

## Gaming at a Glance

Thirty years ago no one would have imagined the gaming landscape that exists today in Pennsylvania, whose casino revenues rank second in the nation, only behind Nevada. While horse racing, the sport of kings, has a long rich [history](#) reaching back centuries, wagering on horse races has only been legal in the state since 1959 with the establishment of the state Harness Racing Commission. Betting on thoroughbred racing did not become legal until almost a decade later when the State Horse Racing Commission was established in 1967. The next big development in gaming was the Pennsylvania Lottery. It was established in 1971 and was initially intended to provide property tax relief to senior citizens and curb illegal gambling. The popularity of betting on horse racing was still increasing during the 1980's, and each track was allowed up to six non-primary locations for off-track betting beginning in 1986. Shortly after that small games of chance, such as pull-tabs, 50/50 drawings and raffles, were approved in 1988 for civic associations to make charitable contributions.

More than 30 years went by where the lottery gained momentum and expanded to provide funding, also primarily targeted to senior citizens for property tax rent rebates, free and reduced-fare transit, low-cost prescription drug programs (PACE and PACENET), long-term living services, and the 52 Area Agencies on Aging. Also during that time, attendance at horse races and wagering declined.

In the mid 1990's the Pennsylvania legislature introduced bills allowing slot machine gaming with the primary intention to support and enhance the horse racing industry (SB 1964 and HB 2961 of 1996). It was not until 2004 that the Pennsylvania Race Horse Development and Gaming Act passed (Act 71 of 2004), with the primary intent of protecting the public from unlawful gaming, followed by enhancing live horse racing. The law was amended to include table games in 2010 and further expanded gaming in 2017, which adds to the complexity of the revenue flow.

**This primer focuses on the revenue generated by and distribution of funds from casino gaming brought about by the Race Horse Development and Gaming Act.** The most significant portion of revenue is generated by slot machines and distributed for general property tax relief to homeowners across the state; however there are many intricacies to the law with regard to the distributions and transfers. This primer maps out where the money comes from and where the money goes - from the various fees and taxes to the final beneficiaries, with a journey of transfers along the way.

### The Casino Revenue Journey

To understand where the revenue is generated, we must first understand where the casinos are located and the various categories that define them in law, which drives the license fee revenue. Then we will discuss the types of gaming permitted, which are each linked to different tax rates. Keep in mind that that the initial purpose of allowing slot machine gaming was to support the horse racing industry, which shapes the beginning of the revenue journey. However, the distribution of funds at the end of the road paints a slightly different picture. The largest amount of money goes to general property tax relief, but economic changes and budgetary pressures have directed newer forms of gaming revenue to the General Fund. Other fund transfers and allocations for economic development, addiction services, and administrative costs are mapped out in sections to follow.

#### Gaming History



For a complete list of license fees, taxes and distributions, see Appendix A

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Source: Pennsylvania Gaming Control Board

### Horse Race Tracks (Racinos)- Category 1

Before casinos were even a glimmer in a legislator’s eye, there were four horse racing tracks in the state:

- The Meadows opened in 1963,
- Pocono Downs opened in 1965, now Mohegan Sun,
- Penn National opened in 1972, now Hollywood, and
- Keystone Race Track opened in 1974, now Parx.

The Race Horse Development and Gaming Act (No. 71 of 2004) used these racing tracks as a starting point for casinos, ultimately authorizing seven Category 1 slot machine licenses for purchase, which only a venue with a race track can obtain. Each of the four pre-existing tracks applied for a Category 1 slot machine license and obtained approval, leaving three licenses available. Shortly after Act 71 was enacted, two additional venues obtained racing track licenses, Harrah’s and Presque Isle in 2006 and 2007 respectively. One race track license remains unclaimed. Attempts were made to establish a track and casino in Lawrence County, but the applicants could not obtain financing for the project, and the Pennsylvania Gaming Control Board revoked the application in 2016.

### There are Four Categories of Casinos



## ***Stand Alone Slots Casinos – Category 2***

The original Race Horse Development and Gaming Act of 2004 also made available five slot machine licenses that did not have to be attached to a horse racing track. The intent was still that a portion of the revenue from these casinos' slot machine revenue supports the horse racing activities at the race tracks, as well as breeders across the state. Of those five licenses, two are restricted to the city of Philadelphia and one is restricted to the city of Pittsburgh.

## ***Resort Casinos – Category 3***

The original 2004 act also included two slot machine licenses for resort casinos, which are limited to a smaller number of slot machines (and later a smaller number of table games) and must be part of a well-established hotel resort. Originally only patrons of the resort or its amenities are allowed to enter the casino. In 2010 the law was amended to allow a seasonal or year-round membership fee for use of the resort's amenities, which would allow individuals access to the gaming floor. Act 42 of 2017 gives Category 3 casinos the option to pay a one-time fee of \$1 million, which allows anyone from the public access to the gaming floor. Valley Forge Casino has paid this fee, whereas Lady Luck Casino has not.

## ***Satellite Casinos – Category 4***

Further expansion of gaming, Act 42 of 2017, created an auction process for up to ten satellite or mini casinos. This was an opportunity designed primarily for existing Pennsylvania casinos to open a smaller scale casino either in its own back yard or anywhere in the state, as long as it is not too close to other existing casinos. For more information on Category 4 casinos, see page 4.

## **Location, Location, Location**

The location of each casino is significant due to the impact of the local share revenue distributions to host counties and municipalities, which are also established in Act 71 of 2004. The specific distribution is unique to each casino and will be discussed in greater detail in future publications. The establishment of brick and mortar casino locations from 2006 to 2013 also influences the revenue landscape later with the strategic bidding and placement of Category 4 casinos under the expanded gaming act in 2017. (See Appendix B for a detailed list of each casino's county, municipality, opening date, number of slot machines and number of table games.)

## **When the Money Started Flowing**

The first casino opened in late 2006, and the first property tax relief distributions from the tax on slot machine revenue were made in 2008-09. The initial \$50 million casino license fees (\$5 million for resort hotels) propped up revenues in the beginning as new casinos were gradually coming online, and money was held for a brief period until a sustainable distribution could be made. The general property tax relief as certified by the budget secretary, has remained consistent at \$595 million each year since 2008-09 and is the major distribution from the 34 percent slot machine tax on gross terminal revenues. Philadelphia receives wage tax relief in lieu of property tax relief, and Scranton has the option of providing up to 50 percent tax relief on its earned income tax but has not exercised this option to date. The distribution of property tax relief is specified by Act 1 of Special Session 1 of 2006, which provides detailed formulas and instructions to determine how much relief each school district receives. It weighs average personal income and property tax burden in each school district to provide greater relief in districts with higher tax burden.

In addition to the slot machine tax, slots revenues are subject to assessments for supporting the horse racing industry and economic development. There are a variety of fund transfers that take place before final property tax relief distributions are made. See Appendix C for a detailed explanation of the State Gaming Fund, Property Tax Relief Fund, Gaming Economic Development Fund, and Pennsylvania Race Horse Development Trust Fund, as well as other transfers that support the Property Tax Rent/Rebate program, volunteer fire companies, compulsive and problem gambling and addiction services.

## **Then Came the Great Recession – and Table Games**

Casinos got up and running just before the great recession hit, and they were able to weather the storm better than most industries and much better than the state's General Fund. This led to budgetary pressures to expand gaming for new General Fund revenue sources and avoid increasing other taxes. Table games were the answer, authorized by Act 1

of 2010. All of the casinos opted to purchase a certificate, for up to 250 tables. The certificate fee started at \$16.5 million if purchased before June 1, 2010 – then raised to \$24.75 million after that date, except Category 3’s each paid \$7.5 million for 50 tables. Unlike the slot machine revenue, table games certificate fees and taxes are deposited into the General Fund.

### More Budgetary Pressures – Expanded Gaming

Although the state economy had rebounded after the recession, the General Fund was still experiencing a structural deficit, and the desire of the General Assembly to address the gap without tax increases led to expanded gaming. Act 42 of 2017 amended Title 4 to allow for Category 4 satellite casinos, interactive gaming (iGaming), airport gaming, iLottery, fantasy sports wagering, simulcasting and video gaming terminals (VGTs) at truck stops.

### Category 4 Satellite Casinos

Expanded gaming provisions provided by Act 42 of 2017 created 10 Category 4 licenses to be auctioned, with the first round only available to existing Category 1 and 2 licensees. Four licenses auctioned in the first round. A second round of auctions gave the winning bidders from the first round another chance to win an additional license, but only one license was auctioned in the second round and no other bids were submitted.

Since five licenses remain available, the board may determine, in its discretion, if it is in the best interest of the commonwealth to conduct additional auctions for which any Category 1, 2, 3 or other qualified gaming entities (from other jurisdictions) may bid and apply for them.

Category 4 casinos cannot be located within a 25-mile radius of a Category 1, 2 or 3 casino, with the exception that a licensee may locate its own Category 4 within its own radius. Each Category 4 casino has a 15-mile radius in which to locate, and another Category 4 casino cannot locate within that radius.

Category 4 Casino Auction Results as of October 2018				
Casino	County	Final Location	Auction Date	Bid Amount
Hollywood	York	Springettsbury Township, York Galleria Mall	1/10/2018	\$50,100,000
Stadium	Westmoreland	Hempfield Township, Westmoreland Mall	1/24/2018	\$40,100,005
Mount Airy	Lawrence	Big Beaver, Beaver County	2/8/2018	\$21,188,889
Parx	Cumberland	Shippensburg Township near Rt. 81	2/22/2018	\$8,111,000
Hollywood	Lancaster	Caernarvon Township, Berks County near PA Turnpike	4/4/2018	\$7,500,003
<b>Total</b>				<b>\$126,999,897</b>
Invalidated Auction Attempt				
Sands	Mercer	Hempfield Township	2/21/2018	\$9,885,000

### iGaming

Interactive gaming certificates are subdivided into three separate categories: peer-to-peer poker, games simulating table games, and slot machines. There are 14 certificates available for each category of iGaming – one for each Category 1, 2 and 3 casino if they choose to participate.

The law established a 90 day period for Pennsylvania casinos to submit iGaming applications for a bundled fee of \$10 million for all three certificates. Nine casinos filed applications by the deadline of July 16, 2018 (Parx, Mount Airy, Hollywood, Rivers, SugarHouse, Sands, Valley Forge, Harrah’s and Stadium). This period was followed by a 30 day period in which Pennsylvania casinos could purchase individual certificates a la carte for \$4 million each. Presque Isle applied for table games and slots certificates for \$8 million total, and Mohegan Sun applied for all three certificates for \$12 million. Following the 30 day period, licensed entities from other jurisdictions may apply for remaining certificates for \$4 million each.

## Airport Gaming

Airport gaming is a subset of iGaming, and it allows casinos to offer “multi-use computing devices,” or tablets, to customers at qualified airports. A casino must first have an iGaming certificate before filing a petition for airport gaming.

## Sports Wagering

When Pennsylvania enacted expanded gaming in 2017 the law contained sports wagering contingent upon action at the federal level that would allow it. The U.S. Supreme Court played a determining role in the arrival of sports betting when it [struck down a prohibition on states](#) (except Nevada) from allowing this type of gaming. The case of *Murphy v. National Collegiate Athletic Assn.*, 584 U.S. \_\_\_ (2018) overturned the Professional and Amateur Sports Protection Act on May 14, 2018. Shortly thereafter, the Pennsylvania Gaming Control Board issued a bulletin notifying the public of the change in law, meaning the provisions previously enacted in Act 42 would become legal in the commonwealth. Sporting events that can be included in wagering include professional and collegiate sports or athletic events or a motor race event.

Only casinos with slot machine licenses may purchase a sports wagering certificate and conduct sports betting in Pennsylvania. Sports wagering may only happen inside the casino or in a temporary facility that is physically connected, attached, or adjacent to the casino. Casinos may also use websites and mobile applications to accept wagers. The person placing a bet must be physically located within Pennsylvania’s borders.

Under Act 42, most of the 34 percent tax on gross sports wagering revenue is deposited in the General Fund except:

- 0.2 percent of gross sports wagering revenue is to be transferred each year to the Compulsive and Problem Gambling Treatment Fund; and
- 0.2 percent is to be transferred annually to the Department of Drug and Alcohol Programs for drug and alcohol addiction treatment, and compulsive and problem gambling treatment services.

## Fantasy Sports

Act 42 allowed for the regulation and taxation of fantasy sports contests by the Pennsylvania Gaming Control Board, and that oversight started May 1, 2018. This encourages fantasy sports companies, regardless of location, to register in Pennsylvania in order to collect and remit the 15 percent tax, which is levied on the entry fees, less prizes, and adjusted to reflect only participants located in Pennsylvania.

Fantasy sports contests are considered online games or simulated contests with an entry fee and a prize or award that participants know about before a contest starts. Fantasy sports outcomes are based on the skills, knowledge, and luck of participants; not the score or performance of an individual athlete, single team or single actual event. Participants must be over 18 years of age unless playing in a licensed casino, in which case they must be at least 21 years old.

Most of a 15 percent tax of monthly fantasy contest adjusted revenues is to be deposited in the General Fund except 0.2 percent is to be transferred annually To the Department of Drug and Alcohol Programs for drug and alcohol addiction treatment.

## Video Gaming Terminals

In an attempt to restrict gaming to only large truck stops, and not neighborhood gas stations, Act 42 allows for up to five VGTs at truck stops that have sold at least an average of 50,000 gallons of diesel per month for the previous 12 months, have 20 commercial parking spaces, a convenience store, are PA Lottery sales agents and are situated on at least three acres of land. Counties that host a casino can pass a resolution prohibiting VGTs at truck stops within that county.

The 42 percent tax on gross terminal revenues is deposited into the Video Gaming Fund. Annually 0.2 percent of revenues is to be transferred to the Compulsive and Problem Gambling Treatment Fund, and the remaining amount is to be transferred to the General Fund. The 10 percent local share assessment is distributed to the Commonwealth Financing Authority for grants within the commonwealth.

## Simulcasting

Act 42 expanded the availability of simulcasting of live horse racing events to Category 2, 3 and 4 facilities for the purpose of pari-mutuel wagering. This allows all licensed casinos to simulcast live horse racing events from Pennsylvania race tracks -- or from race tracks in other states or jurisdictions, as long as the sending track is lawfully permitted to conduct horse racing in its jurisdiction and provide simulcast.

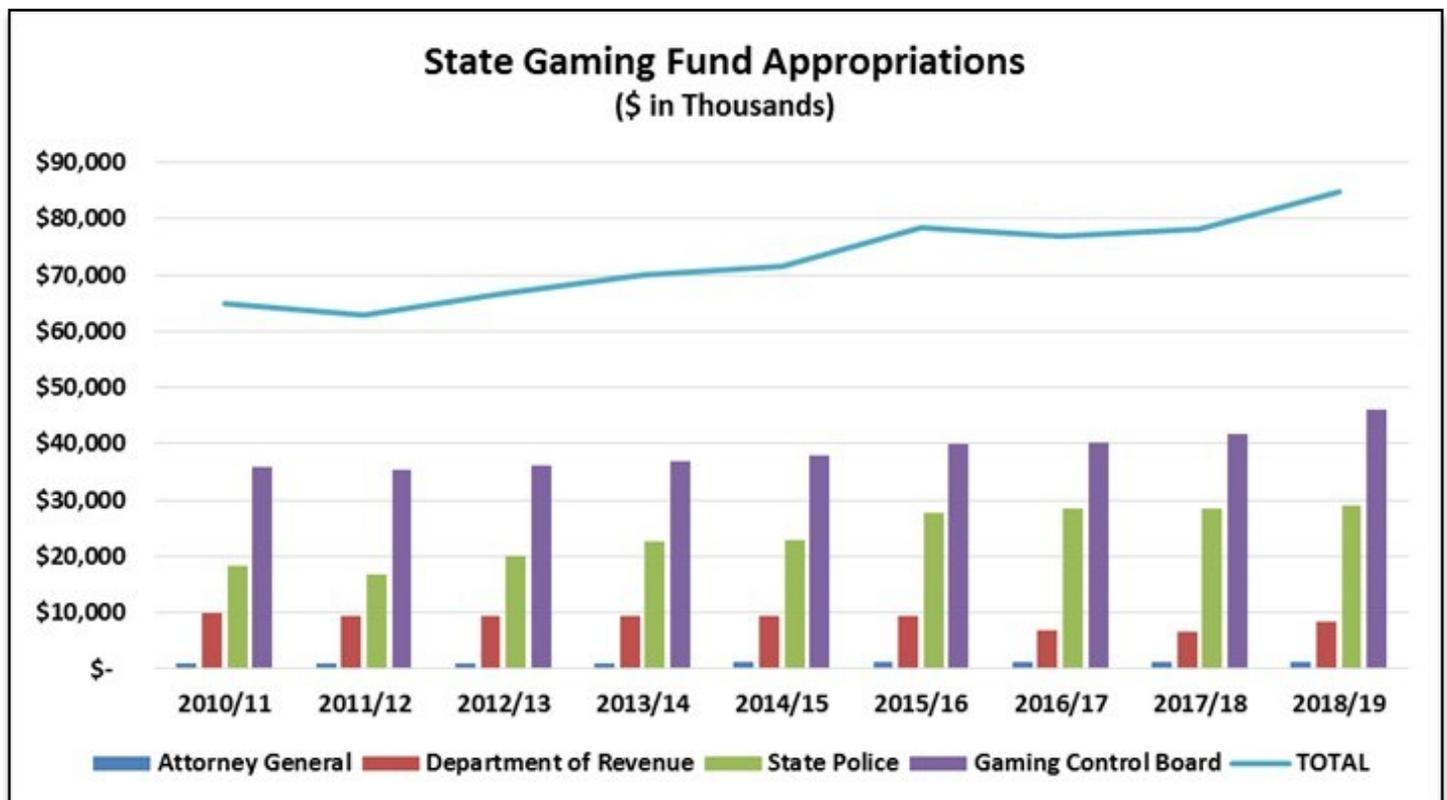
There is no additional fee for simulcasting, but casinos must apply for a permit. The taxes on simulcast events are the same as the pari-mutuel wagering on horse racing. For more information on pari-mutuel wagering, see the Pennsylvania Gaming Control Board [Pari-Mutuel Benchmark Reports](#).

## Administrative Costs

The administrative costs associated with regulating and enforcing gaming operations that are incurred by the Gaming Control Board, Department of Revenue, state police and Office of Attorney General are paid for by the casinos and other regulated entities. **No taxpayer dollars support the regulation of gaming, and the cost of regulation does not impact property tax relief.** Each of these agencies is required to annually submit itemized budgets to the chairmen of the House and Senate appropriations committees. The Gaming Control Board also receives itemized budget requests from the other agencies and then submits its analyses and recommendations to the appropriations committees.

Annually the General Assembly must pass a stand-alone act containing appropriations for each of the regulating agencies. The Department of Revenue assesses each licensee via deductions from their gross terminal revenue, and then the department makes the appropriate transfer to each agency according to its appropriation. The Department's assessment is a calculation and is purely a function of the amount needed to satisfy the enacted appropriation. Additionally, state police and the Office of Attorney General have specified costs that are directly billed to and reimbursed by the casinos.

Licensed casinos pay an assessment into the State Gaming Fund. Expanded gaming under Act 42 of 2017 created several new entities requiring regulation for fantasy sports and VGTs. Therefore, the law created two new funds for those licensees to pay into for the cost of their regulation. Fantasy sports operators will pay into the Fantasy Contest Fund, and truck stops will pay into the Video Gaming Fund.



# Gaming History in Pennsylvania



## Key Dates

### Gaming History



Wagering on thoroughbred racing becomes legal with the establishment of the State Horse Racing Commission. Act 331.



Legalization of slot machine gaming at casinos to support horse racing and provide property tax relief.



Table games authorized at casinos to benefit the General Fund. Act 1.



1959

Pari-mutuel wagering becomes legal with the establishment of the State Harness Racing Commission. Act 728.

1967



1971

Pennsylvania Lottery is established to benefit older Pennsylvanians. Act 91.

2004



2006

First casinos open in Pennsylvania, offering slot machines. Property Tax Relief Act specifies the distribution of property tax relief (Act 1 of Special Session 1 of 2006).

2010



2017

Expanded gaming enacted to include internet gaming, satellite casinos, fantasy sports, sports betting, and video gaming terminals at truck stops. Act 42.

## Appendix A - License Fees, Tax Rates, and Distributions

Gaming License and Certificate Fees			
One-Time Fees	Fee	Devices Allowed	Additional Information
Slot Machine License Fee - Category 1 & 2	\$50 million	3,000	Up to 2,000 more slots after 6 months of operation, if approved by the Board. Deposited into the State Gaming Fund prior to 2017/18, after that to the General Fund.
Slot Machine License Fee - Category 3	\$5 million	500	Deposited into the State Gaming Fund. Additional 100 slots permitted with a table games certificate. <b>Expanded gaming:</b> \$1 million to waive the patron of the amenities requirement; \$2.5 million for 250 additional slots; \$1 million for 15 additional poker tables. Deposited into the General Fund.
Table Games Certificate Fee - Category 1 & 2	\$16.5 million	250	For certificates issued before June 1, 2010.
Table Games Certificate Fee - Category 1 & 2 - after June 1, 2010	\$24.75 million	250	For slot machine licenses issued in 2017/18, the table games fee is due before June 30, 2018.
Table Games Certificate Fee - Category 3	\$7.5 million	50	100 more slots allowed if casino also holds a table games certificate.
Expanded Gaming - All Fees Deposited into the General Fund			
Category 4 Casino - Slot Machine License Fee	\$7.5 million minimum bid	300-750	Fees are based on auction price. Number of devices may not exceed total complement of the licensee.
Category 4 Casino - Table Games Certificate Fee	\$2.5 million	30	Optional certificate fee after slot machine license is approved.
iGaming Certificate	\$10 million	No limit	Additional \$1 million fee for contracted operators. \$10 million for current casinos to purchase all 3 (poker, tables, slots) certificates in first 90 days. 91 to 120 days, current casinos can buy any one certificate for \$4 million each. After 120 days, other qualified entities can purchase any remaining certificates for \$4 million each.
Airport Gaming Fee	\$125,000 to \$2.5 million	No limit	Must first have iGaming Certificate. \$2.5 million in first-class county, \$1.25 million in 2nd class, \$500,000 in all other counties with an international airport. For other qualified airports, \$125,000. Only available to iGaming certificate holders.
Fantasy Contest License	\$50,000	No limit	Allows fantasy sports operators, regardless of location, to collect taxes on contest net revenues adjusted for PA in-state participants.
Video Gaming Terminal License	\$250 per VGT	5 per truck stop	Truck stop must sell 50,000 gallons of diesel per month, have 20 commercial parking spaces, and occupy at least 3 acres.
Sports Wagering Certificate	\$10 million	N/A	Certificate fee deposited into the General Fund. Must first have an iGaming certificate.
Simulcasting Permit of Horse Races	No Fee	N/A	Allows Category 1,2,3 and 4 casinos to simulcast live races from any location for conducting pari-mutuel wagering.

**Gaming Taxes, Assessments and Distributions**  
**Slot Machines and Table Games - Prior to Expanded Gaming**  
*(\$ in millions)*

Taxes and Assessments	Rate	Revenue 2017/18	Cumulative Through 6/30/2018	Distribution of Funds
<b>Slot Machine Tax - State Share</b>	34%	\$ 799.8	\$ 8,419.5	Local property tax relief (wage tax relief in Philadelphia); local law enforcement grants (\$2 million per year); compulsive gambling treatment program (at least \$2 million per year); drug and alcohol treatment services (\$3 million to Dept. of Health); volunteer fire company grants (\$30 million).
<b>Slot Machine Tax - County Local Share Assessment</b>	2%	\$ 23.3	\$ 911.5	Distributed to host counties to be used for security, road construction, traffic systems, and other local government services needed to support orderly operation of slots facilities.
<b>Slot Machine Tax - Municipal Local Share Assessment</b>	\$10 Million			Act 42 of 2017 changed the rate from the greater of 2% or \$10 million to a fee of \$10 million. Windfall provisions roll excess revenues over to the host county.
<b>Race Horse Improvement Assessment<sup>1</sup></b>	12%	\$ 240.2	\$ 2,728.4	Funds allocated to the horsemen's organization must be used to benefit all horsemen. Benevolent programs include pension and health insurance benefits for the horsemen.
<b>Gaming Economic Development and Tourism Assessment</b>	6%	\$ 129.6	\$ 1,250.1	Funds are distributed to specific projects via separate capital budget bills, Act 53 of 2007 and Act 63 of 2008 (H2O PA). Of the 6%, 0.5% of Category 1, 2 and 3 gross terminal revenue goes to the Casino Marketing and Capital Development Account. Category 4 casinos are assessed at 6%, all going to the GEDTF.
<b>Table Games - State Share<sup>2</sup></b>	12%	\$ 126.2	\$ 791.6	Deposited in the General Fund. If Rainy Day Fund reaches \$750 million, revenues would go to Property Tax Relief Fund.
<b>Table Games - Local Share</b>	2%	\$ 17.9	\$ 119.9	1% to the host county and 1% to the host municipality.

<sup>1</sup>The race horse improvement assessment is a formula based on each entity's gross terminal revenue and the gross terminal revenue at all Category 1 licensees, which is capped at 12% of gross terminal revenue. Actual rates are closer to 10%.

<sup>2</sup>The table games tax rate is 14% for the first two years of table games operation at each casino, then drops to 12%. The state tax rate on fully automated table games is 34% in addition to the base rate of either 12% or 14%. Effective Aug. 1, 2016, there is an additional 2% tax on table games revenue, which is set to expire on June 30, 2019 (Act 84 of 2016 amending the Tax Reform Code).

## Expanded Gaming Taxes, Assessments and Distributions

(\$ in millions)

Taxes and Assessments	Rate	Distribution of Funds
<b>Category 4 Slot Machine Tax</b>	50%	34% deposited into the Property Tax Relief Fund. 5% to the Commonwealth Financing Agency for project grants in the public interest in any county. 5% distributed to counties whose local share funding levels decrease below 2017/18 levels. 6% to the PA Gaming Economic Development and Tourism Fund.
<b>Category 4 Slot Machine Local Share</b>	4%	2% to the host county. 2% to the host municipality.
<b>iGaming - Table Games and Poker</b>	14%	Deposited into the General Fund.
<b>iGaming - Slot Machine Style</b>	52%	34% to the Property Tax Relief Fund. 5% to counties whose local share decreases below 2017/18 levels. 13% to the CFA for grants in any county for projects in the public interest.
<b>iGaming - Local Share</b>	2%	1% to the host county of the licensed casino, added to and distributed according to county slot machine distributions. - Philadelphia: 1% to the school district. - Delaware County (Harrahs): 1% to the county authority for municipal police and emergency services or other economic development. - If the certificate holder is not a PA casino, 1% added to and distributed with the amount below to the CFA for projects in any county. 1% to the CFA for projects in the public interest in any county.
<b>Airport Gaming - Table Games and Poker</b>	14%	Tax rates and local share are the same as iGaming rates; however all taxes deposited into the General Fund.
<b>Airport Gaming - Slot Machine Style</b>	52%	Tax rates and local share are the same as iGaming rates; however all taxes deposited into the General Fund.
<b>Airport Gaming - Local Share</b>	2%	1% to the CFA for grants in the host county. - Philadelphia Airport: 0.5% to the Philadelphia school district and 0.5% to Delaware County. 1% to the CFA for grants in any county.
<b>Fantasy Sports</b>	15%	Deposited into the General Fund. Tax collections began May 2, 2018. Each year 0.2% transferred to the Department of Drug and Alcohol Programs for drug and alcohol addiction treatment services.
<b>Video Gaming Terminals</b>	42%	Deposited into the Video Gaming Fund. 0.2% of revenues transferred for compulsive and problem gambling; remaining revenue transferred to the General Fund.
<b>Video Gaming Terminals - Local Share</b>	10%	Distributed to the CFA for grants in the commonwealth.
<b>Sports Wagering</b>	34%	Deposited into the General Fund. Each year 0.2% transferred to the Department of Drug and Alcohol Programs for drug and alcohol addiction treatment services and 0.2% of revenues transferred to the Compulsive and Problem Gambling Treatment Fund.
<b>Simulcasting</b>	1.5%	Same as pari-mutuel wagering: 1.5% of the amount wagered on win, place or show wagers and 2.5% on exotic wagers (exacta, daily double, quinella and trifecta). Distributed to the State Racing Fund for regulation of the Racing Commission and for promotion of horse racing.

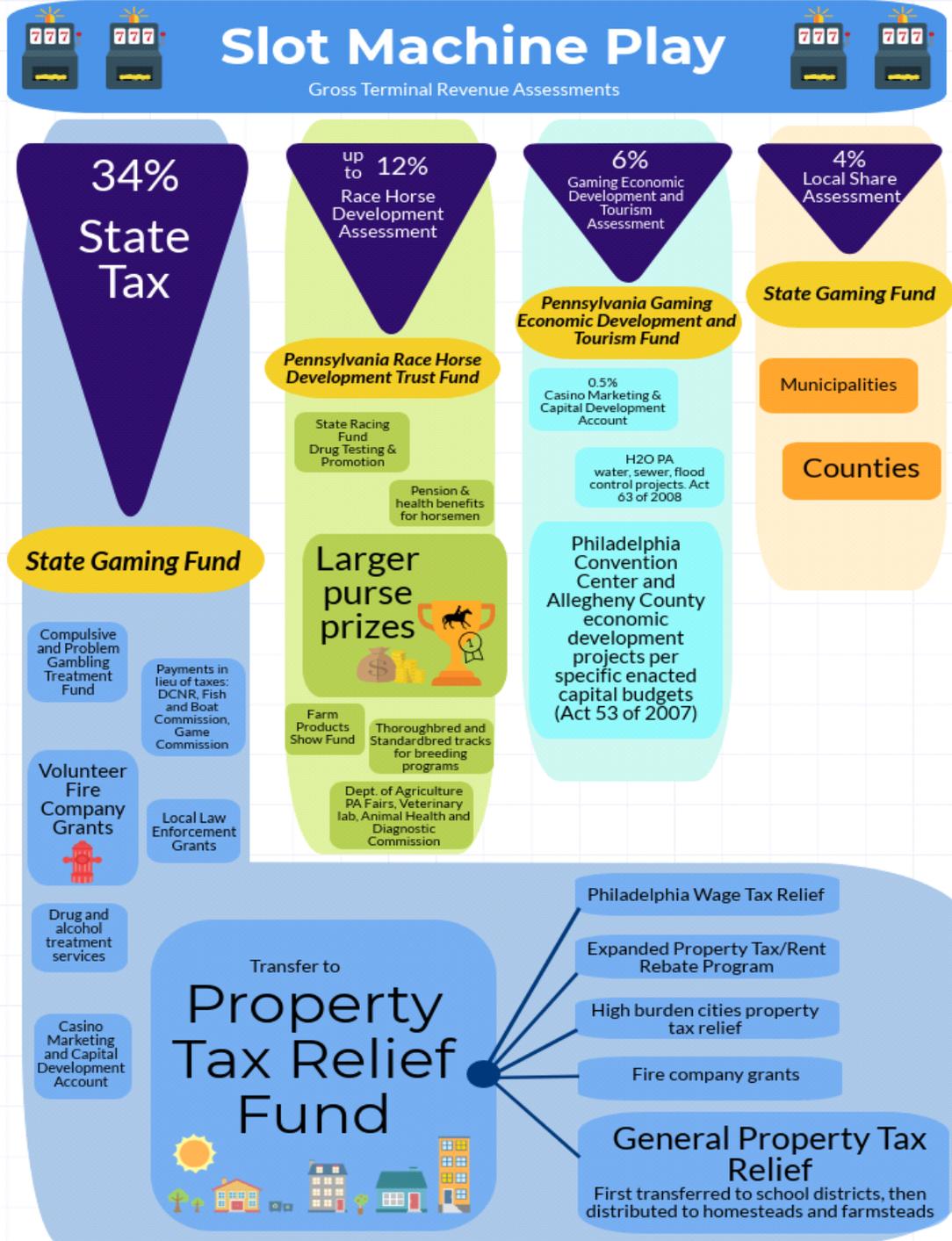
## Appendix B

Status of Casino Licenses								
Casino	Category	County	Municipality	Opening Date	Employees	Table Games	Slots	
Mohegan Sun	1	Harness	Luzerne	Plains Twp.	11/14/2006	1,588	91	2,332
Parx	1	Thoroughbred	Bucks	Bensalem Twp.	12/19/2006	2,059	179	3,412
Harrah's Philadelphia	1	Harness	Delaware	Chester	1/23/2007	1,351	118	2,450
Presque Isle Downs	1	Thoroughbred	Erie	Summit Twp.	2/28/2007	802	38	1,594
Meadows	1	Harness	Washington	North Strabane	6/11/2007	1,348	82	2,730
Mount Airy	2	Non-racing	Monroe	Paradise Twp.	10/22/2007	1,112	81	1,868
Hollywood	1	Thoroughbred	Dauphin	East Hanover Twp.	2/12/2008	1,001	74	2,350
Sands	2	Non-racing	Northampton	Bethlehem	5/22/2009	2,519	237	3,013
Rivers	2	Non-racing	Allegheny	Pittsburgh	8/9/2009	1,763	122	2,934
SugarHouse	2	Non-racing	Philadelphia	Philadelphia	9/23/2010	1,551	140	1,802
Valley Forge	3	Resort	Montgomery	Upper Merion Twp.	3/31/2012	1,081	50	600
Lady Luck Nemacolin	3	Resort	Fayette	Wharton Twp.	7/1/2013	1,561	27	600
Licenses in Progress and Unassigned Licenses								
Stadium (Philadelphia #2)	2	Non-racing	License awarded to Stadium Casino at 900 Packer Avenue. All appeals have been finalized. Scheduled to open in late 2020.					
Category 1	1	Harness	One racing license and Category 1 gaming license remain available. There are no pending applications. Application by Endeka Entertainment (Lawrence County) was revoked by the board May 31, 2016.					
Category 4 Licenses	4	Satellite	Auction of ten licenses beginning January 2018, first to existing Category 1 and 2 licensees. Five licenses were auctioned to PA casinos. The board may decide whether to open bidding to outside jurisdictions for remaining licenses.					
Fantasy Sports			Licensing began May 1, 2018.					
Video Gaming Terminals			Up to 5 VGTs at qualified truck stops that sell 50,000 gallons of diesel per month, have 20 commercial parking spaces, convenience store and three acres of land. The board began accepting applications May 7, 2018.					

# Appendix C - Slot Machine Revenue Deposits and Fund Transfers

The diagram below shows a basic distribution of the taxes and assessments on slots gaming at land-based casinos. The base of the assessments is gross terminal revenue. For information on distributions from other types of gaming, such as table games and iGaming, see Appendix A.

## Flow chart



\*This graphic represents only distributions from land-based casino slot machine play. It does not include distributions from table games, iGaming, sports wagering, fantasy sports or video gaming terminals.

## State Gaming Fund

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After a few smaller spending requirements are addressed, most of the revenue in the state gaming fund is transferred to another fund for school district property tax relief and wage tax relief for Philadelphia. The State Gaming Fund was established by Act 71 of 2004 and is contained in Title 4, Section 1408.

The 34 percent slot machine tax on gross terminal revenue is deposited into the State Gaming Fund. Until June 30, 2014, slot machine license fees were also deposited in the state gaming fund but have since been diverted to the General Fund per Act 126 of 2014 (amending the Fiscal Code). Several transfers are made off the top of the revenues generated by the 34 percent slot machine tax before calculations for property tax relief are made, as follows:

- Compulsive and problem gambling treatment – Each year, \$2 million or 0.2 percent of gross terminal revenue, whichever is greater, is transferred to this fund.
- Drug and alcohol addiction treatment services – Each year (beginning in 2010), \$3 million is transferred to the Department of Health for this purpose, as well as drug and alcohol addiction related to compulsive and problem gambling.
- Local law enforcement grants – Each year, \$2 million is transferred to the Gaming Control Board, which then provides grants to local law enforcement agencies to investigate violations and enforce laws relating to unlawful gaming.
- Transfer \$25 million annually to the Volunteer Company Grant Program, which also receives funding from the Property Tax Relief Fund (described below). And,
- Payments in lieu of taxes are made to counties, townships and school districts for land owned by the state or federal government per the Forest Reserves Municipal Relief Law of 1929 (No. 591). Payments are made via the Department of Conservation and Natural Resources, the Game Commission and the Fish and Boat Commission.

After these five expenditures, the balance from the slot machine tax is transferred to the Property Tax Relief Fund. As described in more detail below, most of this balance goes to school districts for property tax relief.

Completely separate from the slot machine tax and its distributions, the State Gaming Fund is also the repository for:

- Local share assessments (on slots and table games revenue), which are then transferred to the appropriate counties and municipalities, and
- Appropriations for administrative duties to the Gaming Control Board, Department of Revenue, Office of the Attorney General and state police.

The receipts and disbursements for local share assessments and administrative costs do not affect the calculations or revenue available for property tax relief.

## Property Tax Relief Fund

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Annual broad-based property tax relief began in July 2008 when nearly 2.7 million Pennsylvania households received average property tax reductions of almost \$200. Each year (by April 15), the budget secretary calculates and certifies the gross amount of tax relief to be distributed to school districts which ultimately shows up as a reduction to homeowners' property tax bills. The law says the secretary shall only certify an amount that is sustainable in subsequent years. While the Property Tax Relief Fund primarily supports property tax relief, it also funds volunteer company grants, the Property Tax Rent Rebate Program (PTRR), and wage tax relief for Philadelphia (in place of property tax relief) as described further below.

### Volunteer Company Grants

Act 78 of 2012 funds the Volunteer Company Grant Program out of the Property Tax Relief Fund, which is capped at \$5 million per year. This \$5 million is in addition to the \$25 million a year paid out of the State Gaming Fund, pursuant to the Pennsylvania Race Horse Development Act (No. 71 of 2004). The Volunteer Fire Company Grant Program is established under the Volunteer Fire Company and Volunteer Ambulance Service Grant Act (No. 17 of 2003).

## **Expanded PTRR**

Act 1 of Special Session 1 of 2006, the Taxpayer Relief Act, expanded the PTRR program for homeowners, primarily senior citizens, by increasing the income limit from \$15,000 to \$35,000 and the maximum rebate from \$500 to \$650. The income limit for renters remained unchanged at \$15,000; however the maximum rebate for renters increased from \$500 to \$650.

The base PTRR amount is paid from lottery proceeds; however, the costs associated with the expansions provided for in the Taxpayer Relief Act are paid with slot machine proceeds – a portion of the 34 percent tax available for property tax relief (transferred from the Property Tax Relief Fund to the Lottery Fund and the Lottery Fund rebates payments to eligible recipients).

Initially, one-time transfers of \$100 million from the Property Tax Relief Fund to the Lottery Fund were made in 2006/07 and 2007/08 for expanded PTRR payments, per Section 1308 of Act 1. This money came from slot machine license fees paid by the first two successful applicants of Category 1 and 2 licenses.

## **Supplemental PTRR - Cities and High-Burden**

Supplemental rebates, in addition to the expanded PTRR program, are granted to low-income homeowners with a high tax burden in relation to their income, as well as homeowners in Philadelphia, Pittsburgh and Scranton. Supplemental rebates are automatically granted to eligible PTRR applicants with incomes of \$30,000 or less. Such rebates are equal to 50 percent of the base amount of a qualifying homeowner's standard rebate. (Source: Sections 704 and 1304 of the Taxpayer Relief Act)

Supplemental PTRR payments are also paid with a portion of the 34% slot machine tax, which is deposited in the State Gaming Fund, transferred to the Property Tax Relief Fund and then transferred to the Lottery Fund before being paid to homeowners.

## **Sterling Act Reimbursements**

Part of the budget secretary's property tax relief certification includes reimbursements to school districts that grant tax credits to their residents who pay the non-resident Philadelphia wage tax (individuals who live outside of Philadelphia but work in Philadelphia), pursuant to Section 324 of the Taxpayer Relief Act.

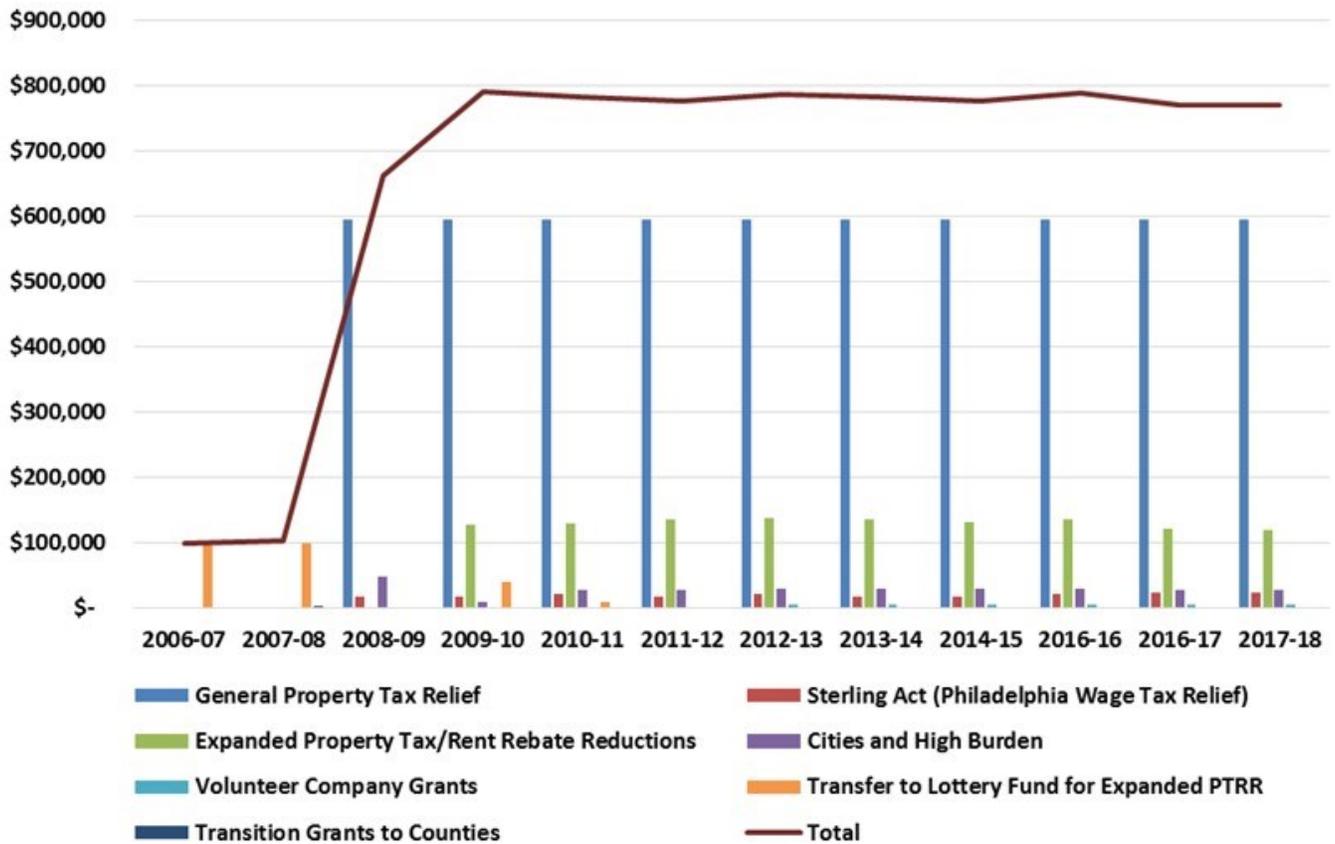
## **General Property Tax Relief**

After subtracting the amount of funding required for the Property Tax Relief Reserve Fund, supplemental funding for the Property Tax Rent Rebate Program, volunteer company grants and Sterling Act reimbursements, the budget secretary certifies the amount that will be available for statewide property tax relief.

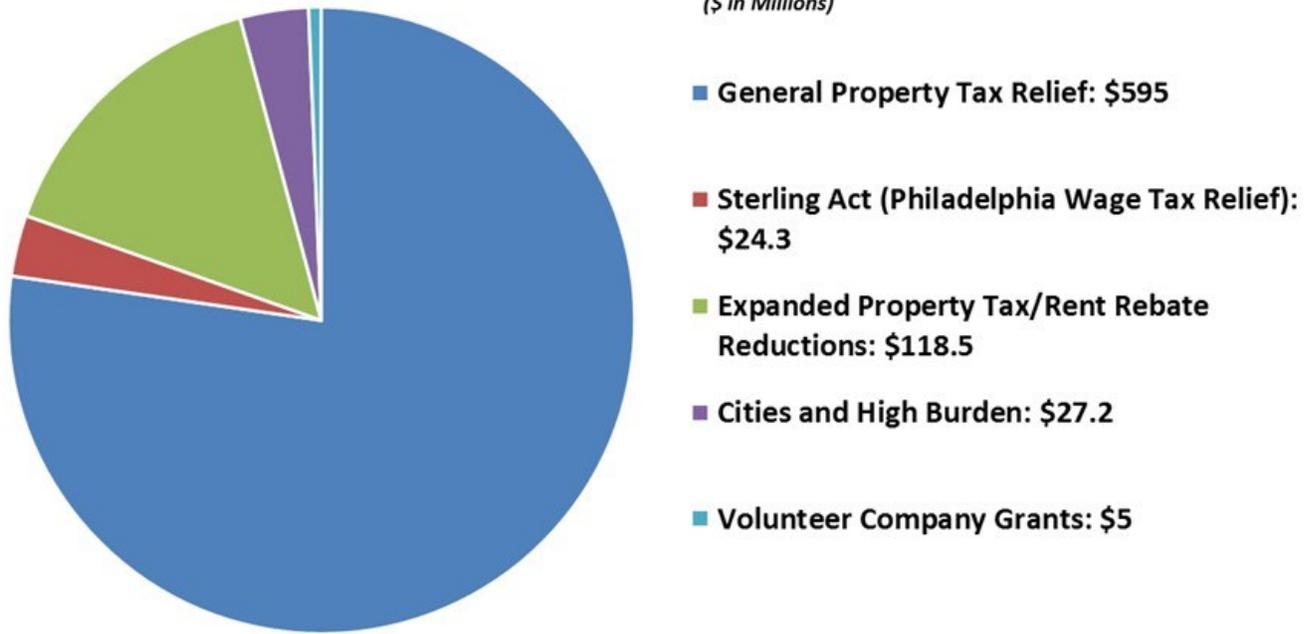
Once that number is available, the Department of Education calculates and applies the proper indices contained in the Property Tax Relief Act to determine the amount of rebates available to each school district and the rebate granted to each homestead (primary residence) within each district. The Department of Education posts this information on its website each May. The calculations and indices consider the relative property tax burden and income in each school district. Rebates vary by school district but are uniform within each district. Rebates range from \$39 to \$641 with an average of \$200 per homestead.

Philadelphia's portion of property tax relief is distributed in the form of wage tax relief to residents and non-residents who pay the wage tax.

### Property Tax Fund Disbursements (*\$ in Thousands*)



### Property Tax Relief Fund Disbursements 2017-18 (*\$ in Millions*)



Property Tax Relief Fund Disbursements												
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2016-16	2016-17	2017-18
General Property Tax Relief	\$ -	\$ -	\$ 594,571	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000	\$ 595,000
Sterling Act (Philadelphia Wage Tax Relief)	\$ -	\$ -	\$ 17,887	\$ 18,200	\$ 21,500	\$ 17,100	\$ 20,600	\$ 16,600	\$ 16,600	\$ 21,490	\$ 22,900	\$ 24,300
Expanded Property Tax/Rent Rebate Reductions	\$ -	\$ -	\$ -	\$ 127,500	\$ 129,100	\$ 135,900	\$ 137,800	\$ 136,700	\$ 131,300	\$ 136,400	\$ 120,700	\$ 118,500
Cities and High Burden	\$ -	\$ -	\$ 48,500	\$ 9,200	\$ 26,900	\$ 28,200	\$ 29,000	\$ 29,800	\$ 28,900	\$ 30,400	\$ 27,300	\$ 27,200
Volunteer Company Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Transfer to Lottery Fund for Expanded PTRR	\$ 100,000	\$ 100,000	\$ -	\$ 40,000	\$ 9,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transition Grants to Counties	\$ -	\$ 2,760	\$ 229	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 100,000</b>	<b>\$ 102,760</b>	<b>\$ 661,187</b>	<b>\$ 789,900</b>	<b>\$ 782,400</b>	<b>\$ 776,200</b>	<b>\$ 787,400</b>	<b>\$ 783,100</b>	<b>\$ 776,800</b>	<b>\$ 788,290</b>	<b>\$ 770,900</b>	<b>\$ 770,000</b>

## Pennsylvania Gaming Economic Development and Tourism Fund

Act 71 of 2004 established the Pennsylvania Gaming Economic Development and Tourism Fund as a five percent assessment on all Category 1, 2 and 3 casinos' gross terminal revenue, and Act 42 of 2017 (expanded gaming) increased the assessment to 5.5 percent, plus an additional 0.5 percent supplemental assessment dedicated to the casino marketing and capital development account. The Category 4 assessment is six percent of gross terminal revenue.

The 5.5 percent assessment is directed to Allegheny County and Philadelphia, based on the capital itemization of Act 53 of 2007, and another portion is directed to H2O PA debt service per Act 63 of 2008.

- Philadelphia – Funds are distributed for the Philadelphia Convention Center.
- Allegheny County – Funds are distributed for urban redevelopment authority debt, convention center debt, regional sports commission, Pittsburgh Penguins arena, Pittsburgh International Airport debt, convention center and hotel debt (via CFA), Allegheny County Economic Development Fund debt, and distributions to community infrastructure development.
- The distribution to “community infrastructure development” requires projects to be submitted to the Redevelopment Authority of Allegheny County. The projects approved by the redevelopment authority are then sent to the Commonwealth Financing Authority for approval. The list of CFA approved projects can be found [here](#).
- H2O PA – Allows for proceeds from this fund to be used for debt service for water and sewer projects, flood control projects and high hazard unsafe dam projects as approved by the Commonwealth Financing Authority.

The additional 0.5 percent is dedicated to the Casino Marketing and Capital Development Account, which is designed to assist the smaller casinos. The statutory distribution gives more money to casinos with less gross terminal revenue. Litigation brought by the Sands casino is pending regarding the constitutionality of the distribution. The Pennsylvania Supreme Court issued an order on Aug. 30, 2018 enjoining the distribution of the funds until the court decides the merits of the constitutionality. In the meantime, casinos must continue to pay into the fund, and the Department of Revenue will continue to accrue the tax owed to the fund.

## Pennsylvania Race Horse Development Trust Fund

Act 71 of 2004 established the Pennsylvania Race Horse Development Trust Fund to provide horsemen's organizations and purses with additional resources to offset potential declines in racing wagers due to the introduction of slots gaming. Act 42 of 2017 converted it to a Trust Fund. All licensed casinos must pay the assessment (including those without a racetrack), which is based on a formula set in statute. Although the formula is capped at 12 percent of gross terminal revenue from slots revenue, the actual effective rate calculated is closer to 10 percent.

The original act, reflected in Title 4, distributes proceeds to licensed racetracks as follows:

- 80 percent for increased purses, which ultimately benefits the owners of winning horses.
- 16 percent for breeding funds as follows:
  - ◊ Thoroughbred tracks – deposited into the Pennsylvania Breeding Fund.
  - ◊ Standardbred tracks – 8 percent into the Sire Stakes Fund and 8 percent into the Pennsylvania Standardbred Breeders Development Trust Fund.
- 4 percent to fund health and pension benefits for members of the horsemen’s organizations representing owners, trainers and employees at the racetrack.
  - ◊ Of this amount, \$250,000 is paid annually to the jockeys and drivers organization at each racetrack for health and life insurance.

Additional transfers were established later by statute, but come off the top in calculations before the distributions above.

In 2016, funding for the State Racing Commission, which regulates horse racing and conducts drug testing, reached a crisis point. The commission is funded by revenues from pari-mutuel wagering, which has been declining over the years. Without a new source of revenue, the commission would not have had funding to operate. Gov. Wolf called for immediate negotiations to provide funding, and he signed Act 114 of 2016 on Oct. 28, which provided historic reforms to the racing industry and temporary funding streams to the commission for drug testing.

- Drug testing – Beginning July 1, 2016, the General Assembly shall authorize the transfer of funds from the Pennsylvania Race Horse Development Trust Fund to the State Racing Fund for drug testing. This provision expires on June 30, 2020. After that time all costs for the Pennsylvania Race Horse Testing Program shall be paid by the commission.
- Promotion – Additionally, Act 114 requires an annual transfer of one percent of the previous fiscal year’s deposits into the Pennsylvania Race Horse Development Trust Fund to the State Racing Fund to provide for the promotion of horse racing.

**House Appropriations Committee (D)**

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