	4
Pennsylvania	11	\$3,158.3	\$1,441.8	45.7%	5
New York	9	\$1,802.2	\$822.7	45.6%	6
Maine	2	\$99.2	\$43.1	43.5%	7
Florida	6	\$427.9	\$161.8	37.8%	8
Illinois	10	\$1,639.0	\$574.3	35.0%	9
Ohio	4	\$429.8	\$142.2	33.1%	10
Indiana	13	\$2,614.0	\$806.6	30.9%	11
Kansas	3	\$341.2	\$92.2	27.0%	12
Missouri	13	\$1,769.0	\$471.4	26.6%	13
New Mexico	5	\$241.5	\$62.8	26.0%	14
Louisiana	18	\$2,404.0	\$579.5	24.1%	15
Iowa	18	\$1,466.8	\$334.4	22.8%	16
Michigan	3	\$1,416.7	\$319.8	22.6%	17
Oklahoma	2	\$113.1	\$20.4	18.0%	18
South Dakota	35	\$107.4	\$16.6	15.5%	19
Colorado	41	\$766.3	\$104.3	13.6%	20
Mississippi	30	\$2,251.0	\$272.7	12.1%	21
New Jersey	12	\$3,050.7	\$250.6	8.2%	22
Nevada	265	\$10,860.0	\$868.6	8.0%	23
Total	513	\$37,383.5	\$8,702.4	23.3%	

Source: Various State Gaming Boards (2014, American Gaming Association (2013))¹¹⁵

¹¹⁵ Where figures did not agree, data from state gaming boards was used.

FIGURE 4.1 – MAP OF EFFECTIVE GAMING TAX RATES BY STATE, 2012



Source: Various State Gaming Boards (2014, American Gaming Association (2013), Econsult Solutions, Inc. (2014)

Table 4.16 below provides 2013 effective gaming for the regional states, which are more current than the 2012 rates shown in Table 4.15. Again, compared to regional competitors Pennsylvania is ranked towards the middle.

TABLE 4.16 – EFFECTIVE GAMING TAX RATES FOR PENNSYLVANIA AND COMPETITIVE STATES, 2013

State	Number of Casinos	Gross Gaming Revenue (\$ mil)	Taxes (\$ mil)	Effective Tax Rate	Effective Tax Rate Rank
West Virginia	5	\$869.3	\$448.7	51.6%	1
Delaware	3	\$432.1	\$215.9	50.0%	2
Maryland	4	\$748.7	\$366.6	49.0%	3
New York	9	\$1,925.6	\$877.7	45.6%	4
Pennsylvania	12	\$3,113.9	\$1,384.4	44.5%	5
Ohio	8	\$1,070.6	\$354.6	33.1%	6
New Jersey	12	\$2,862.1	\$204.0	7.1%	7
Total	53	\$11,022.2	\$3,851.8	34.9%	

Source: Various State Gaming Boards (2014)

4.3.1 TAX RATES AND DEVELOPMENT

The next questions to consider are the potential impact of taxes on economic development and casino revenues. Is it possible for taxes to be high enough that lowering them actually raises tax revenues to the state by increasing gross gaming revenue or spurring other capital investments (e.g., hotels) that would generate additional tax revenue? The intuition for this can be seen in the fact that the revenue optimizing tax rate in any state is not 100%, and so it is possible for a tax rate to be set above the revenue maximizing rate, at which point a cut in taxes would actually raise tax revenues. However, the general consensus among experts spoken to for this study was that the direct effect of lower gaming taxes in PA would be lower gaming tax revenues.

There are many important caveats to this simple conclusion. First, is that the long run impact on revenues will be different than the short run impact. In an academic study of Illinois gaming taxes, for example, the authors found that the tax rate had an elasticity of 0.2. This means that a 1% increase in the tax rate would lead to a 0.2% decrease in gross gaming revenues, and therefore a net increase in tax revenues (because rates increase by more than GGR decreases).¹¹⁶ However, the authors provide several cautionary remarks that suggest the limitations of viewing taxes in this framework. Importantly, they emphasize that these are short run estimates, and the impacts in the long run may be different. In addition, they argue that:

Illinois may still experience some long run adjustment of casino investment in amenities like hotels and golf courses, in response to casino tax changes, which may additionally affect the tax base.

Thus even academic studies which find low-responsiveness of GGR to tax rates caution against this narrow view of taxation. Similar emphasis can be found in a useful 2013 report from Spectrum Gaming, which argues that the optimal casino tax rate from a state's perspective should consider a wider range of economic impacts than simply short run tax revenues. Importantly, the optimal tax rate will consider the impact on all taxes, and not just gaming revenues taxes.

A casino can increase non-gaming taxes by generating direct employment and by generating positive economic spillovers that ripple through the economy and creates indirect employment and output. Direct and indirect economic activity from casinos' also can generate corporate taxes, property taxes, and sales taxes. In many industries, this new economic output may simply be crowding out other types of output. For example, if a new clothing store opens it may simply crowd out the spending that would have gone to another clothing store. While this would still increase general economic well-being by making consumers better off, it would not necessarily increase employment, GDP, or taxes revenues for the state. However, in the case of the Pennsylvania casino industry, there is significant evidence that much of the spending that is happening in the state was previously being exported to Atlantic City and other out-of-state gaming destinations. To the extent that marginal increases in Pennsylvania gaming are also import substitutions, it should have positive on the economic and fiscal implications for the state.

¹¹⁶ Combs, Kathryn L., Jim Landers, and John A. Spry. "The Responsiveness of Casino Revenue to the Casino Tax Rate." (2013).

In addition, gaming taxes should be set with long-run outcomes in mind as well. Many of the experts interviewed believed that to survive in the long-run a casino would be required to invest more in amenities than in the past. The higher level of competition in the region and the changing demographics of gamers mean that more investment in restaurants, hotels, event space, and other attractions will be increasingly necessary for Pennsylvania casinos to attract gamers. It is noteworthy that even as casinos like Sugarhouse and Parx are among the most concerned about saturation and intense competition in the Philadelphia casino market, they are also making significant capital investments and expanding amenities. However, experts also believed that investments like this will become increasingly important in the future, and they may not be sufficiently economically rational for casinos under current market and regulatory conditions.

There are other reasons why more investments in amenities are desirable from the state's perspective. When visitors from other states come to the casino they provide an additional avenue for local spending. This will increase the positive economic and fiscal spillovers discussed above.

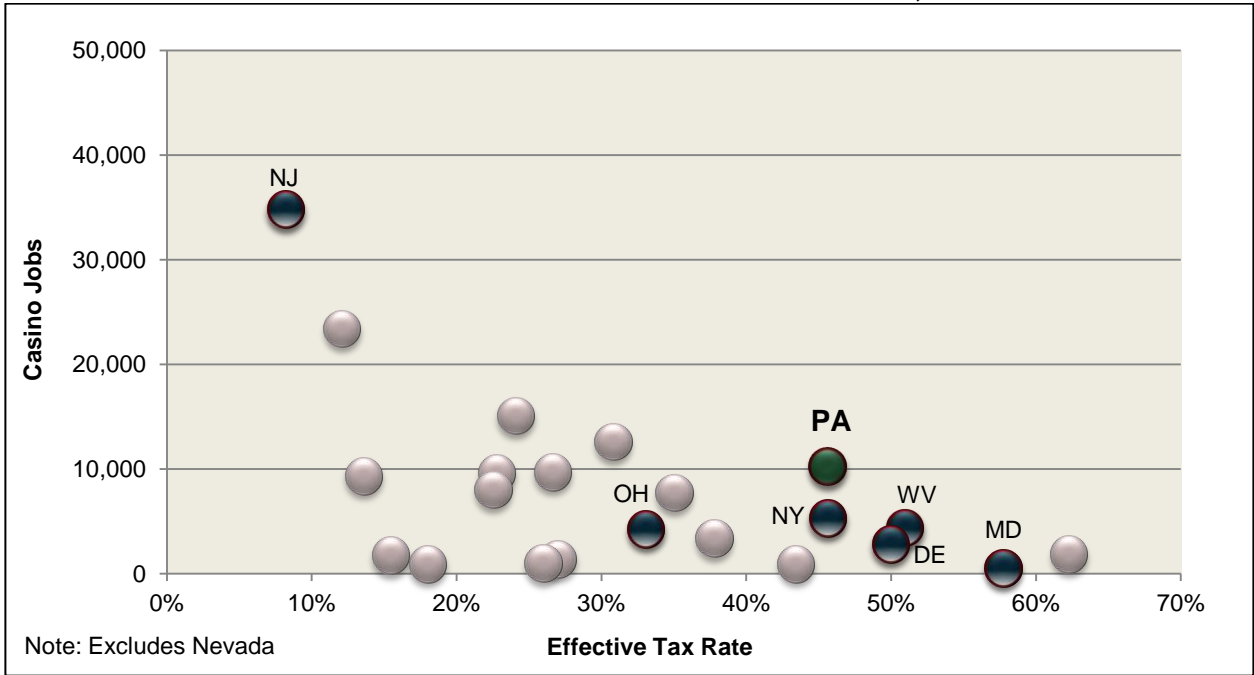
Given the importance of increased amenities and investments, and given the questionable willingness or ability of casinos to make these investments, a natural question is whether lower gaming tax rates are an appropriate tool for the state in the heightened competitive environment. However, there are multiple possible responses a casino can make in response to lower taxes:

- 1) Use the money to increase capital spending on amenities,
- 2) Use the money to increase marketing spending,
- 3) Increase profits

From the state's perspective, the first response is the most desired outcome as this has the highest probability of increasing import substitution from other states. Indeed, there is some evidence that areas with lower taxes do have a greater economic footprint. Figure 4.2 below compares the total direct casino employment by state on the Y axis and the effective casino tax rate on the X axis. The results suggest that states with lower effective casino tax rates employ more people directly. To control for overall differences in the state's casino industries, Figure 4.3 shows direct employment per \$1 million of gross gaming revenue. In this case the relationship between low taxes and casino employment is even starker.

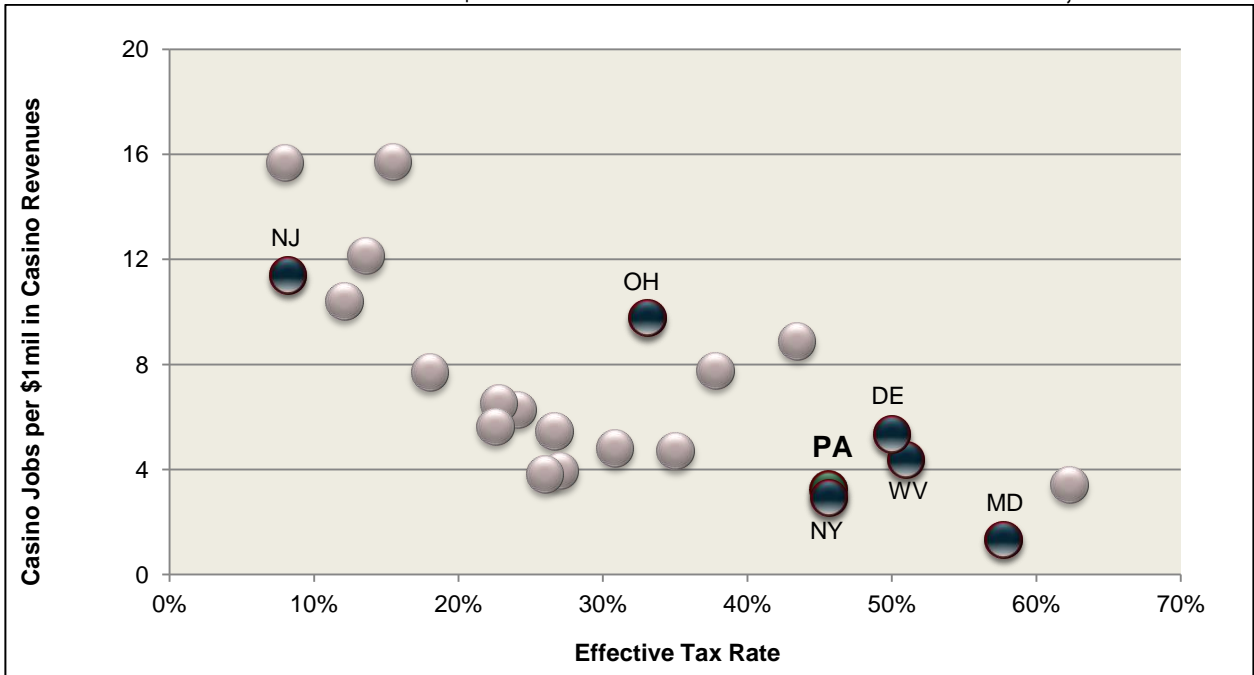
Two important caveats are in order. First, as discussed above, the effective tax rate measured here is necessarily imperfect. However, the strong relationship shown in these graphs suggest that effective taxes as measured are capturing something meaningful. In addition, the employment measures only include direct employment and not the indirect employment that economic spillovers from the casinos generate. The true employment per \$1 million in casino revenues would be higher if these spillovers were captured. If either a more perfect measure of effective taxes or true total employment were used it is likely the relationship between taxes and employment would be more stark.

FIGURE 4.2 – EMPLOYMENT AND EFFECTIVE TAX RATE BY STATE,¹¹⁷ 2012



Source: American Gaming Association (2013), Various State Gaming Boards, Econsult Solutions, Inc. (2014)

FIGURE 4.3 – EMPLOYMENT PER \$ MILLION IN CASINO REVENUE AND EFFECTIVE TAX RATES, 2012



Source: American Gaming Association (2013), Various State Gaming Boards, Econsult Solutions, Inc. (2014)

¹¹⁷ Nevada is excluded from the graphs for visualization purposes. With employment of 170,000 and an effective tax rate of 8.0%, it would be located vertically above New Jersey on the chart.

However, despite this suggestive evidence, there are two other possible outcomes from lowering taxes: more revenue for marketing, and higher profits. While more marketing may mean more visitors from out-of-state, most experts indicated that the most significant competition for Pennsylvania casinos is from other Pennsylvania casinos. This suggests that some of this competition may be zero sum from the state's perspective. In contrast, investment in amenities is likely to help generate positive economic spillovers and increase import substitution from spending in other states. Higher profits would generate the least economic benefit for the state. Given these possible outcomes, there is a significant amount of uncertainty about whether lower tax rates would result in economic and fiscal benefits for the state.

While the non-optimality of tax cuts may also be true for other nearby states, the increased competitiveness of the region combined with imperfect information and political pressure for policymakers may lead some states to pursue a race to the bottom by drastically lowering casino taxes. If in the future other nearby states pursue tax cuts for their casino industry, tax cuts may become unavoidable and in the state's best interest.

Finally, and most importantly, if lower taxes were the only optional policy option to increase economic development, it may be desirable despite the uncertainty and risk to the state from lost short-run and potentially long-run revenues. However as the Capital Investment Incentives section discusses there are other options for encouraging casinos to increase their capital investments other than lower tax rates. Given the availability of these options, lower taxes are not likely the optimal policy response from the state to gain higher regional competitiveness.

Overall, several observations have been made regarding gaming taxes. First, Pennsylvania's rates are higher than some states but broadly competitive for the region. Second, while lower tax rates would likely produce some positive economic and fiscal spillovers for the state, there is a great degree of uncertainty about whether the benefits will outweigh the loss in known direct tax revenue. Given the existence of the alternative policy responses discussed in the next section, a tax cut is not the likely optimal policy response from the state. However, if the competitive regional environment leads other states to pursue lowering gaming tax rates in the future, then it may become necessary to lower tax rates to avoid a deterioration of both state tax revenues and of other economic and fiscal benefits from the industry.

5.0 NEW SOURCES OF REVENUE

Given the increasingly competitive nature of the gaming market in the Northeast, it is prudent to consider alternative sources of revenue within the gaming industry. The section that follows will evaluate a range of options and evaluate their potential in Pennsylvania. These include iGaming, Sports Gaming, Fantasy Sports, Prediction Markets, Airport Games, and Small Games of Chance. It will then draw some general conclusions regarding potential revenue generating options for Pennsylvania.

5.1 IGAMING POTENTIAL

5.1.1 THE GLOBAL AND U.S. IGAMING MARKET

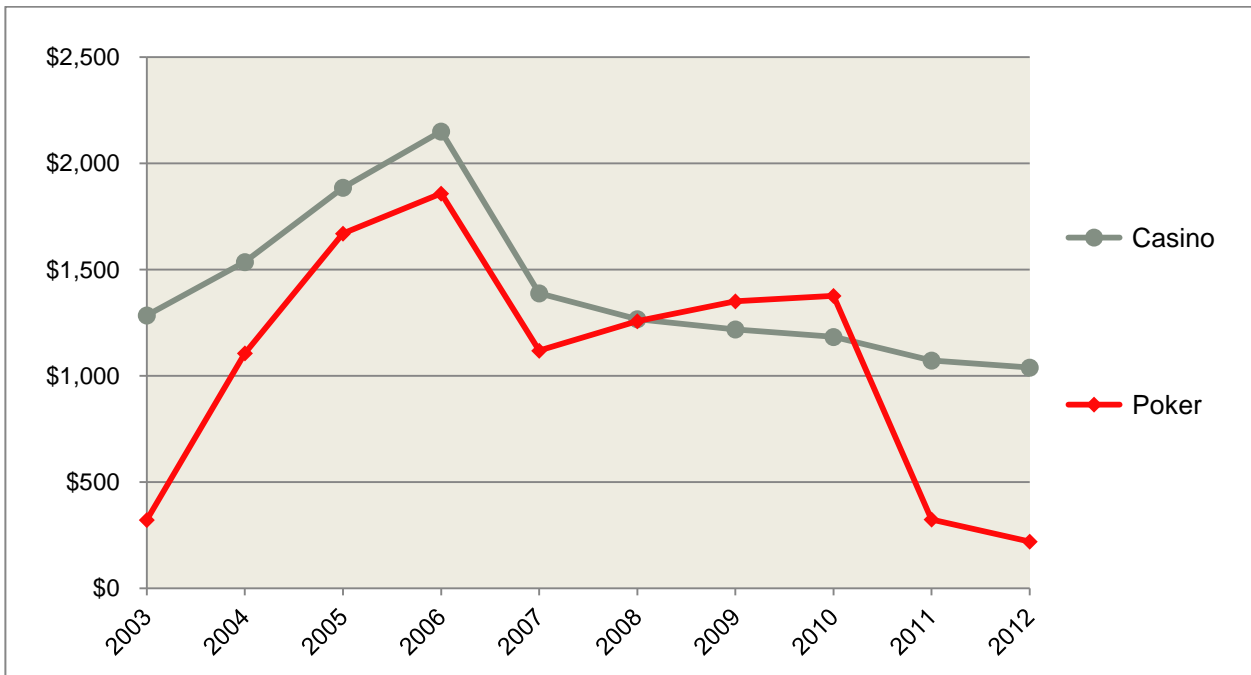
In the past 20 years, the internet has had a dramatic influence on the nature of a wide range of industries. This has fundamentally changed the way people buy consumer products and services from books to medicine, and it has changed business-to-business relationships that most customers do not see. Across the globe, the internet has brought change to the gaming industry as well. From 2003 to 2013 the iGaming industry has grown by an inflation adjusted 17% every year. As Table 5.1 below shows, the global iGaming industry for casino and poker games outside the U.S. generates an estimated \$9.3 billion in revenues every year and directly employs an estimated 21,000 individuals.

TABLE 5.1 – GLOBAL, NON-UNITED STATES IGAMING INDUSTRY REVENUE AND EMPLOYMENT

Global, Non-US	Revenue (\$ mil)	Jobs
Casino	5,388	12,393
Poker	3,954	9,094
Total	9,342	21,487

Source: H2 Gaming (2013)

In the past, the U.S has been a significant component of this industry. As Figure 5.1 below shows, in 2006 U.S. revenues for illegal offshore gaming companies reached an inflation adjusted \$4.1 billion, including poker at \$1.9 billion and casino game revenues over \$2.2 billion.

FIGURE 5.1 – UNITED STATES HISTORICAL IGAMING REVENUE, 2003-2012

Source: H2 Gambling Capital, Econsult Solutions Inc. (2014)

However, early growth of the U.S. industry ended as the regulatory environment moved from uncertainty in the early 2000s, to illegality with the passage of the Unlawful Internet Gambling Enforcement Act (UIGEA) in 2006, to a strict crackdown on the industry in 2011. The latter action, known as “Black Friday” to gamers, included the U.S. government suing online poker companies and executives, and seizing internet domains and bank accounts.

The 2000s were a period of early excitement and growth for U.S. iGaming. From 2006 to 2012, the U.S. went from nearly 30% of the global iGaming industry to 10% due to the increasingly strict government shutdown. For poker the decline is even starker, with the U.S. going from nearly half of the global total to 5% as revenues fell 88% in 2012 from the 2006 high.

However, despite the government crackdown on iGaming, an illegal market has continued to exist. In 2012, iGaming revenues from U.S. residents were \$3 billion, and online poker revenues were \$212 million, the vast majority of this flowing to offshore betting companies. Outside of NJ, DE, and NV, 100% of the iGaming industry revenues for poker and casino games go illegal offshore sites.

In December 2011 the situation began to improve for the industry and gamers as the Justice Department announced that another law meant to prevent illegal Internet gambling, the Wire Act, applied only to “sports events or contests”, which effectively allowed states to determine whether they would allow online gambling. In the two years since the Justice Department decision, three states have formally allowed iGaming: Nevada, Delaware, and New Jersey.

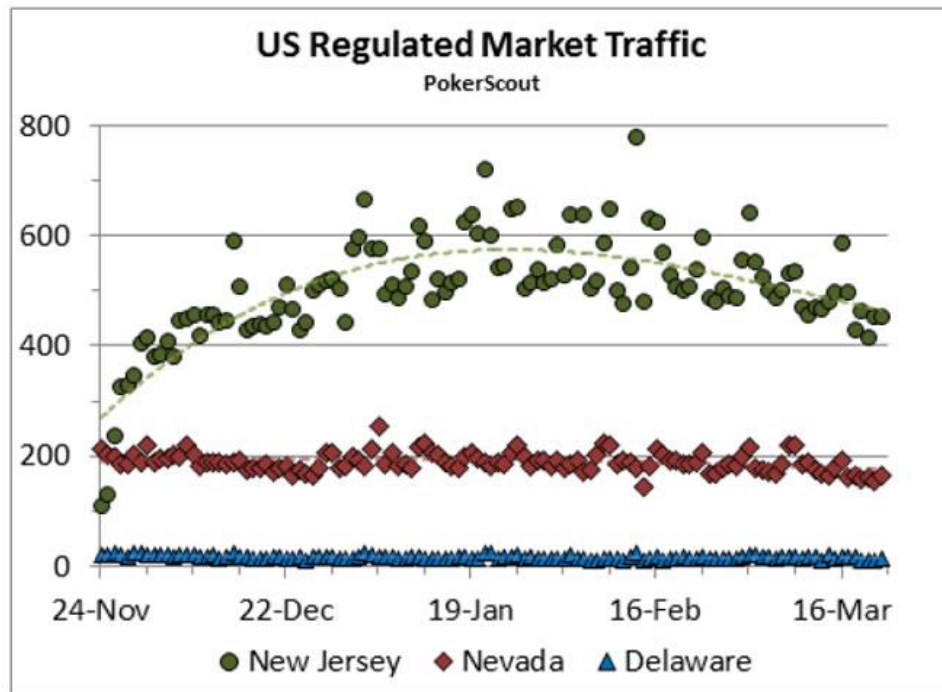
The first legal online poker sites in the U.S. were two sites licensed to play in Nevada: UltimatePoker launched in April 2013, with WSOP, which is owned by a subsidiary of Caesar’s, following in September.

Delaware was the second state to launch full scale online gambling in November 2013. The state has three online casinos that offer poker, blackjack, roulette, slots, lottery and other online games. By the end of the 2013, about 4,000 accounts were registered for online play.

New Jersey is the largest state thus far to offer iGaming. Seven Atlantic City casinos have sixteen sites between them. As of March 31st, these sites had signed up 291,625 individual accounts. From the opening until the end of December, 2013, total revenues were \$8.4 million. In December alone, revenues were \$7.4 million. By March 2014, revenues had climbed to a total of \$11.9 million.

As Figure 5.2 below shows, since debuting, New Jersey has quickly passed Nevada in peak daily traffic. Their lead is widening over time as traffic climbs and continues to grow in New Jersey but has begun stabilizing as Nevada and Delaware traffic did previously.

FIGURE 5.2 – ONLINE POKER MARKET TRAFFIC COMPOSITION BY STATE, NOVEMBER 2013 – MARCH 2014



Source: Poker Scout / Online Poker Report

5.1.2 NEW JERSEY FORECASTS

One of the most significant data points in understanding the potential size of a PA iGaming market is the forecasted market size for neighboring New Jersey. The table below summarizes forecasts from a variety of sources, and suggests that there is a wide variance. However, the level of agreement is higher than appears at first glance. First, since the rollout of iGaming in NJ, one of the high end estimates has conceded their forecasts are incorrect, as Morgan Stanley has reduced its estimate from \$541 million to \$203. The New Jersey budget forecast of \$1.2 billion was based upon Wells Fargo estimates, however they utilized the forecast for 5 years out, and not the first year forecast of \$650 to \$850 million. The remaining forecasts generally agree on a range of \$200 to \$300 million in first year revenues.

TABLE 5.2 – FORECASTS OF YEAR ONE NEW JERSEY IGAMING INDUSTRY REVENUES

Forecaster	Year 1 New Jersey Revenues (\$ mil)
Wells Fargo (2013)	650 – 850
Morgan Stanley (2013)	541
Morgan Stanley (2014)	203
NJ Gov't 2014 Budget (2013)	1,200
Gambling Data (2013)	235 – 288
H2 Gambling Capital (2010)	410
Econsult (2013)	266
Eilers Research (2013)	226
Fitch (2013, 2014)	200 – 300

Source: *Online Poker Report*, Econsult Solutions, Inc. (2014)

Overall, given several issues with the roll-out, the consensus of forecasts from \$200 to \$300 million has been borne out by the actual market performance in New Jersey. At the time of the debut of New Jersey's iGaming market, Visa and MasterCard were allowing legal iGaming payments to be processed over their networks in New Jersey, however many of the banks issuing the cards were not. For example, Bank of America, Wells Fargo, American Express, and PayPal were not processing online gaming payments in the state.¹¹⁸ In addition, there have been issues with the geo-location software designed to only let those located in New Jersey log-on to the iGaming sites. The marketing and technical problems have magnified each other, as some sites have reportedly held back on marketing until these technical issues are solved.¹¹⁹

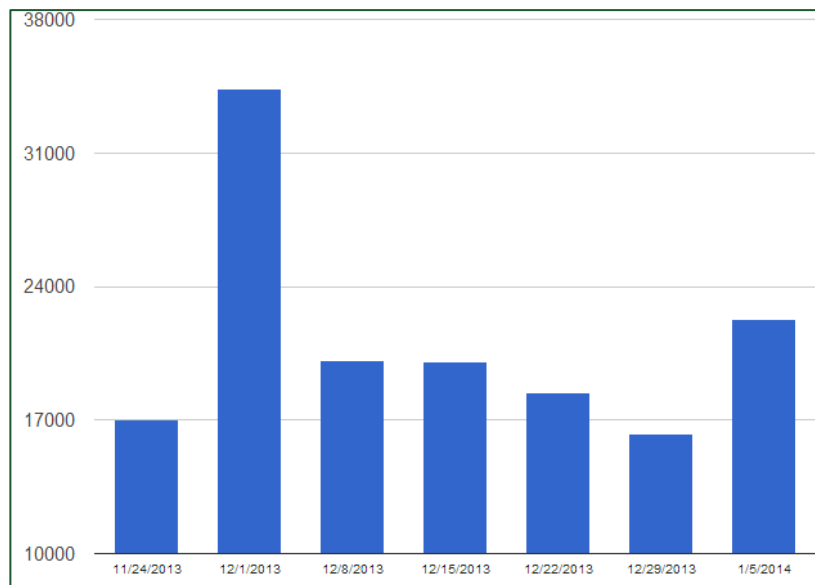
In March 2014, the most recent month of operation for the industry, poker revenues were \$3.2 million and casino game revenues were \$8.6 million, or \$103 thousand and \$277 thousand on a

¹¹⁸ Palmeri, C., & Dexheimer, E. (2013, November 15). Online Casinos Hobbled as Credit-Card Issuers Reject Bets. Retrieved from Bloomberg: www.bloomberg.com

¹¹⁹ Grove, C. (2014, January 8). This Prediction For New Jersey's Initial Online Gambling Revenue Numbers Will Seem Optimistic To Some. Retrieved from Online Poker Report: www.onlinepokerreport.com

daily basis. If these numbers continued, it would represent \$37.7 and \$101.3 million annually.¹²⁰ This means that less than four months from initiation, the industry is operating at 34% and 66% of ESI's forecasted monthly poker and casino revenue rates. These early numbers should converge with forecasts over time, and the estimates may still be met for the first year. However, the length of time before the market reaches the forecasts is uncertain, and there are new some concerns about liquidity in the New Jersey market.

FIGURE 5.3 - VOLUME OF NEW JERSEY ONLINE GAMING ACCOUNTS CREATED WEEKLY, NOVEMBER 2013 – JANUARY 2014



Source: NJ Division of Gaming Enforcement / OnlinePokerReport.com

There is cause for optimism about hitting the revenue forecasts, as growth should continue as iGaming companies settle technical glitches and banking issues and feel more confident rolling out advertising and awareness campaigns. For example, the New Jersey Devils and Philadelphia 76ers recently signed an advertising deal with PartyPoker that is worth a reported \$10 million.¹²¹ In addition, over time, the draw of regulated poker markets should continue drawing players from illegal offshore markets. As *Online Poker Report* argued to players recently, the few advantages that offshore play has will erode over time:

For now, the appeal of bigger prize pools, better promotional events and more stable software will probably continue to compel players away from regulated sites.

¹²⁰ Extrapolation done by estimating a daily revenue rate for February and multiplying by 365 days for a full year.

¹²¹ Soshnick, S., & Palmeri, C. (2014, January 9). Gambling Sponsorship for 76ers, Devils Is First by U.S. Teams. Retrieved from Bloomberg: www.bloomberg.com

Overall the early numbers indicate that the forecasts of \$200 to \$300 million annually, including ESI's \$266 million forecast, are within the range of the likely first few years of operation, though they are potentially too optimistic for the first full year of operation. To the extent the revenues fall short it likely will be due to the technological glitches and banking industry issues that the market is experiencing. Importantly, these should be less of an issue in other states going forward.

5.1.3 ESTIMATING THE POTENTIAL MARKET

In order to estimate how large the Pennsylvania iGaming market could be, a first step is estimating total U.S. iGaming revenues. Two broad approaches are utilized: an econometric approach, and a simple rule-of-thumb approach. Drawing on an expansive econometric literature showing that combined forecasting approaches outperform individual forecasts, the final estimated market potential will be based on a combination of the results from the two different forecasting approaches.¹²²

The first method of estimating the potential levels of iGaming activity in Pennsylvania uses international data on gambling and demographics to predict the level of online casino, poker, bingo, and betting revenues for the U.S. market overall. Regression analysis was used to establish an empirical relationship between the 2012 iGaming revenues in countries where it is largely legal or effectively unregulated, and a set of independent variables describing that country's economy, and their past online gaming levels prior to most regulations.¹²³

To provide more robust predictions, a more simple forecasting approach was taken as an alternative. In this approach, the set of countries with well-developed iGaming markets that are seen as most comparable to the U.S. were selected as a control group to understand what iGaming revenues in the U.S. would look like under legalization. For each of these countries, current iGaming revenues per adult were calculated for each category of game.

The rationale underlying the simple model is that residents in U.S. will, on average, spend as much as residents in countries with similar socioeconomic characteristics and relatively unregulated iGaming markets. Using the average from these countries, and the adult population of the U.S. as of 2012, a simple forecast for U.S. potential iGaming revenues can be estimated.

5.1.3.1 RESULTS OF U.S. IGAMING FORECASTS

Table 5.3 below shows the total potential U.S. iGaming forecasts for each iGaming category using both the econometric and rule-of-thumb approaches. In each case the simple method produces higher forecasts, but considering the high degree of uncertainty in forecasts like this there is a close relationship between the two different results for each category. The combined

¹²² For a review of this literature, see: Clemen, Robert T. "Combining forecasts: A review and annotated bibliography." *International Journal of Forecasting* 5.4 (1989): 559-583.

¹²³ International iGaming data and demographic data comes from H2 Gambling Capital

approaches suggest the U.S. market would be \$8.5 billion in total, with \$3.6 billion coming from poker, and nearly \$5 billion for online casino games.

TABLE 5.3 – POTENTIAL UNITED STATES IGAMING INDUSTRY REVENUE

Category	Econometric (\$ mil)	Rule-of-Thumb (\$ mil)	Combined (\$ mil)
Poker	2,912	4,241	3,577
Casino	3,704	6,139	4,922
Total	6,617	10,380	8,498

Source: Econsult Solutions, Inc. (2013)

5.1.4 FORECASTING PENNSYLVANIA IGAMING REVENUES

With an estimate of the U.S. total market, the next step is to estimate the likely share of the total U.S. forecasted revenues that would be generated in PA. There are two methods that could be used to estimate PA's share of the potential iGaming market.

One reasonable assumption is that the share of iGaming from people located in Pennsylvania will be proportional to Pennsylvania's share of GDP, which measures total economic activity in the state. In 2012, Pennsylvania had a GDP of \$601 billion, which is 3.86% of the total U.S. GDP of \$15.57 trillion.

Alternatively, and more specifically relating to the resident's propensity to game, would be to look at the percent of online poker that was played in Pennsylvania in 2010 according to the Online Poker Database of the University of Hamburg, which used a dataset of 4.5 million poker accounts from the top poker sites around the world and extrapolated the full market size from there. Fiedler and Philander (2011) analyzed this data and found Pennsylvania accounted for 3.36% of the U.S. online poker market, which placed the state 8th overall.

The two methods are in close agreement, and suggest that iGaming from Pennsylvania residents will account for between 3.36% and 3.86%. An average of 3.61% is conservatively assumed for this analysis.

Based on these estimates of PA's share of the total potential U.S. iGaming market, Table 5.4 below provides estimates of revenues PA can expect from iGaming. The total potential market for casino games is \$178 million, and for poker it is \$129 million. Combined, the total revenues are \$307 million. This is the annual revenue expected if PA has a smoother launch of iGaming than New Jersey had or does not experience similar technical glitches. Due to the technical glitches and relatively slow ramp up of iGaming in New Jersey, these are taken as an estimate of potential revenues that will occur within the first few years or if a launch goes far more smoothly in PA.

Given the experience of New Jersey, a more conservative estimate for Pennsylvania's market is that first year revenues will reach 60% of the forecasted level. By the second and third year, the estimate of around \$300 million is more likely to apply, and may still potentially be reached in the first year.

TABLE 5.4 – ESTIMATED PENNSYLVANIA iGAMING INDUSTRY REVENUE

Category	First Year Revenues (\$mil)	Ongoing Revenues (\$mil)
Casino	107	178
Poker	77	129
Total	184	307

Source: Econsult Solutions, Inc. (2013)

5.1.5 CANNIBALIZATION

There are several considerations regarding the impact of iGaming on the existing PA casino industry, and these are closely related to the regulation of the industry. ESI has been asked to assume that “any online gaming would occur through existing casinos.”

One important question about iGaming is the extent to which it will cannibalize land-based gaming in the state. However, an alternative possibility is that iGaming may not only be benign in terms of land-based gaming but actually be synergistic and generate an increase in casino foot-traffic and land-based revenues as new gamers become comfortable with playing poker.

One reason for a lack of cannibalization is that there are a variety of ways in which iGaming differs from offline gaming that suggests they cater to separate markets. For example, iGaming typically allows for much smaller bets than are available in casinos. There is also the ability to play at multiple tables at once in iGaming, and the possibility of automatically tracking bets, withdrawals, and deposits for number-crunching gamers. For offline gaming, the social function and amenities of casinos are an important draw that iGaming cannot replicate. In fact, surveys of iGamers reveal that many view the convenience of not having to leave the home, 24 hour availability, and avoidance of crowds to be main advantages of iGaming. This combined with the fact that iGaming typically happens in the home in the afternoon or evening suggests that for many this is a substitute for other forms of home entertainment rather than a substitute for traditional offline casino gaming.¹²⁴

In addition, iGamers have different demographics from offline gamers. They are younger, more likely to be male, have a higher income, more education, and more likely to be employed.¹²⁵ This

¹²⁴ Gainsbury et al. “A digital revolution: Comparison of demographic profiles, attitudes and gambling behavior of Internet and non-Internet gamblers”. *Computers in Human Behavior*, 2012.

¹²⁵ Gainsbury, Sally. “Internet Gaming: Current Research Findings and Their Implications.” 2012

implies that iGaming will attract many new gamers and that cannibalization of offline gamers would be small.

In addition to a small cannibalization effect, there is reason to believe that there may be some complementary effect that could generate more revenue for offline casinos. The fact that iGaming caters to a market of new gamers presents casinos with an opportunity to attract new customers. In particular, the younger and higher income demographics of online gamers makes them an attractive demographic for land-based casinos whose crowds tend to be older.

The existing empirical literature on the relationship of online and offline gaming is extremely limited. Philander (2012)¹²⁶ found that the early period of unregulated iGaming was a substitute for land-based gambling. However, a study from Philander and Fiedler¹²⁷ found that by 2010 iGaming, at least for online poker, had become complementary with land-based gambling in the U.S. and Canadian markets. However, Philander et al (2014) put the existing literature in the correct context, noting that:

...conclusions drawn in these studies were based on aggregate macroeconomic data from jurisdictions where online games were not fully legalized and regulated. To date, no study has empirically modeled the specific behavior of individuals or done so in a licensed and regulated market" (Philander et al. 2014)¹²⁸

In their forthcoming study they look at individual level data in the United Kingdom, where iGaming is legal and regulated. They conclude that there is a positive complementary relationship between online and offline gaming.

In addition to the academic research, the expectations of cannibalization from experts we spoke with from within the industry varied somewhat but leaned positive. Under the assumption that iGaming will be licensed through existing PA casinos, the majority were optimistic. Among casino operators, more were optimistic about the impacts than were pessimistic. In particular, many believed positive synergies were possible.

Assuming that the potential range of cannibalization is from -5% (a substitution effect) to +30% (a complement effect), and utilizing the higher, ongoing estimate for the potential market of \$307 million, an illustrative estimate of the potential impact on land-based gaming is shown in Table 5.5 below. This ranges from a loss of \$15 million to an increase of \$92 million. The balance of the evidence suggests that the impact would be on the positive side.

¹²⁶ Philander, K. S. (2012). The Effect of Online Gaming on Commercial Casino Revenue. *UNLV Gaming Research & Review Journal*, 15(2), 23-34.

¹²⁷ Philander, K., & Fiedler, I. (2012). Online poker in North America: Empirical evidence on its complementary effect on the offline gambling market. *Gaming Law Review and Economics*, 16(7-8), 415-423.

¹²⁸ Philander, Kahlil, Abarbanel, Brett, and Toni Repetti. (2014). "Helping or Hurting? An Empirical Assessment of Online Gambling Activity and Offline Gambling Consumption." Working paper, unpublished.

TABLE 5.5 – POTENTIAL CANNIBALIZATION EFFECT ON PENNSYLVANIA LAND-BASED CASINO REVENUES

Category	Substitution Effect (\$ mil)	Complement Effect (\$ mil)
Casino	-9	53
Poker	-6	39
Total	-15	92

Source: Econsult Solutions, Inc. (2014)

5.1.6 IGAMING REGULATION

Table 5.6 below provides the existing tax rates for iGaming in the three US states where it is legal. Given the low sample size and the wide range of tax rates it is impossible to draw conclusions about standard practices. However, there are several important considerations.

TABLE 5.6 – IGAMING TAX RATES IN LEGALIZED STATES

State	Tax Rate
New Jersey	15% Internet Gross Revenue Tax to Casino Revenue Fund; 2.5% to Casino Reinvestment Development Authority
Nevada	6.75% Internet Gross Gaming Revenue
Delaware	The first \$3.75 million generated in online annual revenue goes to Delaware Lottery; then state receives 43.6% of online slots revenue, 29.4% of other online gaming revenue

Sources: delaware.gov, ncsl.org (2013), nj.gov/oag, gamblitgaming.com, onlinepokerreport.com, uspoker.com (2014)

First, if iGaming is complementary with offline gaming as the evidence suggests, than direct iGaming taxes should not be thought of as the only way in which iGaming leads to new taxes. An overly burdensome iGaming tax could reduce the positive spillover impacts on land-based revenues for operators and the state.

In addition, despite regulatory attempts to shut down the illegal offshore market, this type of gaming still exists today. This illegal market has been created by an adverse regulatory market in the US and elsewhere and will remain a source of competition at least in the short-run. In the long-run as players begin to move to regulated markets this source of competition may become less important. However, for the time being, it somewhat limits the market power of regulated iGaming operators and therefore the ability to extract high tax revenues.

A conservative approach would be to set iGaming rates slightly above land-based rates to account for the lower operating costs of an online only operation. For example, 20% for online poker and 60% for online slots-style games. However, given the importance of network effects and the competition with illegal offshore sites, as the industry begins, lower rates may be optimal in the short-run. To account for this, legislation could set a lower rate initially that increases to 20% and 60% respectively over time.

Assuming tax rates of 20% and 60%, Table 5.7 below provides forecasts of potential direct tax revenues to the state. The forecasted range is for \$68 million in the first year, and \$113 ongoing.

TABLE 5.7 – ESTIMATED STATE TAX REVENUES FROM PENNSYLVANIA IGAMING

Category	First Year Tax Revenues (\$ mil)	Ongoing Tax Revenues (\$ mil)
Casino	21	36
Poker	46	77
Total	68	113

Source: Econsult Solutions, Inc. (2014)

Another important question is how iGaming should be regulated. This report has been asked to assume that “any online gaming would occur through existing casinos”.¹²⁹ However, some in the industry were concerned that even if iGaming firms must partner with existing PA casinos, that a larger share of the profits from this will flow to the iGaming operators and not the casinos. From the state’s perspective, however, the distribution of profits is irrelevant. What is important is that synergistic opportunities that increase land-based gaming be realized, and the allocation of profits from iGaming does not affect this. So long as PA casinos are able to market to iGaming players, and so long as the player data is available through these partnerships, then the allocation of profits to operators will not affect the State’s interests.

¹²⁹ From an economic standpoint, it is unclear that this assumption is necessary to maximize benefits to the state. If there are synergistic opportunities from igaming and existing casinos to partner, then there will be significant economic incentives for these firms to partner and both profit from realizing these benefits. In addition, allowing freer entry may provide for a more innovative igaming industry.



5.2 SPORTS GAMING POTENTIAL

Legal sports betting in the U.S. has been limited to four states since the 1992 passage of the Professional and Amateur Sports Protection Act (“PASPA”). This law banned sports betting in all states except those that offered it at any time between 1976 and 1990. This solidified Nevada as the only state offering a fully legalized sports betting, which they have done since 1949. It also allowed much more limited parlay bets on NFL games in Delaware, a (now discontinued) sports lottery in Oregon, and sports betting pools in Montana. In addition, PASPA exempted horse racing, jai alai, and dog racing.¹³⁰

The potential for sports betting to serve as a revenue source for the state and potentially the casino industry has risen in importance recently as New Jersey Governor Chris Christie signed a law in January 2012 legalizing sports betting in the state, following a 2011 voter ballot in support of the bill. Before the betting could be implemented, the NCAA, NFL, NBA, NHL, and the Commissioner of Baseball sued the state, claiming they were in violation of PASPA. The U.S. Justice Department joined the plaintiffs in protesting the law.¹³¹ While a U.S. District Judge and the Third Circuit Court have ruled against New Jersey, they have submitted an appeal to the Supreme Court. Importantly, if New Jersey is successful and the Supreme Court hears the case and decides in the state’s favor, then it will open the door for other states to legalize sports betting.

To estimate the potential revenues for sports betting in Pennsylvania there are two broad comparisons that can be examined. The first method is to compare the betting that occurs in the only legal sports betting market in the country: Las Vegas, Nevada. Table 5.8 below shows the gross win for each category of sports betting in the Las Vegas market for 2012. The population of the market is estimated using Census data for nine major geographic areas in California, Nevada, Arizona, and Utah which are identified by a 2010 analysis from IMEGA/LVSC as serving the Las Vegas sports betting market. In addition, IMEGA/LVSC estimated that the availability of internet sports betting will increase the market size by 170%. Table 5.9 shows the estimated win per capita applied to the Pennsylvania market size. The sports betting win includes \$64.6 million for football betting, and the total market for all categories is estimated at \$160.5 million.

TABLE 5.8 – SPORTS BETTING REVENUE IN LAS VEGAS, 2012

Category	Revenue (\$)	Percent of Sports Betting Total	Revenue Per Capita (\$)
Football	68,456,000	40.3%	1.88
Basketball	47,880,000	28.2%	1.31
Baseball	30,106,000	17.7%	0.82
Parlay Cards	13,573,000	8.0%	0.37
Other	10,045,000	5.9%	0.28
Total	170,060,000	100.0%	4.66

Source: IMEGA/LVSC (2010) and Econsult Solutions, Inc. (2014)

¹³⁰ Meer, Eric. "Professional and Amateur Sports Protection Act (PASPA): A Bad Bet for the States, The." *UNLV Gaming LJ* 2 (2011): 281.

¹³¹ Brennan, John. "Details on New Jersey filing a sports betting appeal to U.S. Supreme Court." <http://blog.northjersey.com/meadowlandsmatters/7836/new-jersey-files-sports-betting-appeal-to-u-s-supreme-court/#more-7836>

TABLE 5.9 – PENNSYLVANIA SPORTS BETTING REVENUE ESTIMATE: METHOD 1 (PER CAPITA)

	Per Capita Gross Revenue (\$)	Projected Pennsylvania Revenue (\$ mil)	Increase from Internet	Projected Pennsylvania Revenue With Internet (\$ mil)
Football	1.88	\$23.9	170%	64.6
Basketball	1.31	\$16.7	170%	45.2
Baseball	0.82	\$10.5	170%	28.4
Parlay Cards	0.37	\$4.7	170%	12.8
Other	0.28	\$3.5	170%	9.5
Total	4.66	\$59.5	170%	160.5

Source: IMEGA/LVSC and Econsult Solutions, Inc. (2014)

The second method that can be used to estimate the size of the Pennsylvania sports betting market is to look at comparable international markets where land-based sports betting is legal. Table 5.10 below shows land-based sports betting win per adult population for these comparable markets and the implied size of the Pennsylvania market. The results range from \$50.2 million if Pennsylvania adults bet as much as in Canada compared to \$387.2 million if they bet as much as in Greece. Averaging across these markets implies a Pennsylvania market size of \$137.7 million. Importantly, these revenues do not include internet betting but only land-based.

TABLE 5.10 – PENNSYLVANIA SPORTS BETTING REVENUE ESTIMATE: METHOD 2 (COMPARABLE MARKETS)

	Revenue per Adult (\$)	Implied Pennsylvania Revenue (\$ mil)
Australia	22.8	228.7
Canada	5.0	50.2
Denmark	7.6	76.2
Finland	8.9	89.3
Sweden	13.5	135.4
United Kingdom	13.7	137.5
Italy	9.1	91.3
France	5.2	52.2
Greece	37.7	378.2
Average	13.7	137.7

Source: Econsult Solutions, Inc. (2014) and H2 Gaming Capital

Overall there is no rigorous model of the potential size of the Pennsylvania sports betting market to draw on. However, given the analysis above a conservative estimate is that the Pennsylvania sports betting market would involve between \$100 and \$400 million in revenue.

This analysis assumes that the sports betting market size for Pennsylvania would be generally limited to residents in the commonwealth. If nearby states like Maryland, Delaware, and Ohio do

not legalize sports betting these results could be considerably larger. As an illustrative example, the following table shows the percent of nearby states adult populations that might serve as an expanded market for Pennsylvania sports betting. In total, this would expand the Pennsylvania sports betting market by 4.1 million adults, which is a 41% increase from Pennsylvania's 10 million adults. Applying this to the range above implies the market would be from \$140 million to \$564 million.

Importantly, there exist potential synergies between sports betting and Pennsylvania's existing casinos. Some casinos we spoke to indicated an interest in offering sports betting. In addition to it being a new source of revenue, this would help them draw in new customers and add them to their marketing databases. Sports betting would in some ways be an additional amenity that casinos could offer gamers. However, there was a general emphasis from experts that the business of setting betting odds is complex, and casinos may not find themselves with the technical expertise required. Nevertheless, some remain interested.

One concern that some within the industry had was that taxing would be difficult for the state due to the fact that margins for the industry are lower for sports betting. However, the data for the legal sports betting market in Nevada does not indicate that this would necessarily be true. According to the UNLV Center for Gaming Research, the total amount bet on sports in Nevada in 2013 was \$3.6 billion, while the total gross gambling win for the industry was just under \$203 million, meaning the win percent was 5.6% of the total amount wagered. In comparison, the total amount wagered for gaming overall in the state was \$137 billion, and the gross gaming win was \$11.1 billion, for a win percent of 8.08%. While the margins are lower for sports betting than gaming overall, it is not so low as to make sports betting not possible to tax.

An additional concern with taxation was that industry profits are more volatile due to the highly uncertain nature of the outcomes in comparison to traditional casino revenues, and especially slot machines. To ensure excess volatility does not prevent casinos or others from offering sports betting, a less frequent taxation period may be merited. Rather than taxing gross sports betting win every month, for example, these might be more optimally taxed on a bi-annual or annual basis. This would allow wins to the casino to offset losses.

To get an estimate of the potential tax revenue impact of sports betting, an illustrative rate of 20% is assumed. Based on the estimated revenues of \$100 to \$400 million, this implies potential tax revenues of \$20 million to \$80 million. If Pennsylvania were able to get a share of betters from nearby states, the implied taxes would reach \$28 million to \$113 million. The overall range then is from \$20 million to \$113 million in taxes.

TABLE 5.11 – ESTIMATED SIZE OF OUT OF STATE SPORTS BETTING MARKET

Nearby States	Adult Population	Market Percentage	Out of State Betting Market
Ohio	8,884,000	10%	888,000
West Virginia	1,472,000	25%	368,000
Delaware	712,000	25%	178,000
Maryland	4,543,000	25%	1,136,000
New York	15,309,000	10%	1,531,000
Total	30,920,000	13.3%	4,101,000

Source: Econsult Solutions, Inc. (2014) and US Census

5.3 FANTASY SPORTS POTENTIAL

5.3.1 OVERVIEW

One area that has been raised as a potential revenue source for Pennsylvania and the casino industry is fantasy sports. These are games where individuals act as managers of a virtual or “fantasy” sports team that are comprised of real world athletes, and then compete against other managers based on various performance measures of their fantasy teams. There is a great degree of variety in these games, with the options of different sports, performance metrics, and time frames.

Companies in the fantasy sports industry provide a variety of services to players. This can range from simply providing a free platform for groups of friends to host their own private contests, to large pools of players that involve variable prizes. Other companies provide complementary services, for example informational packages for players.

Over the past decade, the popularity of fantasy sports has grown dramatically. Over 33.6 million Americans participated in 2013¹³², and this number continues to grow by approximately 2 million players a year¹³³. The companies providing services to these players now comprise a sizeable entertainment industry, with an estimated \$3.38 billion in revenues in 2012.¹³⁴ One advantage for the industry has been that the major sports leagues, which have strongly opposed legalized sports betting, have embraced fantasy sports and been a driving force in their growth. The commissioner of the NFL approvingly contrasted fantasy sports to betting, stating that “Fantasy is different for us...It’s not about wagering. They’re competing against one another. And it’s a fun forum for our fans to engage in the game”.

Despite the apparent similarity to traditional sports betting, fantasy sports remains legal and generally recognized as a non-gambling activity. While the legal definitions vary by jurisdiction, there are typically three elements that a game must have to constitute gambling: consideration, chance, and prize (Bell, 2011). The legal differentiation of fantasy sports as non-gambling is due to the generally agreed upon importance of skill in determining winners. The recognition that skill predominates over luck for fantasy sports is explicit in the Unlawful Internet Gambling Act (UIGEA) of 2006. This law effectively banned online gambling in the US, but created an exemption for fantasy sports, where “winning outcomes reflect the relative knowledge and skill of the participants”. Aside from this explicit legal exemption, the lack of legal challenges by the professional sports leagues supports the view that fantasy sports is a legal activity that does not constitute gambling.

While season-long fantasy games have been relatively uncontroversial, the rapidly growing segment of daily/weekly cash games has received a greater level of legal scrutiny. What distinguishes these games from other fantasy sports is that the length of the contest is shorter,

¹³² Fantasy Sports Trade Association. (n.d.). Demographics. Retrieved 2014, from FSTA: www.fsta.org

¹³³ Cohen, B. (2013, June 27). A Rich Fantasy Life: Sports Fans Dream of Making a Living Off Games. Retrieved from The Wall Street Journal: online.wsj.com

¹³⁴ Matuszewski, E. (2014, January 5). Fantasy Sports Luring Wall Street in Its Fastest-Growing Sector. Retrieved from Bloomberg: www.bloomberg.com

with winners declared usually either weekly or daily, and the payouts are based on cash prizes. As of 2012, players spent \$492 million on this segment, and it has constituted a large part of the overall industry's growth.¹³⁵ The criticism of this type of fantasy sports was based on the belief that this required less skill than season long contests and therefore more closely resembled gambling. However, there have been no challenges to this type of game from the professional sports leagues who have otherwise sued to stop legal online sports betting. Challenges to their legality by private players have been unsuccessful. In addition, these games have drawn the participation of major corporations, including Fan Duel, which counts the investor capital affiliate of Comcast Corp as an investor and advertises itself as "The Leader in One-Day Fantasy Sports".

As the popularity of the fantasy sports industry has increased several states have responded with proposed legislation or regulatory change:

- Maryland officially exempted fantasy players through legislation in 2012¹³⁶;
- New Jersey's Division of Gaming Enforcement began regulating daily games through casinos in April of 2013¹³⁷;
- A bill containing official exemption cleared the Iowa State Senate in February of 2013¹³⁸;
- A bill containing official exemption died on the Arizona State Senate floor in March of 2013 and operating a game within the state remains a felony¹³⁹; and
- The games remain explicitly illegal in Arizona, Louisiana, and Montana.

In Pennsylvania, state law mimics the national exemption for fantasy sports, so long as "skill predominates chance in determining an outcome."¹⁴⁰

5.3.2 FANTASY SPORTS AND PENNSYLVANIA CASINOS

Fantasy sports and casino industry experts believe this remains a potential source of revenue for casinos that is unexploited, as there exists clear potential for synergies between the two industries. In addition to generating foot traffic by having players come to the casinos to cash-out prizes won online, this would also present the casinos with an opportunity to cross-market to individuals who might not otherwise enter their casino. An important competitive advantage in the casino industry is player databases, and fantasy sports would mean expanded databases and new revenue opportunities.

There are reasons to think that casinos would also have a competitive advantage in the industry. While current fantasy sports companies offer a range of cash prizes, the importance of marketing

¹³⁵ Brustein, J. (2013, March 11). Fantasy Sports and Gambling: Line Is Blurred. Retrieved from New York Times: www.nytimes.com

¹³⁶ Katz, D. (2012, October 3). New Fantasy Football Law Legalizes Fantasy League Prizes. Retrieved from Tarnished Twenty: blogs.findlaw.com/tarnished_twenty

¹³⁷ Brustein, J. (2013, March 18). New Jersey to Allow Casinos to Offer Daily Fantasy Sports. Retrieved from The New York Times: www.nytimes.com

¹³⁸ Wilson, R. (2014, February 13). Fantasy sports bill advances in Iowa. Retrieved from GovBeat: www.washingtonpost.com/blogs/govbeat

¹³⁹ Edelman, M. (2014, April 1). In Arizona, Operating Fantasy Sports Contests For Money Remains A Felony. Retrieved from Forbes: www.forbes.com

¹⁴⁰ "Sports as a Legal Form of Casino Entertainment: Fantasy Sports Games", Joe Brennan.

and generating new players to casinos allows for the potential for this to be either a loss-leader for them or a break-even activity that otherwise generates new gaming revenues. The fact that the industry is in its early stages rather than a mature market with incumbent firms with dominant market share and economies of scale also suggests the potential for casinos to become competitive entrants.

However, despite the legality of fantasy sports in Pennsylvania and the potential for significant new revenues, there has been hesitation among the Pennsylvania casino industry to participate in fantasy sports. To allow Pennsylvania casinos the opportunity to participate in the industry, experts believe it is necessary to set forth a regulatory framework that: 1) allows casinos to participate in fantasy sports, and 2) delineates fantasy sports revenues as revenues that are separate from gambling revenues. Defining fantasy sports revenues as non-gambling is consistent with both existing laws and the prevalent definitions of gambling, but also ensures the potential for casinos to profitably participate. Another practical consideration is that due to a variety of providers who offer free fantasy gaming, it is unlikely that the industry would be able to attract players if taxed at either the table game or slot rate in Pennsylvania.

Importantly, clarifying that fantasy sports revenues are not gambling revenues for casinos does not mean there is no potential for tax revenues to the state. As discussed above, the industry contains potential synergies for casinos that experts believe are likely to lead to increased casino gaming participation. In addition, fantasy sports will also contribute to the tax base through the traditional avenues that a new business does: job creation, corporate taxes, and income taxes.

There exist several important considerations that arise due to the industry being new and quickly growing. First, it is important that any licensing or certification procedures required of fantasy sports companies working with casinos not be required of any operators wishing to offer the games outside of casinos. Nor should fantasy sports be required to operate through partnerships with the casinos. For a young industry with changing technology and innovation, and a quickly growing market it is important that new entrants with potentially innovative ideas not be discouraged from participating and testing the market. Even well-intentioned regulation that attempts to offer a relatively minimal licensing regime risks unintended consequences of overburdening new entrants and discouraging innovation.

In short, while casinos need assurances and clarification of the legality of participating, and while the State may wish to subject the fantasy games offered by the casinos to a certain level of scrutiny, it is important that the industry be allowed to operate outside of casinos in an environment that does not inhibit innovation or entry. Fantasy sports companies operating outside of casinos will still be subject to the normal regulations businesses face that define fair and legal commercial transactions, but do not at this stage require any special regulations.

5.4 PREDICTION MARKETS POTENTIAL

Another potential source that is related to the gaming industry is prediction markets. These markets allow individuals to purchase what are known as “binary options”, but are more easily understood as “a bet that pays off if some future event comes true.” The most well-known example of a prediction market is Intrade, whose presidential election prediction markets were a popular part of mainstream election coverage in past U.S. elections. On these markets, contracts are bought and sold that specify the following: a payout amount, an event that will or will not come true, and an expiration date. One example would be a contract that paid out \$10 if Barack Obama were to win the U.S. Presidential election in 2012, and nothing had he lost.

Prediction markets have for the most part existed in a grey regulatory area for most of their existence. Their primary regulator has been the Commodity and Futures Trading Commission (CFTC), whose lawsuit against Intrade led to it being shut down. However, a recent CFTC decision to not allow the company NADEX to operate a prediction market for political events has opened the door to these markets to operate under state laws. In particular, the statement alleges “The Commission FINDS that the Political Event Contracts involve gaming as contemplated by CEA Section 5c(c)(5)(C)(i)(V) and Commission Regulation 40.11(a)(1)”. Some experts interviewed for this study believe that this could potentially open the door to states allowing prediction markets to operate as regulated by state gaming agencies.

One limitation to this is that the 2010 Dodd-Frank financial reform bill specifically outlawed presidential prediction markets. However, there is a significant potential market for political events outside of presidential elections. A specific example discussed by experts is the possibility of trading contracts that pay off if a particular regulation passes. This type of contract could be of interest to both individual betters and to firms wishing to hedge against the risk of potentially costly regulations. For example, a car company that would suffer a large decrease in demand from national carbon tax legislation or regulation could purchase a prediction market contract that paid off if these regulations do pass. This way the risk would be hedged by ensuring that they receive a payout in the event that costly regulation passes.

There is a great deal of uncertainty about whether firms and individuals would participate in markets like this. In addition, it is unclear whether the demand would support tax revenues to the state. However, there is potential for a large and important new market and Pennsylvania should explore passing regulations to allow these types of contracts to be traded in the state under gaming regulation. Due to the nascent nature and extensive uncertainty of the industry it would likely be premature for the state to attempt to strictly regulate or tax the industry. Rather, Pennsylvania could consider becoming a laboratory in the hope of helping create a new industry, lure firms to the state, and potentially create a source of future tax revenue. If there is both industry and individual demand for this type of betting then there is the possibility of future tax revenues.

5.5 AIRPORT SLOTS POTENTIAL

Currently, there seems to be two airports in the United States with slot machines, both of them located in Nevada (see Table 5.12). The following section describes recent developments regarding airport slots. We also estimate revenue for Pennsylvania.

TABLE 5.12 – AIRPORTS IN THE UNITED STATE WITH SLOT MACHINES

City	State	Airport Name	Airport Code	2013 Total Passengers
Las Vegas	Nevada	McCarran International Airport	LAS	41.9 million
Reno	Nevada	Reno/Tahoe International Airport	RNO	3.4 million

Source: *airliners.net* (2010), *renoairport.com*, *mccarran.com* (2014)

New York

In March 2014, the New York State Senate put forward a provision in their state budget plan for slot machines at Kennedy Airport. The provision calls for adding Video Lottery Terminals in the departure areas of international airports in cities with a population of one million or more. However, this plan may stall as there has been no community or official discussion about the possibility of slots at New York airports.¹⁴¹

Illinois

As the state is in need of new sources of revenues, proponents of expanding gambling legislation are hopeful that a measure calling for its expansion will pass in 2014. Not only would casinos be added to O'Hare and Midway airports, but according to the proposal, brick and mortar casinos would be expanded, current license holders could apply for online gambling and slots would also be added to horse-racing tracks.¹⁴²

Florida

Miami-Dade County Commissioners were considering installing airport slots at Miami International Airport in 2010 but this measure failed to pass. The airport needed a new source of revenue, and slots placed in the departure terminal were projected to bring in \$17 million a year. But the measure was never approved by the Division of Pari-Mutuel Wagering, the entity that provides racing permits. County officials would then use this permit as a pathway to slots but state regulators and legislators opposed the idea.¹⁴³

¹⁴¹ Campanile, C. (2014, March 14). *Slot machines could be coming to JFK*. Retrieved from The New York Post: www.nypost.com/

¹⁴² The Associated Press. (2014, February 10). *Gambling-expansion advocates hopeful this year*. Retrieved from Crain's Chicago Business: www.chicagobusiness.com/

¹⁴³ Vasquez, M. (2010, January 22). *County drops plan for slots at Miami International Airport*. Retrieved from Sun Sentinel: articles.sun-sentinel.com/

Minnesota

In late 2013, the governor of Minnesota, Mark Dayton, said he was interested in adding slots at the Minneapolis-St. Paul airport. He felt slots would bring in additional funding for the state and would seek their passage if he were to be reelected in 2014. There was and still is opposition from Minnesota's Indian tribes, however, and it is unclear whether or not the state legislature would support the measure.¹⁴⁴

Pennsylvania

To estimate revenues for potential slots in Pennsylvania's international airports, we use statewide taxable win/slot/day (w/s/d) numbers for the first quarter of 2014 as a reference. During the quarter, the lowest w/s/d was in January at \$208 and the highest was in March at \$262. To account for the smaller number of patrons that would potentially play at these airport slots, which would presumably be lined up in rows at the departure gates, we will reduce those figures by 25% for the state's two largest airports, PHL and PIT, setting w/s/d between \$156 and \$196. Travelers who have gone through security can play at these machines as they wait for their flights and connections. This is different from slot areas in the Nevada airports which are located throughout the facilities, including baggage claim and shopping areas at McCarran and the airport lobby at Reno/Tahoe. Because of the lower passenger volume and layover times, we do not believe there is much potential for significant slots revenues at other Pennsylvania airports.

To give an order of magnitude for potential airport slots revenues, we calculate that for a combined total of one hundred slot machines installed at PHL and PIT, the total win per day could be between \$15,000 and \$19,000 with annual revenue coming in at \$5.7 to \$7.2 million. If the same 55% existing slot rate was applied for airports, between \$3.1 and \$4 million per year could be generated in state gaming taxes at these two airports. Since we assume the machines would be placed behind the terminal security gates, it is likely that little to no cannibalization of existing Pennsylvania casinos would occur.

Finally, we do not estimate the costs of placing slot machines in secure areas of the airport terminals, and note further that there would likely have to be specific arrangements with airport security and the TSA to place slot machines at either airport.

¹⁴⁴ Reilly, M. (2013, November 21). *Slot machines at MSP airport? Dayton sounds all-in*. Retrieved from Minneapolis/St. Paul Business Journal: www.bizjournals.com/twincities

5.6 SMALL GAMES OF CHANCE

In February of 2012, the Pennsylvania legislature amended the Commonwealth's 1998 Local Option Small Games of Chance Act (P.L. 1262, No. 156) to license and regulate small games of chance, which can be summarized as raffles and drawings with limited cash prizes. The law allows for two types of licenses, "Eligible Organizations Licenses" (for charities, fraternal organizations, etc...) and "Tavern Licenses". Each license is constrained to providing specific game types, the tavern license being more prohibitive. A full overview by the Pennsylvania Department of Revenue can be found in Appendix D, and provides detail on each license type and the supplementary regulations.

Unfortunately for the Commonwealth, the volume of applicants has fallen significantly short of original estimates. While the Governor's office projected 2,000 applications, as of April only 4 had been approved with 16 pending.¹⁴⁵ Many small business owners have linked the hesitation to a consuming application process, which includes up to three separate applications, fingerprinting, and a \$2,000 fee.¹⁴⁶ Since taverns, for example, are required to give at least 50% of revenues to charity, 60% of the remaining revenue to the state, and 5% of the remaining pot to the host municipality, and are limited to single games prizes of \$2,000 and weekly prizes of \$35,000, bar owners have not concluded the net benefit to be substantial considering the cost of applying.

From the casino industry's perspective, the possible cannibalization of revenues from the implementation of this legislation is noteworthy. Multiple industry experts have stated that a substantial adoption of tavern-gaming would likely tap into the local market of Pennsylvania casinos.

¹⁴⁵ Frantz, J. (2014, April 2). Four Pa. bars can now host small games of chance, another 1,996 until estimates met. Retrieved from Penn Live: www.pennlive.com

¹⁴⁶ Shuey, K. (n.d.). Bar owners say red tape, rules make small games of chance license a gamble. Retrieved 2014, from Lancaster Online: www.lancasteronline.com

5.7 SUMMARY OF POTENTIAL NEW SOURCES OF REVENUE

Overall there exist several potential forms of new revenue for the state that it should be exploring. The results of this section can be summarized as follows:

TABLE 5.13 – SUMMARY OF POTENTIAL REVENUE SOURCES AND DIRECT TAX IMPACTS

Revenue Source	More Likely Substitute or Complement for PA Casinos?	Direct Tax Revenue
iGaming	Complement is most likely	\$68 million in the first year, and \$110+million annually thereafter
Sports Betting	Complement highly likely	\$20 million to \$110 million annually
Fantasy Sports	Complement highly likely	No taxes in short-run, uncertain in long-run
Prediction Markets	Neither	No taxes in short-run, uncertain in long-run
Small Games of Change	Substitution is possible	Uncertain, likely small unless adoption increases dramatically
Airport slots	Neither	\$3 to \$4 million/year per 100 machines at larger airports;

Source: Econsult Solutions, Inc. (2014)

6.0 CONCLUSION

The slight downtick in Pennsylvania's direct state gaming tax revenue in 2013 compared to 2012 has continued in the first quarter of 2014 compared to a year ago. These statistics, combined with Philadelphia's second casino application process, the introduction of legal iGaming in the U.S., and casino openings in neighboring states has understandably focused attention on the future of Pennsylvania's gaming industry. In an increasingly competitive environment, can Pennsylvania's gaming industry remain successful and continue to provide significant economic and fiscal benefits in the future?

Nearly all experts ESI has spoken with agree that Pennsylvania's entry into the legalized gaming markets can only be described as a tremendous success. Even some who were previously skeptical have described the outcome as better than they expected. While benefits and costs of gaming will be debated forever, it is clear that the fiscal benefits to Pennsylvania have been significant. In less than a decade, Pennsylvania has rocketed to the second largest gaming state in the country, passing New Jersey and now ranked only behind Nevada. The industry generates nearly \$1.4 billion in direct gaming tax revenue each year, while directly and indirectly supporting over 25,000 jobs. As a generator of tax revenue, the industry established by Pennsylvania's gaming legislation may well be the best in the country.

While those positive outcomes are important to recognize, the future is marked by increasing competition, and the regional market is, if not saturated now, coming close to saturation. These factors mean far lower expectations for growth and a greater probability of overall decline, and for some casinos substantial financial vulnerability. The rapid growth of the industry up to this point was a result of new facilities coming on board, significant import substitution from Atlantic City, and a relative lack of competition from nearby states, conditions that cannot be counted on moving forward.

We summarize our findings as follows:

- **Recent revenue decline:** The 2013 and 2014 Q1 revenue decline does not foretell a significant secular downturn in the industry's future performance. We believe the recent declines can be explained by multiple factors before saturation and permanent decline.
- **Supply increases:** The Pennsylvania gaming industry will see two significant increases in the near future with the second Philadelphia casino and Lawrence County racino. While this will mean some cannibalization for some existing casinos, the overall addition to the market will mean a significant net increase in gaming revenues and gaming tax revenues to the state.
- **Phase 1 competition impact:** This includes four regional casinos in New York sometime in the next few years, two that were opened in Ohio in late 2013 and three more coming in 2014, and two coming to Maryland within the next few years. This competition is expected to decrease Pennsylvania casino revenues by 2020 to \$156 million less (or a 4-5% reduction) than they would have been.

- Phase 2 competition impact: a more speculative possibility for the future is that New Jersey will strengthen Atlantic City’s offerings and add casinos to Camden and Meadowlands to move with neighboring states. This would reduce Pennsylvania casino revenues by another \$210 million (approximately 6-7% reduction) relative to where they would otherwise be.
- There are several new sources of gaming and related revenue for the state. Table 6.1 below provides an overview of these potential sources, their likely competitive or complementary effect on existing Pennsylvania casinos, and the potential for additional state tax revenues:

TABLE 6.1 – SUMMARY OF POTENTIAL REVENUE SOURCES AND DIRECT TAX IMPACTS

Revenue Source	More Likely Substitute or Complement for PA Casinos?	Direct Tax Revenue
iGaming	Complement is most likely	\$68 million in the first year, and \$110+million annually thereafter
Sports Betting	Complement highly likely	\$25 million to \$110 million annually
Fantasy Sports	Complement highly likely	No taxes in short-run, uncertain in long-run
Prediction Markets	Neither	No taxes in short-run, uncertain in long-run
Small Games of Change	Substitution is possible	Uncertain, likely small unless adoption increases dramatically
Airport slots	Neither	\$3 to \$4 million/year per 100 machines

Source: Econsult Solutions, Inc. (2014)

- Potential regulatory adjustments: We have identified a number of potential regulatory requirements that could be modified or relaxed, without reducing the regulatory intent, to allow Pennsylvania casinos to comply with the regulations. In an environment of low competition an industry can afford more inefficiencies. But as competition increases, these inefficiencies become more difficult to sustain. Many of the proposed regulations would help increase operational flexibility for the casinos. As competition becomes more intense and changes quickly, it is important that Pennsylvania casinos be allowed the flexibility to operate efficiently. Some regulations will lower costs and increase the sustainability of the industry, while others will help increase both gross gaming revenues and tax revenues. While quantification of the impacts of many regulatory changes is not possible given available data, the likely collective savings for the industry of these regulations may be as high as the tens of millions.



APPENDIX A – ECONOMIC AND FISCAL IMPACT MODEL THEORY

A.1 HISTORY

The theory behind input-output modeling stretches as far back as the mid-17th century, when Sir William Petty described the interconnectedness of “production, distribution, and wealth disposal.” While Perry can be credited with noticing links between economies, input-output modeling did not begin to take true form until the mid-18th century, when French physician François Quesnay created the Tableau Économique. His work detailed how a landowner spends his earnings on goods from farms and merchants, who in turn spend their money on a host of goods and services. Over the course of the century, an algebraic framework was added by Achille-Nicholas Isnard. Robert Torrens and Léon Walras refined the model by establishing the connections between profits and production.

The modern input-output system can be attributed to Wassily Leontief. In his thesis, “The Economy as a Circular Flow” (1928), he outlined the economy as an integrated system of linear equations relating inputs and outputs. This framework soon gained popularity, and became a widely accepted analytical tool. In 1936, Leontief produced the first input-output analysis of the US. Leontief’s work became the US Department of Commerce’s Bureau of Economic Analysis’s (BEA) standard benchmark for US production in the 1950’s. Leontief received a Nobel Prize for his work in 1973.

In 1976 the USDA Forest Service became required to submit five year management plans to the federal government concerning the socio-economic effects of resource use. Through extensive surveying, the impacts of each industry could be determined at local levels. This directly resulted in the creation of IMPLAN software for measuring economic impacts. By the late 1980’s the University of Minnesota began to offer the software to a wider audience. Seeing the need to update economic databases and improve the existing software, the Minnesota IMPLAN Group (MIG) was formed in 1993. Using a similar methodology to the USDA Forest Service, MIG was able to provide a quality input-output modeling software to a wider range of users with frequent database updates.

A.2 APPLICATION

The use and application of multipliers are fairly basic and intuitive. Multipliers, in their most basic form, are the result of an algebraic analysis expressing how two inputs are interconnected in the production of an output. The result of the equation generates a multiplier that is broken down into direct, indirect, and induced effects. In a generalized example: if the multiplier for good “X” to good “Y” is 3, then the direct of good “X” on “Y” is 1, with indirect and induced effects of 2. Essentially, every unit of good “X” supports 2 units of good “Y”.

When implemented on a large complex scale, such as that of the US economy or any subsection of it, multiplier effects across industries can be complicated. However, the same general concept

comes into play. Each industry has largely different and varied inputs into other industries. The quantity of the output is largely decided by the scale and efficiency of the industries involved. As a result, the sum of those inputs equates to an output product plus a value added/component. By arranging these inputs and outputs by industry in a matrix, and performing some algebra to find the Leontief inverse matrix, each industry's effect on final demand can be estimated. Additionally, the direct, indirect, and induced effects can also be determined. Direct effects include direct purchases for production, indirect effects include expenses during production, and induced effects concern the expenditures of employees directly involved with production. Using building construction as an example, the direct effects would include materials, brick, steel, and mortar, the indirect effects would involve the steel fabrication, concrete mixing, and the induced effects would consider the construction workers purchases from their wages. While impacts vary in size, each industry has rippling effects throughout the economy. By using an input-output model, these effects can be more accurately quantified and explained.

IMPLAN is one of several popular choices for regional input-output modeling. Each system has its own nuances in establishing proper location coefficients. IMPLAN uses a location quotient to determine its regional purchase coefficient (RPC). This represents the proportion of demand for a good that is filled locally; this assessment helps determine the multiplier for the localized region. Additionally, IMPLAN also accounts for inter-institutional transfers (e.g. firms to households, households to the government, etc...) through its social account matrix (SAM) multipliers. IMPLAN takes the multipliers and divides them into 440 industry categories in accordance to the North American Industrial Classification System (NAICS) codes. A comprehensive breakdown of a region's multipliers by industry can be shown.

Despite the usefulness of input-output modeling, there are some shortcomings to the system. Notably, input-output models ignore economies of scale. Input-output models assume that costs and inputs remain proportionate through different levels of production. Further, multipliers are not generally updated on a timely basis; most multipliers are prone to be outdated with the current economy. If the multipliers are sourced from a year of a recession economy, the multipliers may not accurately represent the flows from an economic boom period. Additionally, the multipliers may not capture sudden legal or technological changes which may improve or decrease efficiency in the production process. Regardless, I-O models still serve as the standard in the estimation of local and regional impacts.

A.3 ECONOMIC IMPACT MODEL METHODOLOGY

The methodology and input-output model used in this economic impact analysis are considered standard for estimating such expenditure impacts, and the results are typically recognized as reasonable and plausible effects, based on the assumptions (including data) used to generate the impacts. In general, one can say that any economic activity can be described in terms of the total output generated from every dollar of direct output. If an industry in a given region sells \$1 million of its goods, there is a direct infusion of \$1 million into the region. These are referred to as direct output.

However, the economic impact on the region does not stop with that initial direct expenditure. Regional suppliers to that industry have also been called upon to increase their production to

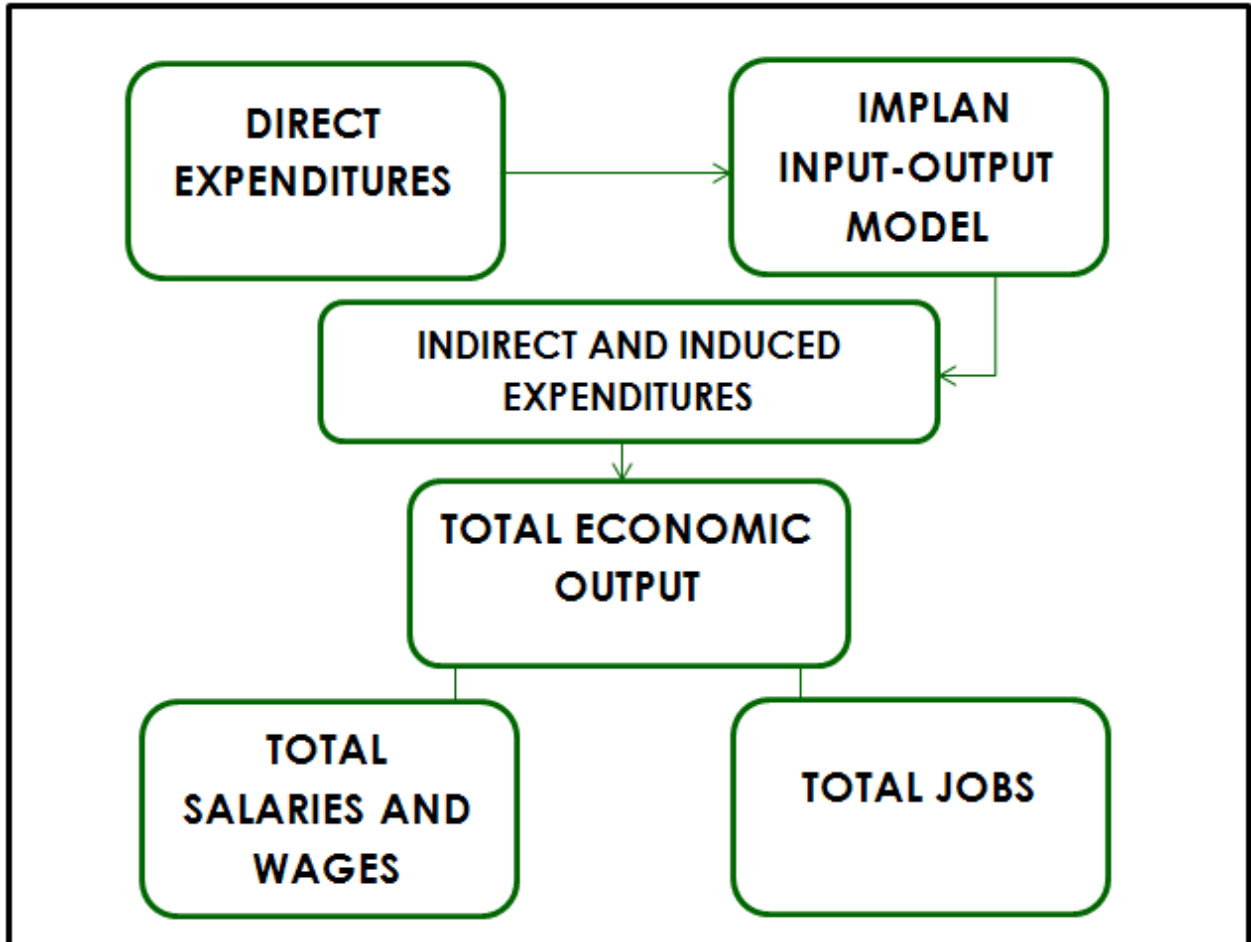
meet the needs of the industry to produce the \$1 million in goods sold. Further, suppliers of these same suppliers must also increase production to meet their increased needs as well. These are referred to as indirect output. In addition, these direct and indirect output require workers, and these workers must be paid for their labor. These wages and salaries will, in turn, be spent in part on goods and services produced locally, engendering another round of impacts. These are referred to as induced expenditures.

Direct output is fed into a model constructed by Econsult Solutions and based on IMPLAN data. The model then produces a calculation of the total expenditure effect on the regional economy. This total effect includes the initial direct expenditure effect, as well as the ripple effects described, the indirect and induced expenditure effects.

Part of the total expenditure effect is actually the increase in total wages and salaries (usually referred to as labor income), which the model can separate from the expenditure estimates. Direct payroll estimates are fed into the “household” industry of the input-output model. Impacts of this industry are estimated using the personal consumption expenditure breakdown of the national input-output table and are adjusted to account for regional consumption spending and leakages from personal taxes and savings. The direct, indirect, and induced labor income represent a component of the total economic impact attributable to wages and salaries. Finally, the model calculates the total expenditures affecting the various industries and translates this estimate into an estimate of the total labor (or jobs) required to produce this output.

In short, the input-output model estimates the total economic activity in a region that can be attributed to the direct demand for the goods or services of various industries. This type of approach is used to estimate the total economic activity attributable to the expenditures associated with various types of spending in the region (see Figure A.1 and Table A.1).

Figure A.1 – Flowchart of Input-Output Methodology for Estimating Economic Impact



Source: Econsult Solutions, Inc. (2013)

Table A.1 – Glossary of Terms for Input-Output Models

Multiplier Effect – the notion that initial outlays have a ripple effect on a local economy, to the extent that direct output lead to indirect and induced output.

Economic Impacts – total expenditures, employment, and labor income generated.

Fiscal Impacts – local and/or state tax revenues generated.

Direct Output – initial outlays usually associated with the project or activity being modeled; examples: one-time upfront construction and related expenditures associated with a new or renovated facility, annual expenditures associated with ongoing facility maintenance and/or operating activity.

Direct Employment – the full time equivalent jobs associated with the direct output.

Direct Labor income – the salaries and wages, fringe benefits, and employer paid payroll taxes for employees, contractors, and proprietors as part of the direct output.

Indirect Output – indirect and induced outlays resulting from the direct output; examples: vendors increasing production to meet new demand associated with the direct output, workers spending direct labor income on various purchases within the local economy.

Indirect Employment – the full time equivalent jobs associated with the indirect output.

Indirect Labor income – the salaries and wages, fringe benefits, and employer paid payroll taxes for employees, contractors, and proprietors as part of the indirect output.

Total Output – the sum total of direct output and indirect output.

Total Employment – the sum total of direct employment and indirect employment.

Total Labor income – the sum total of direct labor income and indirect labor income.

Source: Econsult Solutions (2013)

A.4 FISCAL IMPACT MODEL METHODOLOGY

The IMPLAN model provides estimates of the economic impact of a new project or program on the regional economy. It does provide only a rough estimate of the combined fiscal impact of the increased economic activity on state and local governments. Consequently, Econsult has constructed a model that takes the output from the IMPLAN model and generates detailed estimates of the increases in state and local tax collections that arise from the new project. Those revenues are in fact a part of the total economic impact of a new project that is often ignored in conventional economic impact analyses.

The IMPLAN model provides estimates of direct, indirect, and induced expenditures, labor income, and employment within the defined region. The Econsult fiscal impact model combines the IMPLAN output with the relevant tax types and tax bases associated with the jurisdiction or jurisdictions for which fiscal impact is being modeled. Specifically, the estimated labor income supported by the direct, indirect, and induced expenditures generated by the model are used to

apportion the net increase in the relevant tax bases and therefore in those tax revenue categories. The resulting estimates represent the projected tax revenue gains to the jurisdiction or jurisdictions as a result of the increased business activity and its attendant indirect and induced effects.

A.5 DIRECT INPUTS USED FOR ECONOMIC IMPACT ANALYSIS

Casino Name	Initial Development Direct Expenditures (\$M)	Total Ongoing Upkeep and Upgrade Expenditures (\$M)	Years of Upkeep and Upgrade Expenditures	Annualized Upkeep and Upgrade Expenditures (\$M)	Source
Hollywood Casino	\$250.0	\$8.5	4	\$2.1	Penn National Gaming (2014)
Presque Isle	\$186.0	\$11.3	5	\$2.3	PA Gaming Control Board (2013)
Parx Casino	\$191.8	\$108.9	3	\$36.3	PA Gaming Control Board (2013)
Mohegan Sun at Pocono Downs	\$267.0	\$33.0	4	\$8.3	PA Gaming Control Board (2013)
The Meadows Racetrack & Casino	\$284.0	\$23.6	3	\$7.9	PA Gaming Control Board (2013)
Harrah's Philadelphia Casino and Racetrack	\$405.0	\$8.8	3	\$2.9	Caesars Entertainment (2014)
Sugarhouse Casino	\$102.8	\$5.2	2	\$2.6	HSP Gaming (2014)
Mount Airy Casino Resort	\$167.3	\$6.3	5	\$1.3	PA Gaming Control Board (2013)
Rivers Casino	\$372.3	\$12.7	2	\$6.3	PA Gaming Control Board (2013)
Sands Casino and Resort	\$751.3	\$6.0	1	\$6.0	Las Vegas Sands (2014)
Valley Forge Casino Resort	\$53.5	\$0.0	0	\$0.0	Valley Forge Casino Resort (2014)
Lady Luck Casino at Nemacolin	\$55.6	\$0.0	0	\$0.0	Lady Luck Casino at Nemacolin (2014)

Source: Pennsylvania Gaming Control Board (2013), Lady Luck Casino at Nemacolin (2014), Las Vegas Sands (2014), HSP Gaming (2014), Caesars Entertainment (2014), Penn National Gaming (2014)

A.6 Multiplier Basis for Ongoing Operations for Pennsylvania Casinos

Casino Name	Direct Employees	Total Employees	Direct to Total Employee Multiplier	Total Output (\$M)	Total Output per Employee Multiplier
Hollywood Casino	1,251	1,746	1.40	\$191.4	\$0.11
Presque Isle	916	1,333	1.46	\$138.4	\$0.10
Parx Casino	1,825	2,664	1.46	\$306.7	\$0.12
Mohegan Sun at Pocono Downs	1,732	2,729	1.58	\$315.2	\$0.12
The Meadows Racetrack & Casino	1,260	1,760	1.40	\$178.1	\$0.10
Harrah's Philadelphia Casino and Racetrack	1,672	2,607	1.56	\$327.9	\$0.13
Sugarhouse Casino	1,104	1,647	1.49	\$222.1	\$0.13
Mount Airy Casino Resort	1,320	1,941	1.47	\$214.6	\$0.11
Rivers Casino	1,782	2,760	1.55	\$336.6	\$0.12
Sands Casino and Resort	2,117	3,276	1.55	\$402.6	\$0.12
Valley Forge Casino Resort	1,180	1,710	1.45	\$202.0	\$0.12
Lady Luck Casino at Nemacolin	506	707	1.40	\$75.8	\$0.11

Source: Pennsylvania Gaming Control Board (2013), Lady Luck Casino at Nemacolin (2014), Las Vegas Sands (2014), HSP Gaming (2014), Caesars Entertainment (2014), Penn National Gaming (2014), IMPLAN (2013)

A.7 SOURCES

Miller, Ronald E., and Peter D. Blair. Input-output Analysis Foundations and Extensions. Cambridge, UK: Cambridge UP, 2009. Print.

Lahr, Michael. "Input-Output Analysis: Technical Description and Application." Rutgers University Edward J. Bloustein School of Planning and Public Policy

"Researching IMPLAN Data." Minnesota IMPLAN Group LLC, 2012.

APPENDIX B – LIST OF EXPERTS CONSULTED

Name	Title	Organization
Casinos		
Ron Baumann	Senior VP & General Manager	Harrah's Philadelphia Casino & Racetrack
Ronald Raymond	Government Relations Manager	Crisci Associates
David Satz	Senior VP, Government Relations & Development	Caesars Entertainment Corporation
Joseph Tyrrell	Regional VP, Government Relations & Development	Caesars Entertainment Corporation
Walter Bogumil	VP, Financial Analysis,	Penn National Gaming
Frank Donaghue	VP Regulatory/Chief Compliance Officer	Penn National Gaming
Bill Hayles	VP/General Manager	Hollywood Casino at Penn National Race Course
Carl Sottosanti	Sr. VP/General Counsel	Penn National Gaming
Don Mitchell	Chief Administrative Officer	Lady Luck Casino Nemaquin
Sean Sullivan	Casino VP & General Manager	Meadows Racetrack & Casino
Michael Bean	President & CEO	Mohegan Sun
Robert Green	Chairman	Parx Casino and Racing
Jeff Favre	VP & General Manager	Presque Isle Downs & Casino
Craig Clark	General Manager	Rivers Casino
Doug Neithold	Interim President	Sands Bethworks Gaming LLC
Wendy Hamilton	General Manager	SugarHouse Casino
John C. Hawkins	VP for City Relations	S.R. Wojdak & Associates
Mike Bowman	President & CEO	Valley Forge Casino Resort
Economic Development		
Skip Memmi	Executive Director	Dauphin County Economic Development Corporation
Mark Stewart	Member	Eckert Seamans Cherin & Mellott, LLC (Dauphin County)
Jeff Kotula	President	Washington County Chamber of Commerce
Larry Newman	VP of Economic Development	Greater Wilkes-Barre Chamber of Business & Industry
Gerry O'Donnell	Acting CEO	Greater Wilkes-Barre Chamber of Business & Industry
Chuck Leonard	Executive Director	Pocono Mountains Economic Development Corporation
John Elliot	President & CEO	DevelopErie

Name	Title	Organization
Craig Davis	President & CEO	VisitPittsburgh
Alicia Karner	Director of Community and Economic Development	Bethlehem Economic Development Corporation
Nick Hiriak	Director of Finance & Administration	Upper Merion Township
David Kraynik	Township Manager	Upper Merion Township
Other		
Mike Ahlgren	Instructor of Gaming and Casino Management	Penn State University School of Hospitality Management
Clyde Barrow	Professor of Public Policy / Director	Center for Policy Analysis University of Massachusetts, Dartmouth
Joe Brennan	President	Interactive Media Entertainment and Gaming Association (IMEGA)
BJ Clark	Associate	Ballard Spahr LLP
Dan Orlo	CFO	Line Gaming Corp
John Palmisano	Founder and Chairman	eTrios Commodities LLC
Kahlil Philander	Director of Research / Visiting Asst Professor	International Gaming Institute / William F Harrah College of Hotel Administration
Flip Pidot	Co-Founder and CEO	American Civics Exchange
Aran Ryan	Director of Lodging Analytics	Tourism Economics

APPENDIX C – ANNUAL SLOT AND TABLE SUPPLY BY CASINO

TABLE C.0.1 – AVERAGE ANNUAL SLOT MACHINE SUPPLY BY CASINO, 2006-2013 (\$ MIL)

	2006	2007	2008	2009	2010	2011	2012	2013
Mohegan Sun	1,099	1,163	1,853	2,466	2,350	2,356	2,332	2,332
Parx	2,076	2,240	2,843	2,904	3,385	3,454	3,462	3,363
Harrah's		2,766	2,819	2,915	2,912	2,957	2,832	2,786
Presque Isle		1,999	1,997	1,995	1,998	2,047	2,050	1,752
Meadows		1,756	1,821	3,128	3,549	3,376	3,315	3,319
Mt. Airy		2,523	2,521	2,506	2,415	2,296	2,076	1,930
Penn National			2,120	2,318	2,433	2,466	2,472	2,458
Sands Bethlehem				2,961	3,099	3,022	3,015	3,014
Rivers				2,999	2,920	2,949	2,892	2,943
SugarHouse					1,601	1,587	1,604	1,603
Valley Forge							600	600
Nemacolin								594
Statewide Total	3,175	12,447	15,975	24,191	26,662	26,510	26,650	26,694

Source: Pennsylvania Gaming Control Board (2014)

TABLE C.0.2 – ANNUAL SLOT REVENUES BY CASINO, 2006-2013 (\$ MIL)

	2006	2007	2008	2009	2010	2011	2012	2013
Mohegan Sun	\$22	\$176	\$186	\$221	\$225	\$233	\$232	\$220
Parx	\$10	\$285	\$346	\$359	\$398	\$377	\$385	\$368
Harrah's		\$286	\$328	\$316	\$296	\$268	\$260	\$234
Presque Isle		\$142	\$164	\$167	\$170	\$167	\$151	\$131
Meadows		\$125	\$244	\$278	\$249	\$249	\$249	\$230
Mt. Airy		\$26	\$176	\$165	\$144	\$146	\$150	\$143
Penn National			\$171	\$238	\$253	\$249	\$244	\$230
Sands Bethlehem				\$142	\$259	\$271	\$292	\$288
Rivers				\$79	\$242	\$276	\$282	\$284
SugarHouse					\$37	\$171	\$190	\$181
Valley Forge							\$36	\$63
Nemacolin								\$11
Statewide Total	\$32	\$1,039	\$1,616	\$1,964	\$2,274	\$2,405	\$2,470	\$2,384

Source: Pennsylvania Gaming Control Board (2014)

TABLE C.0.3 – AVERAGE ANNUAL TABLE GAME SUPPLY BY CASINO, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
Mohegan Sun					78	84	84	84
Parx					69	169	175	165
Harrah's					106	121	124	123
Presque Isle					48	48	53	47
Meadows					62	74	79	78
Mt. Airy					75	73	72	73
Penn National					54	62	69	69
Sands Bethlehem					89	118	151	181
Rivers					86	104	113	114
SugarHouse					41	47	55	58
Valley Forge							50	50
Nemacolin								28
Statewide Total					709	900	1,024	1,070

Source: Pennsylvania Gaming Control Board (2014)

TABLE C.0.4 – ANNUAL TABLE REVENUES BY CASINO, 2006-2013 (\$ MIL)

	2006	2007	2008	2009	2010	2011	2012	2013
Mohegan Sun					\$18	\$42	\$43	\$44
Parx					\$34	\$114	\$110	\$119
Harrah's					\$30	\$81	\$81	\$77
Presque Isle					\$10	\$21	\$18	\$14
Meadows					\$15	\$34	\$35	\$35
Mt. Airy					\$19	\$40	\$40	\$41
Penn National					\$15	\$38	\$39	\$36
Sands Bethlehem					\$27	\$106	\$146	\$177
Rivers					\$26	\$67	\$70	\$68
SugarHouse					\$17	\$74	\$84	\$85
Valley Forge							\$21	\$33
Nemacolin								\$2
Statewide Total					\$213	\$619	\$687	\$730

Source: Pennsylvania Gaming Control Board (2014)

APPENDIX D – SMALL GAMES OF CHANCE OVERVIEW – PA DEPARTMENT OF REVENUE



DISCLAIMER

The Pennsylvania Department of Revenue has prepared this overview on Pennsylvania's Local Option Small Games of Chance Act, 1988 P.L. 1262, No. 156, as amended, for use by the general public. This overview is for informational purposes only. Nothing contained herein should be considered legal advice. Any person or entity with legal questions regarding the Local Option Small Games of Chance Act should review the provisions of the Act for guidance or consult private legal counsel.

SMALL GAMES OF CHANCE OVERVIEW

INTRODUCTION

The Pennsylvania Crimes Code provides that all forms of gambling are illegal unless the Pennsylvania Legislature specifically authorizes the gambling activity by statute.

Gambling exists when there is a payment of consideration or a fee or something of value for the opportunity for a prize or reward, the winner of which is determined by chance. Effectively, the three elements are: (1) consideration, (2) chance and (3) prize or reward.

Currently, the only authorized and legal forms of gambling in Pennsylvania are:

1. Those gambling activities conducted pursuant to the Race Horse Industry Reform Act.
2. Pennsylvania Lottery (including Powerball and Mega Millions).
3. Bingo conducted pursuant to the Bingo Law.
4. Those gambling activities conducted pursuant to the Pennsylvania Race Horse Development and Gaming Act (Slots and Table Games).
5. Those gambling activities conducted pursuant to the Local Option Small Games of Chance Act.

This Overview discusses the gambling activities conducted pursuant to the Local Option Small Games of Chance Act.

The Pennsylvania Local Option Small Games of Chance Act was passed in 1988 and has been amended several times since its enactment, most notably by Acts 2 and 184 of 2012 and Acts 90 and 92 of 2013.

The small games of chance law authorizes certain non-profit organizations, known as eligible organizations (including club licensees), and for-profit taverns to conduct limited types of gambling.

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TYPES OF GAMES

Licensed Eligible Organizations

Licensed eligible organizations are authorized to conduct the following games of chance:

1. Pull-tab games
2. Punchboards
3. Raffles (including special permit raffles)
4. Daily drawings
5. Weekly drawings
6. Fifty-fifty (50/50) drawings (including major league sports drawings)
7. Race Night Games
8. Pools, excluding sports pools¹

Tavern Gaming Licensee

Tavern gaming licensees are authorized to conduct the following types of games, known as “tavern games:”

1. Pull-tab games
2. Tavern raffles, which are limited to once a month and must designate at least half of net revenue to a designated charity
3. Tavern daily drawings

TYPES OF LICENSES

Eligible Organization Licenses

There are two types of licenses available to eligible organizations: A regular license and a monthly license. An eligible organization may conduct all forms of games of chance under either license type. See above for the types of games of chance an eligible organization may conduct.

¹ Pools are limited by the Professional and Amateur Sports Protection Act (28 U.S.C. §§ 3701, et seq.), which states as follows:

It shall be unlawful for—

- (1) a governmental entity to sponsor, operate, advertise, promote, license, or authorize by law or compact, or
- (2) a person to sponsor, operate, advertise, or promote, pursuant to the law or compact of a governmental entity, a lottery, sweepstakes, or other betting, gambling, or wagering scheme based, directly or indirectly (through the use of geographical references or otherwise), on one or more competitive games in which amateur or professional athletes participate, or are intended to participate, or on one or more performances of such athletes in such games.

Consequently, pools involving professional or amateur athletes are not authorized by the Act.

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1. **Regular License:** A regular license is an annual license, and the term runs for a calendar year from the date of issuance. The fee for an annual license is \$125.
2. **Monthly License.** A monthly license is valid for 30 consecutive days from the date of issuance. There is no restriction on the number of monthly licenses an eligible organization may obtain, but the licenses may not overlap. The fee for a monthly license is \$25.
3. **Special Raffle Permits.** Special raffle permits are available to regular and monthly licensees. The special raffle permit authorizes a holder to conduct a raffle that exceeds the normal prize limits applicable to games of chance. As a general rule, a licensed eligible organization may obtain up to 10 special raffle permits. Total prizes awarded under all special raffle permits may not exceed \$150,000. Volunteer fire, ambulance, rescue or conservation organizations may obtain up to 12 special raffle permits and award up to \$250,000 in prizes. For a licensed eligible organization with a regular license, the organization can receive either 10 or 12 special raffle permits during the annual license term. Because a licensed eligible organization that obtains only a monthly license does not have an annual licensed term, such organization may receive no more than 10 or 12 special permits in any calendar year.

Tavern Gaming Licenses

There is only one type of license available to a tavern: a tavern gaming license. Taverns that obtain a tavern gaming license from the Pennsylvania Liquor Control Board (PLCB) are authorized to offer pull-tab games, tavern raffles and tavern daily drawings.

The tavern gaming license is an annual license issued and renewed by the PLCB. For additional information about the tavern gaming licensing process, visit www.lcb.state.pa.us.

ADMINISTRATION AND ENFORCEMENT

Small games of chance law is administered and enforced by several different government entities: licensing authorities, the Department of Revenue, the PLCB, the Pennsylvania Gaming Control Board (PGCB) and law enforcement officials.

Licensing Authorities – The licensing authorities for club licensees and eligible organizations seeking to offer small games of chance are the county treasurers in each of Pennsylvania’s 67 counties. Where there is no county treasurer, such as in a home-rule county or city of the first class, the licensing authority is the designee of the governing body. The licensing authority is responsible for licensing eligible organizations to conduct games of chance in the commonwealth and for issuing special raffle permits. For tavern gaming, the PLCB is the licensing authority.

Department of Revenue – The department is charged with several responsibilities under small games of chance law, as follows:

1. Registration of games of chance manufacturers.

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2. Reviewing and approving pull-tab games and punchboards for use in the commonwealth.
3. Licensing of distributors to sell pull-tabs, punchboards and race night games for use in the commonwealth.
4. Receipt and retention of games of chance reports from clubs.
5. Random audits of 5 percent of club licensees every two years.
6. Administration of the state and host municipality tavern games taxes.
7. Limited regulatory authority related to manufacturer registration, distributor licensing, games of chance and games of chance records and reports.

PLCB – The PLCB is responsible for licensing taverns to conduct tavern games in the commonwealth, and it may also impose penalties for tavern licensees’ violation of small games of chance law, including suspension or revocation of tavern gaming licenses.

PGCB – The PGCB’s Bureau of Investigations and Enforcement is responsible for conducting background investigations of each tavern game license applicant.

Law enforcement officials – Commonwealth law enforcement officials – including local police, state police, the Bureau of Liquor Control Enforcement, local district attorneys and the Attorney General – are responsible for overseeing the operation of games of chance and for bringing civil and criminal charges against organizations and individuals for violations of the law.

Information Sharing: The government entities responsible for administering and enforcing small games of chance law are allowed to share information and documentation for purposes of administering and enforcing the law.

SALE/PURCHASE OF GAMES OF CHANCE

Pull-tab games, punchboards and race night games for use in the commonwealth may only be produced by manufacturers registered with the Department of Revenue. Distributors may only purchase small games of chance from registered manufacturers, and taverns and eligible organizations licensed to sell small games of chance must purchase them from distributors licensed by the Department of Revenue. Listings of small games of chance manufacturers and distributors are available at www.revenue.state.pa.us/SGOC.

Tickets and other products used to play other types of games of chance do not have to be purchased from a registered manufacturer or licensed distributor. Only licensed eligible organizations, including club licensees, and tavern gaming licensees may purchase and operate games of chance in the commonwealth.

ELIGIBLE ORGANIZATIONS

An **eligible organization** is one of the following types of entities: a charitable, religious, fraternal or veterans’ organization; a club, civic and service association; or an affiliated non-profit organization of a

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major league sports team. An eligible organization must be in existence and fulfilling its purpose for one year in order to be eligible for a games of chance license.

An **auxiliary group** of an eligible organization is not an eligible organization and is not eligible for its own small games of chance license. However, an auxiliary group may conduct games of chance using the license of its parent eligible organization so long as the auxiliary group is listed on the eligible organization's license application. All games of chance conducted by the auxiliary group are considered as if they were conducted by the eligible organization.

A **club licensee** is a specific type of eligible organization. Any organization that is an 'exempt organization' under the Internal Revenue Code Section 501(c) or 527, which is licensed to sell liquor under Section 404 of the Pennsylvania Liquor Code, is a 'club'. If it obtains a games of chance license from the county treasurer, it is a 'club licensee' for small games of chance purposes. Club licensees, unlike other licensed eligible organizations that can only use games of chance proceeds for public interest purposes, can use some games of chance proceeds for operating expenses. Annual reporting requirements apply for club licensees.

TAVERNS

A tavern eligible for a tavern gaming license is defined as a hotel, restaurant, privately owned public golf course, brew pub or microbrewery with a valid license to sell alcohol under the Liquor Code and which is located in a municipality that allows small games of chance.

The following are not eligible for tavern gaming licenses: eating place retail dispenser ("E") licensees; limited wineries ("LK"); limited distilleries ("AL"); any tavern located in a municipality that has not authorized small games of chance; a grocery store, including a restaurant with an interior connection to a grocery store; a restaurant where the sale of liquid fuels or oil is conducted; a hotel or restaurant located in a casino; a business on the grounds of a public venue facility where a major league sports team or racing facility conducts games or races; any liquor license held in safekeeping; any liquor license declared to be a nuisance under Section 611 of the Liquor Code; and any liquor license under objection by the PLCB as a nuisance bar.

The PLCB issues tavern gaming licenses. For additional information about the tavern gaming licensing process, visit www.lcb.state.pa.us.

PRIZE LIMITS

Eligible Organizations/Club Licensees

The following **prize limits** apply:

1. A prize for a single chance in any game may not exceed \$2,000.

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2. An eligible organization is limited to awarding \$35,000 in prizes during an operating week (seven consecutive, reoccurring operating or non-operating days).
3. No more than \$15,000 may be awarded in raffles during a calendar month.

Limited exceptions to the prize limits exist:

1. **Raffles conducted under a special permit:** Licensed eligible organizations can apply to the county treasurer for special permits. Raffles conducted under a special permit are not subject to the general prize limitations above. Licensed eligible organizations are eligible to receive up to 10 special permits and may award up to \$150,000 from all special permit raffles. Volunteer fire, ambulance, rescue or conservation organizations that are not club licensees are eligible for up to 12 special permits and may award up to \$250,000 from all special permit raffles.
2. **Daily and weekly drawing carryovers:** Amounts paid out in a carryover daily drawing or a weekly drawing are not subject to the general prize limits. A carryover occurs when there is no winner in the prior daily or weekly drawing and the prize from such drawing is carried over to be included as a prize in the next daily or weekly drawing.
3. **100 percent payout drawings:** When a daily or weekly drawing is conducted to award 100 percent of the gross revenue from the game, then the prize does not count against the \$35,000 weekly prize limit.
4. **Major league sports drawings:** Major league sports drawings are not subject to the general prize limits.

Tavern Gaming Licensees

All tavern games are subject to the following prize limits:

1. A prize for a single chance in any tavern game may not exceed \$2,000.
2. A tavern gaming licensee may not award more than \$35,000 in prizes during an operating week (seven consecutive, reoccurring operating or non-operating days).

There are no exceptions to the prize limits for tavern games.

USE OF PROCEEDS OR NET REVENUE

Eligible Organizations'/Club Licensees' Use of Proceeds

Generally, all games of chance proceeds, except for proceeds from major league sports drawings, are to be used for public interest purposes. An eligible organization that has as its primary purpose the promotion of a public interest purpose may use small games of chance proceeds to carry out that purpose. "Public interest purpose" is defined as:

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One or more of the following:

- (1) The activities and operations of a nonprofit benevolent, religious, educational, philanthropic, humane, scientific, patriotic, social welfare, social advocacy, public health, public safety, emergency response, environmental or civic objective [sic].
- (2) Initiating, performing or fostering worthy public works or enabling or furthering the erection or maintenance of public structures.
- (3) Lessening the burdens borne by government or voluntarily supporting, augmenting or supplementing services which government would normally render to the people.
- (4) Improving, expanding, maintaining or repairing real property owned or leased by an eligible organization and relating operational expenses used for purposes specified in paragraphs (1), (2) and (3).
- (5) Nonprofit youth sports activities.
- (6) Activities relating to the provision of volunteer fire, ambulance or rescue services.
- (7) Activities conducted by a veterans organization, whether or not the veterans organization holds a club license. Activities under this paragraph may include:
 - (i) Scholarships.
 - (ii) Services to economically or socially support veterans.
 - (iii) Activities to honor veterans.
 - (iv) Other activities that qualify under paragraphs (1), (2), (3), (4), (5) and (6).

The term does not include the erection or acquisition of any real property, unless the property will be used exclusively for one or more of the purposes specified in this definition.

Games of chance proceeds may also be used to purchase games of chance and to pay for eligible organization license fees related to game of chance license applications.

In addition to public interest purposes, a club licensee may use up to 40 percent of its games of chance proceeds per calendar year for expenses of the club licensee. Any proceeds not used for expenses must be used for public interest purposes. So a club licensee must use, at a minimum, 60 percent of its proceeds for public interest purposes. If, however, a club licensee has games of chance proceeds of \$40,000 or less during a calendar, then in the following calendar year the club licensee may use the first \$20,000 of its proceeds for expenses of the club licensee in addition to the 40 percent. The \$20,000 is deducted before calculating the 60/40 split.²

All games of chance proceeds obtained must be expended within a year after the calendar year they were obtained,³ with one exception. A club licensee may set aside some or all of its allotted proceeds that are

² Prior to the passage of Act 90 of 2013, the split for use of proceeds was 70/30 and there was not a \$20,000 deduction. Act 90 of 2013 was signed into law in November 2013, effective Jan. 27, 2014. It is the department's interpretation that the General Assembly intended the 70/30 split and the rules prior to the passage of Act 90 to apply to the entire 2013 calendar year. The new 60/40 split and \$20,000 deduction applies to the 2014 calendar year and calendar years thereafter. In order to determine if the \$20,000 deduction applies, the club looks to its proceeds from the prior calendar year. Therefore, to determine if a club gets the \$20,000 deduction for the 2014 calendar year, the club must look to determine if it had proceeds of \$40,000 or less in the 2013 calendar year. If so, the club gets the \$20,000 deduction in the 2014 calendar year.

³ This applies to proceeds received during the 2014 calendar year and calendar years thereafter. For calendar years 2013 and prior, proceeds had to be expended within the calendar year of receipt.

allocated to pay for expenses, if such proceeds are to be used for a substantial public interest purchase or project. A club licensee is required to notify the department that it is retaining the proceeds for the project. See “Non-Tax Reporting Requirements” for additional information.

Note the rules for use of proceeds do not apply to **major league sports drawings**. Rather, 50 percent of the gross revenue from a major league sports drawing must be paid out as prizes. The remaining 50 percent must be donated to a designated charitable organization (although up to 2 percent may be used to pay administrative expenses associated with the conduct of the drawing).

An eligible organization with proceeds in excess of \$40,000 is required to keep all small games of chance proceeds in a bank account separate from all other organization funds or accounts.

Tavern Gaming Licensees’ Use of Net Revenue

The revenue from tavern games is considered business income of the tavern gaming licensee and may be used by the tavern licensee for any legal purpose subject to the following:

1. **Tavern raffles:** At least 50 percent of net revenue from tavern raffles must be donated to a designated charity within seven days of the tavern raffle. The remaining 50 percent of net revenue is then subject to the state and host municipality tavern games taxes.
2. **State tavern games tax:** 60 percent of net revenue from tavern games must be transmitted to the Department of Revenue as a state tax.
3. **Host municipality tax:** 5 percent of net revenue from tavern games must be transmitted to the Department of Revenue as a local tax for the host municipality where the tavern gaming licensee is located.

See “Tavern Games Taxes” for additional information.

A tavern gaming licensee is required to keep all net revenue from tavern games in a bank account separate from all other organization funds or accounts.

TAVERN GAMES TAXES

A state tavern games tax and a local host municipality tavern games tax are imposed on the net revenue of all tavern games. The state tax is 60 percent, and the host municipality tax is 5 percent of net revenue from tavern games.

Tax on Pull-Tab Games

Pull-tab games must be purchased from licensed distributors. Taverns pay state and local tavern games taxes at the time the pull-tab game is purchased from the distributor. The distributor is responsible for collecting the taxes and remitting them to the department.

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For purposes of calculating the tax due, net revenue is the net/ideal profit from the pull-tab game as indicated by the manufacturer on the pull-tab game flare.

Example: A pull-tab game with a 1,000 pulls at \$1 per pull and a 70 percent payout has a net/ideal profit of \$300: $(1,000 \times \$1) - \700 in prizes = \$300. The 60 percent state tavern games tax collectable at the time the pull-tab game is purchased from the distributor is \$180 $(\$300 \times 0.6)$. The 5 percent host municipality tavern games tax collectable at the time the pull-tab game is purchased from the distributor is \$15 $(\$300 \times 0.05)$.

Pull-tab games purchased by for-profit taverns are also subject to sales tax, which is 6 percent of the cost of the pull-tabs before tavern games tax is imposed (additional 1 percent local sales tax in Allegheny County and 2 percent local sales tax in Philadelphia). Sales tax is also collected from the tavern and remitted to the department by the distributor.

Tax on Other Tavern Games

Tavern raffles and tavern daily drawings do not have to be purchased from licensed distributors. Therefore, the state and local taxes on these games are paid by the tavern gaming licensee.

For purposes of calculating tax due, net revenue is the difference between the gross revenue collected from the sale of chances in the game less the cost of prizes awarded in the game and the cost to purchase the game.

Example 1: A tavern sells 500 daily drawing tickets for \$1 each for a prize of 50 percent of ticket sales. Cost of the game is \$5 for a roll of tickets. Net revenue is \$245: $\$500 - \250 prize - \$5. Tavern tax is imposed on \$245: state tax of \$147 (60 percent of \$245) and municipality tax of \$12.25 (5 percent of \$245).

Example 2: A tavern sells \$1 tickets for a daily drawing prize equaling 100 percent of ticket sales. In such case, there is no net revenue and therefore no tavern tax due.

Example 3: A tavern gaming licensee runs a tavern raffle with 50 percent of the revenue to benefit the local food bank. 1,000 tickets are sold for \$1 each over a course of the month for total gross revenue of \$1,000. One winner receives a prize of \$400. The raffle ticket printing costs total \$10. Therefore, the remaining revenue is \$590: $\$1,000 - \$400 - \$10$. \$295 (50 percent of the remaining \$590) is given to the food bank as a charitable donation. The state and local tax is imposed on the other \$295: state tax of \$177 (60 percent of \$295) and host municipality tax of \$14.75 (5 percent of \$295).

Tax Payment and Reporting Requirements

Licensed distributors must file tavern games tax returns and remit tax on a monthly basis. Returns and tax for each month are due on the 20th of the following month.

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Tavern gaming licensees must file tavern gaming tax returns and remit tax on a quarterly basis. Returns and tax for each calendar quarter are due on the 20th of the month following the close of each calendar quarter: April 20, July 20, October 20 and January 20.

Tavern tax returns must be filed electronically, and the filing system will be accessible by March 20, 2014, at www.revenue.state.pa.us/SGOC.

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OTHER REPORTING REQUIREMENTS

Under federal law, games of chance winnings payments must be reported via W-2G when the amount paid is \$600 or more and at least 300 times the amount of the wager. The original W-2G is to be presented to the winner, a copy of each W-2G must be provided to the Department of Revenue and the IRS, and the tavern should keep a copy of each W-2G for its records (see "Record-Keeping Requirements").

Additional information and W-2G forms are available at <http://www.irs.gov/uac/Form-W-2G,-Certain-Gambling-Winnings>.

Club Licensees

All club licensees with proceeds in excess of \$20,000 in a calendar year are required to submit annual reports to the Department of Revenue by Feb. 1, for the preceding calendar year.

Annual report filing information will be accessible at www.revenue.state.pa.us/SGOC when available.

Club licensees' annual reports will require the following information:

- proceeds received by the club licensee from each game of chance conducted, itemized by week
- amount of prizes paid from all games of chance, itemized by week
- other costs incurred related to the conduct of games of chance
- verification and itemization of amounts distributed for public interest

A club licensee that retains games of chance proceeds for a substantial public interest purchase or project is required to give **notice of the retention** to the department via the club licensee's annual report.

Tavern Gaming Licensees

All tavern gaming licensees must submit an annual report to the PLCB and the Department of Revenue by Jan. 20, for the previous calendar year.

Annual report filing information will be accessible at www.revenue.state.pa.us/SGOC when available, and the department will provide a spreadsheet to facilitate proper record-keeping for taverns.

Tavern gaming licensees' annual reports will require the following information:

- For **pull-tab games**: number of W-2Gs, gross winnings reported from W2-Gs, total gross revenue, total payable prizes, total net revenue, state/municipality tavern tax
- For **tavern daily drawings & tavern raffles**: type of game, number of W-2Gs, gross winnings reported from W2-Gs, total gross revenue, total prizes paid, total net revenue, total amount donated (raffles) and state/municipality tavern gaming tax

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RECORD-KEEPING REQUIREMENTS

Licensed Eligible Organizations and Club Licensees:

A licensed eligible organization is required to keep records related to games of chance activity sufficient to demonstrate the organization's compliance with the law upon inspection or audit. A licensed eligible organization must retain its records for at least two years. A club licensee must maintain its records for at least five years.

Records must include the following:

1. All sales invoices.
2. Gross receipts from the conduct of each game of chance.
3. The cost of each game of chance and other expenses related to the conduct of each game of chance.
4. The total of prizes paid out for each game of chance and each prize's cost or fair market value.
5. The proceeds from the conduct of each game of chance.
6. Totals for items enumerated in items 2 through 5 above for each operating day, operating week, calendar month, calendar year and licensed term.
7. Details as to how proceeds from games of chance were used or disbursed by the eligible organization.
8. A record of any prize for which the licensed eligible organization is required to make a W-2G report to the IRS.
9. A list of winners' names and addresses for prizes in excess of \$600.
10. For merchandise prizes, the licensed eligible organization is required to obtain a sales invoice showing the purchase price of the prize, or if the prize was donated to the licensed eligible organization, a written statement from the donor indicating the fair market value of the prize.

A licensed eligible organization must also maintain records relating to the printing or purchase of materials to be used for raffles and daily and weekly drawings. Records should include an invoice or receipt from the place of purchase that shows the cost and number or amount of the materials purchased.

The Pennsylvania State Police Bureau of Liquor Control Enforcement makes available [various record-keeping tools on its website](#) to facilitate proper record-keeping.

Tavern Gaming Licensees

Record-keeping requirements for tavern gaming licensees have yet to be formally established. In the meantime, taverns are advised to keep records similar to those identified above in order to facilitate tax filing and other reporting requirements, as well as to demonstrate compliance with small games of chance law. Additionally, the department will provide a spreadsheet to facilitate proper record-keeping for taverns at www.revenue.state.pa.us/SGOC.

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GAMES REGULATED BY THE DEPARTMENT

The department regulates pull-tab games and punchboards sold for use in the commonwealth. All pull-tab games and punchboards must be pre-approved by the department before being offered for sale and use in the commonwealth. Although manufacturers and distributors of race night games must be registered and/or licensed with the department, race night games do not have to be pre-approved before being offered for sale or use in the commonwealth.

Pull-tab Game and Punchboard Definitions and Requirements

- A *pull-tab game* is a deal of pull-tabs and its corresponding flare.
- A *pull-tab* is a game piece in a pull-tab game made completely of paper or paper products with concealed numbers or symbols that must be exposed by the player to reveal pre-determined winning numbers or symbols.
- A *punchboard* is a board, placard or other device comprised of receptacles, usually laid out in a grid or column pattern, containing a deal of hidden punches and its corresponding flare.
- A *punch* is a crimped strip of paper that is enclosed in a punchboard receptacle that contains pre-determined winning or losing numbers or symbols.
- A *deal* is a set of pull-tabs or punches.
- A *flare* is a card, graphic, illustration or other document that identifies the rules for the game, the prize structure, payout percentages and winning and losing numbers or symbols.

A **pull-tab game** must comply with the following:

1. At least 65 percent of the maximum potential gross receipts from the sale of pull-tabs must be payable as prizes.
2. A prize on an individual pull-tab may not exceed \$2,000.
3. An individual pull-tab deal may not contain more than 4,000 individual pull-tabs.
4. The flare advertising prizes available from the pull-tab deal must be made by the manufacturer and may only be altered by the eligible organization to indicate that merchandise of equivalent value will substitute for a cash prize.
5. Only one flare may be displayed for each deal and must be placed on the face or on the top of the dispenser used to dispense pull-tabs.
6. The flare must display the winning numbers or symbols for all prizes in the amount of \$5 or more, the manufacturer's name or logo and the cost per play.
7. The pull-tab game must be manufactured by a registered manufacturer, approved by the Department of Revenue for use in the commonwealth and purchased from a licensed distributor.

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APPENDIX E – RESOLUTION

PRINTER'S NO. 1622

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 273 Session of
2013

INTRODUCED BY SCARNATI, WARD, TOMLINSON, BROWNE, ERICKSON, ARGALL,
VULAKOVICH, RAFFERTY, VANCE, WHITE, ALLOWAY, BAKER, YUDICHAK,
SCHWANK, SOLOBAY, STACK AND HUGHES, NOVEMBER 27, 2013

REFERRED TO COMMUNITY, ECONOMIC AND RECREATIONAL DEVELOPMENT,
NOVEMBER 27, 2013

A RESOLUTION

Directing the Legislative Budget and Finance Committee to study
the current condition and future viability of gaming in this
Commonwealth.

WHEREAS, The advent of legalized gaming under 4 Pa.C.S. Pt. II
(relating to gaming), known as the Pennsylvania Race Horse
Development and Gaming Act, has proven to be a huge success; and

WHEREAS, In the time since the Gaming Act was signed into law
in 2004, 12 gaming facilities have opened for operation
throughout this Commonwealth; and

WHEREAS, The Gaming Act provides for up to 15 gaming
facilities; and

WHEREAS, These facilities offer a wide variety of slot
machines and table games, directly employ over 16,000 people and
have generated a total of over \$6 billion in gaming tax revenue;
and



WHEREAS, Gaming revenue has been used to provide wage and property tax relief to homeowners, sustain Pennsylvania's horse racing industry, enhance economic development, aid local governments, police and emergency services and provide funding to the Commonwealth's General Fund; and

WHEREAS, It is important that the Commonwealth preserve and build on these successes and continually work to both maintain and improve the gaming industry in this Commonwealth; and

WHEREAS, Recent months have seen gaming revenues begin to level off and even decline at some gaming facilities; and

WHEREAS, As preparation is underway for new gaming facilities to potentially open in the next few years, the Commonwealth may need to consider changes and revisions to the Gaming Act so that all existing and new Category 1, 2 and 3 casino licensees may thrive with growing regional competition; and

WHEREAS, The introduction and expansion of gaming in the states that border this Commonwealth have caused the Mid-Atlantic region to become an extremely competitive market; therefore be it

RESOLVED, That the Senate direct the Legislative Budget and Finance Committee to study the current condition and future viability of gaming and the industry's potential for growth in this Commonwealth; and be it further

RESOLVED, That the committee study the state of gaming under the Gaming Act in this Commonwealth and casino gaming in other states in order to make recommendations to the General Assembly in regard to potential regulatory and legislative changes which

could be implemented in order to sustain and maximize gaming revenue and the positive economic impact of gaming in this Commonwealth; and be it further

RESOLVED, That the committee analyze and compare the Commonwealth's tax structure and statutory and regulatory framework with other gaming states; and be it further

RESOLVED, That the committee analyze the potential impact of online gaming on the gaming industry, including the impact online gaming may have on the Commonwealth's tax revenues and employment at the Commonwealth's casinos; and be it further

RESOLVED, That the committee issue a report of its findings and recommendations to the General Assembly no later than May 1, 2014.

APPENDIX F – BIBLIOGRAPHY

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