

Report Highlights

An Assessment of the Impact of Slots Gaming on Pennsylvania Lottery Sales

As a major new entrant into the state's gaming market, many believe that slots wagering could adversely affect sales of the PA Lottery. Recognizing this concern, Act 2004-71, requires that the LB&FC issue annual reports to the Legislature analyzing the impact, if any, of the implementation of legalized slots gaming on the Lottery. This report covers the period November 2006 through January 2008.

Study Conclusions:

1. PA Lottery Sales Prior to Slots Introduction:

Between FY 2002-03 and FY 2005-06, annual Lottery ticket sales increased by double-digit percentages and, in FY 2005-06, annual sales surpassed \$3.0 billion for the first time in the Lottery's history. This period of unprecedented sales growth immediately preceded the introduction of legalized slots gaming in November 2006 and was due to a combination of factors, including a substantial expansion of the Lottery retailer network and PA's entry into the multi-state Powerball jackpot game.

2. Slots Wagering Since November 2006. On November 14, 2006, the Commonwealth officially became the 12th casino state in the nation. During the subsequent 15-month period through January 2008, the total amount wagered at all PA gaming facilities reached \$13.9 billion at five racinos and one stand-alone casino.

3. Lottery Sales Since the Introduction of Slots Gaming: PA Lottery sales growth slowed to less than 1 percent in FY 2006-07, and a 5 percent decline was projected for FY 2007-08. Some attribute the slowdown and negative growth projections to the gaming public shifting its attention from the Lottery to slots wagering.

4. Statewide and Regional Analysis of Slots Impact: To date, slots operations do not appear to be having a significant effect on Lottery sales, at least on a statewide basis. However, although it is still early and further data collection and analysis are necessary, it appears that the opening of slots gaming facilities may be having some effect on Lottery sales in the areas immediately surrounding the casinos. For example:

- There is a pattern of more frequent and higher percentage declines in weekly Lottery sales in regions within a 60-minute drive-time of a slots facility compared to regions of the state outside a 60-minute drive-time of a slots facility.

- Lottery ticket sales declined by an average of 4.2 percent from CY 2006 to CY 2007 in the six counties that housed a casino. Among the 20 counties immediately adjacent to a county with a slots facility, ticket sales increased by 0.7 percent, nearly matching the statewide average. In the remaining 41 counties that are neither home to a casino nor immediately adjacent, ticket sales increased by an average of 3.8 percent in CY 2007 over CY 2006.

5. Other Factors Affecting PA Lottery Sales:

We concluded, however, that no single factor, including the introduction of slots gaming, can be cited as the sole contributing factor in the slowdown of Lottery sales growth. While competition from slots gaming cannot be discounted, we found that other factors may be exerting a greater influence on sales at this time. Among these are declining economic conditions, a leveling off in the number of Lottery retailers, fewer high Powerball jackpots, a decrease in the popularity of traditional numbers games, and competition from the Mega Millions jackpot game available in four of PA's border states. However, isolating a cause and effect relationship between slots gaming and a state's lottery sales levels is complicated by the interdependent nature of the above-cited factors. With seven additional slots locations yet to open, it is still too early to arrive at a definitive conclusion that any one of these factors is more important than another as a determinant of Lottery sales levels.

6. Results of a Pertinent National Study. A major national study conducted in 2004 found state lotteries can perform well after the introduction of slots gaming if the lottery introduces higher priced instant tickets and joins a multi-state lottery jackpot game. The PA Lottery took both of these actions prior to the introduction of slots gaming.