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

An Annual Report  
Required by Act 2004-71

June 2008

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# Report Summary

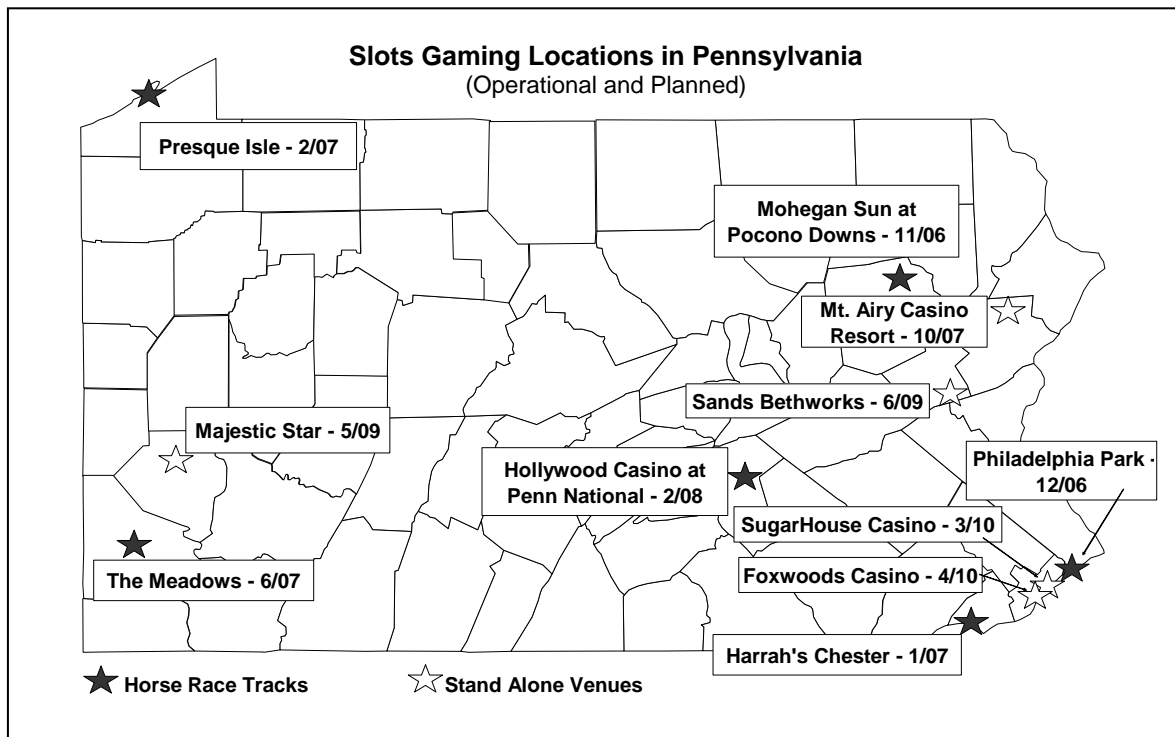
## Study Background

As a major new entrant into the state's gaming market, many believe that slots gaming could adversely affect sales of the Pennsylvania Lottery. Recognizing this concern, Act 2004-71, the Pennsylvania Race Horse Development and Gaming Act, requires that the Legislative Budget and Finance Committee issue annual reports to the General Assembly analyzing the impact, if any, of the implementation of legalized slots gaming on the Pennsylvania Lottery.

This report provides an assessment of Pennsylvania Lottery sales both before and since the opening of the first slots venue. It also addresses slots licensing and implementation actions to date, slots gaming activity during the first 15 months of slots operations, and whether slots gaming operations at the state's five racinos and one stand-alone casino in operation as of January 2008 appear to be impacting Lottery sales levels.

## Study Conclusions

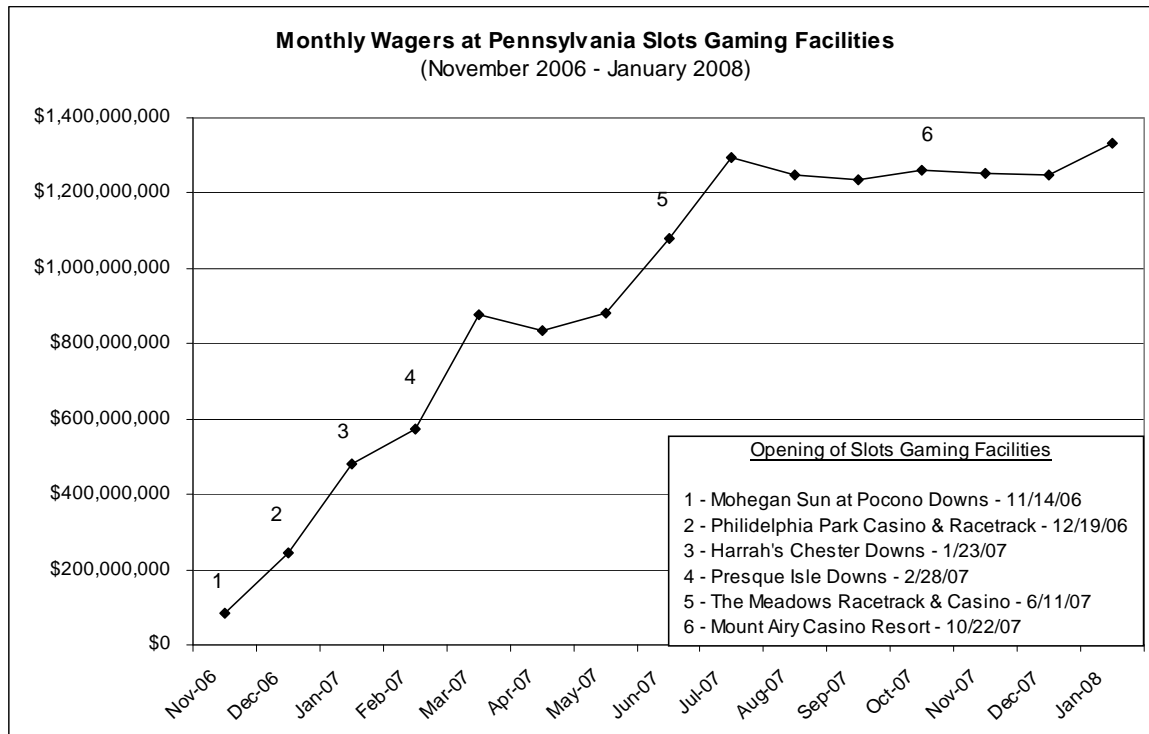
On November 14, 2006, the Commonwealth officially became the 12<sup>th</sup> casino state in the nation when Mohegan Sun at Pocono Downs opened. Since that time, Pennsylvania's gaming market has emerged at a rate which is unparalleled in the U.S. commercial gaming industry. As shown below, between November 2006 and January 2008 six slots gaming facilities opened in the Commonwealth.<sup>1</sup>



<sup>1</sup>A seventh location, a Category 1 racetrack facility, Hollywood Casino at Penn National opened on February 12, 2008.

Gaming facilities that opened during this period include five Category 1 racetrack facilities (Mohegan Sun at Pocono Downs, Philadelphia Park, Harrah's Chester, Presque Isle Downs, and The Meadows Racetrack and Casino) and one Category 2 stand-alone facility (Mt. Airy Casino Resort). No Category 3 resort hotel facilities have yet opened.

Between November 2006 and the end of January 2008, the total amount wagered at all Pennsylvania gaming facilities reached \$13.9 billion. The graph below illustrates the pattern of monthly wagers at the slots gaming facilities.



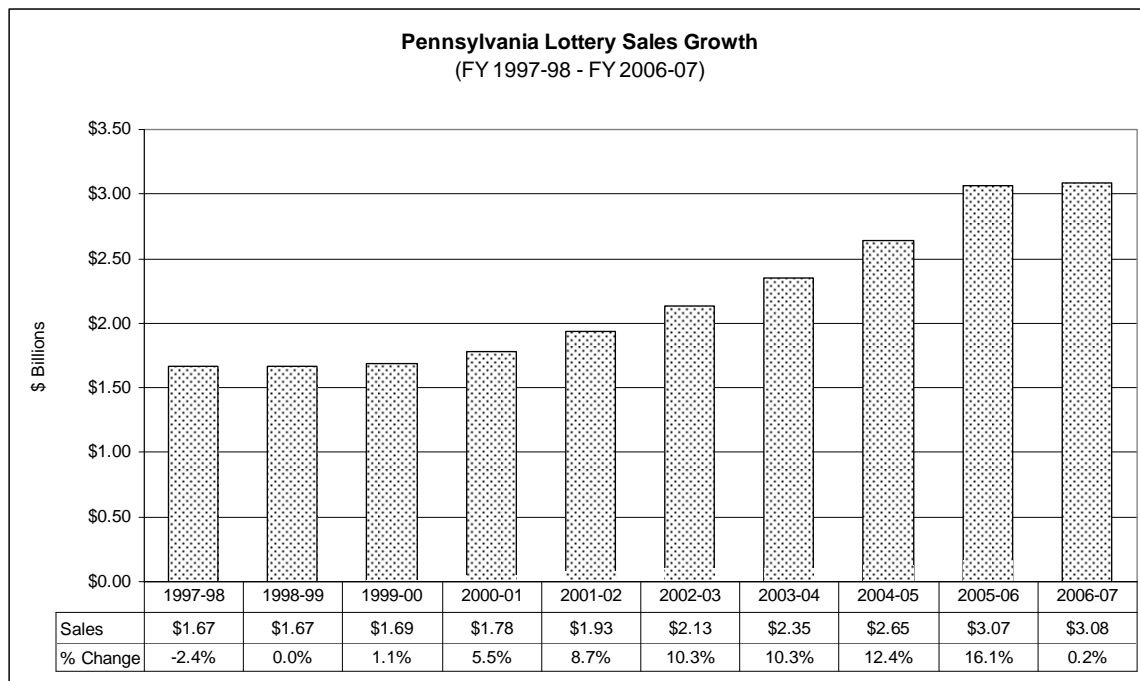
Total wagers at each of the individual slots gaming facilities are shown below. Through January 2008, nearly \$4 billion had been wagered at Philadelphia Park, or an average of \$285 million per month. Harrah's Chester was the second busiest location in terms of wagers at \$281 million a month for a 13 month total of \$3.7 billion.

Racino/Casino	# Months In Operation	Total Wagers	Average Per Month
Mohegan Sun .....	15	\$ 2,299,703,601	\$153,313,573
Philadelphia Park.....	14	3,984,032,784	284,573,770
Harrah's Chester .....	13	3,653,306,767	281,023,597
Presque Isle.....	12	1,763,943,872	146,995,323
The Meadows .....	8	1,673,317,978	209,164,747
Mount Airy .....	4	<u>550,577,033</u>	137,644,258
Total Wagers .....		\$13,924,882,035	

Payouts on the \$13.9 billion wagered totaled just under \$12.7 billion. During this 15-month period, gross terminal revenues (i.e., the difference between wagers and payouts) were \$1.2 billion. It is this amount from which the state's 55 percent share of slots gaming revenues is derived.

When considering whether the introduction of slots gaming is adversely affecting Pennsylvania Lottery sales, it is first necessary to examine recent trends in annual Lottery sales within the context of the various interdependent factors that are present in the Lottery sales dynamic.

In FY 2000-01, following a period during which annual Pennsylvania Lottery sales were either growing by relatively small amounts or declining, ticket sales totaled \$1.8 billion. This was followed by an increase of 8.7 percent that brought sales to \$1.9 billion in FY 2001-02. Thereafter, Lottery ticket sales increased by double-digit percentages in each of four consecutive fiscal years between FY 2002-03 and FY 2005-06. As shown on the graph below, by FY 2005-06, annual sales surpassed \$3.0 billion for the first time in the Lottery's history.



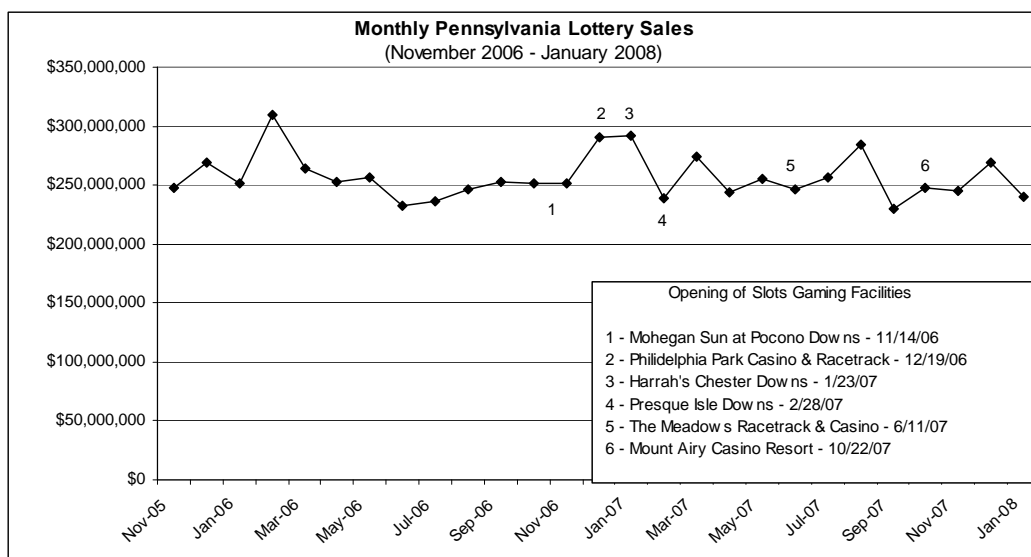
A combination of factors, including a substantial expansion of the Lottery retailer network and Pennsylvania's entry into the multi-state Powerball jackpot game, were responsible for much of this increase. An expansion and enhancement of Lottery instant games with higher price-points and other changes to the Lottery's games mix were also very instrumental in the sales expansion. This period of unprecedented sales growth immediately preceded the introduction of legalized slots gaming in November 2006.

The Lottery's annual sales growth slowed to less than 1 percent in FY 2006-07, and is projected to decline by nearly 5 percent in the current fiscal year, FY 2007-08. Because the current downturn in sales roughly approximates the period during which slots facilities have been operational, some may be inclined to attribute the slowdown solely to a shifting by the gaming public of a portion of their discretionary gaming expenditures from the Lottery to slots wagering.

However, lotteries are complex and dynamic businesses, and just as no single factor was responsible for the unprecedented growth in Pennsylvania Lottery sales that occurred between 2001 and 2006, no single factor, including the introduction of slots gaming, can now be cited as the sole contributing factor in the leveling off and subsequent downturn that has occurred in Lottery sales. While competition from slots gaming cannot be discounted as a factor in the current sales trend, it appears that a number of other factors may be exerting a greater influence on Lottery sales at this time.

Among these are declining economic conditions and lowered consumer confidence, a leveling off in the number of retailers selling Lottery games, the relative absence of high Powerball jackpots, a decrease in the popularity of traditional numbers games, and competition from the Mega Millions jackpot game available in four of Pennsylvania's border states. And, as was demonstrated by sharply lower Lottery sales during the week of the Valentine's Day snowstorm in February 2007, even the weather can be a factor.

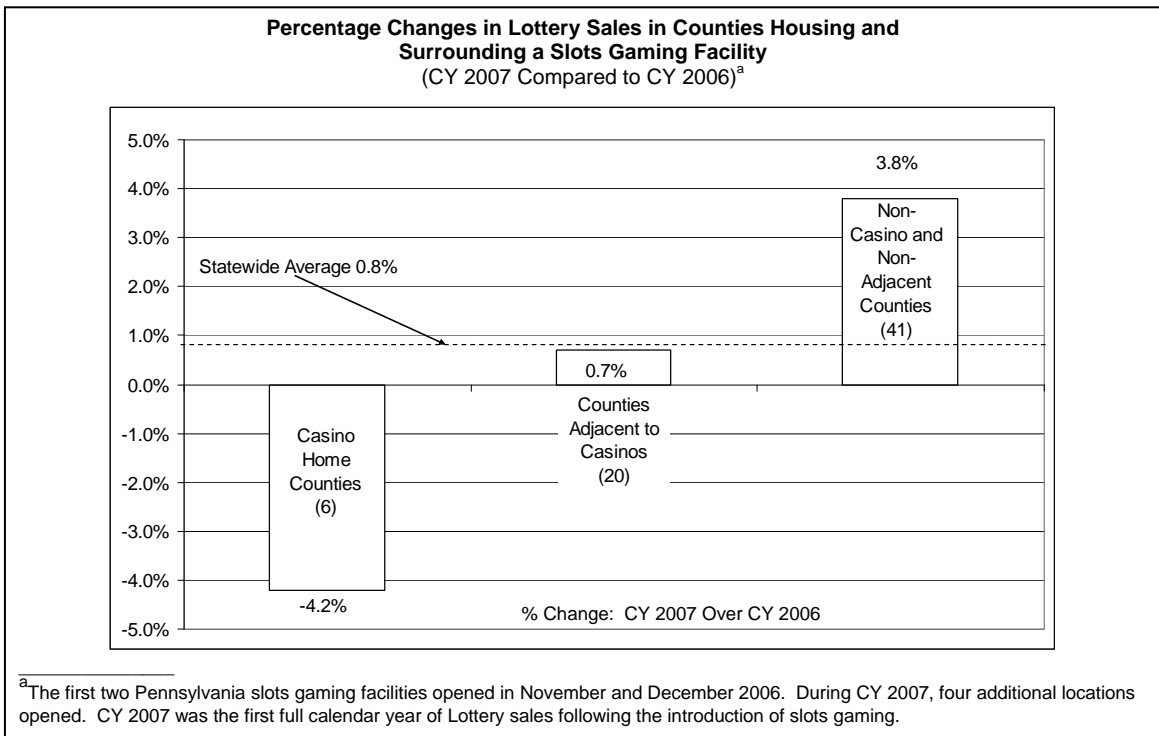
To date, there does not appear to be a significant effect, at least on a statewide basis, on Lottery sales when a slots location opens. As shown below, monthly Lottery sales did not show a consistent increase or decrease pattern following the opening of slots facilities between November 2006 and January 2008. Lottery sales actually increased following the opening of the first two slots venues in late 2006, declined after the opening of the third, and then proceeded to fluctuate during the remainder of the period examined.





However, although it is still early and further data collection and analysis are necessary, it appears that the opening of slots gaming facilities is 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 when compared to sales patterns in the region of the state classified as outside a 60-minute drive-time of a slots facility.

Also, as shown below, Lottery ticket sales declined by an average of 4.2 percent from CY 2006 to CY 2007 in the six casino/racino home counties. Among the 20 counties adjacent to a casino/racino, Lottery ticket sales nearly matched the statewide average, as sales increased by 0.7 percent in CY 2007 in those counties. In the remaining 41 counties that are neither home to a casino/racino nor immediately adjacent to such counties, Lottery ticket sales increased by an average of 3.8 percent in CY 2007 over CY 2006.



However, isolating a cause and effect relationship between slots gaming (or any other of the single factors cited above) and a state's lottery sales levels is complicated by the interdependent nature of these factors. With seven additional slots locations yet to open, it is still too early in the slots/Lottery tracking and assessment process to arrive at a definitive conclusion that any one of these factors is more important than another as a determinant of Lottery sales levels.

A major national study conducted in 2004 found that states that have introduced casino gaming have generally experienced a pattern of flattening lottery sales but, if certain actions are taken, have been able to sustain a level of lottery profitability close to that exhibited before the legalization of casinos. This study suggests that to perform well after the introduction of slots gaming, a state lottery needs to alter the structural characteristics of its lottery products, primarily by introducing higher priced instant tickets and joining a multi-state lottery jackpot game consortium. The Pennsylvania Lottery took both of these actions prior to the introduction of slots gaming.

It is also noteworthy that, despite the recent slowdown in sales, the Pennsylvania Lottery continues to rank seventh of 43 states with lotteries nationally in terms of total sales and has retained or improved its national ranking in all but one lottery game sales category.

The study findings on pages 5 to 111 provide detail in support of the above overall study conclusions.

# **I. Introduction**

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Act 2004-71 requires that the Legislative Budget and Finance Committee annually (no later than March 15) issue a report to the General Assembly analyzing the impact of slots gaming, if any, on the Pennsylvania Lottery. The objectives established for the 2008 report are listed below.

## **Study Objectives**

1. To determine the status of slots license awards, the openings and projected openings of slots gaming facilities, and the amount of slots gaming revenues generated to date.
2. To review historical trends in Pennsylvania Lottery sales, by game type, and compare Pennsylvania trends to those in other comparable state lotteries.
3. To examine Pennsylvania Lottery sales data since the initiation of slots gaming in the Commonwealth and assess the relative influence of numerous factors, including slots gaming, that may be impacting Lottery sales levels.
4. Evaluate Lottery sales projections in light of recent trends and the planned further expansion of slots gaming.
5. Compare the trend in Lottery sales in Pennsylvania since the introduction of slots gaming to the experience and sales patterns in other states that also have lotteries and have introduced slots gaming.

## **Scope and Methodology**

Since the first slots gaming facility did not open until November 2006, our work to date under the Act 71 mandate has generally been limited to monitoring slots implementation and Pennsylvania Lottery sales trends and projections through the issuance of three memorandum reports to the General Assembly in 2005, 2006, and 2007.

These reports provided background information and baseline data on the Pennsylvania Gaming Control Board (including an overview and timeline of slots start-up and openings), Pennsylvania Lottery sales/projections and State Lottery Fund financial condition, and a brief description of methods being used to monitor the impact, if any, on state Lottery sales as the various casino and racino venues prepared to and became operational. With the initiation of considerably more slots activity, this report provides a more substantive analysis of the potential impact of slots operation on Lottery sales.

LB&FC staff held an entrance meeting with the Secretary of the Department of Revenue, the Executive Director of the Pennsylvania Lottery, and other Department staff in October 2007. During that meeting, we received an overview of recent Pennsylvania Lottery sales trends (in total and by game), major initiatives being undertaken by the Department to promote Lottery sales growth, and the Department's view on the potential impact of slot machine gaming on Lottery sales. During that meeting, we also received a series of sales figures and diagrams of recent Lottery sales and further information on Lottery strategic marketing and retailer recruitment initiatives.

Between November 2007 and February 2008, LB&FC staff held a series of meetings with the Executive Director and staff of the Pennsylvania Lottery for the purpose of obtaining further sales data, to obtain information on ongoing and planned Lottery advertising and marketing initiatives, and to discuss further the potential impact of slot machine gaming on Lottery sales. Among other components, these discussions led to the identification of a number of factors in addition to slot machine gaming that may be having an effect on Lottery sales. We received a summary and compendium of information prepared by Lottery staff that describes and analyzes these factors, including extensive historical Lottery sales data in total and by game.

We obtained and analyzed wagers, payouts, and gross terminal revenues for each of Pennsylvania's operating slots gaming facilities from the opening of the first facility in November 2006 to January 2008. Staff also updated the status of slots gaming license awards and the opening status of each slots gaming facility. Moreover, we reviewed and quantified the state's share of revenue from slots gaming operations to date.

We analyzed Lottery sales in the period prior to and following the commencement of slot machine gaming in Pennsylvania. In particular, we examined Lottery sales figures, by game, for the period FY 1997-98 through FY 2006-07, with particular concentration on overall sales and sales by game during the period FY 2001-02 through mid-FY 2007-08. We also analyzed Lottery sales figures, in total and by game, from CY 2004 through CY 2007. We placed particular emphasis on monthly Lottery sales during the period one year prior to the opening of the first slots gaming facility (November 2005) through January 2008.

We also completed a review of the Pennsylvania Lottery game structure and the previous and current Lottery game mix. To assess Lottery plans for sustaining and expanding sales, we analyzed the Department of Revenue's five-point Pennsylvania Lottery marketing plan. In addition, to put Pennsylvania Lottery sales in context and comparative ranking, we present sales figures from other state lottery jurisdictions, in total and by game, during Calendar Years 2006 and 2007. As each operating slots gaming facility also serves as a Pennsylvania Lottery retailer, we

present Lottery sales at each facility and compared these figures to statewide average sales figures.

We employed several methods to analyze Lottery sales in close proximity to casinos/racinos prior to and following the initiation of slot machine gaming in Pennsylvania. We analyzed Lottery sales in Pennsylvania counties housing and surrounding a slots gaming facility during Calendar Years 2006 and 2007. Moreover, we discussed the findings of an ongoing initiative being conducted by Lottery staff to track Lottery sales among retailers located in ZIP codes within a 60 minute drive-time of one or more Pennsylvania slots gaming facility. This continuing analysis provides percentage changes over the same week of the prior year from November 2006 through December 2007.

We identified several other factors that may have a potential effect on Pennsylvania Lottery sales through research and discussion with Lottery officials, including general economic conditions and consumer confidence, the size of the Pennsylvania Lottery retailer base, Powerball sales and the size of game jackpots, Pennsylvania Lottery marketing strategies, border state lottery sales competition, and the potential relationship between gasoline prices and Lottery sales. Isolating a cause and effect relationship between slots gaming (or any single factor cited above) and a state's lottery sales levels is complicated by the interdependent nature of these factors.

Through discussion with Pennsylvania Lottery officials, the level of the jackpot in the multi-state jackpot game Powerball was identified as having a strong effect on Lottery sales as jackpots reach high amounts. As such, we analyzed sales of Powerball (and the complementary game option Powerplay) since the inception of the game in Pennsylvania in FY 2002-03 through FY 2006-07. We also examined trends in sales of the major competing multi-state jackpot game Mega Millions as its jackpot level increases.

We also obtained information on the experiences of other state Lottery jurisdictions following the introduction of slot machine gaming. This included a literature review for studies analyzing state lottery sales following the introduction of slot machine gaming in other states. In particular, we present the findings of a study completed by The Center for Policy Analysis at the University of Massachusetts, Dartmouth, and a recent study completed by the Florida Lottery following the introduction of slot machines at certain pari-mutuel facilities within the state.

We provide the State Lottery Fund financial statement from FY 2006-07 (actual) through FY 2008-09 (estimated), as well as pending legislation related to the Pennsylvania Gaming Control Board and the Pennsylvania Lottery. We also present Lottery ticket sales projections through FY 2011-12 as presented in the 2008-09 Governor's Executive Budget.

## **Acknowledgements**

LB&FC staff acknowledges and appreciates the excellent cooperation and assistance provided by the Department of Revenue and the Pennsylvania Lottery during the completion of this study. In particular, appreciation is extended to Thomas W. Wolf, Secretary of the Department of Revenue, and Edward Trees, Executive Director of the Pennsylvania Lottery. Appreciation is also extended to Sam Denisco, Legislative Liaison for the Department of Revenue, and Cal Heath, Research Director for the Pennsylvania Lottery. We are also grateful for the assistance provided in this study by the Pennsylvania Gaming Control Board and its staff.

## **Important Note**

*This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.*

*Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.*

## II. Pennsylvania Lottery Game Structure and Sales Trends

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*Since 1972, the Pennsylvania Lottery's game structure has evolved to include an array of terminal, instant, and multi-state jackpot games. The State Lottery's game mix is now comprised of instant games, two numbers games (Daily Number and Big 4), four matrix/lotto games (Cash 5, Match 6, Mix 'N Match, and Treasure Hunt), a raffle game (Millionaire Raffle), and one multi-state jackpot game (Powerball). Over the past ten years, Lottery sales have increased by 84.5 percent, from \$1.7 billion in FY 1997-98 to \$3.1 billion in FY 2006-07.*

### Game Structure

The Pennsylvania Lottery was created in 1971 through Act 1971-91, and commenced ticket sales in 1972. The Pennsylvania Lottery is organizationally located in the Department of Revenue. The Secretary of Revenue has overall responsibility for the operation and administration of the Lottery. However, day-to-day operations are the responsibility of the Lottery's Executive Director. Operations are conducted through a headquarters located in Middletown (also serving as an area office) and six additional area offices in Philadelphia, Wilkes-Barre, Clearfield, Pittsburgh, Erie, and Bethlehem.

The Pennsylvania Lottery's game structure is comprised of three basic types of games: daily terminal-based games; matrix or lotto terminal based games; and instant, or "scratch-off," games. The Lottery also introduced a terminal-based raffle-style game entitled "Millionaire Raffle," which has had five drawings to date since its debut in December 2005. (See Exhibit 1.)

Exhibit 1

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### Pennsylvania Lottery Game Mix (Calendar Year 2001 vs. Calendar Year 2008)

<u>Game Type/Game</u>	<u>2001</u>	<u>2008</u>
Instant Games.....	X	X
Super 6.....	X	--
Nightly Big 4.....	X	X
Nightly Daily Number.....	X	X
Cash 5.....	X	X
Powerball.....	--	X
Powerplay.....	--	X
Mid-Day Daily Number.....	--	X
Big 4 Mid-Day.....	--	X
Match 6 Lotto.....	--	X
Lucky "4" Life.....	--	X (end 2007)
Raffle.....	--	X
Mix & Match.....	--	X
Treasure Hunt.....	--	X

Source: The Pennsylvania Lottery.

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Lottery games are sold through a network of over 8,500 retailers statewide. The Pennsylvania Lottery remains the only state lottery in the country that exclusively targets its proceeds to programs that benefit older residents.

Daily terminal-based, or “numbers,” games are those in which players select three or four numbers, depending on the game, with various payoffs for different straight-order or mixed combination bets. In lotto games, players typically select a specified number of digits out of a large field of numbers (e.g. 6 of 49). Varying prizes are offered for matching numbers drawn by the Lottery. Lotto games follow a pari-mutuel prize schedule,<sup>1</sup> with specified percentages of the prize pool allocated to each prize category. Instant games use pre-printed tickets with a scratch-off surface that reveals instantly whether the ticket is a winner.

The Pennsylvania Lottery’s mix of terminal-based and instant games is continually evolving, and is dependent upon a number of factors including (but not limited to) sales performance, customer preferences (including jackpot levels that result in increased sales), and general industry-wide trends. The Pennsylvania Lottery utilizes a marketing and sales plan each fiscal year that includes the schedule of games and associated marketing strategies in that year. Consequently, decisions on modifications to the Lottery’s game mix are interdependent with their overall marketing strategies, seasonal or holiday-themed games, and the nature of the point-of-purchase experience.

## **Modifications to the Pennsylvania Lottery Instant Game Mix**

Instant games have constituted the majority of total annual Lottery sales since FY 2005-06. Similar trends are now prevailing among lottery jurisdictions nationwide. Lottery officials acknowledge that, unlike traditional numbers games, instant games appeal to players’ desire for “instant gratification” regarding whether their ticket is a winner.

The Pennsylvania Lottery currently offers more than 50 instant games, which are introduced and ended on various dates at the discretion of the Lottery. Lottery instant games are currently available at the “price points” of \$1, \$2, \$3, \$5, \$10, and \$20. The Lottery introduced \$10 instant games in 1999 and \$20 instant games in 2001. Initially, \$20 instant games represented only games tied with holiday themes. In mid-2004, the Lottery introduced the first \$20 instant ticket not featuring a holiday theme. Marketing campaigns are tailored around certain or all games, such as the annual promotion of “tickets as gifts” during the holiday season, which have traditionally been the strongest sales months of the year.

Instant game marketing strategies also focus heavily on the “glitz and glamour” of instant games, including the positive psychological (and sales) effects of

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<sup>1</sup>In a pari-mutuel game all prizes are created solely with the money wagered, with all winning players splitting the prize pool.



increasing the physical size of tickets and the number of possible winning chances to convey a message of added value. The Pennsylvania Lottery has also created weekly incentive-based benchmarks for increases in instant ticket sales among its retailers.

With the introduction of \$20 instant games, the Lottery offered players the opportunity to win \$1 million in cash through an instant game for the first time. However, Lottery officials are closely monitoring the potential of instant tickets at higher price-points (especially \$10 and \$20) reaching “maturity,” or past a point of peak interest, with their audiences. Currently, instant games with price-points of \$5, \$10, and \$20 constitute approximately 65 percent of total instant game sales.

According to Lottery officials, instant games generally “cycle” in popularity over an approximate 18-month period. As such, the Lottery attempts to introduce at least one new instant game each month. Lottery officials are now preparing for modifications to games that will usher in the “next generation” of instant games at many of the existing price-points, which may include games with no surface to be scratched.<sup>2</sup> The Pennsylvania Lottery does not, however, have any imminent plans to introduce instant tickets at price points above \$20.

According to Lottery officials, the strong increase in the popularity of instant tickets in the past several years is attributable in part to a “cultural shift” in the Lottery industry, insofar as an increasing number of players (especially younger players) have developed a preference for the instant gratification of such games, and may increasingly view terminal games as “old-fashioned.” However, the continued popularity of instant games (which have proportionally higher payout levels than terminal-based games) has prompted the Pennsylvania Lottery to examine a modification to statutorily-mandated rates of transfer to state programs as part of its five-point marketing plan.

## **Modifications to the Pennsylvania Lottery Terminal Game Mix**

In recent years, the Pennsylvania Lottery has also grown its mix of terminal-based games through the introduction of new games as well as additional drawings of existing games. The main changes to the Lottery’s terminal-based game mix between 2001 and 2008 are as follows:

- The Lottery entered the multi-state jackpot game market with the introduction of Powerball (and the additional \$1-per-play Powerplay option) in June 2002
- Mid-day drawings for The Daily Number and The Big 4 were launched in February 2003. Although realizing lower sales than the nighttime

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<sup>2</sup>See Appendix A for a further description of each Pennsylvania Lottery game.

drawings for these games, the additional drawings capitalized on the existing, historically loyal customer base that exists for Lottery numbers games. The lotto game mix was augmented with the introduction of Match 6 in January 2004.

- A lifetime winnings game entered the game mix with the introduction of Lucky for Life in October 2004. This game, which was discontinued in January 2007, also had a \$10 instant-win feature at the point-of-purchase.
- A lotto-style game with Internet-only drawings entered the Lottery's game mix in May 2007 with the introduction of Treasure Hunt.
- A lotto-style game with multiple ways of winning based on matching numbers in any sequence or in the order in which they are drawn was introduced with the launch of Mix & Match in January 2007.
- The Millionaire Raffle, which held its first drawing on December 31, 2005 and has had four subsequent drawings to date, provided the Lottery with fulfillment of projected sales due to every ticket of a fixed number sold, and offered players the best odds for winning a \$1 million prize to date.

The Pennsylvania Lottery is also continuing its efforts to enhance the point-of-purchase experience for terminal-based games. Player Activated Terminals (PATs) were first deployed among a segment of Pennsylvania Lottery retailers in 2004. PATs are touch-screen machines that sell a mix of terminal-based and instant games. Winning tickets may also be validated by PATs through printed vouchers that are redeemable for cash prizes. While the expanded use of PATs is an integral component of the Lottery's overall retailer strategy, Lottery officials indicated that adding full-service retailers (selling both terminal-based and instant games over-the-counter) remains a top priority (average weekly sales have historically been higher among full-service retailers). In addition, the Lottery has deployed Instant Ticket Vending Machines (ITVMs) that dispense only instant tickets. Moreover, technological upgrades to Lottery online numbers games terminals are now planned that may increase the selection and type of terminal-based games offered.

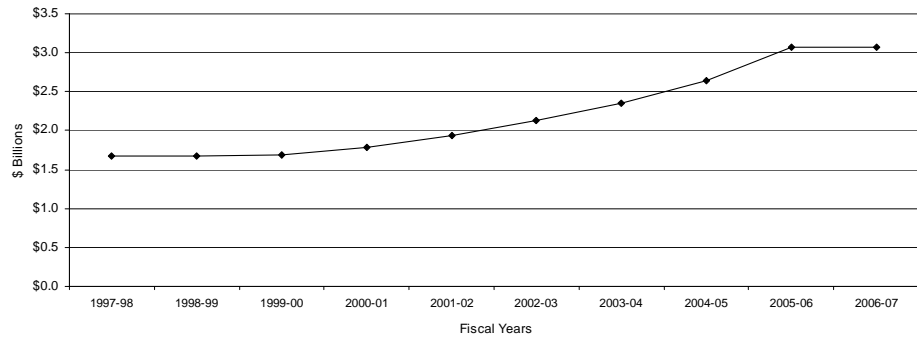
## **Ten-Year Lottery Sales Trends**

Pennsylvania Lottery ticket sales totaled \$1.8 billion in FY 2000-01, coming off of a period of fiscal years in which sales either declined or increased by relatively small amounts between years. In FY 2001-02, total ticket sales increased by 8.7 percent to reach over \$1.9 billion. Thereafter, total ticket sales increased by double-digits in each of four consecutive fiscal years between FY 2002-03 and FY 2005-06, during which time annual sales surpassed \$3 billion for the first time. (See Exhibit 2.) This growth spurt immediately preceded the introduction of slots gaming that began in November 2006.

Exhibit 2

**Trend in Pennsylvania Lottery Ticket Sales**  
(FY 1997-98 Through FY 2006-07)

<b>Totals</b>	
1997-98	\$1,668,411,690
1998-99	\$1,668,658,063
1999-00	\$1,686,775,738
2000-01	\$1,779,906,068
2001-02	\$1,934,163,882
2002-03	\$2,132,980,838
2003-04	\$2,352,071,452
2004-05	\$2,644,856,379
2005-06	\$3,070,268,288
2006-07	\$3,077,568,159



Source: Developed by LB&FC staff from information obtained from the Pennsylvania Lottery and *Governor's Executive Budget* documents.

As shown on Table 1, Instant Games accounted for 55.4 percent of total Lottery sales in FY 2006-07. This represents a continuation of the growing popularity of Instant Games which, in FY 1997-98, made up only 27.5 percent of total annual sales. Correspondingly, terminal games have declined in favor among Lottery players during the ten-year period, falling from 72.5 percent of total sales in FY 1997-98 to 44.6 percent of sales in FY 2006-07.

Table 1

**Pennsylvania Lottery Ticket Sales, by Game Type  
(Instant Versus Terminal Games)**

Fiscal Year	Instant Games	% of Total	Terminal Games <sup>a</sup>	% of Total	Total Sales	% of Total
1997-98	\$ 458,130,239	27.5%	\$1,210,281,451	72.5%	\$1,668,411,690	100.0%
1998-99	448,497,669	26.9	1,220,160,394	73.1	1,668,658,063	100.0
1999-00	487,317,026	28.9	1,199,458,712	71.1	1,686,775,738	100.0
2000-01	607,844,347	34.2	1,172,061,721	65.8	1,779,906,068	100.0
2001-02	721,076,910	37.3	1,213,086,972	62.7	1,934,163,882	100.0
2002-03	796,596,219	37.3	1,336,384,619	62.7	2,132,980,838	100.0
2003-04	989,201,706	42.1	1,362,869,746	57.9	2,352,071,452	100.0
2004-05	1,301,809,539	49.2	1,343,046,841	50.8	2,644,856,380	100.0
2005-06	1,587,756,024	51.7	1,482,512,264	48.3	3,070,268,288	100.0
2006-07	1,703,503,107	55.4	1,374,065,052	44.6	3,077,568,159	100.0

<sup>a</sup>Terminal-based games were previously commonly referred to as “online games” to denote the fact that they are played through a network of computer terminals installed at Lottery retailers linked to a main data center operated by the Lottery. While such systems are still in place for numbers games, lotto games, and others, these games are now commonly referred to as “terminal-based” or simply “terminal” games.

Source: The Pennsylvania Lottery.

Table 2 provides a summary of Lottery sales, by game, for the period FY 1997-98 through FY 2006-07. Exhibit 3 provides graphic representations of the ten-year sales trends for each game.

Table 2

**Pennsylvania Lottery Ticket Sales, by Game**  
(FY 1997-98 Through FY 2006-07)

Game	FY 1997-98	FY 1998-99	FY 1999-2000	FY 2000-01	FY 2001-2002
Instant Games	\$ 458,130,239	\$ 448,497,669	\$ 487,317,026	\$ 607,844,347	\$ 721,076,910
Daily Number	555,680,735	525,141,809	488,752,814	489,282,920	491,874,869
Powerball					
Big 4	246,995,928	241,879,548	237,465,529	249,670,858	252,327,440
Cash 5	170,449,433	209,577,548	222,088,089	229,066,715	244,140,817
Daily Mid-Day					
Match 6 Lotto					
Big 4 Mid-Day					
Powerplay					
Lucky "4" Life & Mix 'N Match					
Raffles					
Treasure Hunt					
Wild Card Lotto	94,500,204	21,166,338			
Keystone Jackpot	142,655,151	21,377,460			
Super "6"		201,017,691	251,152,280	204,041,228	224,743,846
Total Sales	\$1,668,411,690	\$1,668,658,063	\$1,686,775,738	\$1,779,906,068	\$1,934,163,882

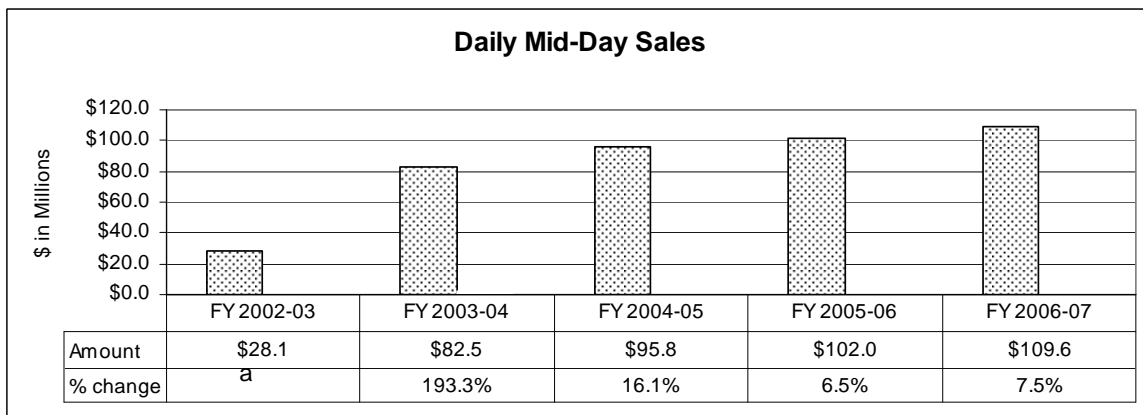
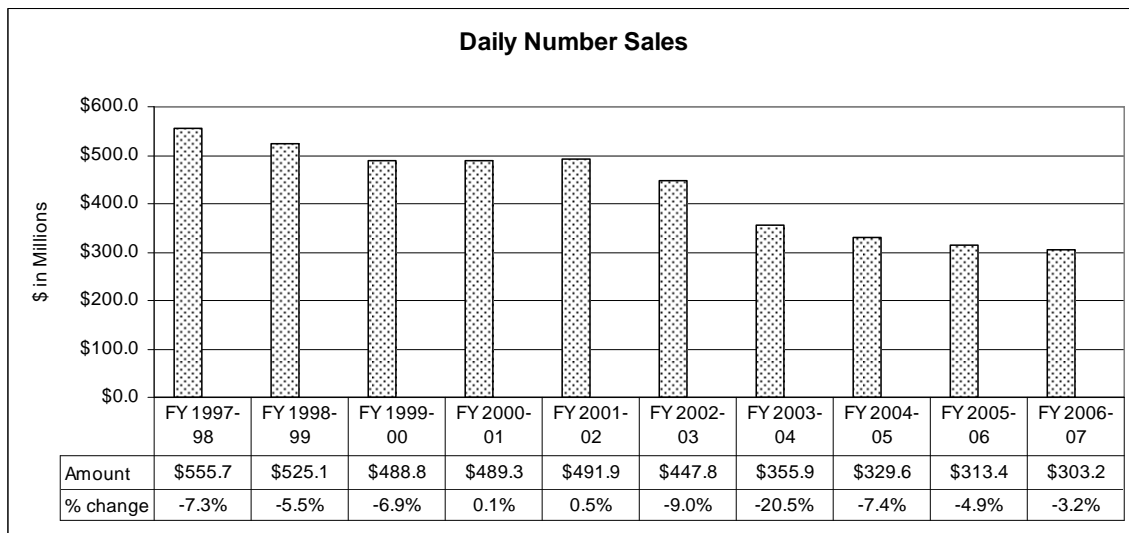
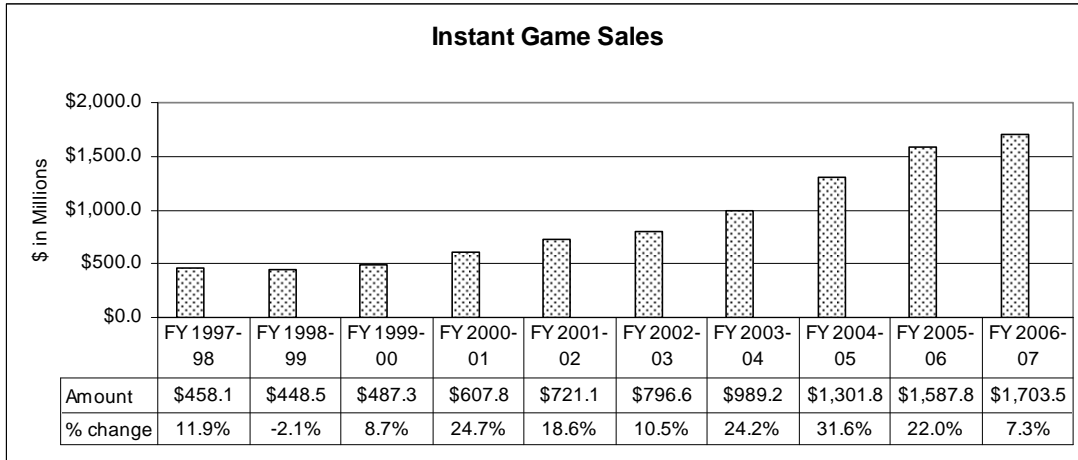
Game	FY 2002-2003	FY 2003-2004	FY 2004-2005	FY 2005-2006	FY 2006-2007
Instant Games	\$ 796,596,219	\$ 989,201,706	\$1,301,809,539	\$1,587,756,024	\$1,703,503,107
Daily Number	447,787,661	355,876,342	329,600,406	313,350,752	303,238,810
Powerball	241,013,071	259,484,200	252,703,782	385,213,919	273,796,848
Big 4	241,170,708	213,445,003	207,391,890	200,049,866	197,606,401
Cash 5	223,897,312	225,114,108	201,262,915	202,709,654	194,852,389
Daily Mid-Day	28,120,814	82,473,015	95,762,535	101,954,893	109,600,061
Match 6 Lotto		126,273,328	113,232,268	97,534,934	102,293,574
Big 4 Mid-Day	15,634,197	51,780,439	64,161,460	69,343,388	74,285,870
Powerplay	51,269,516	48,423,311	41,155,949	62,851,244	53,141,900
Lucky "4" Life & Mix 'N Match			37,775,636	27,003,614	38,908,775
Raffles				22,500,000	20,972,940
Treasure Hunt					5,367,484
Wild Card Lotto					
Keystone Jack- pot					
Super "6"	87,491,341				
Total Sales <sup>a</sup>	\$2,132,980,838	\$2,352,071,452	\$2,644,856,379	\$3,070,268,288	\$3,077,568,159

<sup>a</sup>Totals may not add due to rounding.

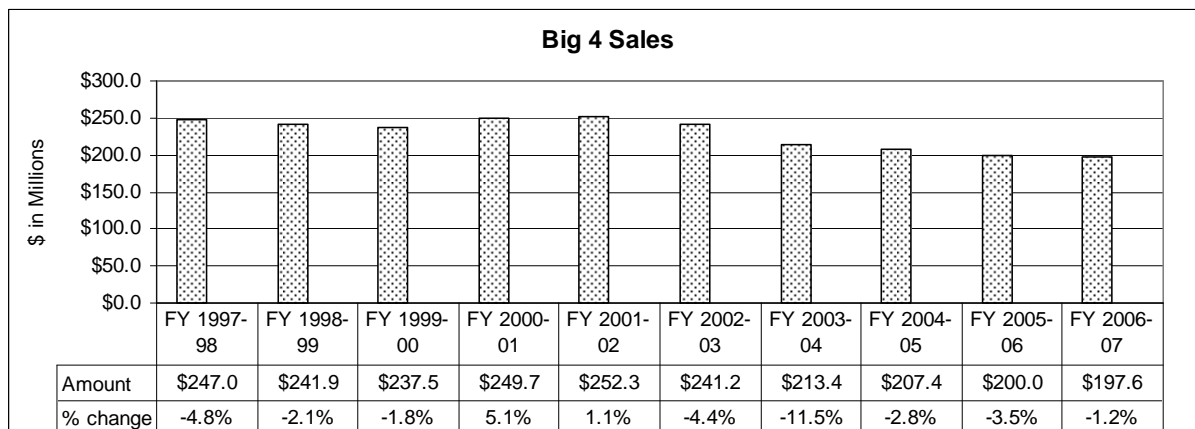
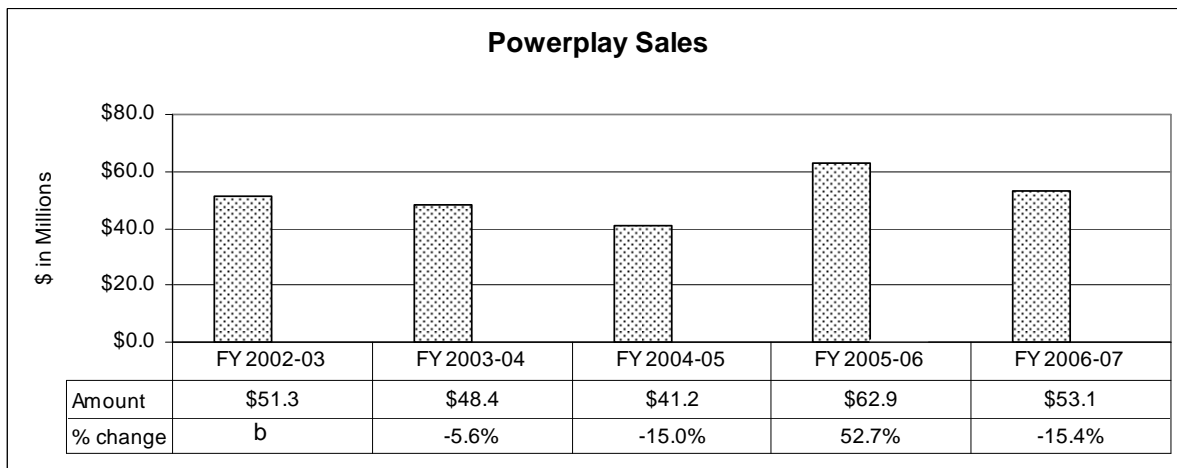
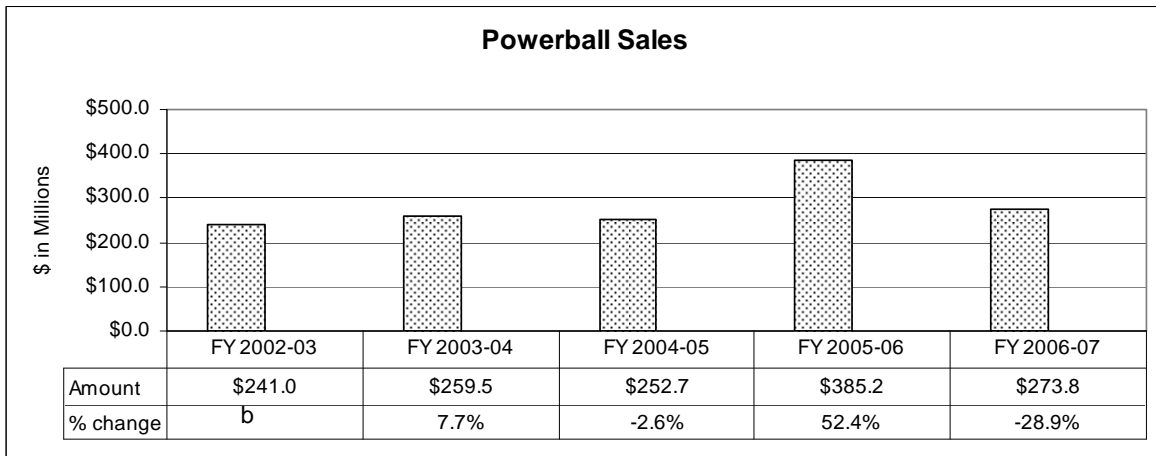
Source: The Pennsylvania Lottery.

Exhibit 3

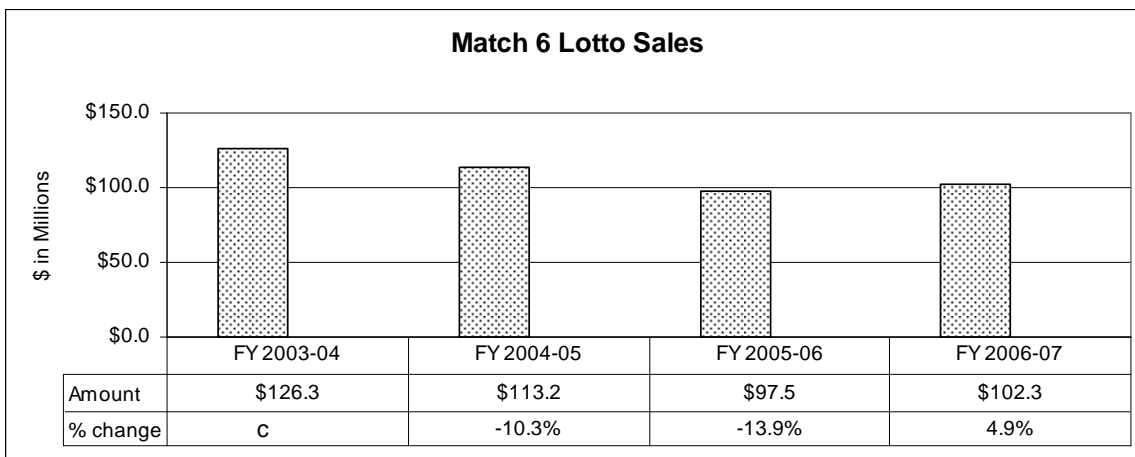
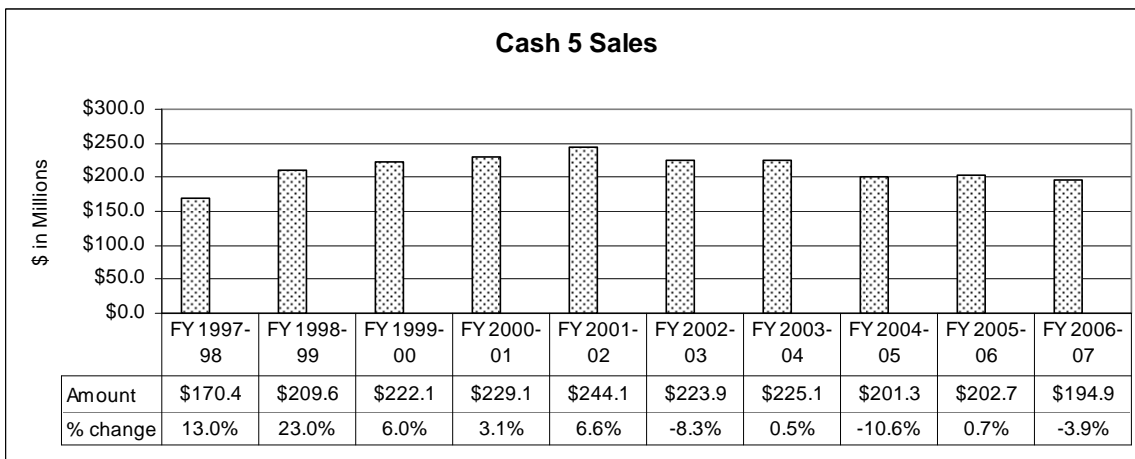
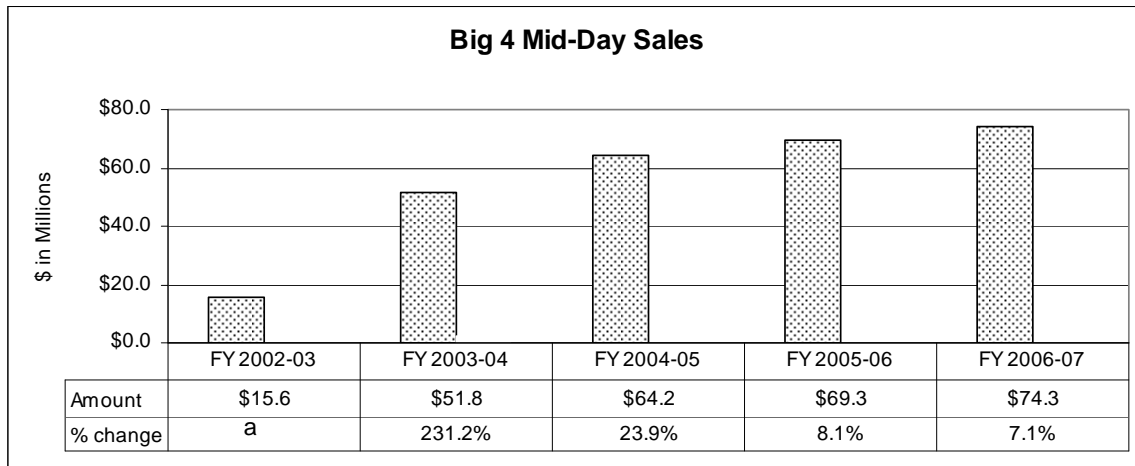
**Graphic Representations of  
Ten-Year Lottery Sales Trends, by Game**



**Exhibit 3 (Continued)**

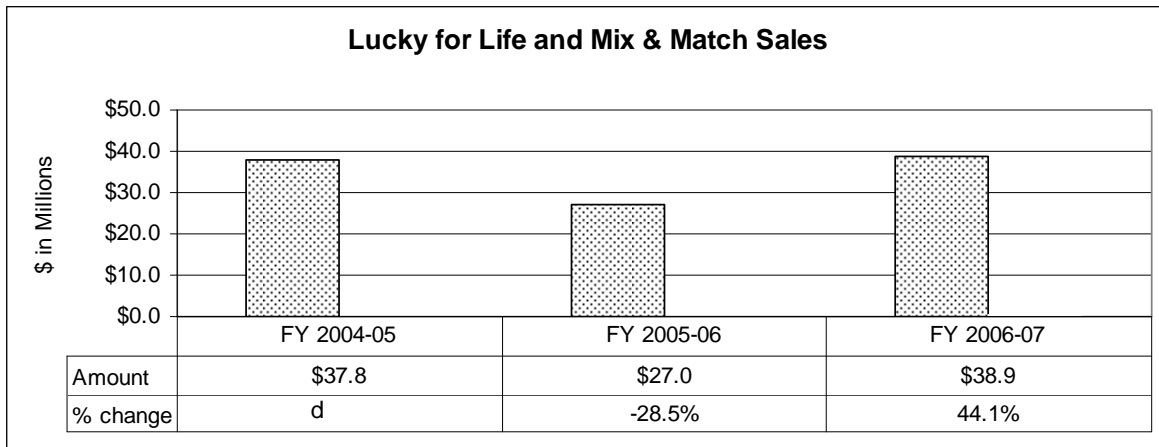


### Exhibit 3 (Continued)





**Exhibit 3 (Continued)**



**Treasure Hunt.** No graph shown: one year of data only - \$5,367,484 in 2006-07.

**Millionaire Raffle.** No graph shown: two years of data only - \$22,500,000 in 2005-06 and \$20,972,940 in 2006-07.

NOTE: See Appendix A for a description of each game.

<sup>a</sup>No prior year sales; game began in February 2003.

<sup>b</sup>No prior year sales; game began in June 2002.

<sup>c</sup>No prior year sales; game began in January 2004.

<sup>d</sup>No prior year sales; the Lucky for Life Lotto game began in October 2004 and was discontinued in January 2007. The Mix & Match game was introduced in January 2007.

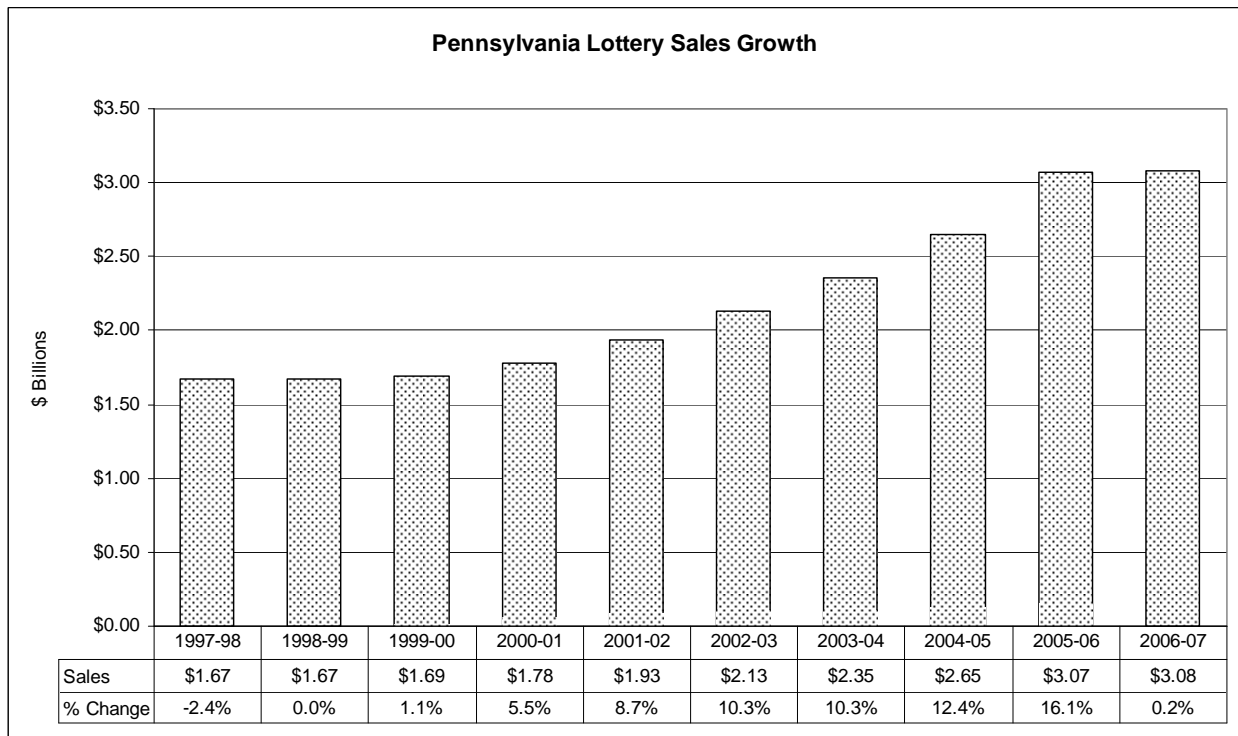
Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

### III. Factors That Contributed to the Record Growth in Pennsylvania Lottery Sales Between 2001 and 2006

*Between 2001 and 2006, the Pennsylvania Lottery experienced a period of unprecedented 73 percent sales growth during which one-year ticket sales exceeded \$3.0 billion for the first time in the Lottery's history. This growth spurt, which included four consecutive years of double-digit sales growth, immediately preceded the introduction of slots gaming that began in November 2006. (See Exhibit 4.)*

Exhibit 4

#### Pennsylvania Lottery Sales Growth (FY 1997-98 Through FY 2006-07)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

When considering whether the introduction of slots gaming is adversely affecting Lottery sales, it is first necessary to examine the previously described trends in annual Lottery sales within the context of the various interdependent factors that must be accounted for in the Lottery sales dynamic. Among the most prominent of these are growth in the size of the Lottery retailer network, the introduction of the multi-state Powerball jackpot game, modifications and enhancements to instant games, and other changes to the Lottery game mix.

## Expansion of the Lottery Retailer Network

The Pennsylvania Lottery sells its games through a statewide network of lottery retailers. These retailers either sell both terminal-based games and instant games or instant games exclusively. Retailers are authorized to sell games either over-the-counter or through Player Activated Terminals (PATs) and Instant Ticket Vending Machines (ITVMs) installed at the retailers' locations.<sup>1</sup> PATs, which sell terminal-based games and a number of instant games, were initially deployed by the Pennsylvania Lottery in May 2004. ITVMs were initially placed into use by the Lottery in July 1993.

Between 1986 and 2002, the Pennsylvania Lottery experienced a 16-year decline in the size of its retailer network. As of January 2003, the Lottery's retailer count was 7,023. At this point, the ratio of Lottery retailers to the state's population was 1:1,770, which was significantly below the national average.

To reverse this decline, the Lottery mounted a concerted effort to expand its retailer base and improve its retailer-to-population ratio. The keys to this effort were a focus on retailer recruitment and pursuit of corporate accounts. The result was an increase of 1,525 lottery retailers, or 21.7 percent, between January 2003 and early 2008. Table 3 shows Lottery sales growth and retailer growth between the beginning of FY 2001-02 through FY 2006-07.

Table 3

<b>Pennsylvania Lottery Sales Vs. Retailer Growth</b>				
(July 1 of FY 2001-02 Through July 1 of FY 2006-07)				
<u>Fiscal Year</u>	<u>Retailer Count</u>	<u>% Change</u>	<u>Lottery Sales</u>	<u>% Change</u>
2001-02.....	7,003	--	\$1,934,163,882	--
2002-03.....	7,031	+0.4%	2,132,980,838	+10.3%
2003-04.....	7,150	+1.7	2,352,071,452	+10.3
2004-05.....	7,249	+1.4	2,644,856,379	+12.4
2005-06.....	7,987	+10.2	3,070,268,288	+16.1
2006-07.....	8,413	+5.3	3,077,568,159	+0.2

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

As of mid-February 2008, there were 8,548 licensed Lottery retailers statewide, including 8,185 full-service retailers (selling terminal-based and instant games) and 363 retailers selling instant games exclusively.<sup>2</sup> This increase brought Pennsylvania's ratio of Lottery retailers to the state's population to better than 1:1,465, slightly better than the national average of 1:1,510. By growing the retail

<sup>1</sup>Certain retailers may sell games both over-the-counter and through PATs and/or ITVMs. Retailers selling terminal-based games over-the-counter utilize official Lottery numbers game online terminals.

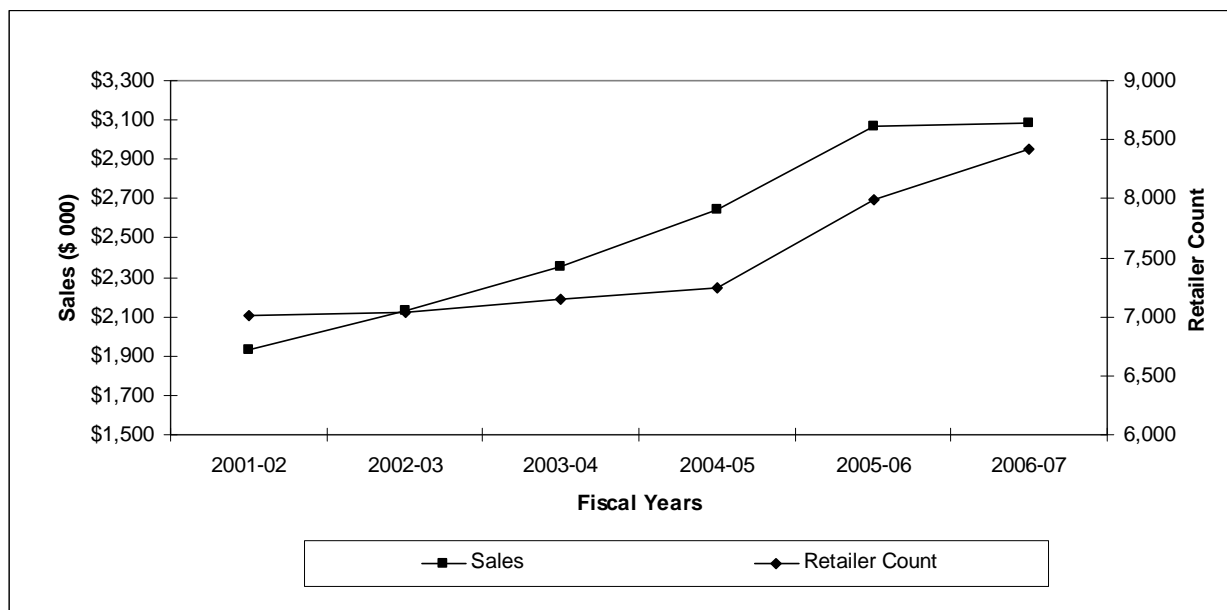
<sup>2</sup>As of February 2008, a total of 958 Player Activated Terminals and 3,347 Instant Ticket Vending Machines were in operation at Lottery retailer locations statewide.

network by more than 21 percent between January 2003 and February 2008, Lottery officials believe that Pennsylvania has achieved a market penetration level more appropriate for a state and lottery of its size.

As shown in Exhibit 5 below, a growing retailer network had a very significant impact on increasing Lottery sales levels between FY 2001-02 and FY 2005-06. In short, more points of purchase translated to record sales growth for the Lottery. As shown below, the pattern of the Lottery’s retailer growth coincides with the pattern of sales growth during the same period.

Exhibit 5

**Pennsylvania Lottery Sales Vs. Retailer Growth**  
(\$000)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

With the increased number of retailers, Department officials state that “both retailer growth and sales growth are expected to stabilize and grow at much more moderate rates.” With these factors in mind, Lottery officials have made the “expansion and refinement” of its games a core element of the continued growth of the retailer base. Nevertheless, Lottery officials are engaged in pursuing further retailer expansion. (See Section VIII for further discussion of these efforts.)

**Entry Into the Multi-State Powerball Jackpot Game**

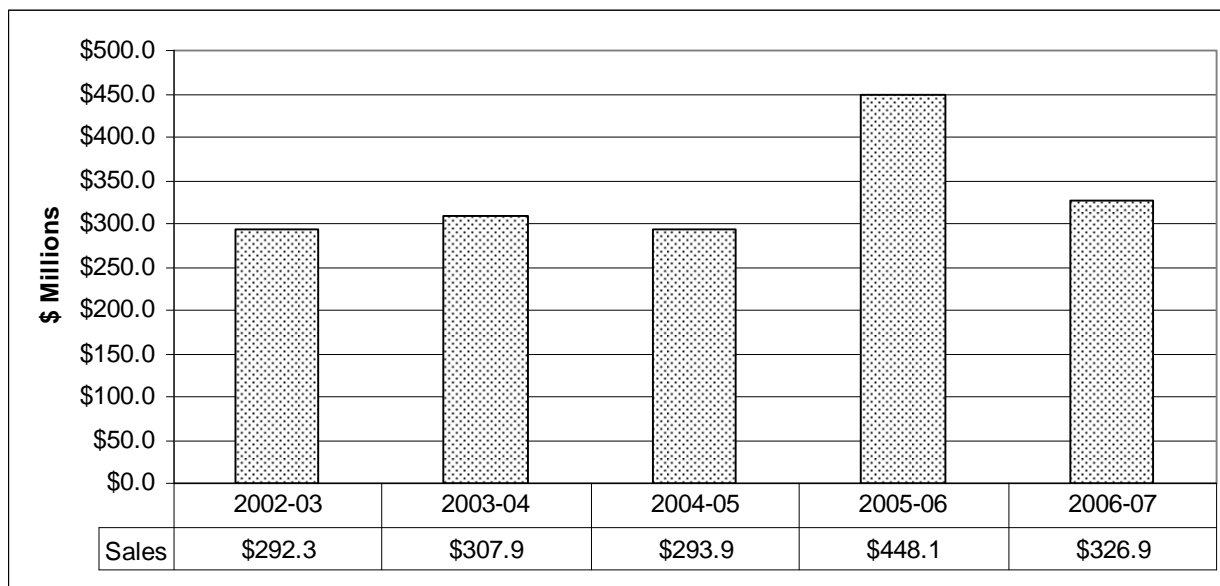
Powerball, a mega-jackpot game that was designed to offer jackpots growing to the hundreds of millions of dollars, is offered in 29 states, the District of Columbia, and the U.S. Virgin Islands. Pennsylvania joined the Multi-State Lottery

Association (MUSL)<sup>3</sup> and began sales of this terminal-based multi-state jackpot game in June 2002.

This game has the potential to significantly impact Lottery sales and profits. In just four fiscal years, Powerball generated more than \$1.3 billion in ticket sales for the Pennsylvania Lottery. The first year Powerball was introduced in Pennsylvania, game sales (including the Powerplay option) totaled \$292.3 million. In that year, total Pennsylvania Lottery sales were \$2.1 billion (see Exhibit 6), a 10.3 percent increase over FY 2001-02 sales levels. Powerball sales were very instrumental in this increase, representing 13.7 percent of total sales for all games. Absent sales of Powerball/Powerplay, total Lottery game sales decreased by 4.8 percent in FY 2002-03.

Exhibit 6

**Pennsylvania Powerball Sales  
(Including Powerplay)  
(FY 2002-03 to FY 2006-07)**



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Powerball is a \$1-per-play game in which players select or have quick-picked five numbers from 1 to 55 and one additional number from 1 to 42 (the Powerball number). During drawings, the first five numbers drawn (from 1 to 55) are the “white” balls while the Powerball number from 1 to 42 is the “red” ball.<sup>4</sup> Powerball

<sup>3</sup>The Multi-State Lottery Association (MUSL) is a nonprofit, government-benefit association owned and operated by its member lotteries.

<sup>4</sup>Players are also entitled to prizes for matching only the red Powerball, matching the red Powerball and 1 through 4 white balls, or matching 3, 4, or 5 white balls. If the Powerplay option is purchased on a winning ticket, prizes are increased by a multiplier on all winnings except the jackpot.

tickets may be purchased up to 13 weeks (26 drawings) in advance. Drawings are held every Wednesday and Saturday at 11 p.m. via a live televised broadcast.

Powerball jackpots start at \$15 million and increase each drawing until one or more winning tickets are sold. Players are entitled to a jackpot prize if the five “white” ball numbers and the “red” Powerball number match the numbers drawn by MUSL officials. Powerball jackpots are paid in either one lump-sum payment (based on the present cash value of the jackpot) or as a 30-payment graduated annuity (increasing annual cash payments for the first payment after winning and the subsequent 29 years).<sup>5</sup>

As shown in Table 4 below, while Pennsylvania Powerball sales increased by 7.7 percent in FY 2003-04 and declined by 2.6 percent in FY 2004-05, a series of drawings with high game jackpots contributed to an increase in both Powerball and Powerplay sales of over 52 percent in FY 2005-06. With combined sales of \$448.1 million in FY 2005-06, Powerball and Powerplay accounted for 14.6 percent of total Lottery game sales.

Table 4

**Powerball/Powerplay Sales as a Percentage of Total Lottery Sales**  
(FY 2002-03 Through FY 2006-07)

Sales \$000	Fiscal Year				
	2002-03	2003-04	2004-05	2005-06	2006-07
Powerball	\$ 241,013,071	\$ 259,484,200	\$ 252,703,782	\$ 385,213,919	\$ 273,796,848
Powerplay	51,269,516	48,423,311	41,155,949	62,851,244	53,141,900
Combined Powerball/ Powerplay	\$ 292,282,587	\$ 307,907,511	\$ 293,859,731	\$ 448,065,163	\$ 326,938,748
Total Lottery Sales (All Games)	\$2,132,980,838	\$2,352,071,452	\$2,644,856,379	\$3,070,268,288	\$3,077,568,159
Powerball/Powerplay as a % of Total Lottery Sales	13.7%	13.1%	11.1%	14.6%	10.6%

Source: Compiled by LB&FC staff using information obtained from the Pennsylvania Lottery.

There is evidence of increased sales of Powerball and Powerplay in Pennsylvania as jackpot levels increase. In Fiscal Years 2004-05 and 2005-06, the top two months of combined Powerball/Powerplay ticket sales were those in which the highest monthly Powerball jackpot exceeded \$300 million. Conversely, the highest monthly Powerball jackpot did not exceed \$63 million during the lowest five months of ticket sales during this two year period. (See Table 5.)

<sup>5</sup>If more than one jackpot-winning ticket is sold, shares of the grand prize are determined by dividing the cash available in the grand prize pool equally among all winners of the grand prize. A winner who elects cash payment is paid the share in a single cash payment.

Table 5

**Top 5 Highest and Lowest Powerball/Powerplay  
Sales Months for the Pennsylvania Lottery**  
(FY 2004-05 and FY 2005-06)  
(\$000)

Highest Sales Months

<u>Month</u>	<u>Highest Jackpot</u>	<u>Sales<sup>a</sup></u>
October 2005 .....	\$340,000	\$99,161
February 2006.....	365,000	95,186
May 2005 .....	215,000	61,036
October 2004 .....	215,000	36,269
April 2006.....	220,000	36,127

Lowest Sales Months

<u>Month</u>	<u>Highest Jackpot</u>	<u>Sales<sup>a</sup></u>
February 2005 .....	\$41,000	\$14,061
March 2005.....	25,000	14,154
January 2005.....	37,000	14,726
July 2004 .....	54,000	15,943
April 2005.....	63,000	16,784

<sup>a</sup>Sales figures depicted are gross figures that include promotional sales and may not match sales figures contained elsewhere in this report that were tabulated from Pennsylvania Lottery statements of income and expenditures. While not official numbers to be included in statements of income and expenditures, Pennsylvania Lottery officials view these figures as relevant for the purpose of tracking sales trends and changes.

Source: Compiled by LB&FC staff using information obtained from the Pennsylvania Lottery.

Monthly sales of Powerball/Powerplay generally increased as jackpot size increased during Fiscal Years 2004-05 and 2005-06. In fact, many of the largest percentage increases in sales from month to month occurred when the Powerball jackpot exceeded the benchmarks of \$100 million, \$200 million and, in two months during FY 2005-06, months in which the highest Powerball jackpot met or exceeded \$300 million.

As shown on Table 6, combined Powerball/Powerplay sales increased by nearly 23 percent between July and August 2004 as the highest monthly jackpot reached \$97 million. When the highest monthly jackpot rose to \$151 million in September 2004, sales jumped by 46 percent. When the jackpot reached \$215 million in October 2004, sales increased by an additional 26.8 percent, before declining by 32.8 percent in November 2004 as the highest monthly jackpot fell to \$127 million.

In FY 2004-05, the largest between-month increase occurred in May 2005, during which Powerball/Powerplay sales more than tripled to reach \$61 million; an increase of \$44.3 million (263.7 percent) over the prior month as the highest monthly Powerball jackpot reached \$215 million. By comparison, when the highest

monthly jackpot stood at \$215 million in October 2004, sales only rose to \$36.3 million. When the highest monthly Powerball jackpot fell to \$62 million in June 2005, monthly sales dropped from the prior month by 70.4 percent.

Table 6

**Percentage Changes in Monthly Powerball  
Sales in Relation to Jackpot Size**  
(FY2004-05 and FY 2005-06)  
(\$000)

**FY 2004-05:**

	<u>Sales<sup>a</sup></u>	<u>% Change</u>	<u>Jackpots</u>
July .....	\$15,943	--	\$ 54,000
August .....	19,572	22.8%	97,000
September .....	28,602	46.1	151,000
October .....	36,269	26.8	215,000
November .....	24,365	-32.8	127,000
December .....	32,312	32.6	171,000
January .....	14,726	-54.4	37,000
February .....	14,061	-4.5	41,000
March .....	14,154	0.7	25,000
April .....	16,784	18.6	63,000
May .....	61,036	263.7	215,000
June .....	18,097	-70.4	62,000

**FY 2005-06:**

	<u>Sales<sup>a</sup></u>	<u>% Change</u>	<u>Jackpots</u>
July .....	\$17,429	--	\$ 70,000
August .....	20,764	19.1%	92,000
September .....	32,023	54.2	167,000
October .....	99,161	209.7	340,000
November .....	19,260	-80.6	66,000
December .....	23,477	21.9	112,000
January .....	29,952	27.6	156,000
February .....	95,186	217.8	365,000
March .....	33,485	-64.8	152,000
April .....	36,127	7.9	220,000
May .....	25,184	-30.3	114,000
June .....	20,619	-18.1	100,000

<sup>a</sup>Figures may differ from those reported elsewhere in this report. (Please see footnote a in Table 5.)

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Combined Powerball/Powerplay sales rose steadily during the first three months of FY 2005-06 before increasing by over 200 percent from the prior month in October 2005 to reach over \$99 million as the highest monthly Powerball jackpot rose to \$340 million. Sales then decreased by approximately 80 percent as the jackpot reset and only reached a monthly high of \$66 million in November 2005. Sales

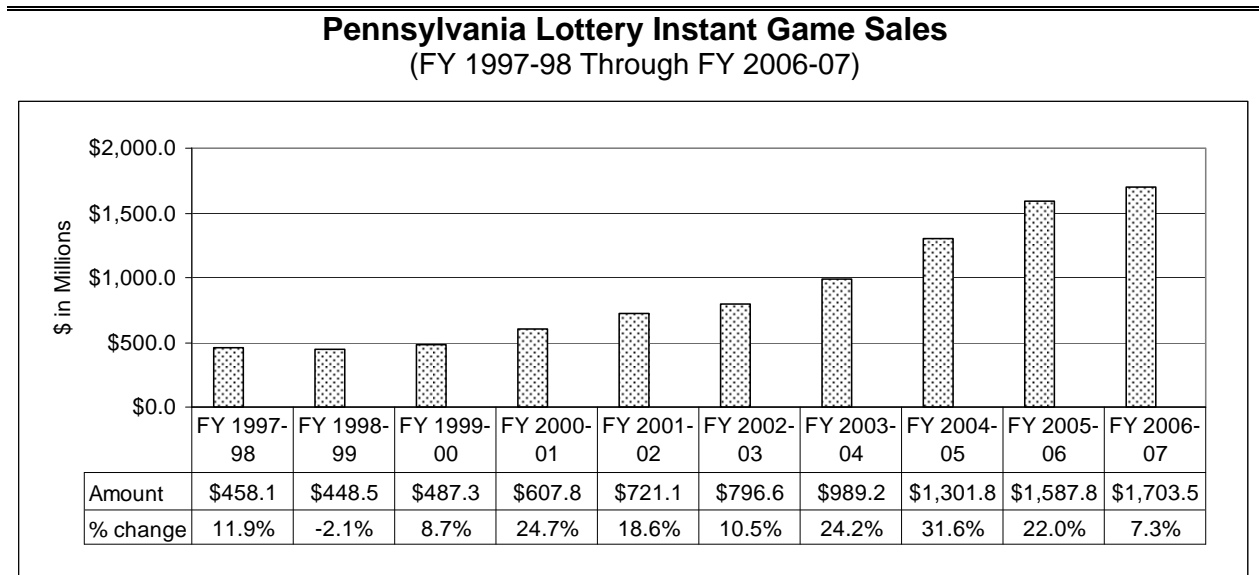


increased moderately as the highest monthly jackpot increased in December 2005 and January 2006 before reaching \$95.2 million when the Powerball jackpot reached a monthly high of \$365 million in February 2006. When the maximum jackpot fell to \$152 million in March 2006, ticket sales dropped by 64.8 percent from the prior month. Graphs showing the trend line for Powerball/Powerplay sales and the exponential sales growth that occurs when jackpots exceed \$200 and \$300 million are shown on Exhibit 8.

## Expansion and Enhancement of Lottery Instant Games

As shown in Exhibit 7 below, Lottery instant game sales posted double-digit increases during each year between FY 2000-01 and FY 2005-06.

Exhibit 7

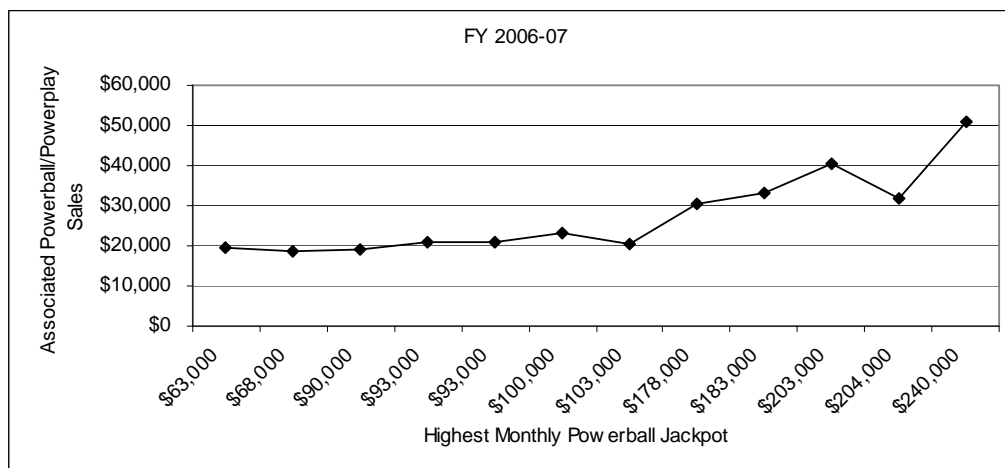
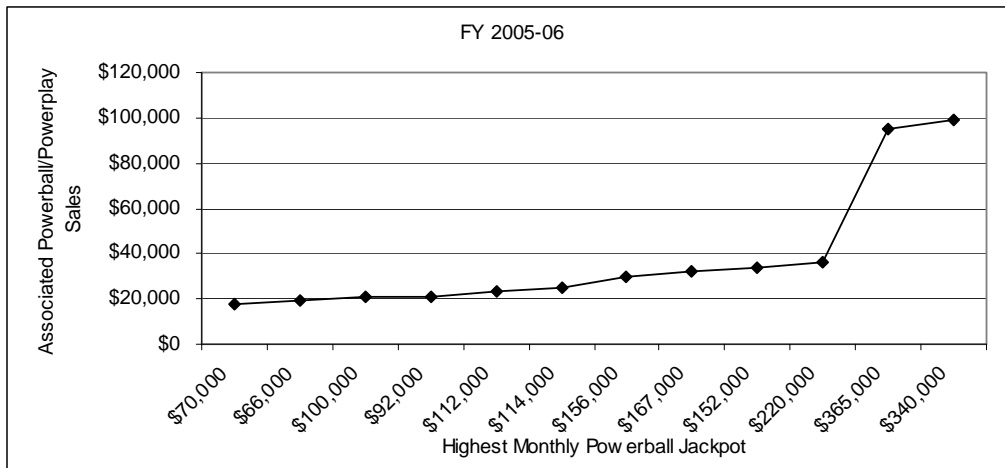
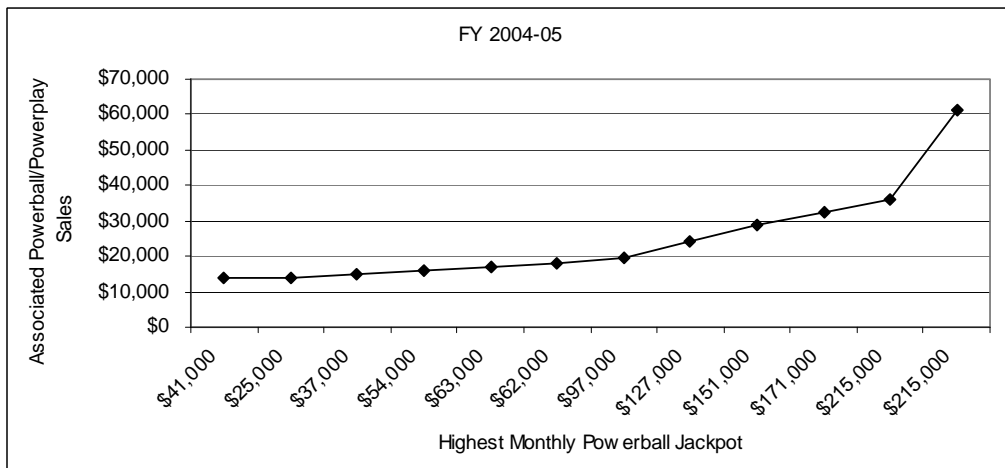


Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

In FY 2005-06, instant game sales constituted the majority of all ticket sales (at over 51 percent of total sales), and increased to over 55 percent of all tickets sold in FY 2006-07. The strong growth in instant games may also be attributed to the introduction of games at higher price-points (\$10 instant games in 1999 and \$20 instant games in 2001) which became very popular among Lottery customers, the introduction of the first \$20 instant games not featuring a holiday theme in mid-2004, and the potential to win over \$1 million through instant games. With more than 50 instant games offered and new games introduced approximately once per month, the Lottery has worked to continually update and modify its instant game product mix to address players’ preferences. The Lottery has also seen much success from its “tickets as gifts” annual marketing campaign.

Exhibit 8

**Increases in Monthly Pennsylvania Powerball Sales Relative to Jackpot Size<sup>a</sup>**



<sup>a</sup>Figures may differ from those reported elsewhere in this report. (Please see footnote a in Table 5.)

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

## Other Changes to the Lottery's Game Mix

**The Addition of Mid-Day Drawings.** While growth in sales of nighttime drawings of The Daily Number and Big 4 has slowed or reversed in recent years, the addition of mid-day drawings for both games in FY 2002-03 provided two additional sources of revenue whose sales have both increased annually since their launch.

**The Launch of a Raffle Game.** The Pennsylvania Lottery held the first drawing of The Millionaire Raffle on December 31, 2005, and has since conducted four additional drawings. A \$20 terminal-based raffle game, each drawing has sold-out the fixed number of tickets offered. The effect has been a reliable source of additional ticket sales revenue on each occasion by virtue of the game's design, as a fixed number of tickets sold yields a predictable sales and net revenue stream for the Lottery.

Despite this record of sold-out drawings, Lottery officials acknowledged the sales risk inherent in raffle games generally, insofar as over 50 percent of tickets must be sold for the Lottery to realize a profit. Moreover, Lottery officials noted the possibility of "player fatigue" setting in for this game due to a waning of the game's popularity and "novelty effect." This is partially evidenced, according to Lottery officials, by the fact that the game has sold-out progressively later for each drawing.

**Sales of Lotto-Style Games.** The lotto-style game Cash 5 was joined by Match 6 Lotto in FY 2003-04 (following the phase-out of the lotto-style game Super 6 in FY 2002-03) and later Lucky for Life in FY 2004-05. While sales either slowed or declined among these games in recent years, their presence filled a spot in the Lottery's game mix below the multi-state jackpot game Powerball by providing in-state lotto jackpots that increase between drawings until won.

## **IV. The Introduction of Legalized Slots Gaming in Pennsylvania**

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*Since the opening of Mohegan Sun at Pocono Downs in Luzerne County in November 2006, Pennsylvania's gaming market has emerged at a rate which is unparalleled in the U.S. commercial casino gaming industry.*

### **Status of Slots Gaming License Awards**

The Pennsylvania Race Horse Development and Gaming Act (Act 2004-71) provides for limited gaming through slot machines. Revenues generated are to be used to support statewide property and wage tax relief, economic development and tourism, development of the horse racing industry, a volunteer fire company grant program, gambling addiction programs, and other initiatives. Act 71 also created an independent board, the Pennsylvania Gaming Control Board<sup>1</sup> (Board), that has general and sole regulatory authority over the authorization and operation of slot machines at racetracks and other authorized venues.

Act 71 authorizes the Board to award three categories of slots licenses:

(1) Category 1 for racetrack facilities, (2) Category 2 for stand-alone facilities, and (3) Category 3 for resort hotel facilities.

The Board is empowered to issue no more than seven Category 1 licenses; five Category 2 licenses; and two Category 3 licenses. Category 1 and Category 2 licensees are required to make available 1,500 slot machines within one year of the issuance of a slot machine license, but not more than 3,000. However, six months after the commencement of slot machine operations the Board may permit Category 1 and 2 licensees to operate up to 2,000 additional slot machines at each licensed facility. In total, Act 71 authorizes up to 61,000 slot machines at 14 locations statewide.

On September 27, 2006, the Board approved five conditional Category 1 operator applications. On October 25, 2006, the Board approved a sixth conditional Category 1 license for Presque Isle Downs in Erie County. Two months later, on December 20, 2006, the Board voted to make the six conditional Category 1 licenses permanent and award five permanent Category 2 slot facility licenses (see Exhibit 9). No Category 3 licenses were awarded at this time because the two initial Category 3 applicants withdrew their applications.

In June 2007, the Board received four applications for the Category 3 licenses permitting the operation of up to 500 slot machines at an existing resort hotel.

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<sup>1</sup>The Board consists of seven voting members, plus three ex-officio non-voting members. Of the seven voting members, three are appointed by the Governor, and four are appointed, respectively, by the leaders of each of the four caucuses of the General Assembly.

Exhibit 9

**Information on Licenses Issued by the Pennsylvania Gaming Control Board, by Category**  
(As of April 2008)

**Category 1 (Racetracks – 7 Licenses)**

<u>License Issued to:</u>	<u>Facility Name/Location</u>	<u>Number of Slot Machines</u>	<u>Date Open/ Scheduled to Open</u>
Harrah's Chester Downs and Marina LLC	Harrah's Chester, Delaware County	2,790	January 2007
Downs Racing LP	Mohegan Sun at Pocono Downs, Luzerne County	1,203 <sup>a</sup>	November 2006
Greenwood Gaming & Entertainment, Inc.	Philadelphia Park, Bucks County	2,402	December 2006
Mountainview Thoroughbred Racing Assn.	Hollywood Casino at Penn National, Dauphin County	2,000 <sup>b</sup>	February 2008
Washington Trotting Association, Inc.	The Meadows, Washington County	1,738 <sup>b</sup>	June 2007
Presque Isle Downs, Inc.	Presque Isle, Erie County	2,000	February 2007

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**Category 2 (Stand-Alone Casinos – 5 Licenses)**

<u>License Issued to</u>	<u>Facility Name/Location</u>	<u>Number of Slot Machines</u>	<u>Date Open/ Scheduled to Open</u>
HSP Gaming, LP	SugarHouse Casino, Philadelphia	1,500	March 2010
Philadelphia Entertainment & Development Partners, LP	Foxwoods Casino, Philadelphia	1,500	April 2010
PITG Majestic Star Gaming, LLC	Pittsburgh, Allegheny County	5,000	May 2009
Mount Airy #1, LLC	Mount Airy Casino, Poconos	2,523	October 2007
Sands Bethworks Gaming, LLC	Sands Bethworks Casino, Bethlehem	3,000	June 2009

**Category 3 (Resort Hotels – 2 Licenses)**

None yet approved.
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<sup>a</sup>Will eventually operate 2,000 slot machines.

<sup>b</sup>Will eventually operate 3,000 slot machines.

Those applying were:

- Bushkill Group, Inc. d/b/a Fernwood Hotel & Resort in Bushkill, Monroe County
- Valley Forge Convention Center Partners, L.P. in King of Prussia, Montgomery County
- Vacation Charters, Ltd., a/k/a the Resort at Split Rock in Lake Harmony, Carbon County
- CE-Palace, LP, a/k/a the Palace Inn in Monroeville, Allegheny County (CE-Palace, LP, subsequently withdrew its application.)

In November 2007, the Board received the initial application for the final Category 1 License to be awarded for operation at a licensed harness racing track. The Board held hearings on October 16 and 17, 2007, in Harrisburg for the Category 3 Licenses to accept testimony as to whether the applicants comply with the eligibility requirements for Category 3 licensure under the Pennsylvania Race Horse Development and Gaming Act.

As of December 14, 2007, the PGCB had not made any decisions on issuing the Category 3 Licenses. Pending approval of the final Category 1 license application by the Board, a racino is expected to begin operations at Valley View Downs in Lawrence County as early as 2009.

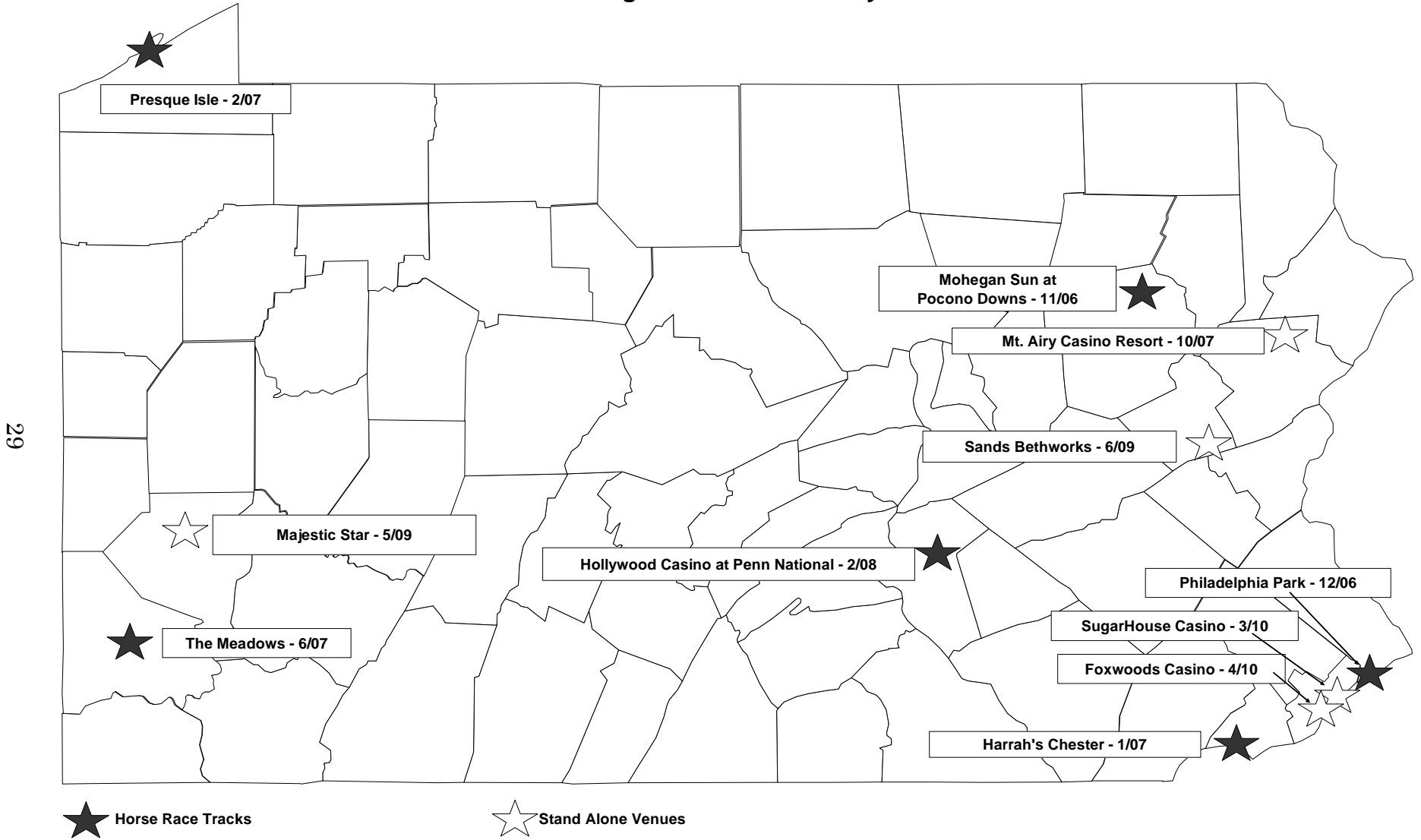
### **Openings of Slots Gaming Locations**

On November 14, 2006, the Commonwealth's first slots gaming facility, Mohegan Sun at Pocono Downs, opened. Philadelphia Park in Bucks County opened its gaming floors on December 19, 2006. In January 2007, Harrah's Chester in Delaware County opened and, on February 28, 2007, Presque Isle Downs in Erie became the fourth slot-machine parlor in the state and the first in western Pennsylvania.

Among the Category 2 stand-alone casinos, Mount Airy Casino in the Poconos was the first to open in October 2007. The four remaining stand-alone facilities are scheduled to open in 2009 and 2010 (see Exhibit 10).

While Harrah's Chester and Presque Isle Downs are permanent facilities, a number of slot machine licensees are operating temporary facilities, and are in the process of constructing permanent facilities. As such, top management from six of Pennsylvania's slot operators appeared before the Gaming Control Board in August 2007 to update the Board on the status of their permanent facilities:

**Slots Gaming Locations in Pennsylvania**



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Source: Pennsylvania Gaming Control Board.

- *Mohegan Sun at Pocono Downs* has a constructed design of their facility based on regional elements, their market, and the Mohegan Sun brand. Anticipated opening is late summer 2008.
- *Philadelphia Park Casino and Racetrack* has made progress in developing its master plan and expected to be in a position to present to the Board their proposed plans for a stand-alone permanent facility by the end of 2007.
- *The Meadows Racetrack and Casino* submitted a petition to the Board for approval of a modified site plan for the Meadows' permanent facility, which includes a five-story, 205-room hotel and an expanded gaming floor, food court, and conference center.
- *Hollywood Casino at Penn National* provided a status report on the construction of their casino and racing facility, which at the time, was more than 50 percent completed. This facility opened to the public in February 2008.
- *Mount Airy Casino Resort* was on track to be the first Category 2 stand-alone casino to open with 80 percent of the casino and restaurant currently completed. Mount Airy commenced its gaming operations in October 2007.
- *Sands Bethworks* is moving forward with plans that will build on the unique history of the Bethworks site, but redeveloping the brownfield site has slowed progress due to unexpected asbestos problems and larger than expected foundations from the old industrial structures. Sands Bethworks is now working toward an opening in May of 2009.

In summary, as of December 31, 2007, six gaming facilities throughout the Commonwealth were open, including five Category 1 (racetrack) facilities (Mohegan Sun at Pocono Downs, Philadelphia Park, Harrah's Chester, Presque Isle, and The Meadows) and one Category 2 (stand-alone) facility (Mount Airy), and a seventh, Hollywood Casino at Penn National, was nearing completion for a February 2008 start-up. No Category 3 (resort hotel) facilities were licensed as of December 31, 2007.

As shown on Table 7, the six facilities open as of December 2007 had a total of 12,740 slot machines, including a total of 10,217 machines at the Category 1 facilities and 2,523 machines at the Category 2 facility.<sup>2</sup> Harrah's Chester is the largest slots facility currently in operation with a 76,377 square foot gaming floor.

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<sup>2</sup>The number of slot machines active at each facility may vary slightly from day to day.



Table 7

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**Facility Size and Number of Machines at  
Pennsylvania Slots Gaming Facilities**  
(As of December 31, 2007)

<u>Licensed Operator</u>	<u># of Slot Machines</u>	<u>Size of Gaming Floor (sq. ft.)</u>
Mohegan Sun at Pocono Downs .....	1,203	33,171
Philadelphia Park Casino & Racetrack.....	2,402	68,374
Harrah's Chester Casino & Racetrack .....	2,796	76,377
Presque Isle Downs & Casino .....	2,000	48,074
The Meadows Racetrack & Casino .....	1,816	47,226
Mount Airy Casino Resort.....	<u>2,523</u>	<u>57,261</u>
Total.....	12,740	303,483

Source: Pennsylvania Gaming Control Board.

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According to the Board, its priorities for 2008 are to hold hearings to gauge the suitability of a slots facility at a new race track in Lawrence County, award up to two limited slot machine licenses at existing resorts, and move closer to the openings of four stand alone casinos in Pittsburgh, Bethlehem, and Philadelphia “while maintaining a strict regulatory environment to protect Commonwealth revenues and the citizens of Pennsylvania at the existing facilities.”

## V. Slots Gaming Activity Through January 2008

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*On November 14, 2006, the Commonwealth officially became the 12<sup>th</sup> casino state in the nation when Mohegan Sun at Pocono Downs opened. Within 89 days after the opening of Pennsylvania's first slots location, the amount wagered surpassed \$1 billion. Between December 2006 and the end of January 2008, five additional slots facilities opened and the total amount wagered at all facilities through January 2008 reached \$13.9 billion. During this 15-month period, legalized slots gaming contributed nearly \$648 million of new tax revenues directly from the play of machines and an additional \$550 million in licensing fees.*

### Wagers

Between the opening of Pennsylvania's first slot machine gaming facility in November 2006 and the end of January 2008, casino patrons wagered more than \$13.9 billion, with payouts totaling just under \$12.7 billion. During this 15-month period, gross terminal revenues (i.e., the difference between wagers and payouts) were \$1.2 billion. The amount of monies wagered at Pennsylvania's slots facilities surpassed the \$1 billion mark on February 10, 2007, 89 days after the opening of the state's first slots casino at Mohegan Sun at Pocono Downs. Since then, five other facilities have opened.

Wagers, by slots facility, are listed on Table 8. As shown, nearly \$4 billion had been wagered at Philadelphia Park through January 2008, an average of about \$285 million per month. (See Table 9.) Harrah's Chester was the second busiest location in terms of amount wagered at about \$281 million a month for a 13-month total of \$3.7 billion.

Table 8

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#### Wagers at Pennsylvania Slots Gaming Facilities, by Location (November 2006 Through January 2008)

<u>Racino/Casino</u>	<u># Months In Operation</u>	<u>Total Wagers</u>	<u>Average Per Month</u>
Mohegan Sun.....	15	\$ 2,299,703,601	\$153,313,573
Philadelphia Park.	14	3,984,032,784	284,573,770
Harrah's Chester..	13	3,653,306,767	281,023,597
Presque Isle .....	12	1,763,943,872	146,995,323
The Meadows .....	8	1,673,317,978	209,164,747
Mount Airy.....	4	<u>550,577,033</u>	137,644,258
Total Wagers.....		\$13,924,882,035	

Source: Pennsylvania Gaming Control Board.

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Table 9

**Wagers at Pennsylvania Slots Gaming Facilities, by Location**  
(November 2006 Through January 2008)

	Mohegan Sun	% Change	Philadelphia Park	% Change	Harrah's Chester	% Change
11/2006	\$ 86,297,632	--	--	--	--	--
12/2006	130,374,199	51.1%	\$ 113,642,773	--	--	--
01/2007	137,548,522	5.5	252,485,337	122.2%	\$ 90,472,625	--
02/2007	126,425,598	(8.1)	225,769,006	(10.6)	209,755,208	131.8%
03/2007	152,992,472	21.0	263,306,567	16.6	256,168,624	22.1
04/2007	158,341,789	3.5	249,022,137	(5.4)	271,361,752	5.9
05/2007	157,091,053	(0.8)	269,119,741	8.1	294,790,545	8.6
06/2007	171,751,838	9.3	293,336,600	9.0	300,270,365	1.9
07/2007	197,560,026	15.0	323,815,006	10.4	357,346,314	19.0
08/2007	188,357,829	(4.7)	328,614,504	1.5	338,770,525	(5.2)
09/2007	182,881,799	(2.9)	339,113,735	3.2	318,921,778	(5.9)
10/2007	168,889,536	(7.7)	341,310,827	0.6	310,965,538	(2.5)
11/2007	143,384,449	(15.1)	306,637,848	(10.2)	292,538,740	(5.9)
12/2007	148,169,993	3.3	331,244,529	8.0	292,919,019	0.1
01/2008	149,636,866	1.0	346,614,175	4.6	319,025,734	8.9
Totals <sup>a</sup>	\$2,299,703,601		\$3,984,032,784		\$3,653,306,767	

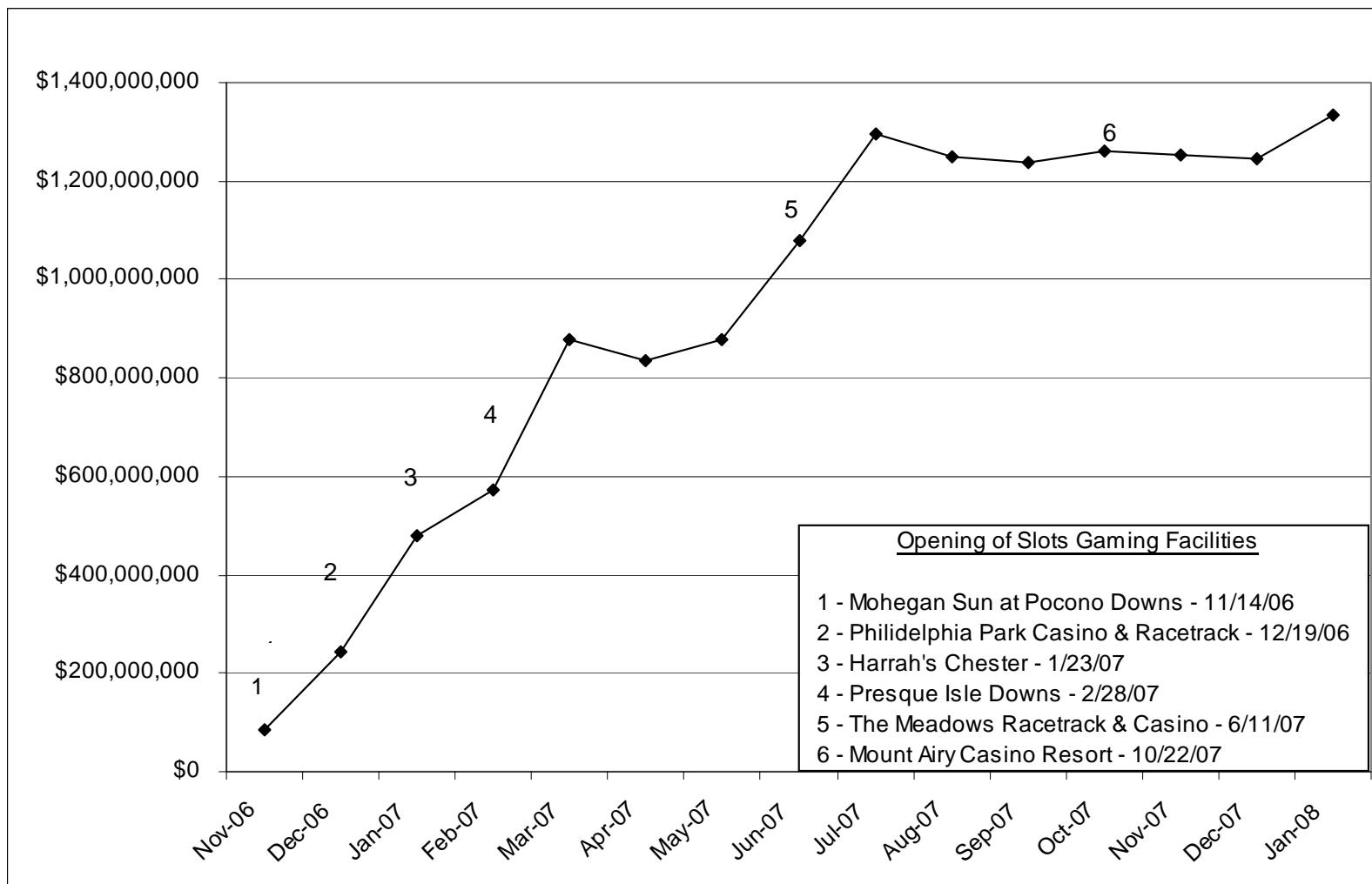
	Presque Isle	% Change	The Meadows	% Change	Mount Airy	% Change
11/2006	--	--	--	--	--	--
12/2006	--	--	--	--	--	--
01/2007	--	--	--	--	--	--
02/2007	\$ 11,449,364	--	--	--	--	--
03/2007	206,071,163	1699.8%	--	--	--	--
04/2007	154,803,453	(24.9)	--	--	--	--
05/2007	158,509,490	2.4	--	--	--	--
06/2007	146,867,020	(7.3)	\$ 167,257,764	--	--	--
07/2007	167,383,679	14.0	248,937,834	48.8%	--	--
08/2007	161,052,573	(3.8)	230,953,626	(7.2)	--	--
09/2007	175,211,316	8.8	221,035,564	(4.3)	--	--
10/2007	165,896,138	(5.3)	211,111,029	(4.5)	\$ 61,777,572	--
11/2007	149,400,743	(9.9)	201,348,897	(4.6)	157,829,923	155.5%
12/2007	133,280,523	(10.8)	188,045,679	(6.6)	152,525,178	(3.4)
01/2008	134,018,410	0.6	204,627,585	8.8	178,444,361	17.0
Totals <sup>a</sup>	\$1,763,943,872		\$1,673,317,978		\$550,577,033	

<sup>a</sup>May not add due to rounding.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Gaming Control Board.

**Total Wagers at Pennsylvania Slots Gaming Facilities**  
 (November 2006 Through January 2008)

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Source: Pennsylvania Gaming Control Board.

## Payouts

Payouts, by facility, are listed on Table 10. With wagers approaching \$4 billion during its first 14 months of operation, Philadelphia Park reported the highest payouts totaling \$3.6 billion. Payouts since start-up at the other five facilities ranged from \$510.7 million at Mount Airy (4 months of operation) to \$3.3 billion at Harrah’s Chester during 13 months of operation.

Table 10

<b>Payouts at Pennsylvania Slots Gaming Facilities, by Location</b> (November 2006 Through January 2008)			
<u>Racino/Casino</u>	<u># Months In Operation</u>	<u>Total Payouts</u>	<u>Average Per Month</u>
Mohegan Sun.....	15	\$ 2,088,987,019	\$139,265,801
Philadelphia Park.....	14	3,639,095,342	259,935,382
Harrah’s Chester.....	13	3,315,182,083	255,014,007
Presque Isle .....	12	1,603,880,968	133,656,747
The Meadows .....	8	1,531,447,396	191,430,925
Mount Airy.....	4	<u>510,734,197</u>	127,683,549
Total Payouts .....		\$12,689,327,005	

Source: Pennsylvania Gaming Control Board.

## Gross Terminal Revenue

Gross terminal revenue (GTR) is defined in the Gaming Law as follows: The total of cash or cash equivalent wagers received by a slot machine minus the total of the following:<sup>1</sup>

- Cash or cash equivalents paid out to patrons as a result of playing a slot machine which are paid to patrons either manually or paid out by the slot machine.
- Cash paid to purchase annuities to fund prizes payable to patrons over a period of time as a result of playing a slot machine.
- Any personal property distributed to a patron as the result of playing a slot machine. This does not include travel expenses, food, refreshments, lodging, or services.

To arrive at the GTR figure, the Department of Revenue (DOR) calculates the difference between wagers (minus promotional plays) and payouts. Adjustments

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<sup>1</sup>The term does not include counterfeit money or tokens; coins or currency of other countries which are received in slot machines, except to the extent that they are readily convertible to United States currency; or cash taken in fraudulent acts perpetrated against a slot machine licensee for which the licensee is not reimbursed or cash received as entry fees for contests or tournaments in which the patrons compete for prizes.

are made by the DOR based on analysis of daily reports through the computerized Central Control System (CCS). DOR adjustments are added back to GTR. Promotional plays refer to gaming not taxed per statute.

Between November 2006 and January 2008, the operation of Pennsylvania's slots facilities generated a total of \$1.2 billion in gross terminal revenue. It is this amount from which the state's share of slots gaming revenues is derived. (See Table 11.)

Table 11

<b>Gross Terminal Revenues (GTR) at Pennsylvania Slots Gaming Facilities, by Location</b> (November 2006 Through January 2008)			
<u>Racino/Casino</u>	<u># Months In Operation</u>	<u>Total Gross Terminal Revenues</u>	<u>Average Per Month</u>
Mohegan Sun.....	15	\$ 210,118,900	\$ 14,007,927
Philadelphia Park.....	14	321,678,166	22,977,012
Harrah's Chester.....	13	313,544,465	24,118,805
Presque Isle.....	12	152,906,556	12,742,213
The Meadows.....	8	141,870,582	17,733,823
Mount Airy.....	4	<u>37,955,811</u>	9,488,953
Total GTR.....		\$1,178,074,480	

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

The Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S.A. §1101 *et seq.*, provides for the distribution and allocation of gross terminal revenues generated at licensed slots facilities. Pennsylvania has a 55 percent tax rate on gross terminal revenue. These amounts are to be transferred to the state, placed in special funds, and used for various purposes established in the act. Specifically, the state's share of GTR is to be used for job creation, economic development and tourism, revitalization of the horse racing industry, local communities, and property and wage tax relief.

Exhibit 12 is a summary of operational data for Pennsylvania slots gaming facilities.

Exhibit 12

**A Summary of Operational Data for Pennsylvania Slots Gaming Facilities**  
(November 2006 Through January 2008 - \$ in Millions)

	<i>Mohegan Sun at Pocono Downs</i>	<i>Philadelphia Park Casino and Racetrack</i>	<i>Presque Island Downs and Casino</i>
Opened	11/14/2006	12/19/2006	2/28/2007
Days in Operation	443	408	337
Machines in Operation	1,202	2,703	1,997
Wagers by Patrons	\$2,299.7	\$3,984.0	\$1,763.9
Payouts to Patrons	\$2,089.0	\$3,639.1	\$1,603.9
Gross Terminal Revenues	\$ 210.1	\$ 321.7	\$ 152.9

	<i>The Meadows Racetrack and Casino</i>	<i>Harrah's Chester Casino and Racetrack</i>	<i>Mount Airy Casino Resort</i>
Opened	6/11/2007	01/23/2007	10/22/2007
Days in Operation	234	373	101
Machines in Operation	1,816	2,750	2,523
Wagers by Patrons	\$1,673.3	\$3,653.3	\$550.6
Payouts to Patrons	\$1,531.4	\$3,315.2	\$510.7
Gross Terminal Revenues	\$ 141.9	\$ 313.5	\$ 38.0

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Through January 31, 2008, gross terminal revenues amounted to \$1,178,074,480. Applying the statutory percentages established in the Gaming Law results in the allocations shown on Exhibit 13. Between November 2006 and the end of January 2008, these allocations totaled \$647,941,062.

The amounts of casino/racino slots gaming revenue transferred for each of the four purposes shown in Exhibit 13 do not include one-time slot machine license fees, set at \$50 million, paid by each Category 1 (racino) and Category 2 (stand-alone casino) facility. Appendix D provides a detailed breakdown of the source of all revenues from each facility and the disposition of revenues through December 31, 2007.

In addition to transfers to the State Gaming Fund based on 34 percent of the gross terminal revenue generated by licensed gaming facilities, transfers are made from the Property Tax Relief Fund (created by Act 2004-71) to the State Lottery Fund as per amendments established by Taxpayer Relief Act (Act 2006-1, Special Session 1). This act, among other provisions, expanded the state property tax/rent rebate program to provide supplemental property tax relief to senior citizen renters and homeowners. As part of this act, funds are to be transferred from the Property Tax Relief Fund to the State Lottery Fund to assist claimants under the property tax/rent rebate program according to requirements established in law.

Initially, \$200 million was transferred to the State Lottery Fund; comprised of \$100 million in Category 1 (racino) slot machine gaming license fees following the award of the fourth Category 1 license and \$100 million from Category 2 license fees

following the award of the third Category 2 license. As of December 31, 2007, \$200 million has been transferred from the Property Tax Relief Fund to the State Lottery Fund based on the slot machine license fees. Further transfers made from the Property Tax Relief Fund to the State Lottery Fund are based on the amount of certain homeowner and renter claims filed under the program as provided in law.

Exhibit 13

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**Statutory Distribution of the State's Share of Revenue From Slots Gaming**  
(November 2006 Through January 2008)

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The statutory allocation of the 55 percent state share of Gross Terminal Revenue generated by slots gaming during the period November 2006 through January 2008 is as follows:

1. **PA Gaming Economic Development and Tourism Fund (EDTF):** This fund receives 5 percent of each gaming entity's gross terminal revenue (GTR). This fund is administered by the PA Department of Community and Economic Development (DCED) pursuant to a subsequently enacted Economic Development Capital Budget. For the first 10 years monies from the fund may be used only for projects within cities and counties of the first and second classes, as specified in the act. Monies not used for these projects may be used throughout the Commonwealth.  

Amount Transferred ..... \$58,903,733
2. **PA Race Horse Development Fund (PRHDF):** This fund receives a maximum of 12 percent of the licensed gaming entity's GTR. The fund is distributed by the Dept. of Revenue in accordance with provisions of the act to each of the active and operating Category 1 licensees conducting live racing.  

Amount Transferred ..... \$141,368,959
3. **State Gaming Fund:** This fund receives 34 percent from each slot machine licensees' daily GTR and a local share assessment, which is discussed below. Annually, \$1,500,000 or an amount equal to .001 x GTR, whichever is greater, is transferred into the *Compulsive Problem Gambling Treatment Fund* established in the act for programs for the prevention and treatment of gambling addiction and other emotional and behavioral problems associated with or related to gambling addiction and for the administration of the compulsive and problem gambling program. Annually \$5,000,000 is transferred to the Gaming Control Board to issue grants to local law enforcement agencies to enforce and prevent the unlawful operation of slot machines in the Commonwealth. The remaining balance in the State Gaming Fund is transferred monthly to the *Property Tax Relief Fund* established in the act to be used for local property and wage tax relief.  

Amount Transferred ..... \$400,545,384
4. **Local Share Assessment (LSA):** Four percent of the GTR is designated for local distribution. The local assessment is distributed based on the classification of the licensee and county in which the facility is located.  

Amount Transferred ..... \$47,122,986
5. **Total Transferred November 2006 Through January 2008<sup>a</sup>** ..... \$647,941,062

Note: Gaming licensees are also responsible for the reimbursement of oversight costs incurred by the Gaming Control Board, Pennsylvania State Police, Department of Revenue, and Office of Attorney General.

<sup>a</sup>This amount does not include one-time slot machine license fees (set at \$50 million) paid by each approved Category 1 (racino) and Category 2 (stand-alone casino) facility. Between November 14, 2006, and December 31, 2007, \$1.14 billion in combined state share of gross terminal revenue and slot machine license fees was transferred to the State Gaming Fund. See Appendix D for a breakdown of the distribution of this \$1.14 billion.

Source: LB&FC staff review of the Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S.A. §1101 et seq., and information obtained from the Pennsylvania Gaming Control Board.

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## **VI. Pennsylvania Lottery Sales Since the Introduction of Slots Gaming**

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*Monthly Lottery sales did not show a consistent increase/decrease pattern following the opening of slots facilities between November 2006 and January 2008 but, rather, fluctuated considerably during this period.*

### **Monthly Lottery Sales**

The analysis in this section focuses on Lottery sales for calendar years 2005 through 2007 and, in particular, on the period November 2005 (one year prior to the opening of the first slots location) through January 2008. For this time frame, we examined total monthly Lottery sales both before and after the introduction of slots gaming.

In CY 2007, Lottery sales totaled \$3,082.4 million, a decline of 0.5 percent from the CY 2006 level. Table 12 also shows monthly average Lottery sales for each of calendar years 2005, 2006, and 2007. Between January 2006 and December 2006, monthly sales averaged \$258.1 million. Average monthly sales in CY 2007 were \$256.9 million. (During the first month of CY 2008, Lottery sales totaled \$239.4 million.)

We also plotted monthly Lottery sales beginning in November 2005, one year prior to the opening of the first slots facility. Monthly sales are graphed in relationship to the start-up of the six racinos/casinos that opened between November 2006 and December 2007. As shown on Exhibit 14, Lottery sales increased following the opening of the first two slots venues in late 2006, declined after the opening of the third and then proceeded to fluctuate during the remainder of the period examined.

Table 13 lists Lottery sales, by month, for the period CY 2004 through CY 2007, and also indicates the months in CY 2006 and CY 2007 in which a slots facility opened. As shown on this table, monthly Lottery sales were actually higher than the same month of the prior year in 8 of the 14 months of the period we examined (i.e., the 14 months since the first slots facility opened).

Month over prior year month sales gains were realized in November and December of 2006 and January, March, May, June, July, and August of CY 2007. Sales declines were recorded in September, October, November, and December 2007. This drop in sales growth during the last quarter of the year appears to coincide with the well-documented downturn that occurred in the U.S. economy.

It is still early in the operational life of Pennsylvania's slots industry to make a precise determination on the impact question. Seven additional slots venues are yet to open and further tracking of monthly sales trends are necessary as three of the existing facilities have been operational for less than one year.

Table 12

**A Comparison of Monthly PA Lottery Sales to  
Monthly Wagers at PA Slots Gaming Facilities**  
(November 2006 Through January 2008)

	Monthly Amounts		Percentage Change	
	<u>Lottery Sales</u>	<u>Slots Wagers</u>	<u>Lottery Sales</u>	<u>Slots Wagers</u>
November 2006	\$ 250,933,255	\$ 86,297,632 <sup>a</sup>	First Slots Location Opened 11/14/06	
December 2006	290,638,286	244,016,971 <sup>b</sup>	15.8	182.8%
January 2007	291,366,076	480,506,484 <sup>c</sup>	0.3	96.9
February 2007	238,432,665	573,399,176 <sup>d</sup>	(18.2)	19.3
March 2007	273,747,232	878,538,826	14.8	53.2
April 2007	243,912,561	833,529,131	(10.9)	(5.1)
May 2007	254,623,668	879,510,828	4.4	5.5
June 2007	246,007,029	1,079,483,587 <sup>e</sup>	(3.4)	22.7
July 2007	256,468,202	1,295,042,858	4.3	20.0
August 2007	284,921,816	1,247,749,057	11.1	(3.7)
September 2007	230,148,060	1,237,164,191	(19.2)	(0.8)
October 2007	247,440,565	1,259,950,640 <sup>f</sup>	7.5	1.8
November 2007	245,717,305	1,251,140,600	(0.7)	(0.7)
December 2007	269,571,512	1,246,184,921	9.7	(0.4)
January 2008	239,446,290	1,332,367,130	(11.2)	6.9
February 2008	243,407,493		1.7	
March 2008				
April 2008				

<sup>a</sup>Mohegan Sun at Pocono Downs opens.

<sup>b</sup>Philadelphia Park Casino and Racetrack opens.

<sup>c</sup>Harrah's Chester Casino and Racetrack opens.

<sup>d</sup>Presque Isle Downs and Casino opens.

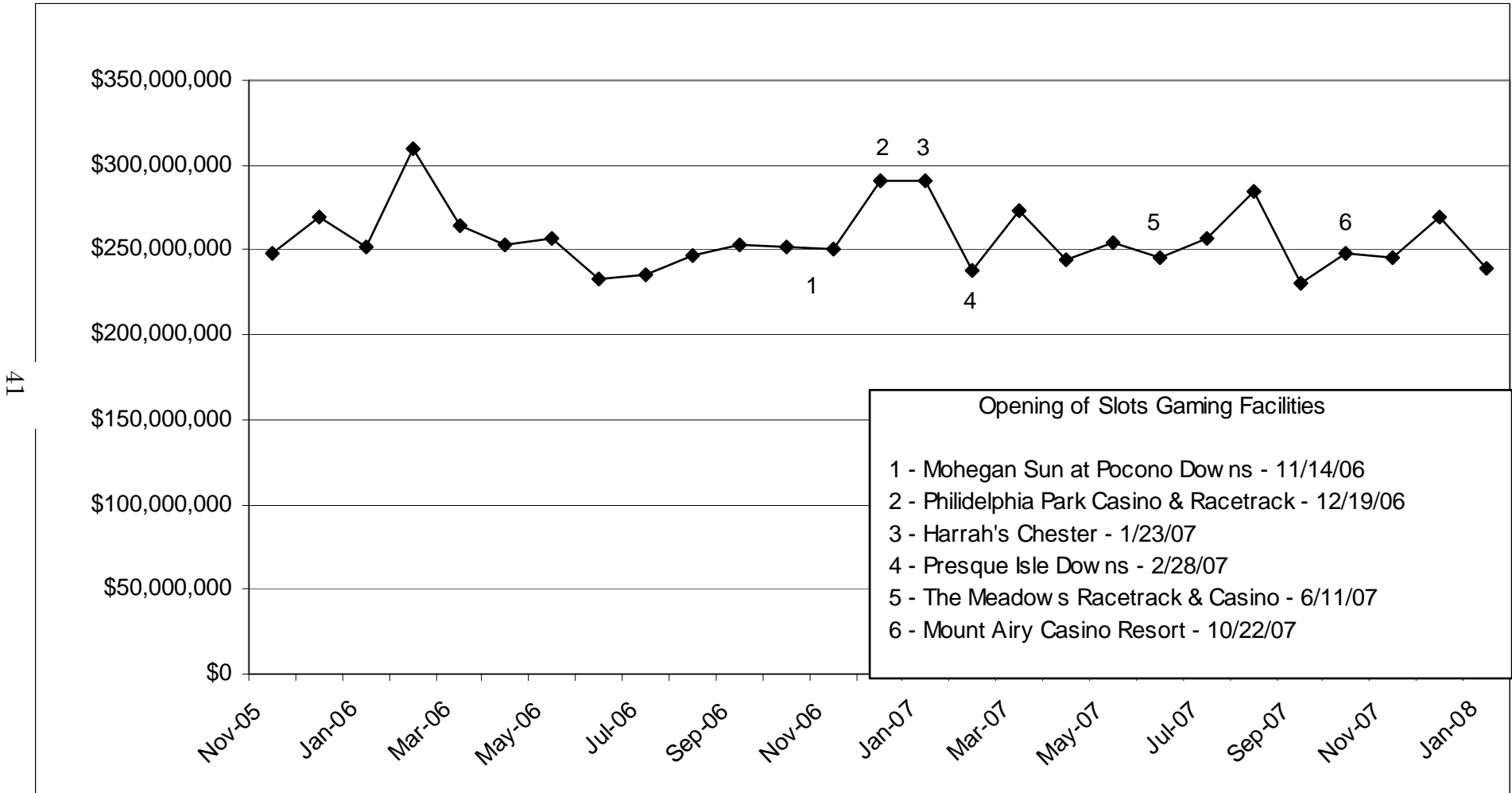
<sup>e</sup>The Meadows Racetrack and Casino opens.

<sup>f</sup>Mount Airy Casino Resort opens.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery and the Pennsylvania Gaming Control Board.

Exhibit 14

**Monthly Pennsylvania Lottery Sales**  
(November 2005 Through January 2008)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Gaming Control Board and the Pennsylvania Lottery.

Table 13

**Total Pennsylvania Lottery Sales, by Month**  
(CYs 2005 Through 2007)

Month	CY 2005	CY 2005 Over CY 2004	CY 2006	CY 2006 Over CY 2005	CY 2007	CY 2007 Over CY 2006
January	\$201,529,015	+11.2%	\$251,680,517	+24.9%	\$291,366,076 <sup>c</sup>	+15.8%
February	205,397,824	+11.7	309,450,207	+50.7	238,432,665 <sup>d</sup>	-22.9
March	228,630,849	+9.3	264,126,761	+15.5	273,747,232	+3.6
April	220,582,080	+9.1	252,855,570	+14.6	243,912,561	-3.5
May	269,258,575	+28.1	256,460,836	-4.8	254,623,668	-0.7
June	207,968,840	+6.3	232,951,648	+12.0	246,007,029 <sup>e</sup>	+5.6
July	217,973,979	+7.2	236,053,002	+8.3	256,468,202	+8.6
August	235,612,617	+11.3	246,984,033	+4.8	284,921,816	+15.4
September	223,826,296	+11.0	253,229,778	+13.1	230,148,060	-9.1
October	308,391,581	+33.5	251,640,575	-18.4	247,440,565 <sup>f</sup>	-1.7
November	247,982,434	+13.3	250,933,255 <sup>a</sup>	+1.2	245,717,305	-2.1
December	268,955,842	+6.3	290,638,286 <sup>b</sup>	+8.1	269,571,512	-7.2
Total	\$2,836,109,932	+13.4%	\$3,097,004,468	+9.2%	\$3,082,356,688	-0.5%
Monthly Avg.	\$ 236,342,494	+13.4	\$ 258,083,706	+9.2	\$ 256,863,057	-0.5

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<sup>a</sup>Mohegan Sun at Pocono Downs opened November 14, 2006.

<sup>b</sup>Philadelphia Park Casino and Racetrack opened on December 19, 2006.

<sup>c</sup>Harrah's Chester Casino and Racetrack opened on January 23, 2007

<sup>d</sup>Presque Isle Downs and Casino opened on February 28, 2007.

<sup>e</sup>The Meadows Racetrack and Casino opened on June 11, 2007.

<sup>f</sup>Mount Airy Casino Resort opened on October 22, 2007.

Source: The Pennsylvania Lottery.

## **Trends in Lottery Sales Since Slots Introduction, by Game**

*The Lottery has not experienced precipitous or unusual declines in any particular game or games since the introduction of slots gaming. (See Table 14.)*

We analyzed monthly sales for each Lottery game over the past three calendar years, looking at monthly sales trends for November 2005 through January 2008. Analysis sheets for each game are presented on Exhibits 15 through 26. The following provides a summary analysis on game sales trends.

### **Instant Game Sales**

Instant game sales showed a slower rate of sales growth in CY 2006 and CY 2007 compared to CY 2005. In CY 2005, instant game sales increased by 24.7 percent over the prior year, while sales increased by 16.1 percent in CY 2006. However, after several years of double-digit growth, instant games sales growth slowed to 2.2 percent in CY 2007. Pennsylvania Lottery officials partially attribute this reduction in the growth of instant game sales to the maturation (leveling of interest and demand) of games at higher price-points (\$5, \$10, and \$20 instant games) due to their presence in the Lottery game mix for several years.

### **The Daily Number (TDN) and Big 4**

While sales of the nighttime drawings of both the Daily Number and Big 4 have decreased during the past several years, sales for the mid-day drawings of both of these games have posted steady sales growth since their permanent addition to the Lottery's game mix in February 2003. This has slowed the pattern of decline for the Lottery's 3-digit and 4-digit numbers games and brought about almost even growth overall. The addition of the mid-day drawings capitalized on the existing, historically loyal customer base that exists for Lottery numbers games. This is evidenced by relatively stable sales from month to month for the nighttime drawings of these games.

### **Cash 5**

Sales of the five-digit matrix lotto game Cash 5 have declined in each of the past several calendar years from between 4 and 6 percent. Like other lotto-style jackpot games, sales of Cash 5 are partially dependent upon the level of the advertised game jackpot at each drawing which, unlike Powerball, had a greater period of high jackpot drawings in CY 2007 than in CY 2006. In February 2008, the Pennsylvania Lottery changed the Cash 5 game matrix from 5:39 to 5:43 and increased the game's starting jackpot to \$125,000 in an attempt to produce longer periods of high average jackpot drawings.

### **Powerball/Powerplay**

Sales of Powerball and Powerplay have exhibited the highest degree of between-month sales variance in the Lottery's game mix, largely due to the historically strong relationship between game sales and the size of the advertised

Table 14

**Pennsylvania Lottery Sales Trends, by Game**  
(Calendar Years 2005 Through 2007)

Game	CY 2005	% Change Over CY 2004	CY 2006	% Change Over CY 2005	CY 2007	% Change Over FY 2006
Instant	\$1,438,183,361	+24.7%	\$1,669,778,412	+16.1%	\$1,707,148,957	+2.2%
Night Daily Number	320,051,055	-6.9	306,670,646	-4.2	298,397,058	-2.7
Mid-day Daily Number	97,984,712	+7.4	105,143,788	+7.3	112,827,835	+7.3
Night Big 4	204,209,140	-3.4	197,965,123	-3.1	193,786,555	-2.1
Mid-day Big 4	67,441,041	+14.4	71,520,509	+6.0	75,367,110	+5.4
Cash 5	204,471,930	-5.0	194,979,868	-4.6	182,614,388	-6.3
Powerball	299,871,033	+25.6	344,073,378	+14.7	280,737,791	-18.4
Powerplay	48,267,206	+14.8	61,238,270	+26.9	52,084,789	-14.9
Sup/Match 6 Lotto	106,716,260	-17.8	96,613,610	-9.5	94,847,404	-1.8
Lucky for Life Lotto	29,215,883	+129.2	18,011,326	-38.4	1,287,401	-92.9
Lucky for Life Inst.	9,698,312	+124.7	6,009,538	-38.0	396,057	-93.4
Raffles	10,000,000	+100.0	25,000,000	+150.0	25,000,000	0.0
Treasure Hunt					17,760,368	+100.0
Mix & Match					40,100,976	+100.0
<b>Total</b>	<b>\$2,836,109,932</b>	<b>+13.4%</b>	<b>\$3,097,004,468</b>	<b>+9.2%</b>	<b>\$3,082,356,688</b>	<b>-0.5%</b>

Powerball jackpot. According to Lottery officials, CY 2007 was considered to be a relatively poor year for Powerball jackpot runs and attendant sales, during which there were eight months in which the maximum monthly Powerball jackpot was less than the maximum jackpot in the corresponding month of CY 2006. This low number of Powerball jackpot runs may also have some degree of spillover-effect on sales of other Lottery games, insofar as Lottery officials have acknowledged that sales of other games tend to increase as some customers may make other game purchases in addition to Powerball and Powerplay. Moreover, Powerball sales may occasionally compete with sales of the multi-state jackpot game Mega Millions, which is played in four states that border Pennsylvania (Maryland, New Jersey, New York, and Ohio), due to residents crossing state lines to purchase Mega Millions tickets during high jackpot runs. Historically, Powerball ticket sales have not met or exceeded sales levels attained by Mega Millions until several additional draws (and higher jackpots) have transpired.

## **Match 6**

Sales of the lotto game Match 6, which is also partially dependent upon the running level of the advertised game jackpot for sales, have experienced a slowdown in sales growth in recent years. This pattern of moderate to large between-month changes in sales has generally continued following the commencement of slots gaming. According to the Pennsylvania Lottery, Match 6, which was introduced in January 2004, was designed to fit the niche between Cash 5 and Powerball. Match 6 exhibited a slowing of negative growth in CY 2007.

## **Mix & Match and Treasure Hunt**

The terminal-based game Mix & Match held its inaugural drawing in late January 2007. While sales increased during the first two months of the game's run (February and March 2007), sales then decreased between seven of the following ten months between April 2007 and January 2008. As with other new games, Pennsylvania Lottery officials have indicated that Mix & Match sales are being monitored carefully. According to the Pennsylvania Lottery, Mix & Match was designed to bridge the product gap between the Daily Number and Big 4 prizes and the Cash 5 jackpot.

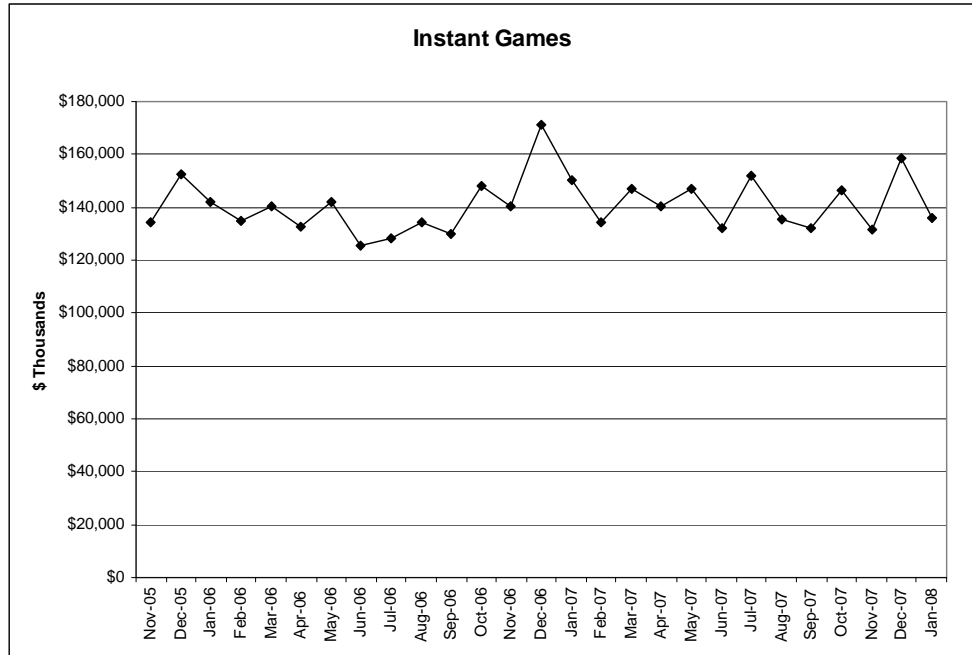
The mid-day, moderate jackpot terminal game Treasure Hunt was launched in early May 2007. Following the posting of strong sales during the first few months of its run, sales of Treasure Hunt slowed or decreased during several months between July 2007 and January 2008. As with Mix & Match, Lottery officials are closely monitoring this recent addition to the game mix.

## **Raffles**

Each of the five drawings of the \$20 terminal game Millionaire Raffle between November 2005 and January 2008 have sold out resulting in total sales of \$60 million from this game to date. Thus, by design, the Lottery has realized the benefit of a reliable source of ticket sales revenue in each drawing.

**Monthly Sales of Pennsylvania Lottery Instant Games**  
(Calendar Years 2006 and 2007)

<b>Month</b>	<b>Sales (\$000)</b>	<b>% Change</b>
Nov-05	\$134,253	
Dec-05	\$152,507	13.6%
Jan-06	\$142,130	-6.8%
Feb-06	\$134,600	-5.3%
Mar-06	\$140,425	4.3%
Apr-06	\$132,611	-5.6%
May-06	\$142,159	7.2%
Jun-06	\$125,686	-11.6%
Jul-06	\$128,017	1.9%
Aug-06	\$134,186	4.8%
Sep-06	\$130,174	-3.0%
Oct-06	\$148,020	13.7%
Nov-06	\$140,431	-5.1%
Dec-06	\$171,339	22.0%
Jan-07	\$150,485	-12.2%
Feb-07	\$134,552	-10.6%
Mar-07	\$146,788	9.1%
Apr-07	\$140,445	-4.3%
May-07	\$147,046	4.7%
Jun-07	\$132,020	-10.2%
Jul-07	\$152,011	15.1%
Aug-07	\$135,501	-10.9%
Sep-07	\$132,064	-2.5%
Oct-07	\$146,187	10.7%
Nov-07	\$131,620	-10.0%
Dec-07	\$158,429	20.4%
Jan-08	\$136,126	-14.1%



Instant game sales now constitute the majority of Pennsylvania Lottery ticket sales (55.4 percent in FY 2006-07). After several years of double-digit increases, instant game sales growth slowed to 2.2 percent in CY 2007. A reduction in growth of this magnitude was not unexpected because the higher price point instant games have been in the market for a number of years and are reaching maturation with their audiences.

Sales exhibited periods of both moderate monthly increases and decreases in the 27-month period of November 2005 through January 2008. Sales increased between months on 12 occasions during this period, with the largest percentage increase occurring between November and December 2006, in which sales increased by 22 percent (\$30.9 million). However, instant game sales declined by 12.2 percent and 10.6 percent in each of the following two months. This pattern of several months of percentage increase in sales followed by several months of decreased sales characterized this period.

Pennsylvania Lottery officials partially attributed the reduction in the growth of instant ticket sales to the maturation (leveling of interest and demand) of games at higher price-points (\$5, \$10, and \$20 instant tickets) due to their presence in the Lottery game mix for several years. Instant games with price-points of \$5, \$10, and \$20 now constitute approximately 65 percent of total instant game sales. According to Lottery officials, instant games generally “cycle” in popularity over an approximate 18-month period. As such, the Lottery attempts to introduce at least one new instant game each month. Lottery officials report they are now preparing for modifications to games that will “usher in the next generation of instant games.”

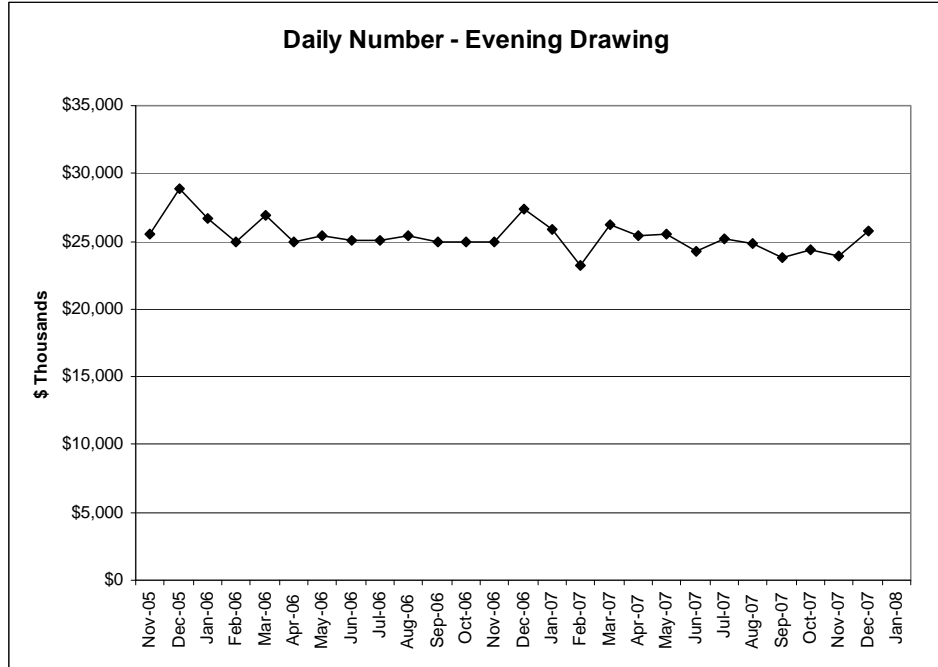
Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.



Exhibit 16

**Monthly Sales of Pennsylvania Lottery Daily Number (Evening Drawing)**  
(November 2005 Through January 2008)

<b>Month</b>	<b>Sales (\$000)</b>	<b>% Change</b>
Nov-05	\$25,535	
Dec-05	\$28,820	12.9%
Jan-06	\$26,738	-7.2%
Feb-06	\$24,926	-6.8%
Mar-06	\$26,971	8.2%
Apr-06	\$24,914	-7.6%
May-06	\$25,425	2.0%
Jun-06	\$25,020	-1.6%
Jul-06	\$25,037	0.1%
Aug-06	\$25,367	1.3%
Sep-06	\$24,912	-1.8%
Oct-06	\$25,000	0.4%
Nov-06	\$24,961	-0.2%
Dec-06	\$27,399	9.8%
Jan-07	\$25,907	-5.4%
Feb-07	\$23,214	-10.4%
Mar-07	\$26,204	12.9%
Apr-07	\$25,393	-3.1%
May-07	\$25,539	0.6%
Jun-07	\$24,305	-4.8%
Jul-07	\$25,132	3.4%
Aug-07	\$24,872	-1.0%
Sep-07	\$23,793	-4.3%
Oct-07	\$24,347	2.3%
Nov-07	\$23,946	-1.6%
Dec-07	\$25,744	7.5%
Jan-08	NA	-



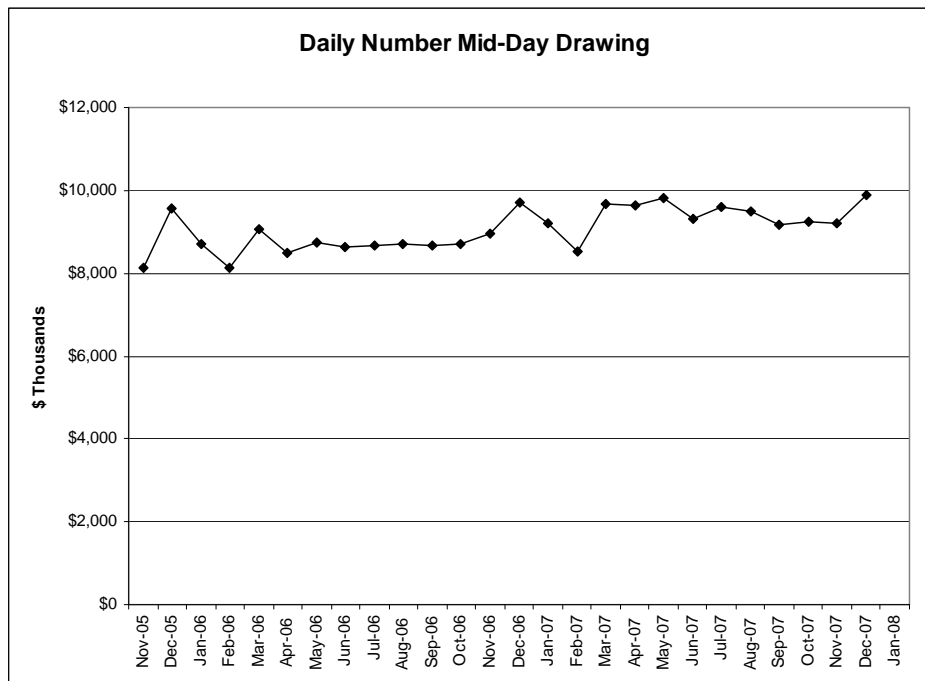
Sales of the Daily Number evening drawing exhibited very minor changes in sales from month to month between November 2005 and December 2007. In fact, game sales of \$25.7 million in December 2007 were essentially the same as (less than 1 percent higher) than sales for the month of November 2005. There were only two months in this period in which sales posted double-digit increases (December 2005 and March 2007), and game sales decreased by more than 10 percent during only one month (February 2007). Otherwise, sales of the Daily Number evening drawing during this period were among the most stable of any game within the Lottery's game mix. Lottery officials believe these relatively stable sales levels may be partially explained by a relatively loyal base of consumers who tend to consistently purchase the three-digit numbers game.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 17

**Monthly Sales of Pennsylvania Lottery Daily Number (Mid-Day Drawing)**  
(November 2005 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
Nov-05	\$8,147	
Dec-05	\$9,549	17.2%
Jan-06	\$8,699	-8.9%
Feb-06	\$8,115	-6.7%
Mar-06	\$9,048	11.5%
Apr-06	\$8,474	-6.3%
May-06	\$8,747	3.2%
Jun-06	\$8,648	-1.1%
Jul-06	\$8,666	0.2%
Aug-06	\$8,713	0.5%
Sep-06	\$8,662	-0.6%
Oct-06	\$8,710	0.6%
Nov-06	\$8,940	2.6%
Dec-06	\$9,723	8.8%
Jan-07	\$9,217	-5.2%
Feb-07	\$8,542	-7.3%
Mar-07	\$9,656	13.0%
Apr-07	\$9,650	-0.1%
May-07	\$9,825	1.8%
Jun-07	\$9,297	-5.4%
Jul-07	\$9,608	3.3%
Aug-07	\$9,480	-1.3%
Sep-07	\$9,187	-3.1%
Oct-07	\$9,254	0.7%
Nov-07	\$9,211	-0.5%
Dec-07	\$9,901	7.5%
Jan-08	NA	-



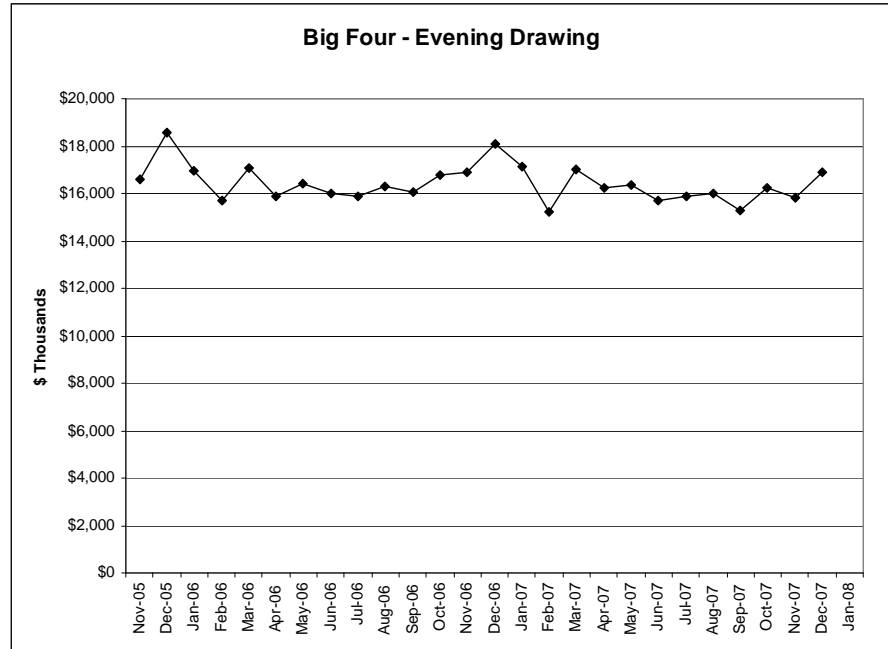
Sales of the Daily Number mid-day drawing average approximately one-third of the total sales of the evening drawing. The mid-day version of this game showed fairly level sales for most of CY 2006 before attaining sales in excess of \$9 million at the end of that year. This trend continued in all but one month in CY 2007. Lottery officials point to this growth in Daily Number mid-day drawing sales as reversing a period of decline in total Daily Number sales overall (combined mid-day and evening).

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 18

**Monthly Sales of Pennsylvania Lottery Big Four (Evening Drawing)**  
(November 2005 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
Nov-05	\$16,604	
Dec-05	\$18,587	11.9%
Jan-06	\$16,984	-8.6%
Feb-06	\$15,692	-7.6%
Mar-06	\$17,079	8.8%
Apr-06	\$15,865	-7.1%
May-06	\$16,393	3.3%
Jun-06	\$16,005	-2.4%
Jul-06	\$15,865	-0.9%
Aug-06	\$16,325	2.9%
Sep-06	\$16,041	-1.7%
Oct-06	\$16,783	4.6%
Nov-06	\$16,867	0.5%
Dec-06	\$18,066	7.1%
Jan-07	\$17,135	-5.2%
Feb-07	\$15,239	-11.1%
Mar-07	\$17,008	11.6%
Apr-07	\$16,217	-4.7%
May-07	\$16,376	1.0%
Jun-07	\$15,686	-4.2%
Jul-07	\$15,866	1.2%
Aug-07	\$15,989	0.8%
Sep-07	\$15,290	-4.4%
Oct-07	\$16,264	6.4%
Nov-07	\$15,810	-2.8%
Dec-07	\$16,906	6.9%
Jan-08	NA	-



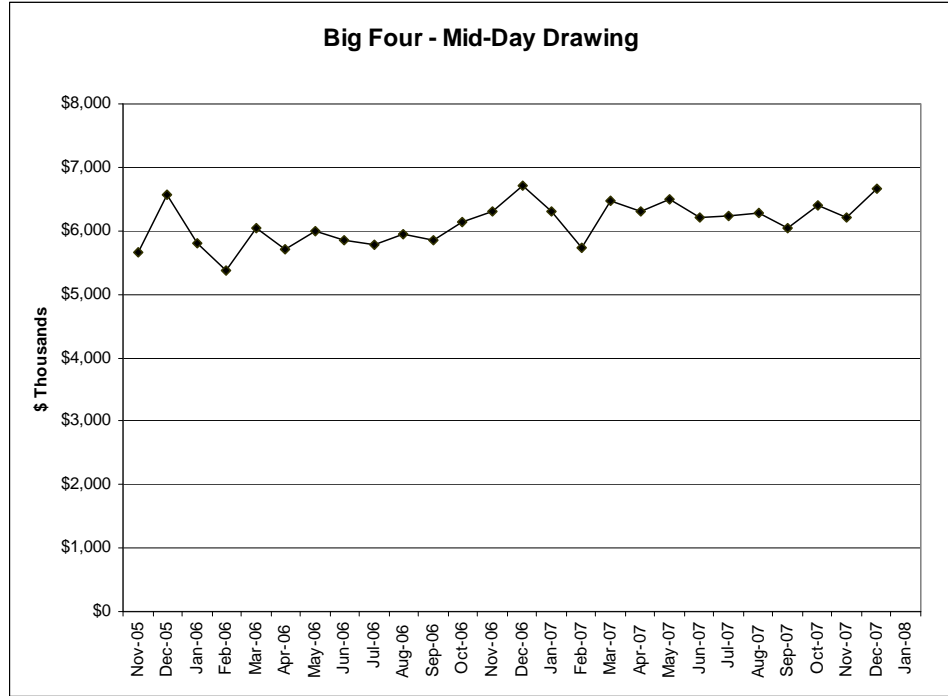
Big Four evening drawing sales exhibited relatively minor monthly changes in sales during the period November 2005 through December 2007. Sales increased by over 10 percent in only two months and decreased by over 10 percent from the prior month only once during this period. Monthly sales exceeded \$18 million during two months of this period, and exceeded \$17 million during three months. Sales totaling \$16.9 million in December 2007 exceeded sales in November 2005 by only \$302,361 (1.8 percent).

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 19

**Monthly Sales of Pennsylvania Lottery Big Four (Mid-Day Drawing)**  
(November 2005 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
Nov-05	\$5,668	
Dec-05	\$6,561	15.7%
Jan-06	\$5,803	-11.5%
Feb-06	\$5,377	-7.3%
Mar-06	\$6,047	12.5%
Apr-06	\$5,706	-5.6%
May-06	\$6,005	5.2%
Jun-06	\$5,844	-2.7%
Jul-06	\$5,781	-1.1%
Aug-06	\$5,947	2.9%
Sep-06	\$5,855	-1.6%
Oct-06	\$6,145	4.9%
Nov-06	\$6,295	2.5%
Dec-06	\$6,715	6.7%
Jan-07	\$6,308	-6.1%
Feb-07	\$5,743	-9.0%
Mar-07	\$6,481	12.9%
Apr-07	\$6,312	-2.6%
May-07	\$6,500	3.0%
Jun-07	\$6,203	-4.6%
Jul-07	\$6,225	0.3%
Aug-07	\$6,286	1.0%
Sep-07	\$6,030	-4.1%
Oct-07	\$6,395	6.1%
Nov-07	\$6,211	-2.9%
Dec-07	\$6,673	7.4%
Jan-08	NA	-



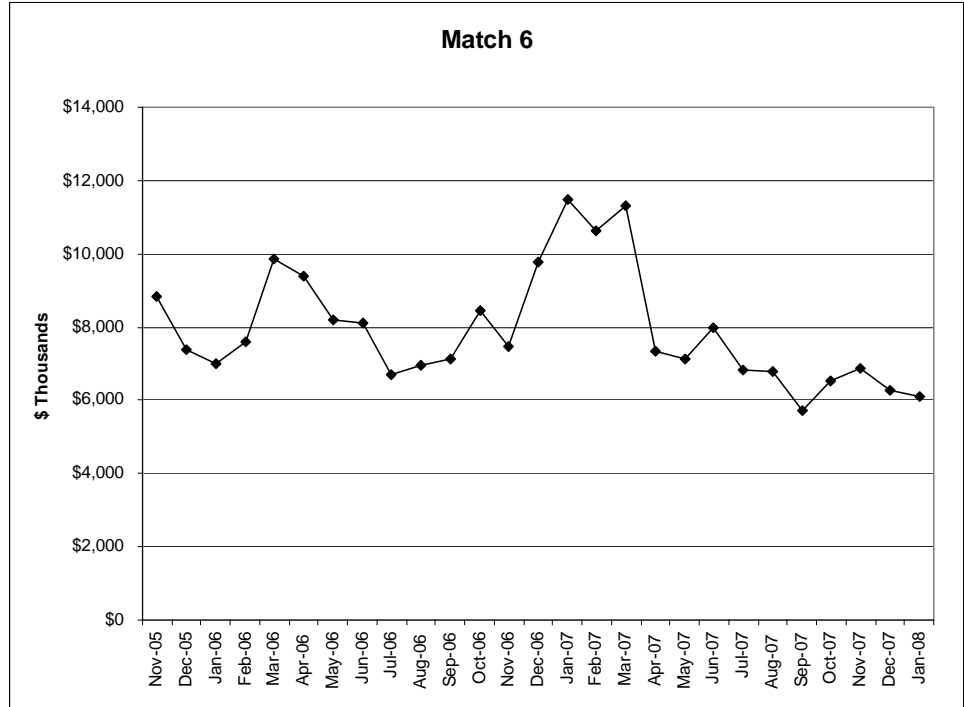
Similar to sales patterns of the Daily Number mid-day drawing, Big Four mid-day drawing sales entered a higher threshold of sales that sustained throughout CY 2007. Prior to this period, sales only occasionally exceeded \$6 million monthly. Also, as with the mid-day drawing of the Daily Number, the Pennsylvania Lottery points to this increase in Big Four mid-day drawing sales as a major factor in the sustainable growth pattern of the four-digit game overall (combined mid-day and evening drawing sales).

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 20

**Monthly Sales of Pennsylvania Lottery Match 6 Lotto**  
(November 2005 Through January 2008)

<b>Month</b>	<b>Sales (\$000)</b>	<b>% Change</b>
Nov-05	\$8,828	
Dec-05	\$7,372	-16.5%
Jan-06	\$6,996	-5.1%
Feb-06	\$7,594	8.5%
Mar-06	\$9,872	30.0%
Apr-06	\$9,386	-4.9%
May-06	\$8,211	-12.5%
Jun-06	\$8,117	-1.1%
Jul-06	\$6,688	-17.6%
Aug-06	\$6,966	4.2%
Sep-06	\$7,111	2.1%
Oct-06	\$8,443	18.7%
Nov-06	\$7,472	-11.5%
Dec-06	\$9,758	30.6%
Jan-07	\$11,472	17.6%
Feb-07	\$10,635	-7.3%
Mar-07	\$11,326	6.5%
Apr-07	\$7,331	-35.3%
May-07	\$7,108	-3.1%
Jun-07	\$7,986	12.4%
Jul-07	\$6,820	-14.6%
Aug-07	\$6,768	-0.8%
Sep-07	\$5,728	-15.4%
Oct-07	\$6,515	13.7%
Nov-07	\$6,873	5.5%
Dec-07	\$6,287	-8.5%
Jan-08	\$6,106	-2.9%



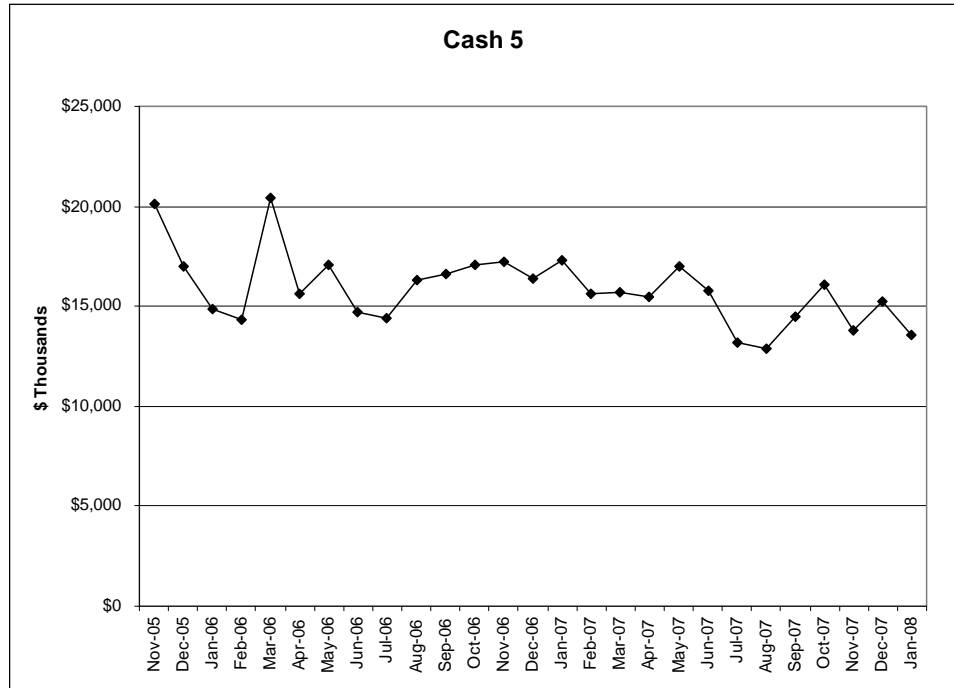
Match 6 Lotto, introduced by the Pennsylvania Lottery in January 2004, exhibited periods of moderate increases and decreases in sales over the 27-month period. Monthly sales fluctuated from nearly \$7 million to close to \$10 million between November 2005 and December 2006. A series of drawings with a jackpot that eventually reached \$6.9 million before a jackpot-winning ticket was sold contributed to the period of peak sales in January, February, and March 2007. Match 6 Lotto sales in the remainder of CY 2007 fell to levels that were equal to or less than monthly sales totals in CY 2006 preceding the high jackpot run.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 21

**Monthly Sales of Pennsylvania Lottery Cash 5**  
(November 2005 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
Nov-05	\$20,096	
Dec-05	\$17,020	-15.3%
Jan-06	\$14,874	-12.6%
Feb-06	\$14,363	-3.4%
Mar-06	\$20,390	42.0%
Apr-06	\$15,631	-23.3%
May-06	\$17,086	9.3%
Jun-06	\$14,689	-14.0%
Jul-06	\$14,405	-1.9%
Aug-06	\$16,305	13.2%
Sep-06	\$16,593	1.8%
Oct-06	\$17,047	2.7%
Nov-06	\$17,239	1.1%
Dec-06	\$16,358	-5.1%
Jan-07	\$17,330	5.9%
Feb-07	\$15,644	-9.7%
Mar-07	\$15,727	0.5%
Apr-07	\$15,457	-1.7%
May-07	\$16,997	10.0%
Jun-07	\$15,750	-7.3%
Jul-07	\$13,160	-16.4%
Aug-07	\$12,851	-2.4%
Sep-07	\$14,514	12.9%
Oct-07	\$16,088	10.8%
Nov-07	\$13,830	-14.0%
Dec-07	\$15,268	10.4%
Jan-08	\$13,576	-11.1%



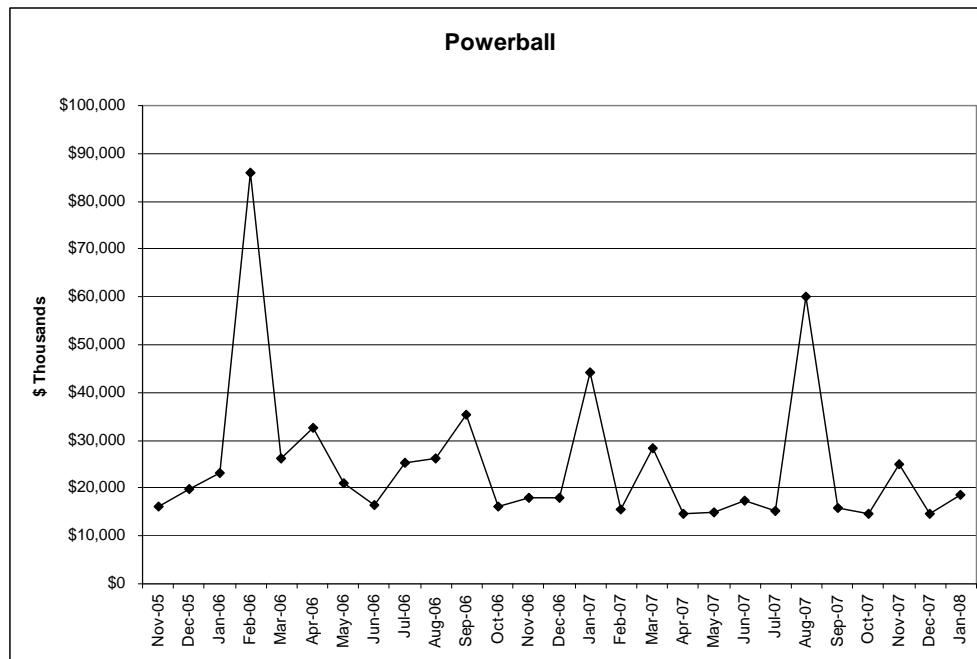
During the last three years, Cash 5 sales have declined between 4.6 percent and 6.3 percent. Unlike Powerball, Cash 5 jackpot runs in CY 2007 were actually better than in CY 2006. The Lottery recognized this pattern early on and acted by implementing a matrix change plan that will raise the matrix size from 39 to 43 while increasing the starting jackpot to \$125,000. This will in effect, produce longer average jackpot runs, which will in turn introduce higher average jackpots for players.

The five-digit matrix lotto game, Cash 5, experienced several months of declining sales in the period November 2005 to January 2008. Cash 5 sales exceeded \$20 million in only two months during this period (November 2005 and March 2006), before experiencing marked decline in the following month. Sales fluctuated moderately from mid-2006 to mid-2007, before entering a period of sales in mid- and late-2007 that, with a few exceptions, were among the lowest in the 27-month period.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Monthly Sales of Pennsylvania Lottery Powerball**  
(November 2005 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
Nov-05	\$16,213	
Dec-05	\$19,809	22.2%
Jan-06	\$23,307	17.7%
Feb-06	\$85,999	269.0%
Mar-06	\$26,079	-69.7%
Apr-06	\$32,635	25.1%
May-06	\$21,038	-35.5%
Jun-06	\$16,393	-22.1%
Jul-06	\$25,173	53.6%
Aug-06	\$26,175	4.0%
Sep-06	\$35,266	34.7%
Oct-06	\$16,033	-54.5%
Nov-06	\$17,967	12.1%
Dec-06	\$18,007	0.2%
Jan-07	\$44,212	145.5%
Feb-07	\$15,695	-64.5%
Mar-07	\$28,365	80.7%
Apr-07	\$14,630	-48.4%
May-07	\$14,906	1.9%
Jun-07	\$17,367	16.5%
Jul-07	\$15,292	-11.9%
Aug-07	\$59,914	291.8%
Sep-07	\$15,808	-73.6%
Oct-07	\$14,730	-6.8%
Nov-07	\$25,135	70.6%
Dec-07	\$14,683	-41.6%
Jan-08	\$18,488	25.9%



CY 2007 was a poor year for Powerball jackpot runs, which in turn affected Pennsylvania Powerball sales. There were eight months in CY 2007 where the maximum Powerball jackpot was less than the maximum jackpot in the corresponding month of CY 2006. The average advertised jackpot in CY 07 was \$66.8 million compared to \$80.8 million in CY 2006. Pennsylvania Lottery officials report that they are working with the Powerball group on developing changes to the game for FY 2008-09. These efforts are intended to produce longer jackpot runs and higher advertised jackpots to which players respond.

Pennsylvania sales of the multi-state jackpot game Powerball exhibited moderate and high degrees of variance during the 27-month period examined. As discussed elsewhere in this report, a strong relationship exists between high jackpot amounts and large increases in ticket sales. For example, Powerball ticket sales climbed from \$23.3 million in January 2006 (at a time the maximum jackpot was \$156 million) to nearly \$86 million in February 2006 (an increase of 269 percent) due in large part to a maximum game jackpot of \$365 million in February 2006. High jackpot levels also caused sales to spike in January and August 2007. Conversely, the month with the lowest sales in this period was April 2007, during which time the maximum jackpot was \$68 million.

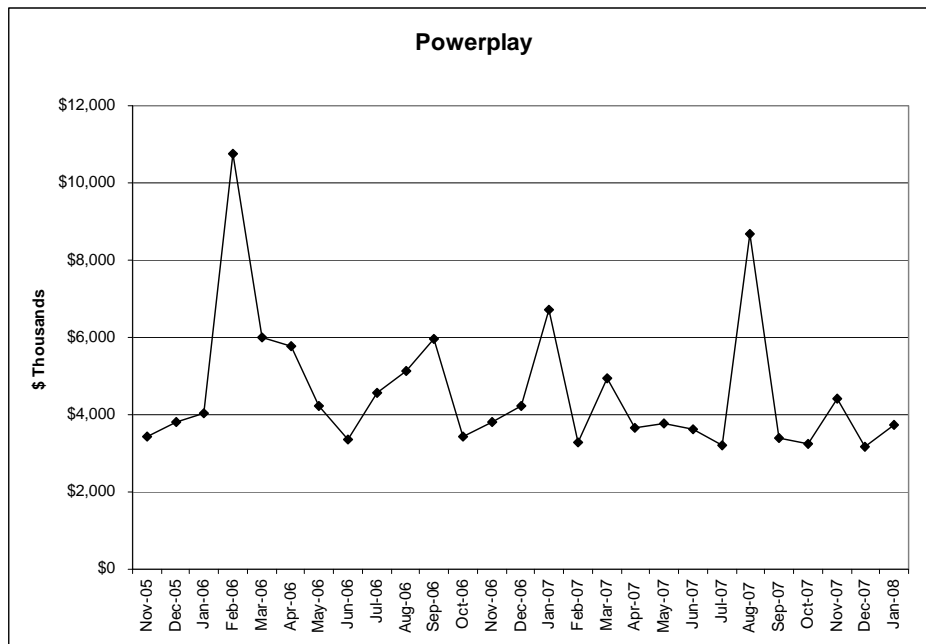
Overall, however, CY 2007 was a relatively low year for Powerball jackpot runs, as there were eight months during that year in which the maximum Powerball jackpot was less than the maximum jackpot in the corresponding month of CY 2006; resulting in eight months of decreased Powerball ticket sales over the same month of the prior year. Pennsylvania Lottery officials are currently working with the Multi-State Lottery Association (MUSL) toward changes in the game in an attempt to produce longer periods of high jackpot runs.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 23

**Monthly Sales of Pennsylvania Lottery Powerplay**  
(November 2005 Through January 2008)

<b>Month</b>	<b>Sales (\$000)</b>	<b>% Change</b>
Nov-05	\$3,444	
Dec-05	\$3,816	10.8%
Jan-06	\$4,021	5.4%
Feb-06	\$10,743	167.2%
Mar-06	\$6,004	-44.1%
Apr-06	\$5,764	-4.0%
May-06	\$4,211	-26.9%
Jun-06	\$3,377	-19.8%
Jul-06	\$4,552	34.8%
Aug-06	\$5,122	12.5%
Sep-06	\$5,968	16.5%
Oct-06	\$3,434	-42.5%
Nov-06	\$3,812	11.0%
Dec-06	\$4,230	11.0%
Jan-07	\$6,729	59.1%
Feb-07	\$3,269	-51.4%
Mar-07	\$4,946	51.3%
Apr-07	\$3,663	-25.9%
May-07	\$3,778	3.2%
Jun-07	\$3,639	-3.7%
Jul-07	\$3,197	-12.2%
Aug-07	\$8,661	170.9%
Sep-07	\$3,387	-60.9%
Oct-07	\$3,232	-4.6%
Nov-07	\$4,414	36.6%
Dec-07	\$3,171	-28.2%
Jan-08	\$3,727	17.5%



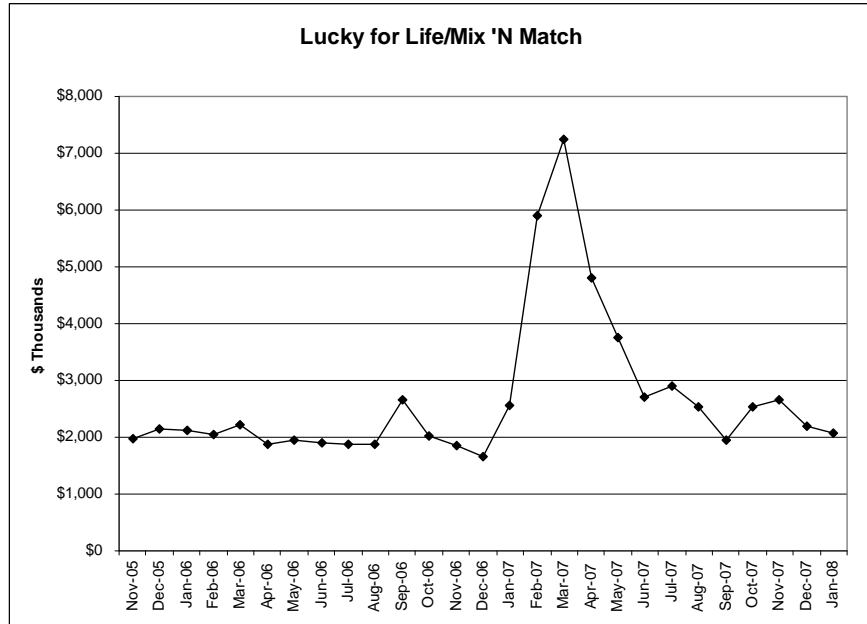
Sales of the additional \$1 per-play Powerplay option exhibited sales patterns similar to Powerball. For example, the top three months of Powerball sales in this period (February 2006, August 2007, and January 2007) were also the highest sales months for Powerplay. Also, similar to Powerball, sales of the Powerplay option also decreased markedly in each month following the top sales months.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.



**Monthly Sales of Pennsylvania Lottery Lucky for Life/Mix 'N Match**  
(November 2005 Through January 2008)

<b>Month</b>	<b>Sales (\$'000)</b>	<b>% Change</b>
Nov-05	\$1,971	
Dec-05	\$2,139	8.5%
Jan-06	\$2,128	-0.5%
Feb-06	\$2,041	-4.1%
Mar-06	\$2,212	8.4%
Apr-06	\$1,869	-15.5%
May-06	\$1,962	5.0%
Jun-06	\$1,897	-3.3%
Jul-06	\$1,869	-1.5%
Aug-06	\$1,878	0.4%
Sep-06	\$2,647	41.0%
Oct-06	\$2,026	-23.5%
Nov-06	\$1,843	-9.0%
Dec-06	\$1,649	-10.5%
Jan-07	\$2,572	56.0%
Feb-07	\$5,900	129.4%
Mar-07	\$7,246	22.8%
Apr-07	\$4,814	-33.6%
May-07	\$3,745	-22.2%
Jun-07	\$2,719	-27.4%
Jul-07	\$2,907	6.9%
Aug-07	\$2,534	-12.8%
Sep-07	\$1,949	-23.1%
Oct-07	\$2,540	30.3%
Nov-07	\$2,661	4.8%
Dec-07	\$2,196	-17.5%
Jan-08	\$2,080	-5.3%



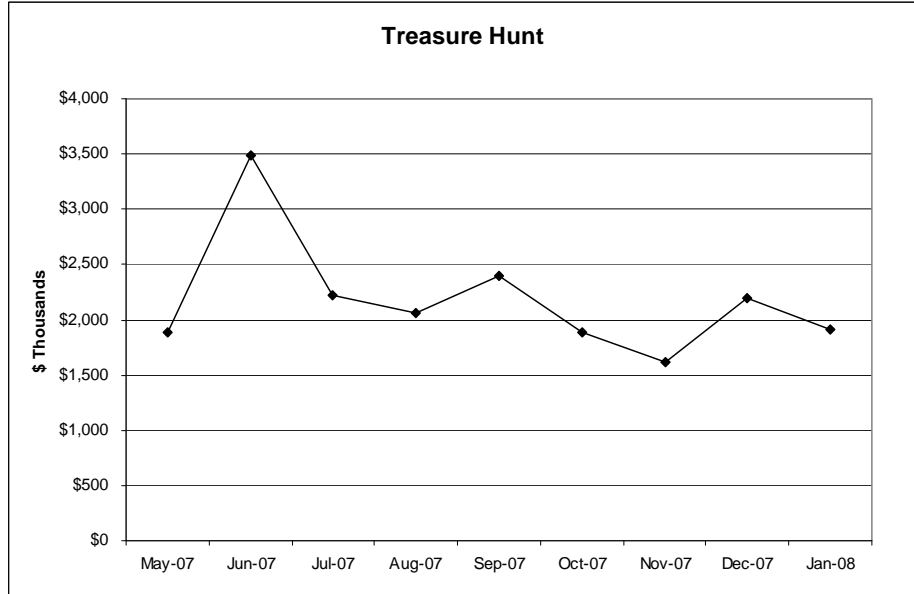
Lucky for Life Lotto (and the game's point-of-purchase instant win feature) were in the Lottery's game mix from October 2004 through the game's final draw on January 22, 2007. In the period November 2005 through January 2007, sales varied from a low of \$1.6 million in December 2006 to a high of \$2.6 million in September 2006. Sales dropped below \$2 million in eight months of that 15-month period.

The first drawing of the terminal-based game Mix & Match occurred on January 25, 2007. In the first two months of the game's run (February and March 2007), sales of \$5.9 million and \$7.2 million were realized, respectively. However, sales then decreased between seven of the following ten months between April 2007 and January 2008. As with other new games, Pennsylvania Lottery officials have indicated that Mix & Match sales are being monitored carefully.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Monthly Sales of Pennsylvania Lottery Treasure Hunt**  
(May 2007 Through January 2008)

<u>Month</u>	<u>Sales (\$000)</u>	<u>% Change</u>
May-07	\$1,882	
Jun-07	\$3,485	85.2%
Jul-07	\$2,223	-36.2%
Aug-07	\$2,065	-7.1%
Sep-07	\$2,398	16.1%
Oct-07	\$1,889	-21.2%
Nov-07	\$1,623	-14.1%
Dec-07	\$2,196	35.3%
Jan-08	\$1,917	-12.7%

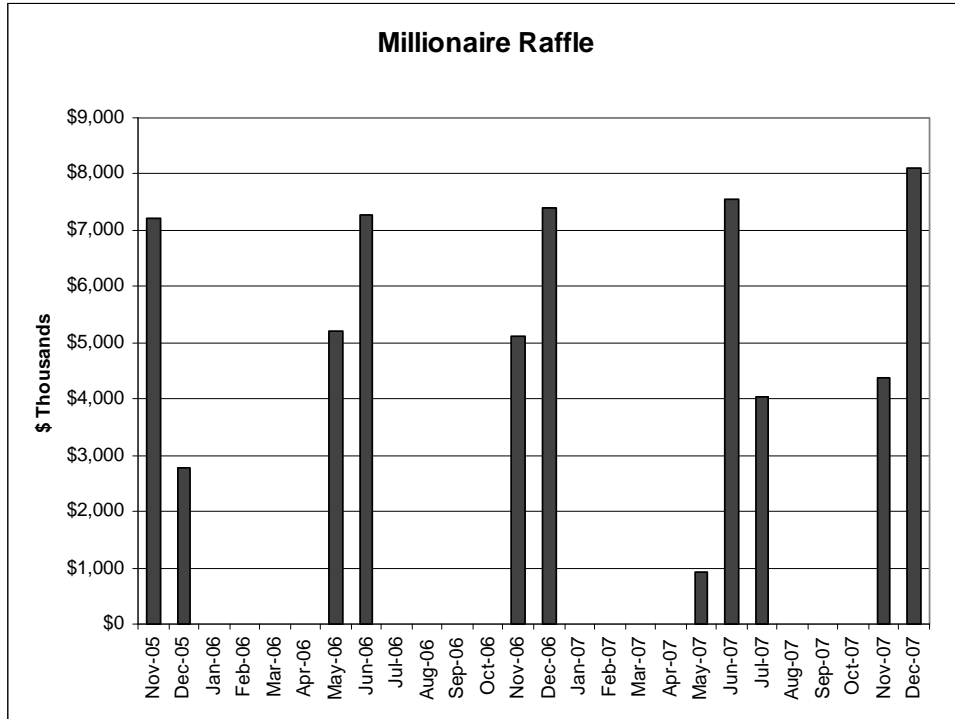


The first drawing of the mid-day, animated online drawing numbers game Treasure Hunt occurred on May 8, 2007. In that month, ticket sales from this game totaled nearly \$1.9 million. In the following month, sales increased 85.2 percent to \$3.5 million. Sales then decreased from the prior month in five of the following seven months between July 2007 and January 2008. As with Mix & Match, Lottery officials are closely monitoring this recent addition to its game mix.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Monthly Sales of Pennsylvania Lottery Millionaire Raffle**  
(Five Drawings Between November 2005 and December 2007)

<u>Month</u>	<u>Sales (\$000)</u>
Nov-05	\$7,223
Dec-05	\$2,777
Jan-06	\$0
Feb-06	\$0
Mar-06	\$0
Apr-06	\$0
May-06	\$5,223
Jun-06	\$7,277
Jul-06	\$0
Aug-06	\$0
Sep-06	\$0
Oct-06	\$0
Nov-06	\$5,106
Dec-06	\$7,394
Jan-07	\$0
Feb-07	\$0
Mar-07	\$0
Apr-07	\$0
May-07	\$922
Jun-07	\$7,551
Jul-07	\$4,027
Aug-07	\$0
Sep-07	\$0
Oct-07	\$0
Nov-07	\$4,383
Dec-07	\$8,117



Between November 2005 and December 2007, there have been five drawings of the \$20 terminal-based Millionaire Raffle game.<sup>a</sup> The first drawing, which occurred on December 31, 2005, consisted of 500,000 tickets, while the four subsequent drawings consisted of 625,000 tickets. Every ticket was sold in each of the five drawings. The total in ticket sales for the five raffles was \$60 million.

According to Lottery officials, while raffle games generally result in large profits for lotteries which employ them, they have an inherent element of risk insofar as over 50 percent of tickets must be sold for the Lottery to realize a profit. Lottery officials stated that a number of other states have occasionally under-priced their raffles, thus realizing minimal profit from the game when sales did not meet expectations.

Even though each of the Pennsylvania Lottery's Millionaire Raffle drawings have sold-out, Lottery officials stated that "player fatigue" may be setting in for this game as the novelty effect may gradually become eroded. This is partially evidenced by the fact that the game has taken more time to sell the entire allotment of tickets in each successive drawing conducted.

<sup>a</sup>The five Millionaire Raffle drawings occurred on 12/31/05, 7/4/06, 12/30/06, 7/7/07, and 12/29/07.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

## Lottery Sales Within a 60-Minute Drive-Time of a Slots Facility

*To date, there does not appear to be a consistent effect on Lottery sales when a slots location opens. However, although it is still early and further data collection and analysis are necessary, it appears that there is a pattern of more frequent and higher percentage declines in weekly sales in regions within a 60-minute drive time of a slots facility when compared to sales patterns in the region of the state classified as “outside a 60-minute drive time” of a slots facility.*

### Data Analysis Design

Cognizant of concerns that the introduction of slots gaming could adversely affect ticket sales, the Pennsylvania Lottery initiated a project in late 2006 to track game sales for all retailers within a 60-minute drive-time of each of Pennsylvania’s slot machine gaming facilities. For comparative purposes, sales by retailers within the aggregate region outside of a 60-minute drive-time of each facility are also being tracked. The analysis commenced tracking sales 52 weeks before the opening of the first slot machine gaming facility. Since the first facility opened in November 2006 (Mohegan Sun at Pocono Downs), the analysis tracked sales since November 2005. This is an ongoing analysis, which the Pennsylvania Lottery intends to continue as additional slot machine gaming facilities open.

While Lottery officials acknowledge that the selection of a drive-time of 60 minutes in the analysis by which sales are tracked is an “arbitrary selection,” it is a reasonable basis for analysis. They note, however, that different results would be likely if an alternative time or distance variable were to be used. Further, Lottery staff stated that this analysis should be viewed in the context of the mix of numerous interdependent factors that may have affected sales throughout the state during the period for which data was compiled.

Lottery staff took the following steps in designing and implementing this data analysis:

- Geographic mapping of a 60-minute drive-time from each existing slot machine gaming facility using a computer-aided mapping program.
- Identification of all postal ZIP codes within each 60-minute drive-time radius from each facility, as well as all ZIP codes more than a 60-minute drive-time from any facility. Division of the state into regions defined by the ZIP code groupings.<sup>1</sup>
- Tracking of sales, by game (terminal games and instant games by price point), on a weekly basis among all retailers within ZIP codes that are within a 60-minute drive-time of one or more of the facilities, starting

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<sup>1</sup>Lottery staff included ZIP codes in regions in which only a portion of the ZIP code may have fallen within a 60-minute drive-time of a facility. In some regions of the state, certain ZIP codes are within a 60-minute drive-time of more than one facility.

with 52 weeks prior to the opening of the first facility and on a continual basis.<sup>2</sup> Statewide totals are also tracked, as well as sales on a per-capita basis using population data in each ZIP code.

As of the end of CY 2007, the Lottery's ongoing analysis was tracking sales in nine regions of the state, as follows:

- All areas outside of a 60-minute drive-time of any slot machine gaming facility.
- All areas within a 60-minute drive-time of the following:<sup>3</sup>
  - Harrah's Chester (Delaware County)
  - Philadelphia Park (Bucks County)
  - Harrah's Chester/Philadelphia Park
  - Mohegan Sun at Pocono Downs (Luzerne County)
  - Hollywood Casino at Penn National (Dauphin County)
  - Mohegan Sun at Pocono Downs/Hollywood Casino at Penn National
  - Presque Isle Downs (Erie County)
  - The Meadows (Washington County)

These areas are configured on the map in Exhibit 27.

### **Analysis of the Data**

Pennsylvania Lottery officials with whom we reviewed the "60-Minute Drive-Time" sales data summarized on Table 15 made the following overall observation regarding the compiled data:

To date, there does not appear to be a universal effect on Lottery sales when a slots location opens. Some regions within a 60-minute drive-time of a new casino appear to fare worse compared to the rest of the state across many game categories, while other regions fare better.

We concur that a universal effect on Lottery sales is not evident from the data. However, although it is still early and further data collection and analysis are necessary, other observations can also be made from the 60-minute drive-time statistics. In particular, the data appears to indicate a pattern of more frequent and higher percentage declines in weekly sales in regions within a 60-minute drive-time of a slots facility when compared to sales patterns for the state as a whole or for the region of the state classified as "outside a 60-minute drive-time" of a slots facility. This is illustrated on the line-graphs presented on Exhibits 28 through 36.<sup>4</sup>

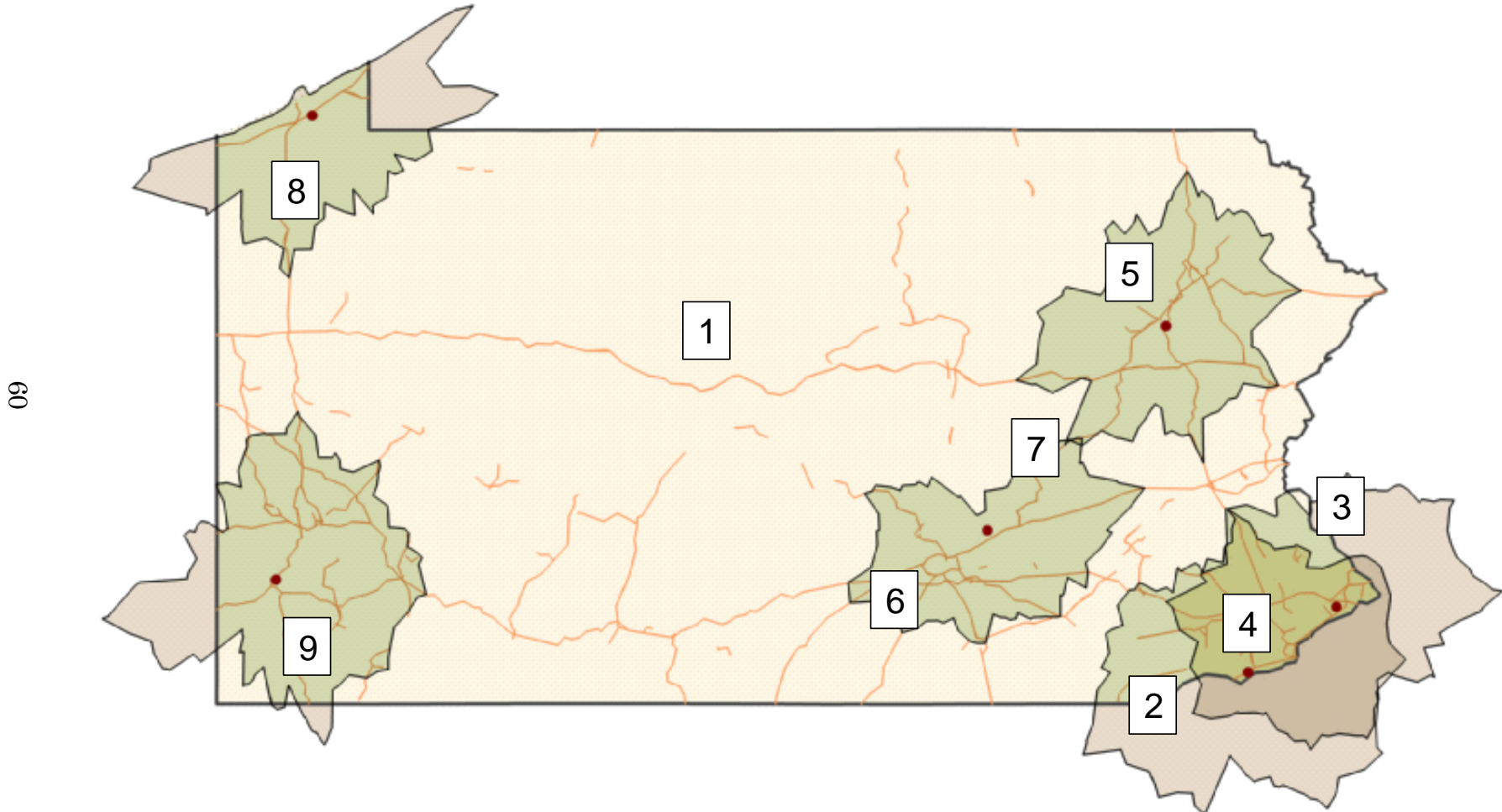
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<sup>2</sup>Lottery game sales at each slot machine gaming facility are included in region sales data.

<sup>3</sup>The Mount Airy Casino in Monroe County opened in October 2007 but was not included in this analysis.

<sup>4</sup>Sales figures depicted are gross figures that include promotional sales and may not match sales figures contained elsewhere in this report that were tabulated from Pennsylvania Lottery statements of income and expenditures. While not official numbers to be included in statements of income and expenditures, Pennsylvania Lottery officials view these figures as relevant for the purpose of tracking sales trends and changes.

**Pennsylvania Lottery Sales Analysis: Regions  
Within a 60-Minute Drive-Time of a Slots Facility**



- |                       |  |                                |
|-----------------------|--|--------------------------------|
| 1 – Outside           | 4 - Harrah's Chester/Philadelphia Park | 7 – Pocono Downs/Penn National |
| 2 – Harrah's Chester  | 5 – Pocono Downs                       | 8 – Presque Isle               |
| 3 – Philadelphia Park | 6 – Penn National                      | 9 – The Meadows                |

NOTE: The Pennsylvania Lottery did not include Mount Airy Casino Resort in this analysis.

Source: The Pennsylvania Lottery.

Lottery officials noted three primary factors that should be considered when analyzing the year-over-year sales changes among the regions within a 60-minute-drive-time of a slot machine gaming facility. These same factors would also apply when viewing the sales data for the state as a whole and for the regions of the state outside a 60-minute-drive-time of a slots facility.

- Percentage changes in sales provided represent a partial comparison to a period of record Powerball jackpots and a period of high ticket sales overall.
- Jackpots for the multi-state game Mega Millions (which is played in the border states of Maryland, New Jersey, New York, and Ohio) were high at several points during the period of comparison.
- A leveling of the growth in the retailer base occurred during the period analyzed.

The following sections describe changes in Lottery sales within each region of this analysis during the 60-week period from November 2006 to December 2007.

## **Outside**

As shown on Exhibit 27 much of the geographic area of the state is outside the “60-minute drive-time” parameters of the Lottery analysis.

## **Statewide**

- Statewide, total Lottery game sales (terminal-based and instant) decreased from the same week one year prior in 26 of the 60 weeks analyzed (43 percent) between November 2006 and December 2007.
- In the first 10 weeks of the analysis (the second week of November 2006 through the second full week of January 2007), total Lottery game sales increased by an average of 7.8 percent over the same week of the prior year. In the last 10 weeks of the analysis (the fourth full week of October 2007 through the end of December 2007), a decline in weekly sales of 9.2 percent over the prior year occurred. In total, this represents a 17 percent real percentage decrease between the first and last 10 week period.
- Increases were the highest in the weeks of January 2007, during which four straight weeks of double-digit increases were posted. However, total game sales declined over the prior year in the first three weeks of February 2007, with the largest percentage decrease of the 60 week period occurring during the week of February 13, 2007, in which total sales decreased by 47.3 percent over the prior year. That week represented the largest percentage decrease from the same week of the prior year in each of the nine regions during the period analyzed. Lottery officials partially

attribute this large drop in sales to a large snowstorm that occurred during that week.

- Sales decreased in eight of the next 27 weeks (the fourth full week of February through the fourth full week of August 2007). Five of the eight decreases in total sales over the same week of the prior year were under 5 percent.
- The largest week-to-week real percentage increase in the analysis occurred in mid-August 2007, in which a 51.7 percent increase in sales over the prior year was posted. Each of the regions also posted the largest percentage increase over the same week of the prior year during that week. Lottery officials attribute this large increase to an extended Powerball jackpot run that produced a \$314.3 million jackpot.
- Total game sales decreased from the same week of the prior year in 15 of the 18 weeks between the final week of August 2007 through the end of the year, including each of the last 9 weeks of 2007.

### **Harrah's Chester**

Slot machine gaming began at Harrah's Chester in late January 2007. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:

- During the week in which it opened, total Lottery game sales at retailers within a 60-minute drive-time of the facility increased by 12.9 percent over the same point of the prior year.
- Sales were lower than the prior year by 9.2 percent, 21.8 percent, and 55.4 percent in the three weeks following opening week.
- The decrease of 55.4 percent over the prior year in mid-February 2007 was the largest percentage decrease among the regions. However, sales decreased among all regions in these three weeks in late January and early February 2007.
- Total game sales were, on average, 4.8 percent higher than the same period of the prior year among retailers within a 60-minute-drive-time of Harrah's Chester in the 60-week period examined.
- In the 38-week period spanning late February 2007 through early November 2007, total sales increased over the prior year in all but 7 weeks. In five of those weeks, total game sales declined in every region.

### **Philadelphia Park**

Philadelphia Park opened for business in late December 2006. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:



- Lottery retailers within a 60-minute drive-time of Philadelphia Park reported an increase in total game sales in the first five weeks of the facility's commencement of slot machine gaming, before entering a period in which sales decreased over the prior year amounts in 16 of the following 20 weeks (through early June 2007).
- In the 10-week period from mid-June 2007 through late August 2007, total game sales increased in seven of the weeks over the prior year; including posting an increase of 53.6 percent in late August 2007.
- Total game sales within a 60-minute drive-time of Philadelphia Park then decreased in each of the 18 weeks from late August through the end of 2007.
- Overall, sales in this region decreased by an average of 3.6 percent over the prior year during the period of November 2006 through December 2007. In the last 10 weeks of 2007, decreases in total game sales averaged 13.4 percent.
- Conversely, an average increase of 5.8 percent in total game sales occurred in the first 10 weeks of the analysis in this region.

### **Harrah's Chester/Philadelphia Park**

Region 4 covers the area within a 60-minute drive time of both Harrah's Chester (opened late January 2007) and Philadelphia Park (opened late December 2006). As such, both facilities were open for slot machine gaming by the end of January 2007. Analysis of weekly sales data for the region within a 60-minute drive-time of both of these facilities shows the following:

- During the first three weeks of February 2007, total game sales declined by 15.9 percent, 25.7 percent, and 51.3 percent from the same weeks of the prior year.
- Total game sales then variably increased and decreased in multi-week intervals over the prior year before posting consecutive percentage decreases in the final 18 weeks of 2007.
- As a 60-week average, total game sales decreased by less than 1 percent from the same weeks of the prior year.

### **Mohegan Sun at Pocono Downs**

Mohegan Sun at Pocono Downs was the first slot machine gaming facility to open, commencing operations in November 2006. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:

- Total Lottery sales by retailers within a 60-minute drive-time of this slots facility increased over the same week of the prior year in each of the first

12 weeks of the facility's operation. While the magnitude of the week-to-week increases varied, changes ranged from 0.1 percent in the third week of operations to 18.5 percent in the tenth week.

- Total game sales decreased in 19 of 20 weeks in the period spanning from the end of January through mid-June 2007. Over the 60-week period, the region surrounding Pocono Downs ranked last in growth (among the nine regions and the statewide total) on 15 occasions.
- In the final 28 weeks of 2007, total game sales posted increases over the prior year in only 7 weeks.

## **Penn National**

Hollywood Casino at Penn National opened in February 2008. As such, the 60-week analysis on this page (for the period November 2006 through December 2007) is not pertinent to assessing sales in this 60-minute drive-time region following the opening of Hollywood Casino at Penn National. As shown, the weekly Lottery sales pattern in this region during late CY 2006 and CY 2007 very closely resembles the statewide sales pattern.

## **Pocono Downs/Penn National**

A small geographical region is within a 60-minute drive-time of both Mohegan Sun at Pocono Downs (opened in November 2006) and the Hollywood Casino at Penn National (opened in February 2008). As such, during the 60-week period of November 2006 through December 2007, only one facility was open in the proximity of retailers in this region. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:

- Over the 60-week period from November 2006 through December 2007, sales within a 60-minute drive-time of these facilities posted increases over the prior year at the same times in 30 of 60 weeks analyzed.
- Total game sales decreased by less than 1 percent as a 60-week average in this region.

## **Presque Isle Downs**

Presque Isle Downs in Erie opened to slot machine gaming in early March 2007, thereby making it the fifth casino to open statewide. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:

- Total game sales exhibited strong and steady growth over the same weeks of the prior year in the first 12 weeks of the analysis (this period preceded the opening of Presque Isle Downs). After three weeks of slight to moderate sales declines over the prior year, total game sales posted increases in

the two weeks prior to opening, the first week of operations, and the week following the opening.

- Sales then declined over the prior year in 11 of the following 13 weeks. Thereafter, sales increased in 6 of the next 10 weeks spanning the period of mid-June to late August 2007.
- Total game sales then declined in each of the last 18 weeks of 2007.

## **The Meadows**

The Meadows, located in Washington County, began operations in June 2007. Analysis of weekly sales data for the region within a 60-minute drive-time of this facility shows the following:

- Total game sales increased in 22 of the 31 weeks prior to the casino's opening. In the first week of slot machine gaming, total game sales in the region increased by 4.7 percent. In the three weeks following the casino's opening, sales increased by 14 percent each week.
- Total game sales then increased over the prior year in six of the seven weeks in the period spanning mid-July through late August 2007 and in each of eight weeks from late September through mid-November 2007, before decreasing during each of the last six weeks of 2007.
- Overall, total game sales increased by an average of 3.6 percent over the same weeks of the prior year during the 60 weeks examined.

Table 15

**Percentage Changes in Weekly Sales for Lottery Retailers  
Within a 60-Minute Drive-Time of Slots Facilities  
(Indicated Week Over 52 Weeks Prior)**

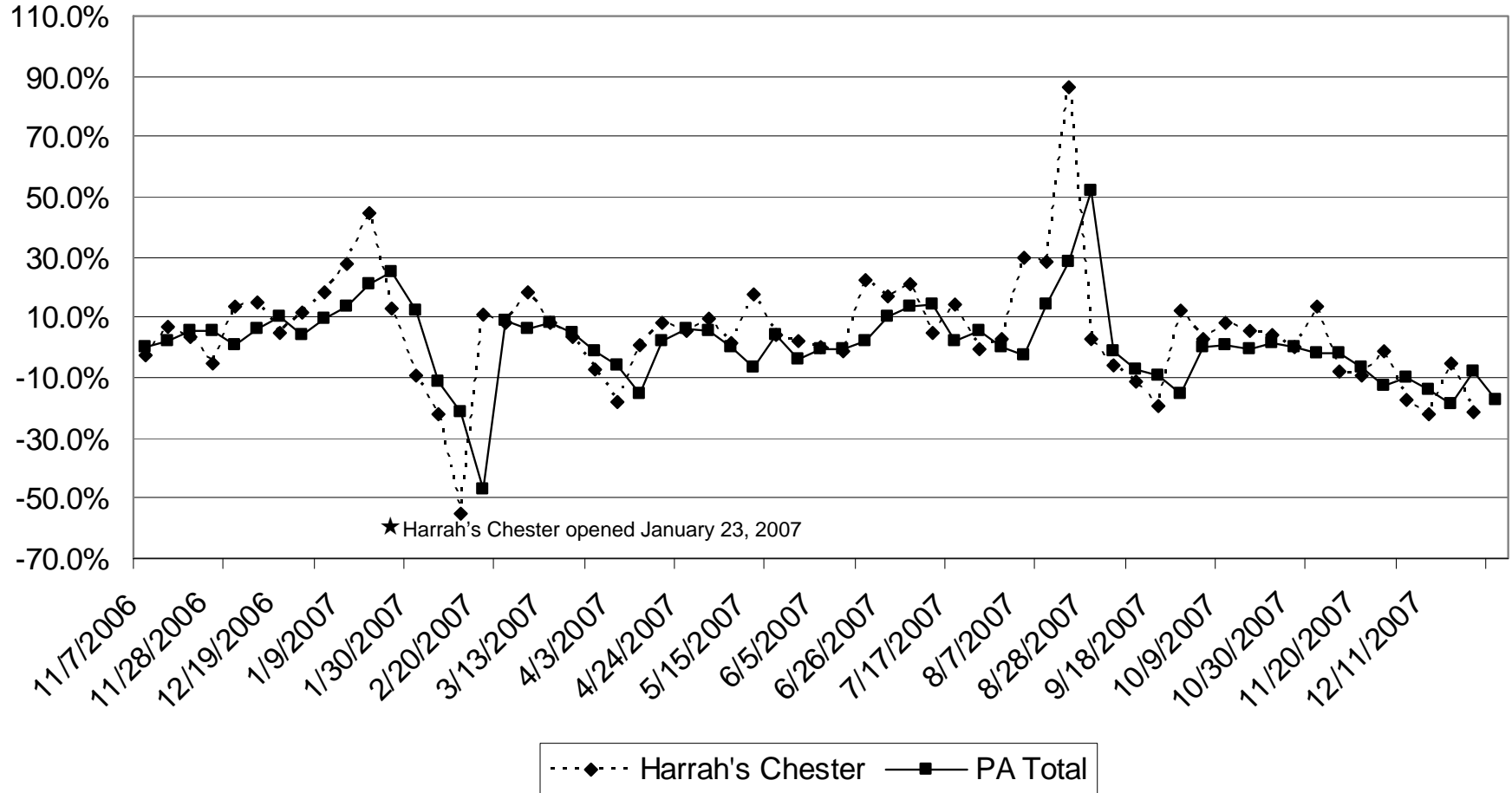
Week	Outside	Harrah's		Mohegan		Penn National	Mohegan		Presque Isle Downs	The Meadows	PA Total
		Chester	Philadelpha Park	Chester/ Park	Sun		Sun/ National				
11/7/2006	0.9%	-2.4%	4.1%	4.3%	3.4%	3.1%	2.8%	6.6%	-3.0%	1.8%	
11/14/2006	5.1%	7.1%	7.9%	7.6%	★5.7%	8.3%	3.2%	6.2%	2.4%	5.8%	
11/21/2006	5.2%	3.5%	-5.7%	4.5%	0.1%	0.7%	8.8%	17.1%	11.5%	5.3%	
11/28/2006	2.1%	-5.5%	1.0%	-0.1%	0.7%	1.2%	5.3%	5.5%	-0.8%	0.7%	
12/5/2006	6.7%	13.7%	4.1%	4.8%	8.7%	12.1%	15.9%	2.9%	2.6%	6.1%	
12/12/2006	13.2%	14.9%	10.0%	6.2%	9.1%	13.8%	20.2%	17.3%	8.7%	10.1%	
12/19/2006	3.6%	4.5%	★-1.3%	4.0%	5.3%	5.5%	7.2%	10.5%	3.8%	4.4%	
12/26/2006	11.4%	11.3%	7.8%	7.6%	7.4%	13.7%	17.8%	11.5%	8.1%	9.6%	
1/2/2007	15.6%	18.2%	13.5%	10.6%	13.1%	15.2%	16.4%	22.1%	12.7%	13.4%	
1/9/2007	22.4%	27.5%	16.4%	21.0%	18.5%	22.7%	18.8%	21.5%	19.3%	21.0%	
1/16/2007	25.2%	44.8%	17.9%	26.4%	17.8%	26.4%	24.5%	18.8%	25.2%	24.9%	
1/23/2007	10.3%	★12.9%	19.3%	14.4%	7.0%	15.3%	8.3%	11.9%	11.4%	12.2%	
1/30/2007	-9.7%	-9.2%	-18.2%	-15.9%	-12.9%	-6.6%	-1.5%	-9.8%	-8.0%	-11.2%	
2/6/2007	-19.2%	-21.8%	-20.1%	-25.7%	-23.0%	-18.3%	-11.9%	-19.8%	-18.2%	-21.2%	
2/13/2007	-45.9%	-55.4%	-53.3%	-51.3%	-50.7%	-45.7%	-43.4%	-44.1%	-41.7%	-47.3%	
2/20/2007	9.2%	10.7%	6.3%	4.8%	1.7%	11.5%	3.8%	8.7%	16.4%	8.8%	
2/27/2007	4.9%	8.4%	-0.3%	5.7%	-2.0%	9.5%	3.5%	★3.4%	10.9%	6.1%	
3/6/2007	8.6%	18.4%	7.3%	6.9%	-0.8%	10.4%	10.3%	4.9%	14.2%	8.5%	
3/13/2007	4.2%	8.0%	-1.0%	4.2%	-6.8%	5.9%	-4.5%	0.6%	13.6%	5.0%	
3/20/2007	0.5%	3.4%	4.3%	-5.3%	-8.5%	2.6%	-4.6%	-3.3%	3.3%	-1.4%	
3/27/2007	-4.8%	-7.4%	-11.9%	-6.5%	-12.7%	-3.0%	-5.4%	-10.0%	-4.5%	-6.0%	
4/3/2007	-14.0%	-18.2%	-22.3%	-18.6%	-17.6%	-11.7%	-13.4%	-20.2%	-11.8%	-15.3%	
4/10/2007	5.9%	0.9%	-2.6%	-1.7%	-4.9%	4.9%	1.0%	-3.8%	6.7%	2.2%	
4/17/2007	6.3%	8.5%	-4.9%	2.5%	-3.0%	8.3%	4.9%	-0.1%	14.8%	5.9%	
4/24/2007	5.0%	5.7%	6.0%	3.9%	-0.7%	7.2%	9.0%	2.0%	10.5%	5.4%	
5/1/2007	0.1%	9.6%	-10.1%	0.5%	-4.8%	2.1%	2.1%	-9.4%	2.3%	0.1%	
5/8/2007	-5.2%	1.7%	-14.2%	-6.9%	-13.7%	-4.7%	-6.5%	-10.3%	-3.1%	-6.3%	
5/15/2007	4.9%	17.8%	-2.0%	1.8%	-2.8%	7.9%	8.8%	1.6%	7.5%	4.1%	
5/22/2007	-3.1%	4.0%	-10.7%	-3.3%	-8.2%	-5.1%	-5.5%	-10.8%	-0.4%	-3.7%	
5/29/2007	2.7%	2.0%	-3.1%	-4.1%	-4.8%	2.9%	1.1%	-7.5%	2.8%	-0.4%	
6/5/2007	2.5%	0.3%	-10.0%	-5.3%	-6.4%	4.5%	-2.6%	-7.4%	4.4%	-0.5%	
6/12/2007	4.2%	-1.0%	-11.2%	0.0%	-1.3%	6.4%	8.1%	-2.7%	★4.7%	2.4%	
6/19/2007	12.4%	22.4%	1.9%	7.7%	4.5%	13.3%	5.2%	3.7%	14.0%	10.3%	
6/26/2007	14.8%	16.7%	4.4%	10.2%	10.6%	22.1%	17.7%	-1.4%	14.0%	13.3%	
7/3/2007	18.8%	21.0%	11.7%	10.0%	7.4%	23.7%	13.1%	4.1%	13.9%	14.2%	
7/10/2007	6.4%	4.6%	-6.4%	-2.4%	-2.9%	9.0%	-0.4%	-2.3%	4.0%	2.2%	
7/17/2007	9.2%	14.4%	5.0%	0.4%	1.0%	10.7%	8.4%	3.8%	8.9%	5.8%	
7/24/2007	4.3%	-0.5%	-11.8%	-2.3%	-6.2%	2.2%	-3.0%	-4.9%	3.0%	0.2%	
7/31/2007	0.4%	2.7%	-6.8%	-7.4%	-5.3%	3.6%	5.2%	-5.9%	-2.4%	-2.9%	
8/7/2007	17.0%	29.9%	16.8%	13.4%	4.0%	19.7%	11.1%	9.4%	14.5%	14.2%	
8/14/2007	30.0%	28.2%	11.2%	27.5%	17.4%	35.2%	11.8%	21.9%	30.3%	28.1%	
8/21/2007	51.7%	86.1%	53.6%	57.0%	33.2%	58.3%	28.1%	32.5%	52.0%	51.7%	
8/28/2007	2.3%	2.5%	-10.5%	-4.7%	-9.6%	4.6%	0.0%	-1.9%	-0.6%	-1.5%	
9/4/2007	-2.3%	-6.1%	-21.2%	-9.6%	-13.7%	-5.0%	-6.1%	-7.2%	-7.1%	-7.3%	
9/11/2007	-5.0%	-11.1%	-11.0%	-14.8%	-12.4%	-6.7%	-14.7%	-14.8%	-6.4%	-9.6%	
9/18/2007	-11.9%	-19.2%	-22.8%	-19.3%	-15.8%	-10.1%	-12.3%	-18.2%	-14.2%	-15.1%	
9/25/2007	2.6%	12.1%	-0.3%	-2.1%	-5.6%	2.9%	-5.4%	-7.2%	1.9%	-0.1%	
10/2/2007	5.1%	3.1%	-5.5%	-3.2%	-5.0%	5.8%	-2.6%	-7.4%	4.4%	1.0%	
10/9/2007	1.6%	7.9%	-2.9%	-3.2%	-8.5%	3.3%	-4.5%	-2.4%	1.5%	-0.8%	
10/16/2007	4.5%	5.5%	-8.7%	-1.9%	-4.6%	5.6%	-1.9%	-10.2%	4.7%	1.2%	
10/23/2007	3.3%	4.3%	-12.5%	-2.3%	-7.2%	4.3%	-2.7%	-6.9%	2.3%	0.0%	
10/30/2007	1.7%	0.2%	-14.0%	-6.4%	-6.3%	1.1%	-9.2%	-10.3%	2.3%	-2.1%	
11/6/2007	1.3%	13.6%	-1.3%	-4.5%	-10.3%	2.3%	-8.4%	-12.2%	2.5%	-1.7%	
11/13/2007	-8.6%	-8.3%	-13.6%	-6.8%	-15.2%	-6.2%	-18.5%	-15.4%	1.1%	-6.9%	
11/20/2007	-14.4%	-9.5%	-9.5%	-6.8%	-18.2%	-15.5%	-20.2%	-20.5%	-13.5%	-12.8%	
11/27/2007	-12.7%	-1.3%	-15.6%	-8.4%	-16.6%	-11.9%	-20.3%	-18.6%	-2.9%	-10.0%	
12/4/2007	-15.6%	-17.4%	-12.7%	-13.5%	-18.9%	-14.8%	-19.8%	-22.5%	-8.7%	-14.0%	
12/11/2007	-21.7%	-22.0%	-27.6%	-16.2%	-26.3%	-18.7%	-29.6%	-27.9%	-12.8%	-18.7%	
12/18/2007	-9.5%	-5.0%	-10.1%	-6.7%	-18.1%	-8.1%	-17.7%	-18.0%	-1.6%	-8.1%	
12/25/2007	-19.0%	-21.2%	-17.1%	-15.6%	-21.4%	-17.3%	-27.1%	-24.8%	-15.3%	-17.6%	

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 28

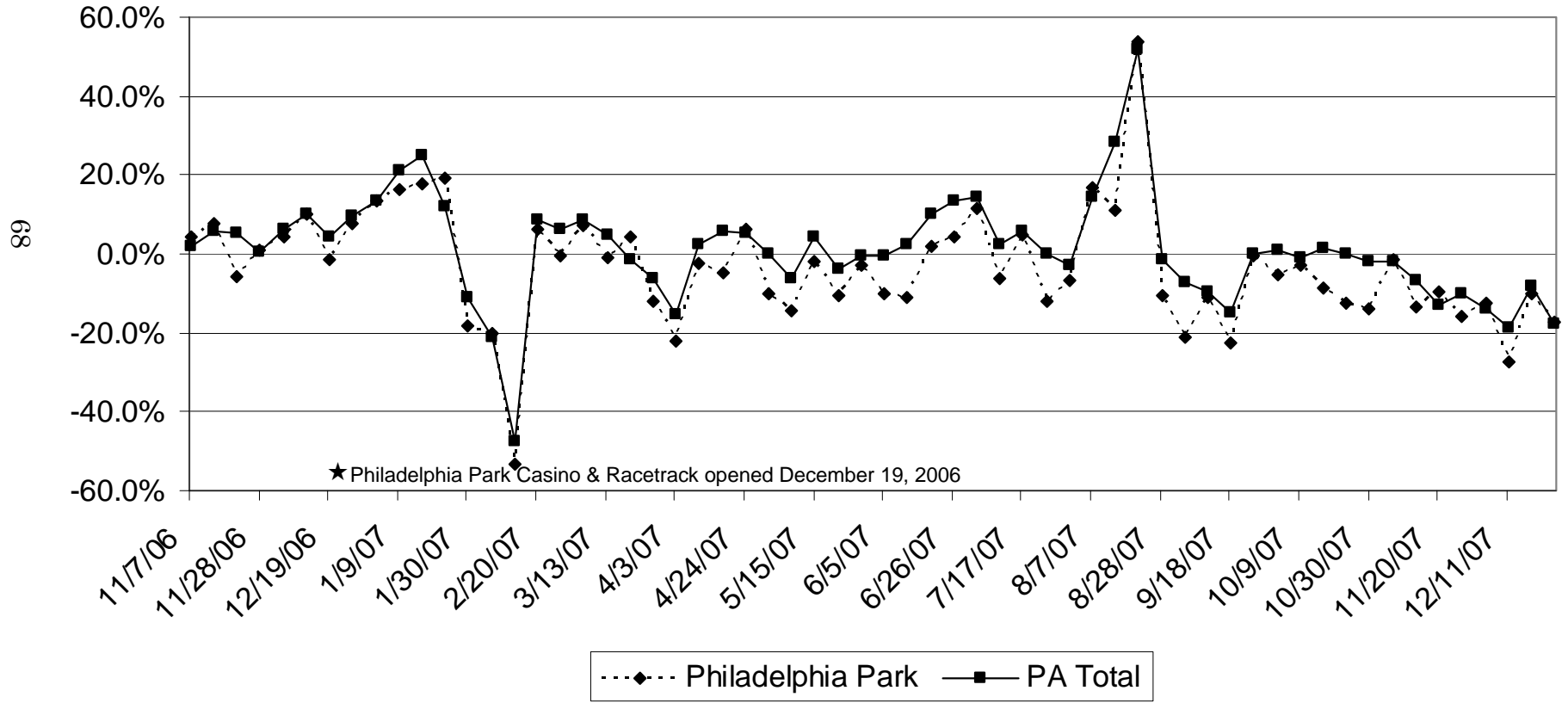
**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Harrah's Chester  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)

67



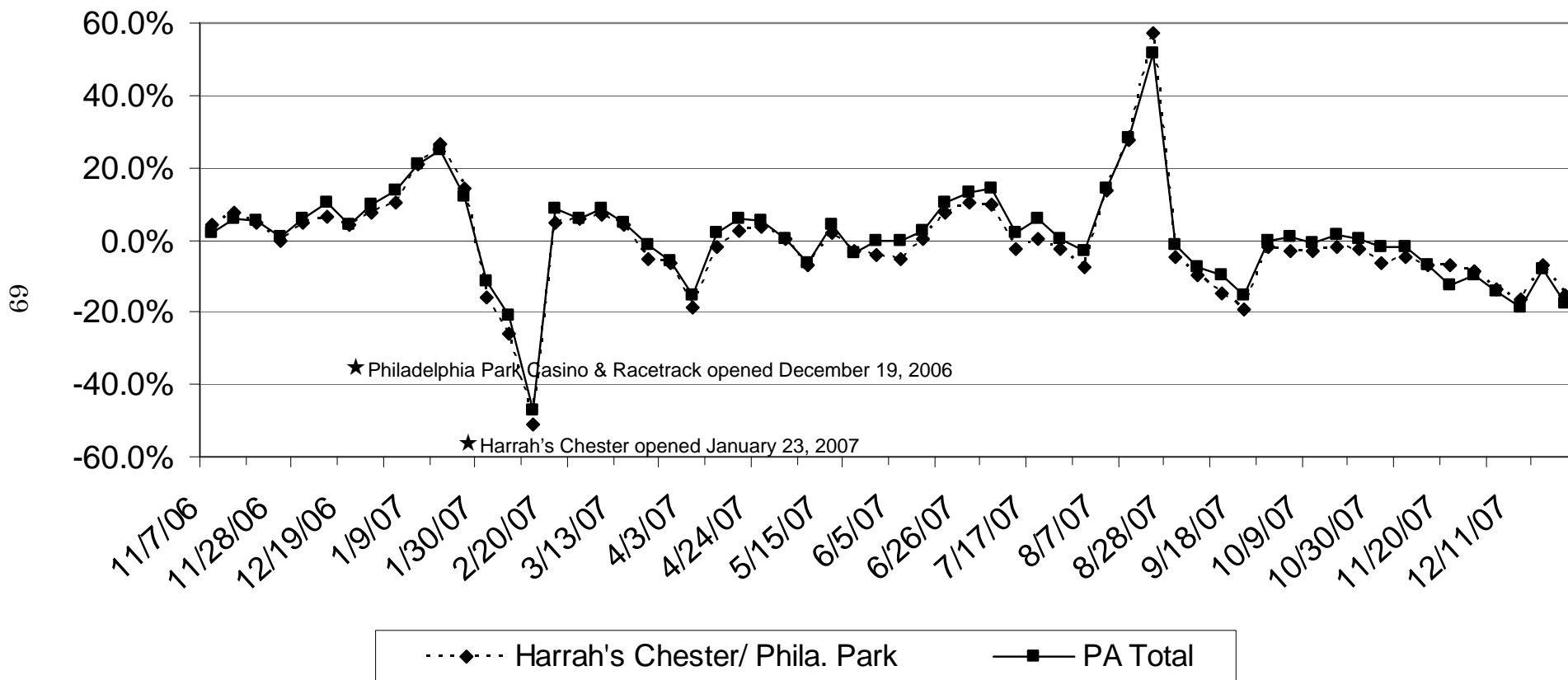
Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Philadelphia Park  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

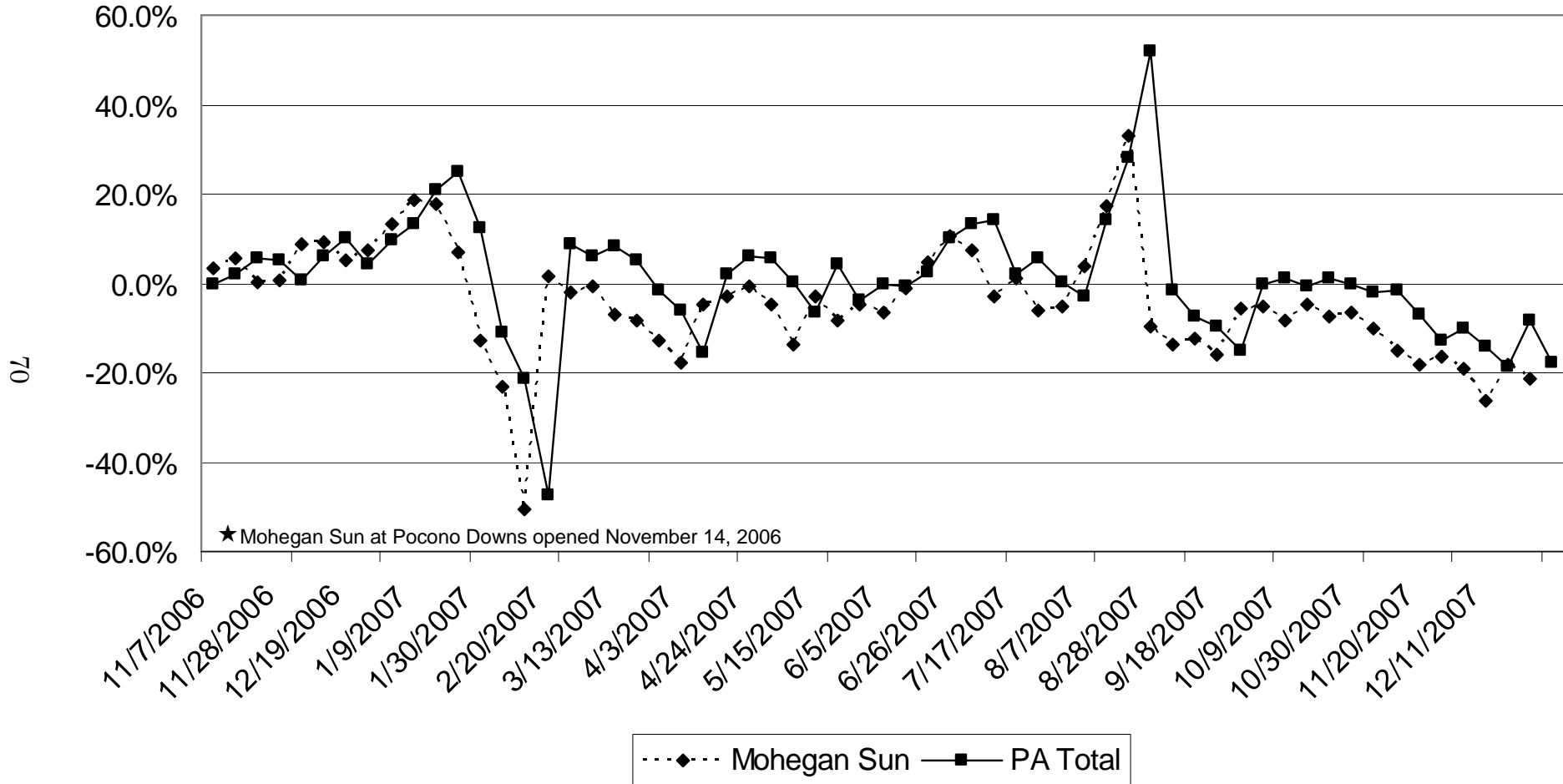
**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Harrah's Chester or Philadelphia Park  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 31

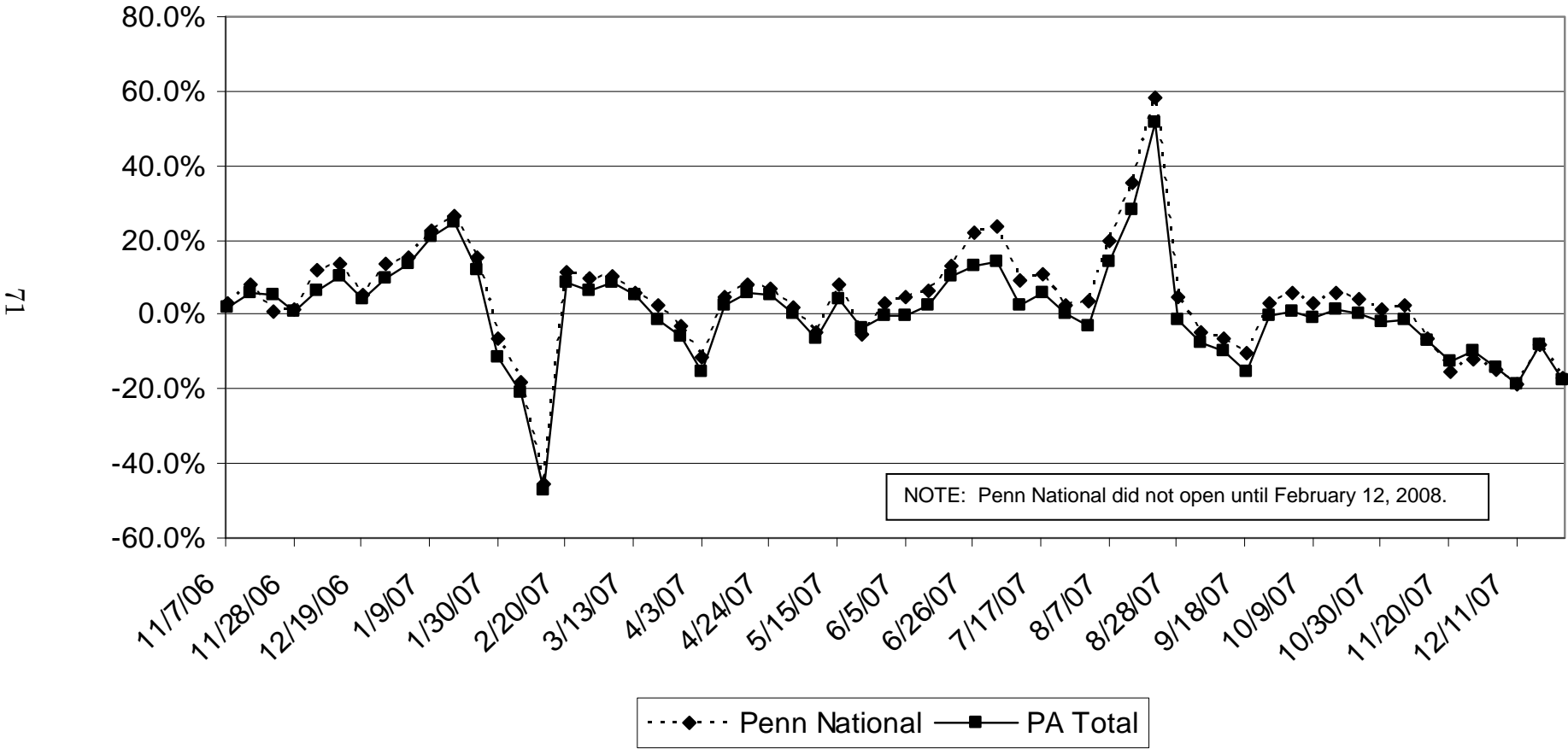
**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Mohegan Sun at Pocono Downs  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

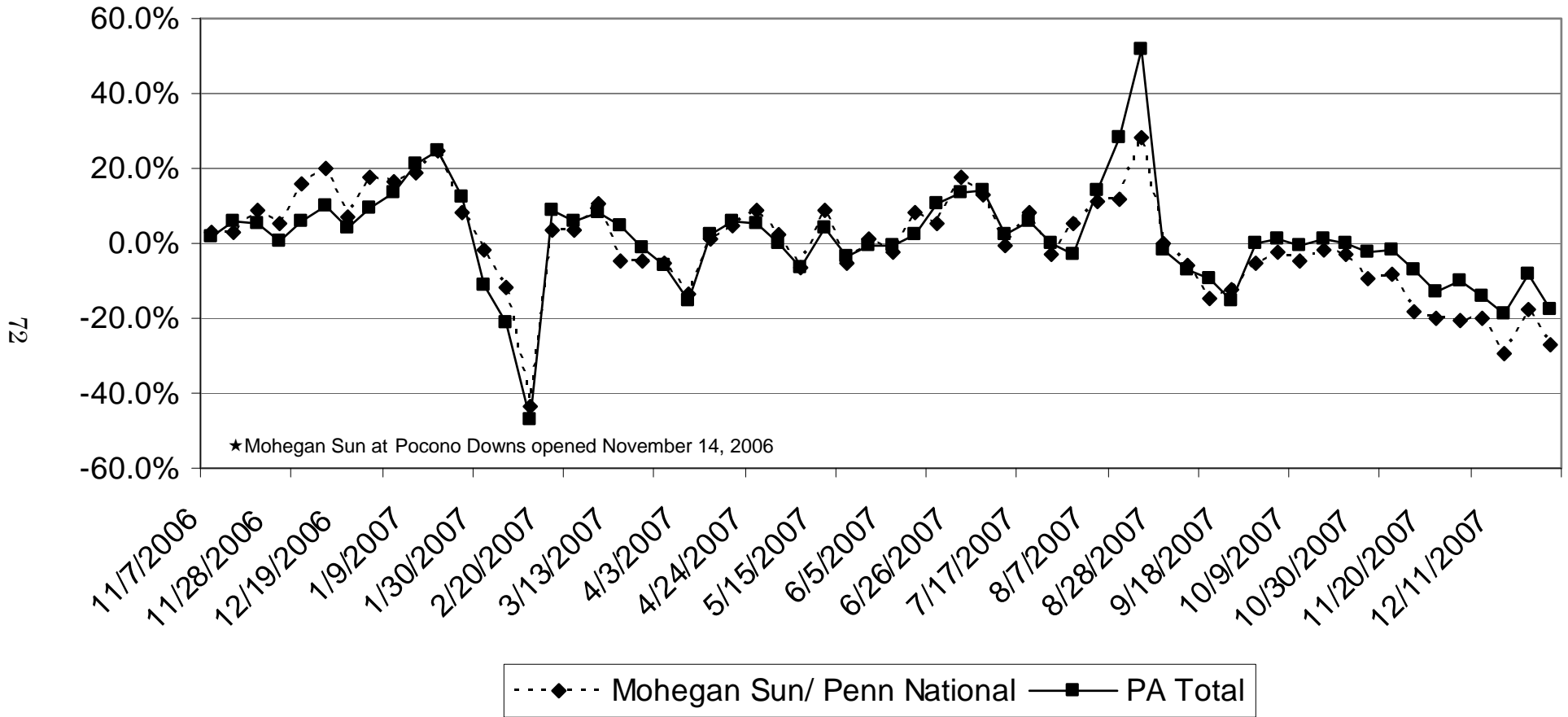


**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Penn National  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Mohegan Sun at Pocono Downs or Penn National  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)

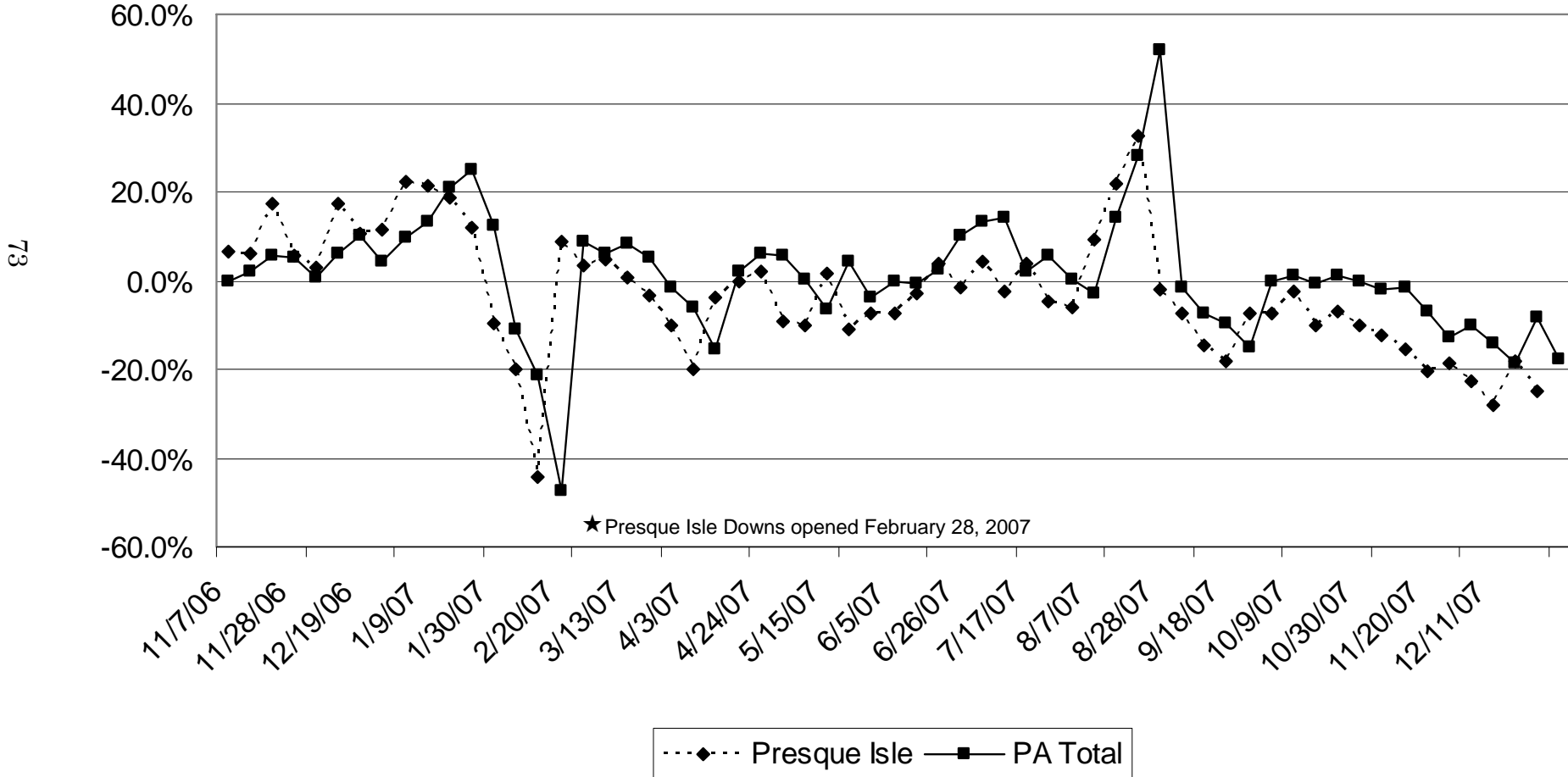


NOTE: Penn National did not open until February 12, 2008.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

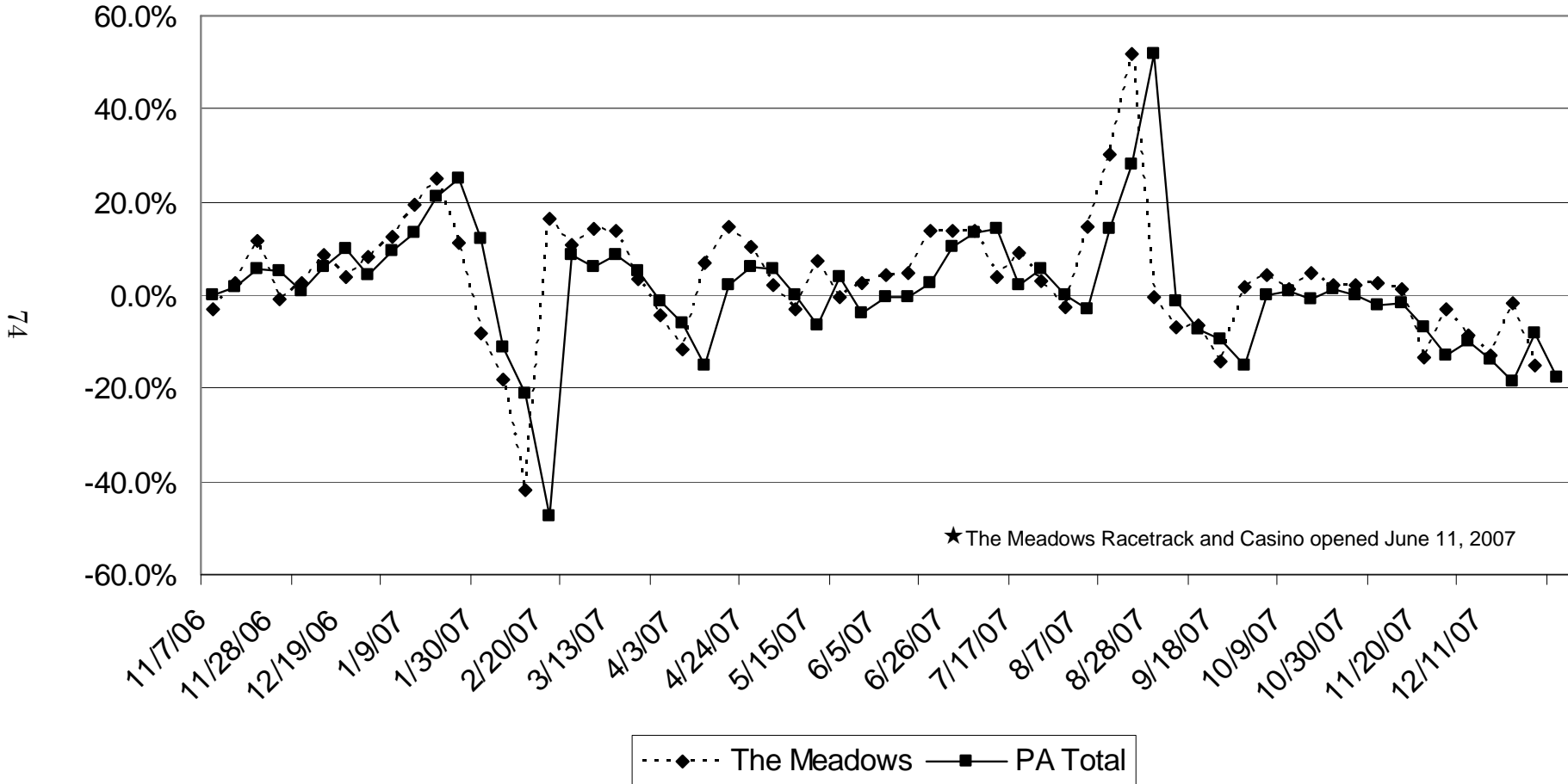
Exhibit 34

**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of Presque Isle  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



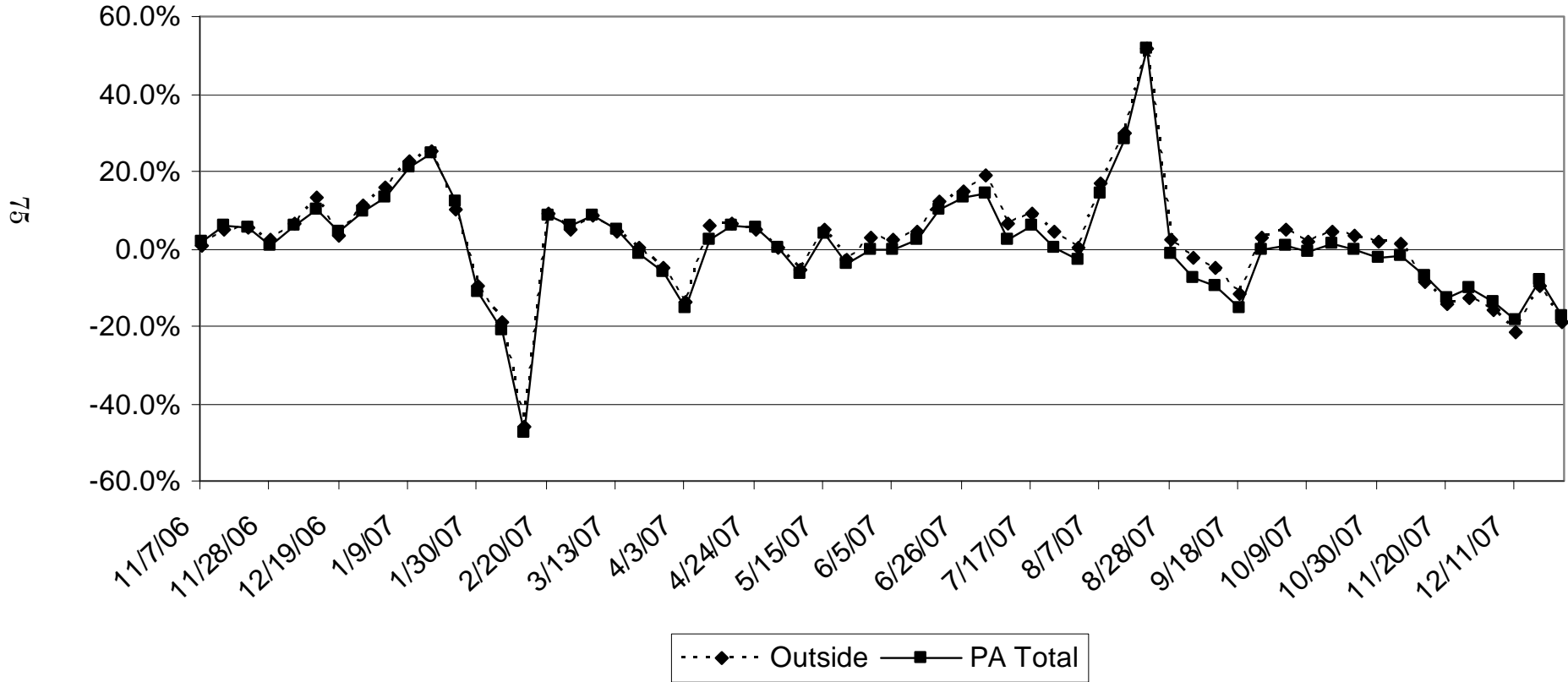
Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Weekly Sales for Lottery Retailers Within a 60-Minute Drive-Time of The Meadows  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Weekly Sales for Lottery Retailers Outside a 60-Minute Drive-Time of a Slots Facility  
Compared to Statewide Average Weekly Sales**  
(November 2006 Through December 2007)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

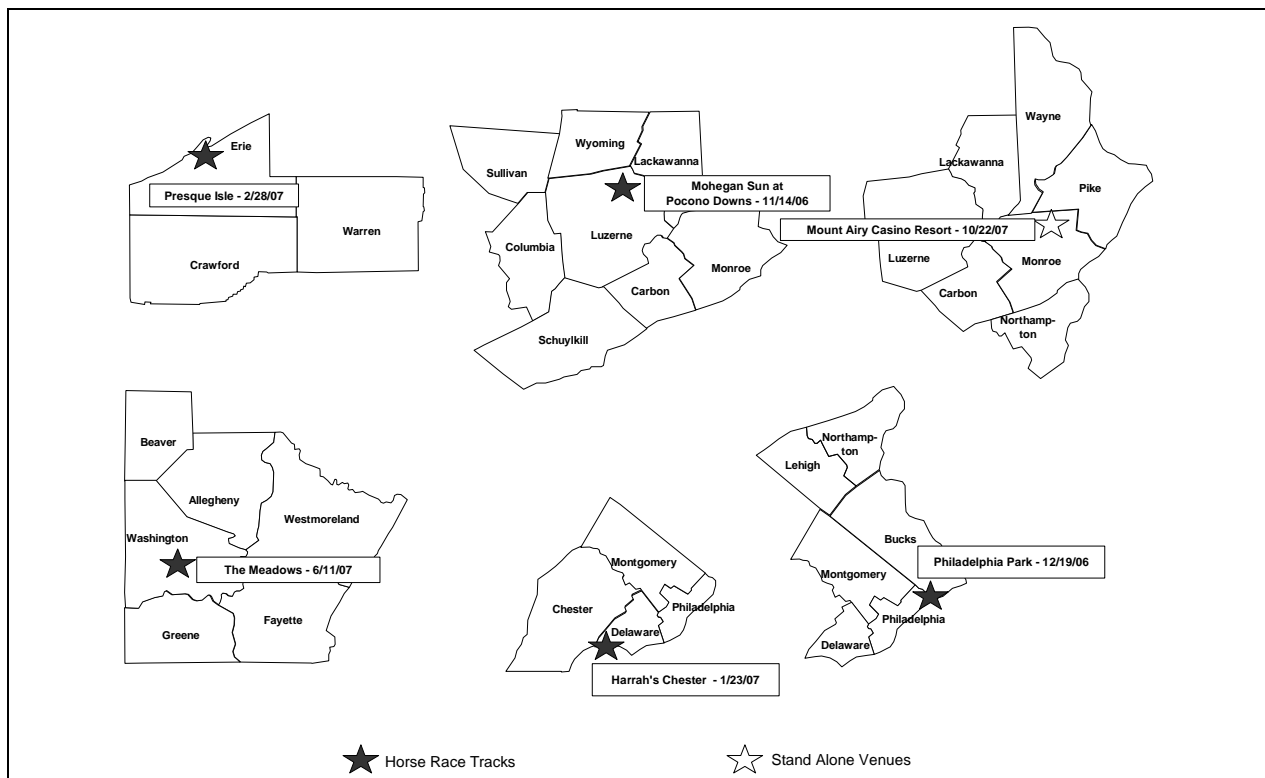
## Lottery Sales in Counties Housing and Surrounding a Slots Gaming Facility

*During CY 2007, annual Lottery sales declined in 19 of the state's 67 counties. Of these 19 counties, 14, or 74 percent, were counties in which a slots gaming facility is located or counties that immediately adjoin a slots "home county."<sup>5</sup> (See Exhibit 37.) Of the six Pennsylvania "home counties" in which a slots gaming facility was operational during CY 2007, calendar year sales declined in 5 counties, ranging from a low of a 1.5 percent decline in Monroe County (Mount Airy Lodge) to a high of a decrease of 7.7 percent in Luzerne County (Mohegan Sun at Pocono Downs). Of the 41 "non-slots" counties, only 5, or 12 percent, had lower annual sales in CY 2007 than in CY 2006.*

As another means of assessing monthly Lottery sales since slots operations began, we compiled sales data for those counties that house or surround a slots gaming facility. The slots gaming facilities and the home and surrounding counties examined in this section are shown below.

Exhibit 37

### Pennsylvania Counties Housing and Surrounding a Slots Gaming Facility (As of January 2008)



Source: Developed by LB&FC staff using information obtained from the Pennsylvania Gaming Control Board.

<sup>5</sup>Pennsylvania Lottery officials note that eight of these 14 counties are also border states. See page 97 for more information on the effect of border state competition on Pennsylvania Lottery sales.

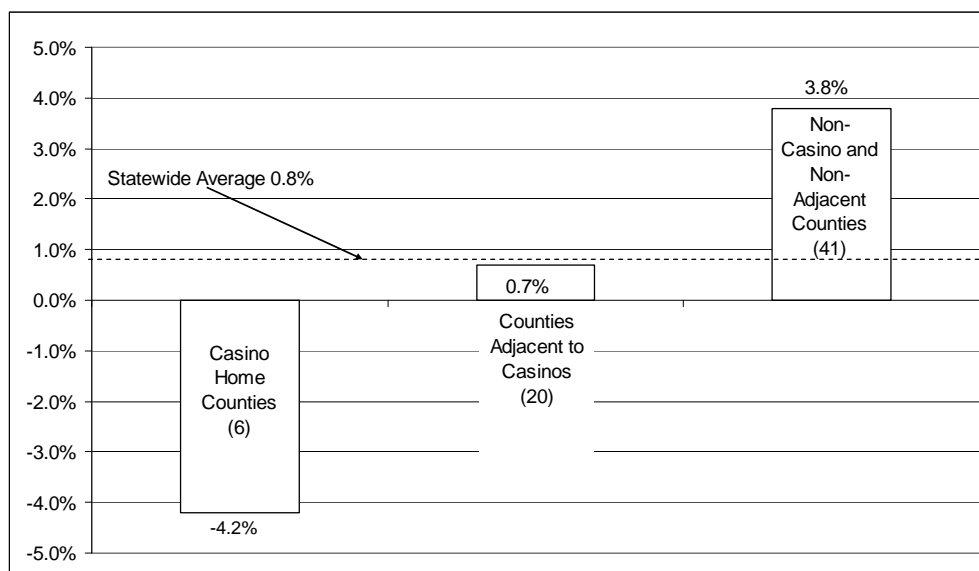
For these counties, we compared total Lottery sales figures in CY 2007 to sales levels in CY 2006. (See Exhibit 39.) For the counties in which a slots facility is located, we also examined monthly sales figures following the opening of a casino/racino in the area and compared these monthly sales amounts to the amount of Lottery sales in the same month of the prior calendar year, before the start-up of slots operations (see Exhibits 40 through 45).<sup>6</sup>

Exhibit 38 provides a comparison of the statewide average changes in Lottery ticket sales in CY 2007 over CY 2006 in the home counties of the six casinos/racinos that commenced operation in these years, in counties adjacent to home counties, and in counties that are neither casino/racino home counties nor immediately adjacent to home counties.

As shown, Lottery ticket sales declined by an average of 4.2 percent from CY 2006 to CY 2007 in the six casino/racino home counties. Among the 20 counties adjacent to a casino/racino, Lottery ticket sales nearly matched the statewide average, as sales increased by 0.7 percent in CY 2007 in those counties. In the remaining 41 counties that are neither home to a casino/racino nor immediately adjacent to such counties, Lottery ticket sales increased by an average of 3.8 percent in CY 2007 over CY 2006.

Exhibit 38

**Percentage Changes in Lottery Sales in Counties Housing and Surrounding a Slots Gaming Facility<sup>a</sup>**  
(CY 2007 Over CY 2006)



<sup>a</sup>Please see footnote 5 in this section.

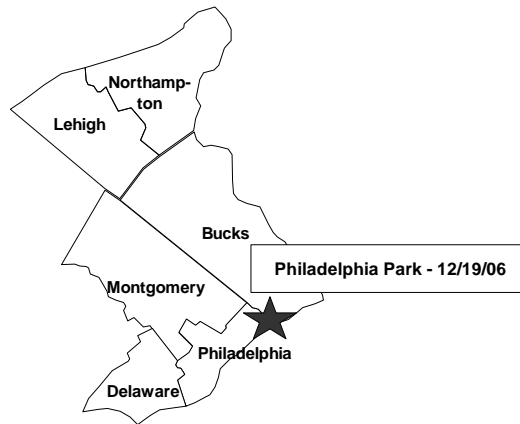
Source: Developed by LB&FC staff using sales information obtained from the Pennsylvania Lottery.

<sup>6</sup>Sales figures depicted are gross figures that include promotional sales and may not match sales figures contained elsewhere in this report that were tabulated from Pennsylvania Lottery statements of income and expenditures. While not official numbers to be included in statements of income and expenditures, Pennsylvania Lottery officials view these figures as relevant for the purpose of tracking sales trends and changes.





**Lottery Sales in Counties Housing and Surrounding a  
Slots Gaming Facility: Philadelphia Park**  
(CYs 2006 and 2007)



<u>Counties</u>	<u>Lottery Sales</u>		<u>% Change</u>
	<u>CY 2006</u>	<u>CY 2007</u>	
Bucks .....	\$135,046,356	\$129,015,942	-4.5%
Delaware.....	123,310,221	119,507,244	-3.1
Lehigh .....	78,425,073	77,190,677	-1.57
Montgomery.....	141,777,854	142,718,928	+0.7
Northampton .....	71,020,874	71,376,466	+0.50
Philadelphia .....	460,970,356	453,797,548	-1.6

**Bucks County (Home County)  
2007 Monthly Sales Compared to Same Month Sales in 2006**

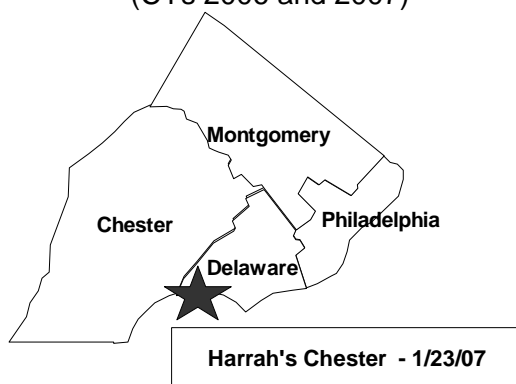
	<u>Monthly Sales</u>		<u>% Change 2007 Over 2006</u>	
	<u>2006</u>	<u>2007</u>	<u>Bucks County</u>	<u>Statewide</u>
Jan.....	\$ 10,665,655	\$ 13,142,316	+23.22%	+15.03%
Feb.....	15,409,436	9,683,349	-37.16	-21.62
Mar.....	11,057,921	11,157,280	+0.90	+3.24
Apr.....	10,906,439	9,672,926	-11.31	-2.23
May.....	10,762,442	10,099,698	-6.16	-0.81
Jun.....	10,050,360	10,220,945	+1.70	+6.40
Jul.....	10,571,207	10,588,738	+0.17	+11.14
Aug.....	10,813,009	13,276,086	+22.78	+16.39
Sep.....	11,321,111	9,284,392	-17.99	-7.44
Oct.....	10,627,366	10,175,137	-4.26	+1.14
Nov.....	10,386,375	10,346,024	-0.39	+1.12
Dec.....	<u>12,475,036★</u>	<u>11,369,053</u>	-8.87	-5.70
Totals.....	\$135,046,356	\$129,015,942	-4.47%	+0.8%

★ Philadelphia Park opened on December 19, 2006.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 41

**Lottery Sales in Counties Housing and Surrounding a  
Slots Gaming Facility: Harrah's Chester**  
(CYs 2006 and 2007)



County	Lottery Sales		% Change
	CY 2006	CY 2007	
Chester .....	\$ 65,332,468	\$ 67,147,143	+2.8%
Delaware.....	123,310,221	119,507,244	-3.1
Montgomery.....	141,777,854	142,718,928	+0.7
Philadelphia .....	460,970,356	453,797,548	-1.6

**Delaware County (Home County)  
2007 Monthly Sales Compared to Same Month Sales in 2006**

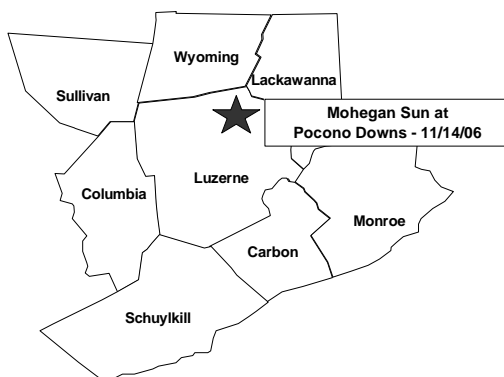
	Monthly Sales		% Change 2007 Over 2006	
	2006	2007	Delaware County	Statewide
Jan.....	\$ 10,252,578	\$11,748,414★	+14.59%	+15.03%
Feb.....	12,471,200	9,239,170	-25.92	-21.62
Mar.....	10,432,551	10,557,589	+1.20	+3.24
Apr.....	10,133,199	9,451,649	-6.73	-2.23
May.....	10,123,251	9,821,496	-2.98	-0.81
Jun.....	9,390,350	9,470,264	+0.85	+6.40
Jul.....	9,352,617	9,896,578	+5.82	+11.14
Aug.....	9,873,960	11,228,526	+13.72	+16.39
Sep.....	10,091,538	8,780,113	-13.00	-7.44
Oct.....	9,925,929	9,523,227	-4.06	+1.14
Nov.....	9,872,643	9,538,016	-3.39	+1.12
Dec.....	11,390,409	10,252,207	-9.99	-5.70
Totals.....	\$123,310,221	\$119,507,244	-3.1%	+0.8%

★ Harrah's Chester opened on January 23, 2007.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 42

**Lottery Sales in Counties Housing and Surrounding a Slots Gaming Facility: Mohegan Sun at Pocono Downs**  
(CYs 2006 and 2007)



<u>Counties</u>	<u>Lottery Sales</u>		<u>% Change</u>
	<u>CY 2006</u>	<u>CY 2007</u>	
Carbon	\$ 20,352,160	\$ 19,883,983	-2.3%
Columbia	16,245,734	16,259,944	+0.1
Lackawanna	81,562,942	76,088,383	-6.7
Luzerne	121,641,029	112,295,609	-7.7
Monroe	40,650,968	40,052,333	-1.5
Schuylkill	55,863,888	55,730,770	-0.2
Sullivan	1,618,524	1,504,885	-7.0
Wyoming	3,757,107	3,930,630	+4.6

**Luzerne County (Home County)**  
**2007 Monthly Sales Compared to Same Month Sales in 2006**

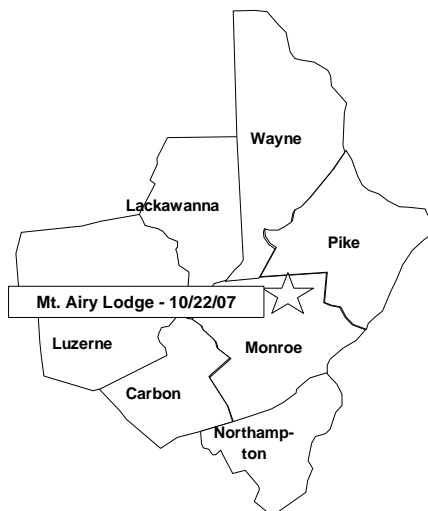
	<u>Monthly Sales</u>		<u>% Change 2007 Over 2006</u>	
	<u>2006</u>	<u>2007</u>	<u>Luzerne County</u>	<u>Statewide</u>
Jan.....	\$ 9,765,076	\$ 10,471,028	+7.23%	+15.03%
Feb.....	11,332,681	8,560,891	-24.46	-21.62
Mar.....	10,330,296	9,541,827	-7.63	+3.24
Apr.....	9,789,984	8,932,782	-8.76	-2.23
May.....	10,258,296	9,352,211	-8.83	-0.81
Jun.....	9,216,288	9,130,516	-0.93	+6.40
Jul.....	9,522,097	9,673,234	+1.59	+11.14
Aug.....	9,913,514	10,035,598	+1.23	+16.39
Sep.....	9,986,518	8,485,595	-15.03	-7.44
Oct.....	10,191,301	9,181,526	-9.91	+1.14
Nov.....	9,906,659★	8,944,908	-9.71	+1.12
Dec.....	<u>11,428,322</u>	<u>9,985,497</u>	-12.62	-5.70
Totals.....	\$121,641,029	\$112,295,609	-7.7%	+0.8%

★ Mohegan Sun at Pocono Downs opened on November 14, 2006.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 43

**Lottery Sales in Counties Housing and Surrounding a  
Slots Gaming Facility: Mount Airy Casino Resort  
(CYs 2006 and 2007)**



Counties	Lottery Sales		% Change
	CY 2006	CY 2007	
Carbon .....	\$ 20,352,160	\$ 19,883,983	-2.3%
Lackawanna.....	81,562,942	76,088,383	-6.7
Luzerne .....	121,641,029	112,295,609	-7.7
Monroe.....	40,650,968	40,052,333	-1.5
Northampton .....	71,020,874	71,376,466	+0.5
Pike.....	8,087,541	7,706,615	-4.7
Wayne.....	13,897,741	13,550,569	-2.5

**Monroe County (Home County)  
2007 Monthly Sales Compared to Same Month Sales in 2006**

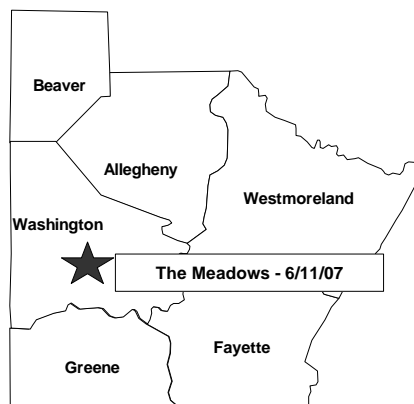
	Monthly Sales		% Change 2007 Over 2006	
	2006	2007	Monroe County	Statewide
Jan.....	\$ 3,019,307	\$ 3,817,682	+26.44	+15.03%
Feb .....	4,533,378	2,933,864	-35.28	-21.62
Mar .....	3,404,495	3,444,880	+1.19	+3.24
Apr .....	3,244,786	3,119,098	-3.87	-2.23
May.....	3,278,184	3,276,931	-0.04	-0.81
Jun.....	3,013,605	3,254,858	+8.01	+6.40
Jul.....	3,260,914	3,467,407	+6.33	+11.14
Aug .....	3,380,509	4,047,112	+19.72	+16.39
Sep .....	3,457,322	3,068,175	-11.26	-7.44
Oct.....	3,294,640	3,319,257	+0.75	+1.14
Nov .....	3,166,743☆	3,218,941	+1.65	+1.12
Dec .....	3,597,090	3,084,131	-14.26	-5.70
Totals.....	\$40,650,968	\$40,052,333	-1.5%	+0.8%

☆Mount Airy opened on October 22, 2007.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 44

**Lottery Sales in Counties Housing and Surrounding a Slots Gaming Facility: The Meadows Racetrack and Casino**  
(CYs 2006 and 2007)



County	Lottery Sales		% Change
	CY 2006	CY 2007	
Allegheny .....	\$360,021,569	\$371,647,891	+3.2%
Beaver.....	41,515,629	42,887,478	+3.3
Fayette .....	44,242,105	48,510,904	+9.6
Greene .....	9,131,213	9,313,692	+2.0
Washington.....	51,142,970	51,902,890	+1.5
Westmoreland.....	105,836,580	111,057,381	+4.9

**Washington (Home County)**  
**2007 Monthly Sales Compared to Same Month Sales in 2006**

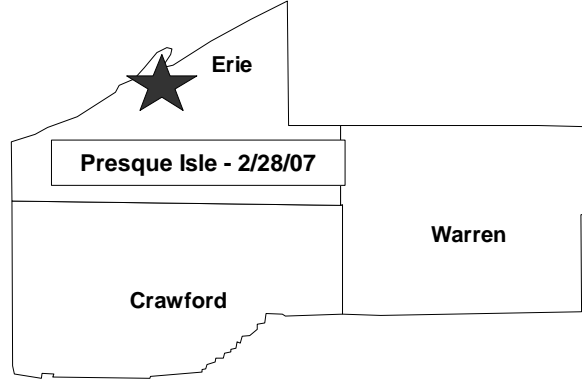
	Monthly Sales		% Change 2007 Over 2006	
	2006	2007	Wash. County	Statewide
Jan .....	\$ 4,256,115	\$ 4,895,884	+15.03%	+15.03%
Feb.....	5,040,117	4,113,769	-18.38	-21.62
Mar.....	4,316,048	4,737,097	+9.76	+3.24
Apr .....	4,085,917	4,132,304	+1.14	-2.23
May .....	4,274,687	4,303,486	+0.67	-0.81
Jun .....	3,891,408	4,185,933★	+7.57	+6.40
Jul .....	3,846,008	4,323,523	+12.42	+11.14
Aug .....	4,085,955	4,751,429	+16.29	+16.39
Sep .....	4,238,775	3,782,745	-10.76	-7.44
Oct .....	4,188,309	4,151,345	-0.88	+1.14
Nov .....	4,066,607	4,099,423	+0.81	+1.12
Dec .....	<u>4,853,025</u>	<u>4,425,956</u>	-8.80	-5.70
Totals	\$51,142,970	\$51,902,890	+1.5%	+0.8%

★The Meadows opened on June 11, 2007.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Exhibit 45

**Lottery Sales in Counties Housing and Surrounding a  
Slots Gaming Facility: Presque Isle Downs  
(CYs 2006 and 2007)**



County	Lottery Sales		% Change
	CY 2006	CY 2007	
Crawford .....	\$16,590,804	\$16,405,336	-1.1%
Erie.....	72,023,511	68,459,646	-4.9
Warren .....	13,611,246	14,132,409	+3.8

**Erie County (Home County)  
2007 Monthly Sales Compared to Same Month Sales in 2006**

	Monthly Sales		% Change 2007 Over 2006	
	2006	2007	Erie County	Statewide
Jan.....	\$ 5,888,726	\$ 6,796,656	+15.42%	+15.03%
Feb.....	7,150,819	5,631,249★	-21.25	-21.62
Mar.....	6,127,881	6,129,616	+0.03	+3.24
Apr.....	5,804,475	5,396,321	-7.03	-2.23
May.....	5,933,346	5,397,223	-9.04	-0.81
Jun.....	5,436,583	5,277,747	-2.92	+6.40
Jul.....	5,464,106	5,627,767	+3.00	+11.14
Aug.....	5,680,143	6,195,969	+9.08	+16.39
Sep.....	5,911,596	5,210,682	-11.86	-7.44
Oct.....	6,048,930	5,511,070	-8.89	+1.14
Nov.....	5,848,951	5,432,528	-7.12	+1.12
Dec.....	6,727,956	5,852,821	-13.01	-5.70
Total.....	\$72,023,511	\$68,459,646	-4.9%	+0.8%

★Presque Isle Downs opened on February 28, 2007.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

Table 16

**Pennsylvania Lottery Sales, by County**  
(CYs 2005 Through 2007)

	CY <u>2005</u>	CY <u>2006</u>	% Change 2006 Over <u>2005</u>	CY <u>2007</u>	% Change 2007 Over <u>2006</u>
Adams .....	\$ 11,822,079	\$ 13,656,346	15.5%	\$ 13,671,110	0.1%
Allegheny .....	347,574,405	360,021,569	3.6	371,647,891	3.2
Armstrong .....	20,183,851	22,147,193	9.7	23,634,871	6.7
Beaver .....	39,919,445	41,515,629	4.0	42,887,478	3.3
Bedford .....	7,403,671	7,553,274	2.0	7,694,943	1.9
Berks .....	74,344,857	82,599,440	11.1	83,560,519	1.2
Blair .....	37,818,041	41,426,274	9.5	43,388,889	4.7
Bradford .....	12,256,778	14,136,605	15.3	12,971,698	-8.2
<b>Bucks .....</b>	<b>117,590,391</b>	<b>135,046,356</b>	<b>14.8</b>	<b>129,015,942</b>	<b>-4.5</b>
Butler .....	39,289,167	43,410,971	10.5	44,195,713	1.8
Cambria .....	47,165,065	50,980,512	8.1	54,007,190	5.9
Cameron .....	1,797,050	1,785,386	-0.6	1,812,938	1.5
Carbon .....	18,942,175	20,352,160	7.4	19,883,983	-2.3
Centre .....	18,074,493	19,183,329	6.1	19,751,017	3.0
Chester .....	60,388,998	65,332,468	8.2	67,147,143	2.8
Clarion .....	8,441,841	9,897,885	17.2	10,437,544	5.5
Clearfield .....	20,085,028	21,878,702	8.9	22,611,127	3.3
Clinton .....	9,028,008	9,332,228	3.4	9,633,633	3.2
Columbia .....	15,113,081	16,245,734	7.5	16,259,944	0.1
Crawford .....	15,422,231	16,590,804	7.6	16,405,336	-1.1
Cumberland .....	43,645,493	49,192,449	12.7	53,307,267	8.4
Dauphin .....	70,157,889	78,857,016	12.4	83,120,876	5.4
<b>Delaware .....</b>	<b>113,682,771</b>	<b>123,310,221</b>	<b>8.5</b>	<b>119,507,244</b>	<b>-3.1</b>
Elk .....	7,352,859	8,376,617	13.9	9,031,720	7.8
<b>Erie .....</b>	<b>63,138,889</b>	<b>72,023,511</b>	<b>14.1</b>	<b>68,459,646</b>	<b>-4.9</b>
Fayette .....	39,983,414	44,242,105	10.7	48,510,904	9.6
Forest .....	1,700,658	2,220,423	30.6	2,289,007	3.1
Franklin .....	18,417,426	20,342,122	10.5	20,391,247	0.2
Fulton .....	2,158,302	2,355,340	9.1	2,459,770	4.4
Greene .....	8,594,519	9,131,213	6.2	9,313,692	2.0
Huntingdon .....	6,611,349	6,960,929	5.3	7,289,475	4.7
Indiana .....	17,870,308	19,640,666	9.9	21,363,228	8.8
Jefferson .....	10,617,919	12,017,266	13.2	12,711,672	5.8
Juniata .....	3,129,265	3,403,244	8.8	3,516,449	3.3

**Table 16 (Continued)**

	CY <u>2005</u>	CY <u>2006</u>	% Change 2006 Over <u>2005</u>	CY <u>2007</u>	% Change 2007 Over <u>2006</u>
Lackawanna .....	\$ 72,777,067	\$ 81,562,942	12.1%	\$ 76,088,383	-6.7%
Lancaster .....	76,628,623	83,752,328	9.3	86,116,950	2.8
Lawrence .....	29,144,801	31,361,871	7.6	32,402,640	3.3
Lebanon.....	22,554,388	24,610,673	9.1	25,769,240	4.7
Lehigh.....	72,147,623	78,425,073	8.7	77,190,677	-1.6
<b>Luzerne.....</b>	<b>110,776,858</b>	<b>121,641,029</b>	<b>9.8</b>	<b>112,295,609</b>	<b>-7.7</b>
Lycoming .....	24,821,661	27,633,899	11.3	29,121,095	5.4
McKean .....	8,664,688	9,349,023	7.9	9,234,890	-1.2
Mercer .....	26,467,004	29,547,248	11.6	29,136,484	-1.4
Mifflin .....	10,600,555	12,398,637	17.0	13,107,133	5.7
<b>Monroe.....</b>	<b>36,814,796</b>	<b>40,650,968</b>	<b>10.4</b>	<b>40,052,333</b>	<b>-1.5</b>
Montgomery.....	127,480,562	141,777,854	11.2	142,718,928	0.7
Montour .....	4,124,209	4,532,744	9.9	4,944,877	9.1
Northampton.....	63,070,218	71,020,874	12.6	71,376,466	0.5
Northumberland.....	23,100,734	25,444,812	10.1	27,789,052	9.2
Perry .....	7,661,673	9,406,520	22.8	10,139,854	7.8
Philadelphia .....	422,659,497	460,970,356	9.1	453,797,548	-1.6
Pike.....	6,928,582	8,087,541	16.7	7,706,615	-4.7
Potter .....	3,653,554	3,785,893	3.6	3,694,707	-2.4
Schuylkill.....	50,690,052	55,863,888	10.2	55,730,770	-0.2
Snyder .....	7,028,432	7,867,850	11.9	8,659,881	10.1
Somerset .....	13,801,668	14,819,301	7.4	15,268,082	3.0
Sullivan .....	1,119,345	1,618,524	44.6	1,504,885	-7.0
Susquehanna .....	11,940,324	13,312,226	11.5	12,564,722	-5.6
Tioga.....	8,703,011	10,044,091	15.4	10,320,373	2.8
Union .....	4,026,289	4,820,840	19.7	5,368,946	11.4
Venango .....	13,783,777	15,500,752	12.5	15,913,200	2.7
Warren.....	11,897,673	13,611,246	14.4	14,132,409	3.8
<b>Washington.....</b>	<b>48,323,639</b>	<b>51,142,970</b>	<b>5.8</b>	<b>51,902,890</b>	<b>1.5</b>
Wayne .....	13,050,979	13,897,741	6.5	13,550,569	-2.5
Westmoreland .....	101,620,249	105,836,580	4.1	111,057,381	4.9
Wyoming.....	3,398,934	3,757,107	10.5	3,930,630	4.6
York .....	<u>81,521,766</u>	<u>91,411,600</u>	12.1	<u>94,980,444</u>	3.9
Total Sales.....	\$2,850,704,931	\$3,114,630,973	9.3%	\$3,139,459,750	0.8%

**Note: Bold type indicates that a racino/casino is located in this county.**

<sup>a</sup>Please see footnote 5 earlier in this section.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.



## Pennsylvania Lottery Sales at Casino/Racino Facilities

*Each of the slot machine gaming facilities is a licensed Pennsylvania Lottery retailer, and sales have been relatively strong at the slots venues, averaging from about \$3,000 to more than \$10,000 per week at five of six locations.*

The Pennsylvania Race Horse Development and Gaming Act (Act 2004-71) authorizes the Pennsylvania Gaming Control Board to “require each slot machine licensee to sell Pennsylvania Lottery tickets at its licensed facility at a location as near as practicable to the pay windows.”

Accordingly, each of the slot machine gaming facilities in operation as of March 2008 are also licensed Pennsylvania Lottery retailers. Each facility is classified as a “self-service” retailer due to having Player Activated Terminals (PATs) that dispense both terminal-based (online) game tickets and instant tickets, with some facilities also having Instant Ticket Vending Machines (ITVMs) that dispense only instant tickets.<sup>7</sup> All Lottery machines are located within the casino portion of each facility.

The numbers of PATs and ITVMs in operation and total Lottery sales within each slots facility between July 1, 2007, and February 27, 2008, are shown on Table 17.

Table 17

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### Pennsylvania Lottery Operations and Sales at Slots Gaming Facilities, by Racino/Casino (July 1, 2007, Through February 27, 2008)

Racino/Casino <sup>a</sup>	Number of		State Lottery Sales		
	PATs*	ITVMs*	Online	Instant	Total
Mohegan Sun	3	0	\$58,846	\$124,800	\$183,646
Philadelphia Park	1	0	84,298	210,690	294,988
Harrah's Chester	1	1	157,433	266,128	423,561
Presque Isle	1	0	31,923	81,600	113,523
The Meadows	2	1	79,442	228,272	307,714
Mount Airy	<u>1</u>	<u>0</u>	<u>15,685</u>	<u>7,833</u>	<u>23,518</u>
Totals <sup>b</sup>	9	2	\$427,627	\$919,323	\$1,346,950

\*PATs = Player Activated Terminals, and ITVMs = Instant Ticket Vending Machines.

<sup>a</sup>The Hollywood Casino at Penn National opened on February 12, 2008, with one PAT and one ITVM.

<sup>b</sup>May not add due to rounding.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

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<sup>7</sup>While each slots gaming facility is classified as a self-service Pennsylvania Lottery retailer, they must still retain the on-site capability to pay prizes for winning tickets.

Lottery sales at the six slots venues in operation during this period totaled \$1.3 million.<sup>8</sup> We also compared Lottery sales at each slots gaming facility to statewide average weekly sales figures for self-service Pennsylvania Lottery retailers during the period of July 1, 2007, through February 27, 2008. As shown on Table 18, five of the six slots gaming facilities in operation during this period exceeded the statewide average weekly sales figures in total and for the sale of instant and online games. The other facility (Mount Airy) exceeded the statewide average weekly online sales total since its opening in October 2007.

Table 18

**Pennsylvania Lottery Sales at Slots Gaming  
Facilities Compared to Statewide Averages**  
(July 1, 2007, Through February 27, 2008)

<u>Racino/Casino<sup>a</sup></u>	<u>Average Weekly Lottery Sales</u>		
	<u>Instant</u>	<u>Online</u>	<u>Average Total</u>
Philadelphia Park.....	\$6,094	\$2,438	\$8,533
Mohegan Sun at Pocono Downs .....	3,610	1,702	5,312
The Meadows .....	6,603	2,298	8,901
Presque Isle Downs.....	2,360	923	3,284
Harrah's Chester .....	6,113	4,475	10,588
Mount Airy Lodge .....	522	849	1,371
Statewide Average Weekly Lottery Sales by Self Service Retailers.....	\$1,235	\$346	\$1,581

<sup>a</sup>All racino/casino facilities are classified as self-service Pennsylvania Lottery retailers due to having PATs that dispense both terminal-based (online) game tickets and instant tickets, with some facilities also having ITVMs that dispense only instant tickets.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

**Pennsylvania Lottery Sales in the National Context**

*Despite the recent slowdown in sales, the Pennsylvania Lottery continues to rank 7<sup>th</sup> of 43 states with lotteries nationally in terms of total Lottery sales and has retained or improved its national ranking in all but one Lottery game sales category.*

One means of assessing the relative performance of the Pennsylvania Lottery in generating revenues through ticket sales is to compare its sales performance to that of lotteries operating in other states. To do this, we examined national trends in Lottery sales, national rankings in various game sales categories, and whether

<sup>8</sup>The Hollywood Casino at Penn National became Pennsylvania's seventh slot machine gaming entity upon its opening on February 12, 2008.

Pennsylvania's rank in sales has changed since the introduction of slots gaming. The source of the data used in this analysis is the North American Association of State and Provincial Lotteries (NASPL).<sup>9</sup>

There were 43 U.S. lotteries in Calendar Years 2006 and 2007. A summary of the comparative sales data we examined for Pennsylvania and the other 42 lottery jurisdictions is shown on Table 19 below.

Table 19

**Pennsylvania Lottery Sales Versus  
Comparable Sales in the U.S. Lottery Industry  
(CY 2006 and CY 2007)**

Game Category	# U.S. Lotteries Selling	PA Rank		PA Sales (\$000)		% Change 2007 Over 2006	
		CY 2006	CY 2007	CY 2006	CY 2007	PA	U.S.
Total Sales	43	7	7	\$3,102,948	\$3,081,530	-0.69%	1.63%
Instants	42	7	7	1,675,047	1,709,243	2.04	2.16
3 Digit	36	4	4	412,364	405,600	-1.64	0.55
4 Digit	30	4	4	269,819	265,532	-1.59	2.13
5 Digit	14	N/A	N/A	N/A	N/A	N/A	4.04
Lotto	14	5	5	117,880	153,478	30.20	-1.22
Cash Lotto	30	2	2	195,390	180,045	-7.85	-0.78
Keno	13	N/A	N/A	N/A	N/A	N/A	0.36
PullTab	11	N/A	N/A	N/A	N/A	N/A	-7.91
VLT	10	N/A	N/A	N/A	N/A	N/A	10.68
Sports	2	N/A	N/A	N/A	N/A	N/A	32.96
MultiJuris: (MM or PB)	42	2	3	407,448	327,820	-19.50	0.70
MM only	12	N/A	N/A	N/A	N/A	N/A	20.95
PB only	30	1	1	407,448	327,820	-19.50	-9.45
Traditional (No VLT, No Keno)	43	7	7	3,102,948	3,081,530	-0.69	1.00
Traditional Less MM or PB	42	7	6	2,695,500	2,753,710	2.16	3.12

NA = Not Applicable. VLT = Video Lottery Terminal games. MM = Mega Millions. PB = Powerball.

Source: North American Association of State and Provincial Lotteries (NASPL) CY 2007 sales data, as of February 2008.

We found that:

- Combined total sales for the 43 U.S. lotteries totaled \$58.4 billion in CY 2007, an increase of 3 percent over the previous year.

<sup>9</sup>NASPL, whose membership is comprised of 51 lottery organizations, serves to assemble and disseminate information and benefits of state and provincial lottery organizations through education, communications, and public advocacy on matters of general policy.

- Pennsylvania ranked seventh out of 43 in CY 2006 and in CY 2007 in terms of total lottery sales. As shown in Table 19, Pennsylvania retained or improved its ranking for total category sales in every category except multi-jurisdiction (Powerball or Mega Millions).
- There are 12 lotteries selling Mega Millions while there are 29 U.S. lotteries that sell Powerball.<sup>10</sup> Calendar Year 2007 was a very good year for Mega Millions jackpot runs and a rather poor year for Powerball jackpots. As a result, all 12 Mega Millions lotteries ranked in the top 13 in terms of year-over-year growth in the multi-jurisdictions game category. North Carolina is the only Powerball lottery to make the top 13 because it recently instituted a state lottery.
- The Mega Millions versus Powerball jackpot dynamic had a profound affect on sales in Powerball states. In particular, Pennsylvania witnessed this affect because it is surrounded by Mega Million states (New York, New Jersey, Ohio, and Maryland). While the average Mega Millions lottery gained 20.95 percent in this category, the average Powerball state lost 9.45 percent. Pennsylvania lost even more at 19.50 percent in this category, which is due to the additional factor of the Mega Millions border effect influence.
- The Mega Millions versus Powerball jackpots played a large role in influencing the rate of growth in total sales in CY 2007. The 12 Mega Million lotteries averaged 4.82 percent in total sales growth over CY 2006, while the 30 Powerball states averaged only 0.28 percent.
- Pennsylvania's growth in instant game sales resembled the national average in CY 2007. Two new games, Mix & Match and Treasure Hunt, contributed to the growth in Pennsylvania's Lotto category, a 30.2 percent increase, which was significantly higher than the national average of a 1.2 percent decrease in Lotto game sales.
- While the average U.S. cash lotto category sales were down slightly at 0.78 percent, Pennsylvania's Cash 5 game was down 7.85 percent. This decline was addressed by changing the matrix in February 2008 with the goal of producing higher jackpots and increased sales.

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<sup>10</sup>Powerball is also sold in Washington, D.C., and the U.S. Virgin Islands.

## VII. Factors That Are Currently Affecting Pennsylvania Lottery Sales Levels

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*To attribute the recent downturn in Lottery sales solely, or even primarily, to the introduction of slots gaming appears to be an over-simplification of the Lottery sales dynamic. Just as no single factor was responsible for the unprecedented growth in Lottery sales that occurred between 2001 and 2006, no single factor, including the introduction of slots gaming, can now be cited as the sole contributing factor in the leveling off and subsequent downturn that has occurred in Lottery sales. While competition from slots gaming cannot be discounted as a factor in the current downturn, it appears that a number of other factors may be exerting a greater influence on Lottery sales at this time.*

Following four consecutive years of double-digit annual increases (of 10.3 percent, 10.3 percent, 12.5 percent, and 16.1 percent), Lottery sales grew by only 0.2 percent, or \$7.3 million in FY 2006-07. As is evident from Table 20, lower Powerball sales were a major contributing factor in the sales downturn. In FY 2006-07, a decline in the number of drawings with high jackpots led to a decrease in Powerball and Powerplay sales of 29 percent and 15 percent, respectively.

Table 20

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### A Review of the FY 2006-07 Slow-Down in Pennsylvania Lottery Sales, by Game

<u>Game</u>	<u>FY 2005-2006</u>	<u>FY 2006-2007</u>	<u>% Change</u>
Instant Games	\$1,587,756,024	\$1,703,503,107	+7.3%
Daily Number	313,350,752	303,238,810	-3.2
Powerball	385,213,919	273,796,848	-28.9
Big 4	200,049,866	197,606,401	-1.2
Cash 5	202,709,654	194,852,389	-3.9
Daily Mid-Day	101,954,893	109,600,061	+7.5
Match 6 Lotto	97,534,934	102,293,574	+4.9
Big 4 Mid-Day	69,343,388	74,285,870	+7.1
Powerplay	62,851,244	53,141,900	-15.4
Lucky "4" Life & Mix 'N Match	27,003,614	38,908,775	+44.1
Raffles	22,500,000	20,972,940	-6.8
Treasure Hunt		5,367,484	NA
Total Sales	\$3,070,268,288	\$3,077,568,159	+0.2%

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

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Although sales for FY 2007-08 were originally projected to increase by 2.8 percent, sales have slowed further, and the Lottery revised its original sales estimate downward to \$2.9 billion. (See Table 21.)

Table 21

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**Estimated FY 2007-08 Pennsylvania Lottery Sales**  
(\$000)

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<u>Game</u>	<u>FY 2007-08 Estimate</u>	<u>% Change Over FY 2006-07</u>
Instant Games .....	\$1,613,415	-5.3%
Daily Number .....	286,639	-5.5
Powerball.....	258,703	-5.5
Big 4.....	188,888	-4.4
Cash 5 .....	179,646	-7.8
Daily Mid-Day .....	111,089	+1.4
Match 6 Lotto.....	74,181	-27.5
Big 4 Mid-Day .....	75,008	+1.0
Powerplay.....	47,303	-11.0
Mix 'N Match.....	41,773	+7.4
Raffles.....	29,027	+38.4
Treasure Hunt.....	<u>21,836</u>	+306.8
Estimated Total <sup>a</sup> .....	\$2,927,507	-4.9%

<sup>a</sup>Does not add due to rounding.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

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At \$2.9 billion, Lottery ticket sales estimates for FY 2007-08 would equal a decline of 4.9 percent, or approximately \$150 million from FY 2006-07 actual sales. These sales estimates reflect decreased sales assumptions for instant games, the nighttime drawings of the Daily Number and Big 4, Cash 5, Match 6, Powerball, and Powerplay. Sales are estimated to increase for the mid-day drawings of the Daily Number and Big 4, Mix & Match, Treasure Hunt, and the Millionaire Raffle.

Through February 2008, FY 2007-08 Lottery sales were down by 2.0 percent over the same period in FY 2006-07. As shown on Table 22, fiscal year sales started strong with increases of 8.6 percent and 15.4 percent in July and August, respectively. This was followed by five consecutive drops in monthly sales ranging from 1.7 percent in October to 17.8 percent in January. February 2008 sales were up by 2.1 percent over the February 2007 level.

Table 22

**Monthly Pennsylvania Lottery Sales**  
(FY 2007-08 to Date Compared to FY 2006-07)

	Lottery Sales		% FY 2007-08 Higher+ Lower- Than FY 2006-07
	FY 2006-07	FY 2007-08	
July .....	\$236,053,002	\$256,468,202	+8.6%
August.....	246,984,033	284,921,816	+15.4
September .....	253,229,778	230,148,060	-9.1
October.....	251,640,575	247,440,565	-1.7
November .....	250,933,255	245,717,305	-2.1
December .....	290,638,286	269,571,512	-7.2
January.....	291,366,076	239,446,290	-17.8
February .....	<u>238,432,665</u>	<u>243,407,493</u>	+2.1
YTD Totals.....	\$2,059,277,670	\$2,017,121,242	-2.0
March.....	273,747,232	295,341,144	7.9
April.....	243,912,561	275,258,655	12.9
May .....	254,623,668	--	
June .....	<u>246,007,029</u>	--	
Totals.....	\$3,077,568,159	--	

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

## Declining Economic Conditions and Consumer Confidence

A well-documented slow-down in the U.S. economy occurred during CY 2007. Weakening economic conditions are reflected in various measures of consumer confidence, a condition that factors into individuals' decisions to make purchases, including those related to buying lottery tickets.

It is generally understood and confirmed through research that a relationship exists between consumers' attitudes and expectations about the economy and their spending and saving behavior. One widely recognized measure, known as the Consumer Sentiment Index (CSI), measures this relationship on a monthly basis as one product of an ongoing consumer survey conducted by the University of Michigan.

The Reuters/University of Michigan Surveys of Consumers are monthly surveys of consumer attitudes and expectations about the U.S. economy. They provide a gauge of consumer anticipation of changes in the economic environment. Specifically, the surveys attempt to measure changes in consumer attitudes and expectations, to understand why they occur, and to evaluate how they relate to consumer saving, borrowing, and buying decisions. This index is widely followed

(e.g., by Wall Street analysts and the financial press) as providing a reliable indication of the future course of the national economy.<sup>1</sup>

In December 1964, the Consumer Sentiment Index was normalized to have a value of 100. In recent years the scale has tended to fluctuate on a monthly basis from approximately the low 70s to the upper 90s. As a general rule, higher or increasing values correspond to greater consumer optimism and growth in consumer spending; lower or declining values signal less consumer optimism or pessimism and declines in consumer spending. Table 23 lists the CSI for each month from January 2005 through March 2008.

Table 23

<b>Index of Consumer Sentiment Monthly Ratings</b> (January 2005 Through March 2008)				
<u>Month</u>	<u>CSI Rating</u>			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
January.....	95.5	91.2	96.9	78.4
February.....	94.1	86.7	91.3	70.8
March.....	92.6	88.9	88.4	69.5
April.....	87.7	87.4	87.1	
May.....	86.9	79.1	88.3	
June.....	96.0	84.9	85.3	
July.....	96.5	84.7	90.4	
August.....	89.1	82.0	83.4	
September.....	76.9	85.4	83.4	
October.....	74.2	93.6	80.9	
November.....	81.6	92.1	76.1	
December.....	91.5	91.7	75.5	

Source: The Reuters/University of Michigan Surveys of Consumers.

Another measure of consumer confidence is the Consumer Confidence Index (CCI) issued monthly by The Conference Board, an independent economic research organization, and based on a survey of 5,000 households. Although the CCI, like the Consumer Sentiment Index, measures consumer spending expectations, the CCI is more heavily weighted toward business, in keeping with the Conference Board’s mission to create and disseminate information to “help businesses strengthen their performance and better serve society.”

The CCI is defined as a market-moving monthly indicator of consumers’ attitudes and buying intentions. Started in 1985, the CCI uses a scale which, unlike the CSI, can increase above 100 and is normalized based on the level when it began. In 1985 the result of the index was arbitrarily set to 100, representing the index’s benchmark. This value is adjusted monthly on the basis of a household survey of consumers’ opinions on current conditions and future expectations of the economy.

<sup>1</sup>Another index derived from the Surveys of Consumers—the Index of Consumer Expectations—a sub-index of the Consumer Sentiment Index) is included in the Leading Indicator Composite Index published by the U.S. Department of Commerce, Bureau of Economic Analysis. The Expectations Index represents only a small part of the entire survey data that is collected on a regular basis.



The meaning and interpretation of the CCI is similar to the CSI. When confidence is trending up, consumers spend money, indicating a healthy economy. When confidence is trending down, consumers are saving more than they are spending, indicating the economy is in trouble. The more confident people are about the stability of their incomes, the more likely they are to make purchases.

In general, with the exception of some minor fluctuations, the 14 months leading up to March 2008 period saw a precipitous decline in the Consumer Confidence Index (see Table 24). In February 2007 the CCI stood at 112.5 and was at a five-and-a-half year high. By February 2008, however, the CCI was at its lowest level since March 2003. Although consumer confidence during some months throughout this period was lifted by the perception that present business conditions were improving or by an easing in the proportion of consumers claiming jobs were hard to get, the one-month, 12-point (85 percent) drop between January and February 2008 prompted the Director of the Board’s Consumer Research Center to state that: “With so few consumers expecting conditions to turn around in the months ahead, the outlook for the economy continues to worsen and the risk of a recession continues to increase.”

Table 24

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**Consumer Confidence Index, Monthly Levels**  
(February 2007 Through March 2008)

<u>Month</u>	<u>CCI</u>
February 2007 .....	112.5
March 2007 .....	107.2
April 2007 .....	104.0
May 2007 .....	108.0
June 2007 .....	103.9
July 2007 .....	112.6
August 2007 .....	105.0
September 2007.....	99.8
October 2007 .....	95.6
November 2007.....	87.3
December 2007.....	88.6
January 2008 .....	87.3
February 2008.....	75.0
March 2008 .....	64.5

Source: The Conference Board.

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## **A Slowdown in the Growth of the Lottery Retailer Network**

A series of actions taken by the Department of Revenue beginning in 2003 reversed a long period of decline in the size of the Lottery retailer base. As a result, the number of retailers grew from about 7,000 to more than 8,400, and the ratio of retailers to the state's population is now slightly better than the national average. Although there is still room for further expansion, this growth has resulted in a certain level of market saturation. As such, both retailer growth and sales growth are now expected to stabilize and grow at much more moderate rates. Nevertheless, the recruitment of new retailers among currently participating corporate chains as well as new corporate accounts remains a priority for the Lottery. These efforts are a component of the Department's five-point marketing plan for the Pennsylvania Lottery described in Section VIII.

### **Declining Powerball Sales**

A decline in the number of drawings with high jackpots led to a decrease in Powerball and Powerplay sales in FY 2006-07 of 29 percent and 15 percent, respectively. Despite seven months in FY 2006-07 in which the highest monthly Powerball jackpot was greater than the highest jackpot in the same month in FY 2005-06, the jackpot level never exceeded \$240 million in FY 2006-07. This compares to the months of October 2005 and February 2006 in which the highest monthly Powerball jackpots were \$340 million and \$365 million, respectively. At jackpot levels such as these, Lottery sales tend to grow exponentially.

Powerball/Powerplay sales have historically increased greatly during months in which the highest Powerball jackpot exceeds \$200 million, and especially when it approaches and exceeds \$300 million. The Pennsylvania Lottery has estimated declining sales of both Powerball and Powerplay in FY 2007-08.<sup>2</sup>

### **A Decrease in the Popularity of Traditional Numbers Games**

Sales of the Pennsylvania Lottery's two primary numbers games (the Daily Number and Big 4) have declined annually since FY 2002-03. However, ticket sales for the mid-day drawings of both of these games have increased annually since their addition to the Lottery's game mix in FY 2002-03. While sales of the mid-day drawings of these games are much less in real dollar terms than sales of their evening counterparts, their strong sales figures assist in maintaining the viability of these games.

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<sup>2</sup>As of the end of February 2008, combined Powerball/Powerplay sales are about \$15 million lower than the same point in the prior fiscal year.

## **The Introduction of Legalized Slots Wagering**

Some persons contend that lottery tickets and slots are aimed at two different types of customers and lottery players and slots patrons largely represent different segments of the gaming public. The contention is that lottery tickets tend to be “impulse buys” while slots are a planned “destination” form of gaming. Whatever the validity of this distinction, the wagering of nearly \$14 billion at six Pennsylvania slots facilities between November 2006 and January 2008 would appear to have some degree of impact on the availability of personal discretionary income for Lottery purchases. But, the extent to which slots wagering may shift individuals’ gaming attention and resources away from Lottery games is difficult, if not impossible, to quantify.

Data for CY 2007 discussed in Section VI would seem to indicate that some effect is being felt. For example, although it is still early and further data collection and analysis are necessary, it appears that there is a pattern of more frequent and higher percentage declines in weekly sales in regions within a 60-minute drive time of a slots facility when compared to sales patterns in the region of the state classified as “outside a 60-minute drive time” of a slots facility. Also, first-year sales data indicates that Lottery sales in counties that house a slots facility during CY 2007 declined more than did sales in “non-slots” counties and in the state as a whole (See Section VI).

On the other hand, a 2007 survey commissioned by the Pennsylvania Lottery found that for those that cited a decrease in Lottery spending, economic reasons rather than slots or other gaming activities, were the primary reasons for the decline. Moreover, studies have found that lottery products largely occupy a separate niche in the gaming market and substitute for each other rather than for other forms of gaming (See Section IX).

### **Border State Competition**

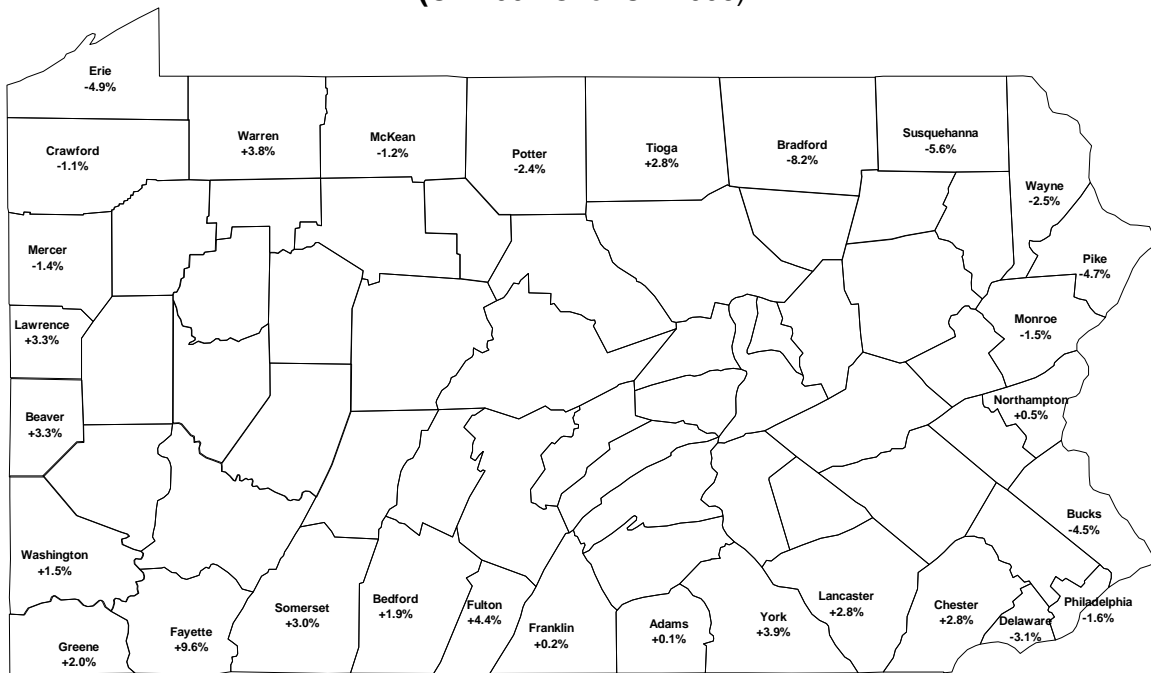
Related to the decline in Powerball sales is cross-border competition with the other major multi-state jackpot game, Mega Millions. Four of the 12 states currently participating in Mega Millions border Pennsylvania (Maryland, New Jersey, New York, and Ohio). As such, Mega Millions drawings with high jackpot levels may entice some Pennsylvania residents to purchase Mega Millions tickets in these states. (See Table 25 for a record of Mega Millions jackpots over \$100 million since January 2005.)

Comparing average cumulative sales of Powerball versus Mega Millions tickets by draw number, Mega Millions ticket sales outpaced Powerball sales in the vast majority of draws from CY 2004 through CY 2007. Historically, Powerball ticket sales have not met or exceeded sales levels attained by Mega Millions until several additional draws (and higher jackpots) have transpired. Exhibit 46 provides map showing Lottery sales changes in counties that border other states.

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**Percent Change in Lottery Sales in Pennsylvania “Border” Counties  
(CY 2007 Over CY 2006)**

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Source: Developed by LB&FC staff using information obtained from the Pennsylvania Lottery.

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## The Relationship Between Gas Prices and Lottery Sales

In 2004, lottery officials in a number of states observed that as gas prices increased in their states, they felt consumers spent less on lottery for entertainment. Pennsylvania was among the states making this observation.<sup>3</sup>

To address this widespread concern, the research department of Scientific Games, Inc., a global lottery marketing and technology company, examined changes in lottery sales in these states for 2004 to 2005 and 2005 to 2006 to determine if a relationship or correlation exists between gas prices and lottery sales.<sup>4</sup> They reported as follows:

- For two states (Connecticut and Indiana) no relationship was found between gas prices and instant lottery sales.
- For nearly one-half of the states analyzed, the strongest relationship is a small to medium positive correlation with a linear relationship between

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<sup>3</sup>The other states included Colorado, Delaware, Florida, Idaho, Illinois, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, New Mexico, New York, Rhode Island, South Carolina, South Dakota, and Washington.

<sup>4</sup>The Scientific Games analysis cautions that this analysis “does not explain a causal relationship between gas prices and lottery sales. The relationship between gas prices and lottery sales may, in fact, be due to other factors not yet determined, even when a significant relationship is found.”

Table 25

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**Mega Millions Jackpots Over \$100 Million**  
(CY 2005 to CY 2007)

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<u>Date</u>	<u>Jackpot (\$Millions)</u>	<u>Date</u>	<u>Jackpot (\$Millions)</u>
01/14/05 .....	\$ 111	1/5/2007 .....	\$102
01/18/05 .....	131	1/9/2007 .....	125
03/01/05 .....	115	2/13/2007 .....	106
04/08/05 .....	102	2/16/2007 .....	130
04/12/05 .....	120	2/20/2007 .....	150
04/15/05 .....	144	2/23/2007 .....	177
04/19/05 .....	168	2/27/2007 .....	216
04/22/05 .....	208	3/2/2007 .....	275
06/03/05 .....	106	3/6/2007 .....	390
07/12/05 .....	100	4/6/2007 .....	105
07/15/05 .....	122	5/11/2007 .....	112
07/19/05 .....	145	7/3/2007 .....	106
07/22/05 .....	170	7/6/2007 .....	128
08/30/05 .....	111	8/10/2007 .....	105
09/02/05 .....	131	8/14/2007 .....	122
09/06/05 .....	150	8/17/2007 .....	148
09/09/05 .....	172	8/21/2007 .....	171
09/13/05 .....	200	8/24/2007 .....	206
09/16/05 .....	258	8/28/2007 .....	250
10/21/05 .....	108	8/31/2007 .....	330
10/25/05 .....	128	12/11/2007 .....	115
10/28/05 .....	147	12/14/2007 .....	137
11/01/05 .....	165	12/18/2007 .....	163
11/04/05 .....	194		
11/08/05 .....	225		
11/11/05 .....	262		
11/15/05 .....	315		
02/10/06 .....	102		
02/14/06 .....	120		
02/17/06 .....	145		
02/21/06 .....	175		
02/24/06 .....	212		
02/28/06 .....	270		
03/31/06 .....	117		
04/04/06 .....	138		
04/07/06 .....	162		
04/11/06 .....	189		
04/14/06 .....	220		
04/18/06 .....	265		
09/08/06 .....	114		
09/12/06 .....	135		
09/15/06 .....	163		

Source: Maryland State Lottery.

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gas prices and instant lottery sales. The positive correlation and linear relationship is evidence that as gas prices increase sales also increase (found in Colorado, Delaware, Maine, Montana, New Hampshire, and South Dakota).

- For the other half of the states analyzed, including Pennsylvania, the Scientific Games analysis found the strongest relationship is a significant curvilinear relationship between instant lottery sales and gas prices. A curvilinear relationship is evidence that instant sales increase along with increasing gas prices until gas prices reach and steadily stay at \$2.60 per gallon or more, then sales begin to decline (found in Arizona, Florida, Illinois, Maryland, Massachusetts, Pennsylvania, and South Carolina).

These findings are of particular importance since convenience stores that sell gasoline represent the largest proportion of Pennsylvania Lottery retailers. As shown in Table 26, the average price of one gallon of regular unleaded gasoline has increased each year between CY 2005 and CY 2007. Gas prices have varied moderately, however, from month-to-month during these years. For example, gas prices rose from \$2.38 per gallon in March 2006 to \$2.78 per gallon in April 2006 (a 16.8 percent increase), but later fell to approximately \$2.20 per gallon in October and November 2006. In CY 2007, regular unleaded gasoline prices rose from nearly \$2.26 per gallon in February 2007 to \$2.97 per gallon in May 2007, before decreasing monthly to a price of \$2.71 per gallon in August 2007. Gas prices rose above \$3 per gallon for the first time in November 2007.

We also compared the average price per gallon of regular unleaded gasoline to Lottery instant game sales during Calendar Years 2005 through 2007. In CY 2005, Lottery instant game sales fell by approximately 10 percent in September 2005; a month in which gas prices rose by 18 percent to \$2.91 per gallon. In CY 2006, Lottery instant game sales fell by 5.6 percent when gas prices rose to \$2.78 per gallon in April 2006, but increased in three of the following four months in which gas prices remained above \$2.60 per gallon. Gas prices remained above \$2.60 per gallon in nine consecutive months in CY 2007 (April through December). During this time, instant game sales declined in five of the nine months.

Table 26

**Pennsylvania Regular Unleaded Gasoline Prices Compared  
to Pennsylvania Lottery Instant Game Sales  
(CY 2005 Through CY 2007)**

	2005			2006			2007		
	<u>Gas Price per Gallon<sup>a</sup></u>	<u>Instant Game Sales</u>	<u>% Change</u>	<u>Gas Price per Gallon<sup>a</sup></u>	<u>Instant Game Sales</u>	<u>% Change</u>	<u>Gas Price per Gallon<sup>a</sup></u>	<u>Instant Game Sales</u>	<u>% Change</u>
January .....	184.1¢	\$100,856,619	--	238.9¢	\$142,130,360	--	228.0¢	\$150,484,972	--
February.....	190.3	107,596,391	+6.7%	229.6	134,600,083	-5.3	225.8	134,551,909	-10.6
March .....	202.9	120,841,461	+12.3	237.6	140,425,223	+4.3	258.5	146,788,209	+9.1
April.....	216.6	112,010,469	-7.3	277.5	132,610,834	-5.6	277.6	140,445,433	-4.3
May .....	207.8	121,810,915	+8.7	287.2	142,159,238	+7.2	297.2	147,046,095	+4.7
June .....	213.3	104,923,015	-13.9	280.1	125,685,795	-11.6	294.9	132,019,610	-10.2
July.....	225.1	117,545,843	+12.0	292.1	128,016,806	+1.9	286.6	152,011,005	+15.1
August.....	246.3	127,593,747	+8.5	291.9	134,186,345	+4.8	271.0	135,501,051	-10.9
September.....	290.9	114,492,480	-10.3	249.4	130,174,251	-3.0	272.0	132,063,952	-2.5
October .....	257.2	123,752,005	+8.1	219.8	148,019,612	+13.7	278.3	146,187,471	+10.7
November.....	216.1	134,253,114	+8.5	220.8	140,431,037	-5.1	306.6	131,619,756	-10.0
December.....	220.2	152,507,302	+13.6	234.8	171,338,828	+22.0	303.4	158,429,494	+20.4
Annual Average.....	222.6¢			255.0¢			275.0¢		

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<sup>a</sup>Cents per gallon including federal and state taxes.

Source: Compiled by LB&FC staff using data provided by the U.S. Energy Information Administration and the Pennsylvania Lottery.

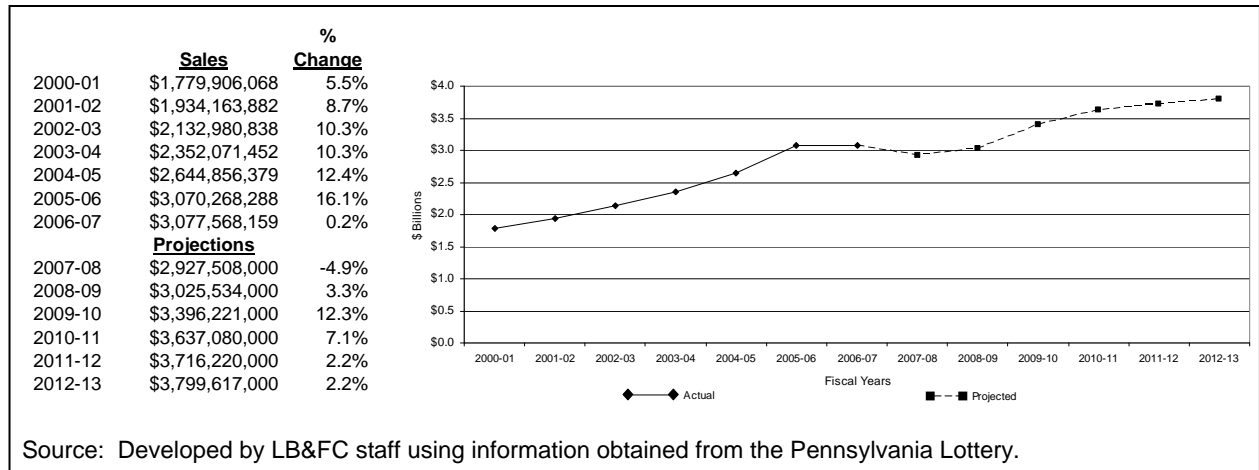
## VIII. Pennsylvania Lottery Sales Projections and Associated Marketing/Planning Activities

*Pennsylvania Lottery sales flattened in FY 2006-07 (rising by only 0.2 percent) and are projected to decline by 4.8 percent to \$2.9 billion in FY 2007-08. If this projection holds, this would be the first year-to-year decline in Lottery sales since FY 1997-98. However, the Lottery has developed a “five-point sales plan” and projects that sales will rebound in FY 2008-09 and in each subsequent year of the planning period through FY 2012-13.*

Despite a projected sales decline of nearly 5 percent during FY 2007-08, the Lottery is projecting a return to annual sales increases during the five-year projection period ending in FY 2012-13. As shown on Exhibit 47, current projections are that an annual increase of more than 12 percent is expected during FY 2009-10.

Exhibit 47

### Lottery Ticket Sales and Projections (FY 2000-01 Through FY 2012-13)



Lottery officials explain that this resurgence in sales is projected as a result of a “five-point plan” that the Lottery is implementing. An overview of this plan follows:

- *Continued Expansion and Growth of The Lottery Retailer Base*

The expansion of the number of Lottery retailers both among participating store chains as well as new corporate accounts was identified as being of high priority in light of the current “leveling” of the retailer base following a period of rapid growth between 2003 and 2007. The Secretary of Revenue is continuing to initiate contact with chains such as CVS, Wawa, and other entities with no Lottery retailers among their Pennsylvania



locations. Consideration is also being given to initiating Lottery sales at state Wine and Spirits Shoppes.

- *Ongoing Negotiation With the MUSL*

The change in the Cash 5 matrix from 1:39 to 1:43 occurred in February 2008. Lottery officials continue to work with officials of the Multi-State Lottery Association (MUSL) toward changes in the Powerball matrix and improvements in advertising in an attempt to increase high jackpot runs.

- *Changes and Improvements to the Lottery's Instant Games*

Instant games now constitute the majority of total Lottery sales on an annual basis (55 percent of total sales in FY 2006-07). Similar trends are now prevailing nationwide. However, Lottery officials are closely monitoring the potential of instant tickets at higher price-points (especially \$10 and \$20) reaching "maturity" with their audiences. Currently, instant games with price-points of \$5, \$10, and \$20 constitute approximately 65 percent of total instant game sales.

The Lottery's Executive Director explained that, generally, instant games "cycle" in popularity over an approximate 18-month period. As such, the Lottery attempts to introduce at least one new instant game each month. Lottery officials are now preparing for modifications to games that will usher in the "next generation" of instant games, which are tentatively scheduled to include games with no latex surface to be scratched (a needed improvement seen to be a precondition to the sale of instant tickets at many bars and taverns).

- *Deployment of New Technology and Improvements at the Point-of-Purchase*

Improvements at the point-of-purchase are seen as vital to sustainable ticket sales growth. Main improvements are tentatively scheduled for January 2009, at which time new online numbers game terminal machines will be introduced. Technological improvements to the online numbers game terminals may enable seasonal online games (with potential holiday-themed designs) and further point-of-purchase instant-win online games not possible with the current machines.

- *"Relief" from the statutory minimum rate of contribution to state programs, currently set at 30 cents of each dollar earned (Note: at least 40 cents on the dollar must be paid to players in the form of prize money).*

The Lottery's Executive Director reports that the 30 percent minimum contribution of each dollar earned to state programs for all games has been in place since the enactment of the State Lottery Law in 1971. The Lottery believes this provision is particularly antiquated and limits the

Lottery's game options, especially in the area of instant games, which have a lower average net profit margin/higher payout percentage compared to online games. On average, he indicated that the Lottery realizes a net profit of 21 cents per dollar of ticket sales for instant games versus 41 cents per dollar of ticket sales for terminal games. According to the Executive Director, if current sales trends continue and a statutory change does not occur to eliminate (or conceivably modify) the minimum transfer rate, instant games may have to be "scaled back."

This issue may become increasingly important if instant games continue to be the driving force representing the majority of ticket sales in forthcoming years; especially at the higher price-points with even greater percentage payouts. As a note, the Lottery has been paying out approximately 59 percent of gross ticket sales in prize money (among all games combined) in the last several fiscal years.

The Lottery's Executive Director further explained that in FY 2002-03, State Lottery Fund transfers to state programs equaled about 37 percent of total ticket sales, while transfers declined to approximately 31.8 percent of ticket sales in FY 2006-07. While sales and net profits (with the exception of FY 2006-07) have increased annually and thus the real dollar amount transferred to state programs has increased, the percentage of net profits to sales (the net profit margin) has decreased.

Even with the recent decrease in the net profit and the transfer of a portion of net profits to state programs as a percentage of sales, the Pennsylvania Lottery is reportedly above the national average of 28.9 percent transferred to state programs among U.S. lottery jurisdictions. Lottery officials stated that Pennsylvania is one of only approximately 7 states with a mandatory minimum transfer rate of sales to programs funded by their respective lotteries.

Licensed Pennsylvania Lottery retailers receive commissions of at least 5 percent of gross ticket sales at their location, as well as bonuses for the sale of certain winning tickets. Lottery staff provides retailer employee training, operations and technical support services, equipment installation and service, and signage and other point-of-sale and counter-top display and promotional items (as well as retailer benefits from the Lottery's marketing initiatives). The Lottery also offers its

retailers up to \$2,500 in financial assistance for modifications that make the location more accessible to patrons in conformance with Lottery guidelines.<sup>1</sup>

The Department of Revenue credits the growth in the size of the Lottery retailer base as having a “great impact on improving sales over the past few years”; a pattern of growth that has resembled the trend in Lottery game sales growth in the past several fiscal years.

Retailer recruitment (and retention) is naturally dependent upon the general marketing efforts conducted by the Lottery. According to the Lottery Executive Director, the addition of full-service retailers that sell the full array of Lottery games remains a priority. The Lottery is also increasingly focusing on improvements to the point-of-purchase experience at its retailers, as there is a potential that sales may be reaching the “tipping point” of the ability to boost sales through additional retailers alone.

In addition to sales commissions, bonuses for the sale of certain winning tickets, and increased customer patronage that may be realized by Pennsylvania Lottery retailers, the Lottery oversees a number of other retailer incentive and promotional programs in an effort to retain and expand its retailer base. This includes a “retailer bonus program” which awards higher percentage commissions on additional sales above certain amounts (for all games or selected games) within a given time period. Also initiated by the Lottery are a series of “retailer promotions” in which retailers are eligible to enter drawings for cash prizes based on meeting benchmarks in the sales of certain games. The Lottery also maintains constant communication with retailers through providing monthly newsletters and maintaining a variety of information for retailers on the Lottery website.

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<sup>1</sup>The Pennsylvania Lottery’s Retailer Accessibility Program (RAP) offers retailers who have not met the Lottery’s required accessibility guidelines the option of obtaining a 12-month temporary license to sell tickets (with all required equipment provided) while necessary modifications are made to the location. Precise accessibility requirements differ for specific retailers, but are comprised of guidelines covering parking, exterior path of travel into the location, curb ramps, exterior and interior ramps, entrance requirements, and unobstructed interior paths of travel. The amount of cost-assistance received by retailers depends on the cost of the modifications, commissions earned on Lottery sales during the 12-month temporary license period, and other qualifying restrictions upon certain types of businesses. The total amount payable is limited to 25 percent of actual out-of-pocket expenses incurred by the retailer to complete necessary modifications, not to exceed \$2,500. Lottery guidelines include compliance with federal accessibility guidelines required under the Americans with Disabilities Act (ADA). Qualifying retailers must provide the Lottery with documentation on their progress in making necessary modifications. Federal tax incentives may also be available for retailers making modifications to meet ADA guidelines.

## IX. Lottery Sales in Selected Other States Following the Introduction of Slots Gaming

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*The experiences of a number of states indicate that state lotteries can perform well after the introduction of casino gaming provided they alter the structural characteristics of Lottery products. Specifically, the study concluded that state lotteries can perform well alongside casinos if the lotteries add higher-priced instant tickets and join a multi-state jackpot game. Pennsylvania had already taken both of these actions prior to the introduction of slots gaming.*

### **A Study of the Impact of Casinos on Lottery Revenues**

In May 2004, the Center for Policy Analysis at the University of Massachusetts, Dartmouth, issued a report on its review of the effect of casino gaming on state lottery performance and public finance in lottery states that have introduced casino gaming since 1989.<sup>1</sup> The Center for Policy Analysis was retained by the Rhode Island State Senate for the purpose of conducting an objective economic and fiscal impact assessment of a resort casino proposed for that state. The study utilized data from states that have both traditional lottery games and legalized commercial casinos.

While conducted for the Rhode Island State Lottery, major findings of this study are applicable to consideration of the impact of casino operations on lotteries in other states. Among these findings are the following:

- *State lotteries can perform well after the introduction of casino gaming, but they need to alter the structural characteristics of lottery products:*
  - The study found that the two most popular strategies employed by states are the introduction of higher priced instant tickets and joining multi-state lottery consortiums. With just one exception, all video lottery terminals (VLTs)-operating in casino states regularly employ a \$10 instant ticket. Also, all states that employ VLTs or casino gaming have joined one of the multi-state lottery consortiums currently in operation.
  - In the nine states with lotteries and commercial casinos, total gaming revenue (the sum of lottery and casino monies accruing to the state) has increased since the introduction of casino gaming.

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<sup>1</sup>*Comparative Lottery Analysis: The Impact of Casinos on Lottery Revenues and Total Gaming Revenues*, prepared for the State Senate of Rhode Island by the Center for Policy Analysis, University of Massachusetts, Dartmouth, May 2004.

- An examination of the data reveals a flattening in lottery-generated revenue in these states, but not a significant loss in revenue.
- *Lottery products largely occupy a separate niche in the gaming market and substitute for each other rather than for other forms of gaming. Consequently, lotteries have continued to operate successfully in states that have casinos.*

One of the fundamental gaming policy issues in Rhode Island [and in other states] is the potential effect of substitution and saturation on the state's lottery. Substitution refers to the diversion of spending on one type of gaming activity to another form of gaming. The related concept of saturation suggests that all consumer products, including gaming products, follow a product life cycle with four phases: introduction, growth, maturity, and decline. Saturation refers to a situation where sales of a lottery product, or wagering on a particular form of gaming, peak or flatten.<sup>2</sup> The report states that:

This analysis finds, consistent with recent survey results, and based on ensuing empirical analysis, that there is minimal substitution between state lotteries and casinos. The reality is that there is far more substitution among lottery products than there is between lotteries and casinos. Evidence from a number of jurisdictions indicates that the introduction of commercial casinos has had a negligible impact on lottery sales and lottery-generated revenue.<sup>3</sup>

- *The comparative analysis finds that in every one of the nine states with commercial casinos and a state lottery, total gaming revenue (i.e., the sum of lottery and casino revenues accruing to the state) has increased since the introduction of casino gaming.*

The report noted that much of the debate at the time of the study related to discussions of the potential fiscal impact of casinos on traditional lottery products, and total gaming revenue accruing to a state.

The jist of the fiscal argument against casinos is that casino gaming will adversely affect the state's "bottom line" by cannibalizing revenues from existing gaming activities. This assertion is based on the premise that a casino will cause a drop in lottery profits of such a magnitude that total gaming revenues will subsequently decline. To determine the probability of a decline in overall gaming revenues, the study examined comparable situations in other states that host commercial casinos and have state lotteries.

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<sup>2</sup>WEFA Group. 1996. *A Study Concerning the Effects of Legalized Gambling on the Citizens of the State of Connecticut*. Eddystone, PA.

<sup>3</sup>WEFA Group; and Dense, J. 1999. "State Lotteries, Commercial Casinos and Public Finance: An Uneasy Relationship?" *Gaming Law Review* 3 (5/6), 317-328.

As shown on Table 27, the study found that a majority of these states realized double-digit average annual growth in total gaming revenues in the first five years after casinos were authorized and operating in their states. While the difference between the first (partial) year of casino operation and first full year of operation tends to inflate these figures, it should be noted that, of the 50 yearly observations incorporated into the table, 32 (64 percent) were double-digit increases. Conversely, only 5 observations (10 percent) resulted in a decrease in total gaming revenues with 3 of the 5 occurring the fifth year. The evidence from other locales suggests a high probability that total gaming generated revenue will enjoy a period of significant growth in the five-year period following casino legalization.

Table 27

**Average Annual Change in Total Gaming Revenue:  
First Five Years After Casinos**

<u>State</u>	<u>Average Annual Percent Increase</u>
South Dakota .....	56.1%
Missouri .....	35.7
Louisiana .....	35.7
New Jersey .....	34.2
Iowa .....	24.9
Indiana .....	24.1
Colorado .....	19.9
Illinois .....	6.7
Michigan .....	2.3

Source: A study prepared for the State Senate of Rhode Island by the Center for Policy Analysis, University of Massachusetts, Dartmouth, May 2004.

- *The majority of lottery states that have introduced casino gaming have also been able to sustain a level of lottery profitability close to that exhibited before the legalization of casinos. Study data revealed a pattern of flattening lottery-generated revenue, but not a significant loss in revenue. See Table 28.*
  - The study found that 15 (30 percent) of the yearly observations reflected double digit growth in lottery revenue while 16 (32 percent) reflected a decrease in lottery revenues. Five of the nine states had decreases in lottery revenue the fifth year after a casino opened, while six of the nine states saw a decline in revenues the second year after a casino start-up. The evidence from other locales suggest there is a strong likelihood that lottery revenues will decrease in the second year (or first full year) of casino operation, but even so, five of the six states that saw a decline in lottery revenues still enjoyed an overall increase in total gaming revenue during year two of the period studied.

Table 28

**Average Annual Change in Total Lottery-Generated Revenue:  
First Five Years After Casinos**

<u>State</u>	<u>Average Annual Percent Increase</u>
South Dakota.....	51.1%
New Jersey.....	25.2
Missouri.....	18.7
Colorado.....	10.6
Illinois.....	0.6
Louisiana.....	0.4
Michigan.....	(1.4)
Indiana.....	(1.5)
Iowa.....	(1.5)

Source: A study prepared for the State Senate of Rhode Island by the Center for Policy Analysis, University of Massachusetts, Dartmouth, May 2004.

In addition to the state experiences covered in the University of Massachusetts study, we also reviewed information on lottery sales in two other states that initiated slots gaming since 2004: New York and Florida.

**Slots (VLT) and the New York Lottery**

New York began operating video lottery terminals (VLTs) in January 2004 and was not a subject of the University of Massachusetts-Dartmouth study discussed above. Because New York is a large, neighboring state with a “mature” lottery, the performance of its lottery in a post-casino/racino environment is pertinent to Pennsylvania.

The New York Lottery, which commenced operations in 1967, features a wide array of terminal and instant games, as well as video lottery gaming at eight racetracks throughout the state.<sup>4</sup> The opening of the facilities was incremental, with the first racetrack adding VLTs in January 2004. As of December 2007, a combined average of over 13,050 VLTs were in operation at eight racetracks throughout the state. In addition, four Indian casinos are currently operating in New York State. These casinos are full-service, featuring a variety of slot machines, table games, keno, and other forms of gaming.

Video lottery gaming began late in FY 2003-04. During FY 2004-05, the first full-year of VLT operations, video gaming generated a total of \$231.7 million. Sales of online and instant games in that year were up by 3.7 percent. Traditional game sales then increased by 7.4 percent in FY 2006, while VLT net machine income increased by 36.3 percent over the prior year to \$315.7 million. (See Table 29.)

<sup>4</sup>The New York Lottery is an independent unit of the state Department of Taxation and Finance. New York lottery proceeds are earmarked for funding assistance for the state’s elementary and secondary public schools.

Table 29

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**New York Lottery Revenues Since the  
Introduction of Video Lottery Gaming**

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Fiscal Year <sup>a</sup>	Total Ticket Sales (\$ millions)	% Change	Online Plus Instant (\$ millions)	% Change	Video (\$ millions) <sup>b</sup>	% Change
2003-04 <sup>c</sup> .....	\$5,847.5	8.4%	\$5,825.7	8.0%	\$ 21.8	--
2004-05 .....	6,270.5	7.2	6,038.8	3.7	231.7	962.8%
2005-06 .....	6,802.8	8.5	6,487.1	7.4	315.7	36.3
2006-07 <sup>d</sup> .....	7,175.1	5.5	6,652.4	2.5	522.7	65.6

<sup>a</sup>The New York fiscal year ends on March 31.

<sup>b</sup>Revenues from video lottery represent net machine income (monies put into a VLT minus cash prizes paid out).

<sup>c</sup>Fiscal Year in which video lottery operations commenced.

<sup>d</sup>Sales figures for FY 2007 are unaudited.

Source: Compiled by LB&FC staff using information obtained from *La Fleur's 2007 World Lottery Almanac*.

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In FY 2007, video lottery revenues continued to increase (by 65.6 percent) while traditional game sales increased by 2.5 percent, with the New York Lottery leading the nation in total instant ticket sales. The 65.6 percent increase in New York's VLT revenue represented the largest percentage increase among the six video lottery jurisdictions in the nation.

New York Lottery officials are of the position that video lottery is a form of "destination gaming" that differs from playing traditional terminal and instant games insofar as players must go to racetrack facilities to play, as opposed to purchasing terminal and instant games at lottery retailers throughout the state.

They report taking several actions to ensure the continued viability of traditional lottery games, such as modifying the state's share of instant game sales following the introduction of Mega Millions in 2002, integrating a keno-style game with drawings every four minutes, and having a wide selection of instant games with prices ranging from \$2 to \$20.

### **An Initial Analysis of the Impact of Slot Machine Operations on Lottery Sales in a Florida County**

The Florida Lottery released a report on December 28, 2007, entitled *Initial Analysis of Impact of Broward County Slot Machine Operations on Florida Lottery Sales*. In March 2005, the citizens of Broward County, Florida, approved a local referendum allowing Class III slot machines to be placed at pari-mutuel wagering locations within the county. The first facility commenced operations in November 2006, with two additional facilities opening in December 2006 and April 2007 and a



fourth facility scheduled to open in 2009. As of the end of October 2007, these three facilities housed a total of 3,825 slot machines.

The purpose of the analysis was “to determine whether there is evidence that the operation of slot machines in Broward County is having an adverse impact on Lottery sales and EETF [Educational Enhancement Trust Fund] contributions, and, if so, to gauge the size of that impact.” In Florida, both Lottery revenues and proceeds from slot machine operations are dedicated to the EETF. As such, the study notes, even if a “sales shift” were to occur from the Lottery to slot machine gaming, “as long as slot machine tax proceeds are dedicated to the EETF, the net impact on education funding will remain positive.”

The report’s overall conclusion is that “the evidence so far is that the availability of slot machines in Broward County is not likely to result in any substantial undermining of Florida Lottery sales.” The analysis found “no clear indication that the development and operation of slot machine facilities are hurting Florida Lottery sales in the Broward County area in a significant way.”



## **X. Appendices**

# APPENDIX A

## Description of Pennsylvania Lottery Games

### Instant Games

Instant ticket games, introduced by the Pennsylvania Lottery in 1975, are pre-printed tickets with a scratch-off latex surface that is removed from the play area to reveal symbols that determine whether the ticket is a winner. Players can win cash; free tickets; and, in some games, merchandise, trips, and appearances on television game shows. In addition, a number of games have a variety of “second-chance” drawings, in which players mail copies of non-winning tickets for entry into a drawing for a trip, appearance on a game show, or other offers.

The Lottery currently offers more than 50 instant games. Games are introduced and ended on various dates at the discretion of the Lottery. Each game features a distinct theme or game (such as Win for Life, Harley Davidson, Deal or No Deal, or a variety of Bingo games), as well as a variety of seasonal or holiday-themed games (such as Holiday Bucks and Jack O’Lantern Cash). The actual number and dollar amount of instant ticket prizes varies with each game. The method of cash prize payout also varies, with both lump-sum cash payments as well as annual payments in games such as Win for Life and \$100,000 a Year for Life. The “scratch and win” concept is, however, the same for each game.

Lottery instant games are currently available at the “price points” of \$1, \$2, \$3, \$5, \$10, and \$20. The Lottery introduced \$10 instant games in 1999 and \$20 instant games in 2001. Initially, \$20 instant games represented only games tied with holiday themes. In mid-2004, the Lottery introduced the first \$20 instant ticket not featuring a holiday theme. With the introduction of \$20 instant games, the Lottery offered players the opportunity to win \$1 million in cash through an instant game for the first time.

### Daily Number

The Daily Number, introduced by the Pennsylvania Lottery in March 1977, is a numbers game with drawings seven days a week in which players select three numbers in the range of 000 through 999. Tickets are purchased in increments of \$.50 up to \$5.00 per ticket, with players selecting to play the three numbers either straight, boxed, or in front and back pair combinations (a total of seven possible categories of play for three selected numbers).<sup>1</sup> Prizes range from \$25 to \$2,500 depending on the type of bet and the amount bet. Players may choose their own numbers or opt to have their numbers “quick-picked” whereby their numbers are randomly generated for them by the retailer’s lottery computer.

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<sup>1</sup>A “straight bet” is a three-digit (Daily Number) or four-digit (Big 4) number that counts as a winner if it matches the number drawn by the Lottery in exact order. A boxed or combination bet is a three-digit (Daily Number) or four-digit (Big 4) number that counts as a winner if drawn by the Lottery in any order. Front and pack pair bets apply to the Daily Number and are two-digit numbers that match either the first or last two digits of the three-digit number drawn by the Lottery in exact order.

## **Appendix A (Continued)**

Every day at 7 p.m. the Lottery randomly draws a three-digit Daily Number that is broadcast on live television. Bets may be placed up to one week in advance.

### **Daily Mid-Day**

The mid-day drawing of The Daily Number began in February 2003. Mid-day drawings are held seven days a week at approximately 1:10 p.m. However, unlike the night-time Daily Number drawing, the numbers for the mid-day drawing are selected through the use of a random number generator consisting of secure computerized systems (this process is also used for the Big 4 mid-day drawing and the Treasure Hunt game). The selected number combinations are then placed in computer-rendered animation, which is viewable on the Lottery's website daily after 1:35 p.m.

### **Powerball**

The Pennsylvania Lottery commenced sales of the terminal-based multi-state jackpot game Powerball in June 2002. Powerball, operated by the Multi-State Lottery Association (MUSL),<sup>2</sup> is a \$1-per-play game in which players select or have quick-picked five numbers from 1 to 55 and one additional number from 1 to 42 (the Powerball number). During drawings, the first five numbers drawn (from 1 to 55) are the "white" balls while the Powerball number from 1 to 42 is the "red" ball. Powerball tickets may be purchased up to 13 weeks (26 drawings) in advance. Drawings are held every Wednesday and Saturday at 11 p.m. via a live televised broadcast.

Powerball jackpots start at \$15 million and increase each drawing until one or more winning tickets are sold. Players are entitled to a jackpot prize if the five "white" ball numbers and the "red" Powerball number match the numbers drawn by MUSL officials. Powerball jackpots are paid in either one lump-sum payment (based on the present cash value of the jackpot) or as a 30-payment graduated annuity (increasing annual cash payments for the first payment after winning and the subsequent 29 years).<sup>3</sup>

Tickets-holders are also entitled to prizes for matching only the red Powerball, matching the red Powerball and 1 through 4 white balls, or matching 3, 4, or 5 white balls. If the Powerplay option is purchased on a winning ticket, prizes are increased by a multiplier on all winnings except the jackpot (see below).

### **Powerplay**

For an additional \$1 per-play, Powerball ticket purchasers may add the Powerplay option.<sup>4</sup> Following the drawing of the winning Powerball numbers by MUSL officials, a Powerplay drawing is conducted in which one number from 2 to 5 is selected. The resulting number selected multiplies the winnings of qualified winning combinations by two (2x) to five (5x) times for

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<sup>2</sup>The Multi-State Lottery Association (MUSL) is a non-profit, government-benefit association owned and operated by its member lotteries.

<sup>3</sup>If more than one jackpot-winning ticket is sold, shares of the grand prize are determined by dividing the cash available in the grand prize pool equally among all winners of the grand prize. A winner who elects cash payment is paid the share in a single cash payment.

<sup>4</sup>Powerball tickets may contain up to five different \$1 Powerball plays. If a player chooses the Powerplay option for any play on a ticket, every play on that ticket must include the Powerplay option (thereby doubling the cost of the ticket).

## Appendix A (Continued)

each prize except the grand (jackpot) prize. For example, if a player held a ticket eligible for a \$200,000 prize (by matching five white balls), and the Powerplay drawing was a 5, the ticket-holder would be entitled to a \$1 million prize (\$200,000 multiplied by 5).

### Big 4

The Big 4 was introduced by the Pennsylvania Lottery in November 1980. Players select any ordered combination of four numbers (or have their numbers randomly generated through quick-pick) from 0000 through 9999 and may choose to play the numbers either in five different variations of straight, boxed, and paired bets. Bets, which may be purchased up to one week in advance, may be placed in \$.50 increments up to \$5.00 per ticket at the discretion of the player. Prizes range from \$100 to \$25,000 depending on the type of bet placed and amount of money bet. Drawings are conducted daily at 7 p.m. and broadcast on live television.

### Big 4 Mid-Day

The Big 4 mid-day drawing was added to the Lottery's game mix in February 2003. As with the mid-day Daily Number drawing, Big 4 mid-day drawings commence at approximately 1:10 p.m. seven days a week through the use of a secure Lottery-controlled random number generator. The computer-rendered animation depicting the selected number combinations are posted as streaming video on the Lottery's website daily for viewing after 1:35 p.m.

### Cash 5

Cash 5, a five-digit matrix cash lotto, was introduced in April 1992 and is currently the longest-running jackpot game in Pennsylvania Lottery history. At \$1 per game, five player-selected or quick-picked numbers are chosen from 1 to 43.<sup>5</sup> Tickets can be purchased up to one week in advance. The Lottery selects five numbers in a daily drawing broadcast live at 7 p.m. Players are eligible for cash prizes if 2, 3, 4, or 5 of the numbers on their ticket match those drawn by the Lottery.

At the time of each drawing, 50 percent of gross Cash 5 ticket sales are allocated to the total winnings pool for that draw. Following the deduction of fourth-place prizes from the winnings pool (a fixed \$1 cash prize for tickets matching 2 of 5 numbers), remaining prize money is allocated on a pari-mutuel basis to the first (jackpot), second, and third place prize categories and divided equally among the winning plays in each category.<sup>6</sup> All Cash 5 prize payments, including the jackpot category prize, are made as a one-time, lump-sum cash payment.

The Cash 5 jackpot starts at \$125,000. If no jackpot-winning tickets are sold during the first drawing at this jackpot level (matching 5 of 5 numbers), prize money allocated from the winnings pool to that prize category is carried forward and added to the amount allocated for the jackpot category prize in the next Cash 5 drawing. Likewise, if no tickets are sold that entitle

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<sup>5</sup>From the game's inception in April 1992 through February 2008, Cash 5 was a 5/39 cash lotto game. Coinciding with the change in the game's matrix to 5/43, the starting jackpot was increased from \$100,000 to \$125,000.

<sup>6</sup>Following deduction of all fourth-prize winnings for each draw, 67.94 percent of the remaining winnings pool is distributed to the first-place prize category, 11.9 percent is distributed to the second-place prize category, and 20.16 percent is distributed to the third-place prize category. These distribution percentages were last modified, and are effective for, all Cash 5 tickets purchased on or after February 1, 2008.

## Appendix A (Continued)

holders to second- or third-place prizes in a given drawing, prize money allocated from the winnings pool to such prize categories are carried forward and added to the amount allocated for the jackpot category prize money in the next Cash 5 drawing.<sup>7</sup>

### Match 6 Lotto

Match 6 Lotto, a 6/49 cash lotto game, was introduced by the Pennsylvania Lottery in January 2004. For a \$2 purchase, players select six numbers from 1 to 49, or may elect to have these numbers quick-picked. The Pennsylvania Lottery then selects an additional two sets of six numbers from 1 to 49 using quick-pick, resulting in three lines of six numbers each (18 numbers in total). The three sets of six numbers are displayed in three stacked rows on the game ticket. Drawings are held every Tuesday and Friday at 7 p.m. on a live television broadcast. Players may purchase tickets up to 26 draws (13 weeks) in advance. All Match 6 Lotto prize payments (including the jackpot prize) are made as a one-time, lump-sum cash payment.

Matching between 3 and 6 numbers in any of the three rows of six numbers, called “base play,” entitles the ticket holder to a cash prize. Players may also win cash prizes by matching at least 4 of the 18 numbers on the 18-number matrix, regardless of location among the three rows. This method of winning is named “combined play.”<sup>8</sup>

Matching 6 of 6 numbers in any row entitles the winner to the jackpot prize.<sup>9</sup> Jackpots start at \$500,000 and increase each drawing until a ticket or tickets matches 6 of 6 numbers in base play

### Lucky for Life and Mix & Match

**Lucky for Life Lotto:** Lucky for Life Lotto held its first drawing in October 2004 and was discontinued in January 2007. At \$2 per game, players selected six numbers from 1 to 38 (or chose the quick-pick option). Live televised drawings were held every Wednesday and Saturday night during the game’s run. Matching 6 of 6 numbers drawn entitled the holder of such ticket to the game’s top prize of \$3,000 a month for life.<sup>10</sup> Players were also eligible for lesser cash prizes by matching 2, 3, or 4 of the 6 numbers drawn by the Lottery. Lucky for Life also

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<sup>7</sup>If more than one winning jackpot prize play is determined in a drawing, each play entitled to a jackpot category prize is also entitled to a pro-rated share of the total third-place category prize.

<sup>8</sup>With the exception of the jackpot prize, all other prize categories in both base play and combined play are set amounts. An option exists in the Lottery’s official game rules for non-jackpot prizes also to be paid on a pari-mutuel basis if the total amount of set prizes won in a drawing exceeds sales for that drawing by 100 percent or more. Winning Match 6 Lotto game tickets are entitled only to the highest prize won by its numbers on base play and the highest prize won by numbers on combined play.

<sup>9</sup>Prize money allocated to the base play first prize (jackpot) category is paid on a pari-mutuel basis, divided equally by the number of plays on tickets determined by the Lottery to be entitled to a jackpot prize (and paid to winners on a prorated share basis). While the Lottery estimates and announces the projected amount of each upcoming jackpot prior to the drawing, payment is made only in the amount actually in the jackpot prize pool at the time of drawing.

<sup>10</sup>Top prize winners of \$3,000 a month for life were paid in annual installments (less federal withholding). Unlike some other lotto games, the top prize in Lucky for Life was fixed at \$3,000 a week for life. Provisions existed for the payment of the top prize on a pari-mutuel basis for more than five winning first-prize plays in a single draw.

## Appendix A (Continued)

had an instant win feature, in which players could win \$10 at the point-of-purchase at a Lottery retailer.<sup>11</sup> Tickets were available for purchase up to 13 weeks (26 draws) in advance.

**Mix & Match:** The Lottery introduced Mix & Match in January 2007. Mix & Match is a \$2 5/19 lotto game in which players select (or choose quick-pick) five numbers between 1 and 19 (the same number may not be chosen more than once in a single game). Players are eligible for cash prizes and/or free tickets by matching three or more numbers in any position drawn (“mix”) or matching at least one number in the same position it was drawn (“match”); thus players whose tickets have an element of each receive a combined prize payout. Drawings are held via live television broadcast every Monday and Thursday at 7 p.m. Tickets may be purchased up to two draws in advance.

Players are eligible for the jackpot prize if the five numbers drawn by the Lottery match, in the same position, the numbers on their ticket. Jackpots start at \$50,000 and increase in each subsequent drawing until a jackpot-winning ticket is sold.<sup>12</sup>

### Treasure Hunt

Treasure Hunt was added to the Lottery’s game mix in May 2007. A \$1 terminal game, players select five numbers between 1 and 30. Drawings are held daily exclusively at mid-day (the only Lottery game with drawings only at mid-day), with computer-rendered animations (depicting a treasure map and chests that reveal winning numbers) of the drawing viewable on the Pennsylvania Lottery’s website daily after 1:35 p.m. Players may purchase Treasure Hunt tickets up to seven draws (one week) in advance.

Tickets with all five numbers matching those drawn by the Lottery are eligible for the jackpot prize.<sup>13</sup> Jackpots start at \$10,000 and increase until a winning play is sold. Lesser prizes are awarded for matching 2, 3, or 4 numbers out of the five drawn by the Lottery.

### Millionaire Raffle

The Millionaire Raffle is a \$20 terminal-based raffle game that had its inaugural drawing on December 31, 2005, and has since had four subsequent drawings.<sup>14</sup> While the number of cash prizes differed among the drawings held thus far, each game has a fixed number of \$1 million top prizes, as well as a fixed number of \$100,000, \$1,000, and \$100 prizes. Each Millionaire Raffle drawing has a limited number of tickets sold (the first drawing on December 31, 2005, had a limit of 500,000 tickets), and are numbered in the order in which they are sold.<sup>15</sup> For example, for the first drawing on December 31, 2005, the first raffle ticket issued was

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<sup>11</sup>Upon the purchase of each Lucky for Life ticket, the Lottery’s central computer system performed a calculation to determine if the play was entitled to a \$10 instant prize. The overall odds of winning \$10 instantly was 1 in 20 per play. This instant win option was not applicable to tickets purchased at Player-Activated Terminals (PATs).

<sup>12</sup>In addition to being entitled to money allocated in the jackpot prize pool, players with jackpot-winning tickets also receive \$2,000 (due to the portion of the game matching 5 of 5 numbers in any position). Prize money allocated to the jackpot prize category is paid on a pari-mutuel basis. For drawings in which more than one jackpot-winning play results, each is entitled to a pro-rated payment share of the total jackpot prize category.

<sup>13</sup>Prize money allocated to the jackpot prize category is paid on a pari-mutuel basis. If more than one winning jackpot play occurs at a given drawing, each ticket-holder is entitled to a pro-rated share of the total jackpot prize category.

<sup>14</sup>Other drawings occurred on 7/4/06, 12/30/06, 7/7/07, and 12/29/07.

<sup>15</sup>Beginning with the drawing on July 4, 2006, the number of raffle tickets sold was 625,000.



## Appendix A (Continued)

numbered 00000001 and the last ticket issued was numbered 00500000. In each of the five raffles conducted to date, the odds of winning a \$1 million prize (1 in 125,000) were the best odds ever offered by the Pennsylvania Lottery for winning a \$1 million prize. For each of the drawings conducted to date, tickets were on-sale for several weeks prior to the drawing. The Lottery sold all of the planned tickets in each drawing held to date.

For each drawing thus far, the Lottery has employed an Automated Drawing Machine (ADM) to select all winning Millionaire Raffle ticket numbers.<sup>16</sup> Winning numbers for the \$1 million and \$100,000 prizes are generated by the ADM in a live televised broadcast, and the remaining prizes of \$1,000 and \$100 (for the two most recent drawings) are then selected by the ADM but not broadcast.<sup>17</sup> To be considered a winning ticket for entitlement to a prize, the eight-digit raffle number printed on a ticket must match the eight-digit raffle number combination selected in the drawing in the exact sequence in which it was selected.

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<sup>16</sup>The ADM used for the Millionaire Raffle drawings is the same technology used for the Lottery's mid-day drawings for The Daily Number, Big 4, and Treasure Hunt.

<sup>17</sup>The number of prizes in each category varied from drawing to drawing. For the first drawing on 12/31/05, four \$1 million prizes were awarded. In each subsequent drawing, five \$1 million prizes were awarded.

## APPENDIX B

### Monthly Wagers, Payouts, and Gross Terminal Revenues at Pennsylvania Slots Gaming Facilities, by Location (November 2006 Through January 2008)

#### Wagers

	Mohegan <u>Sun</u>	Philadelphia <u>Park</u>	Harrah's <u>Chester</u>	Presque <u>Isle</u>	The <u>Meadows</u>	Mount <u>Airy</u>	Total	% Change
11/2006	\$ 86,297,632	--	--	--	--	--	\$ 86,297,632	--
12/2006	130,374,199	\$113,642,773	--	--	--	--	244,016,972	182.8%
01/2007	137,548,522	252,485,337	\$ 90,472,625	--	--	--	480,506,484	96.9
02/2007	126,425,598	225,769,006	209,755,208	\$ 11,449,364	--	--	573,399,176	19.3
03/2007	152,992,472	263,306,567	256,168,624	206,071,163	--	--	878,538,826	53.2
04/2007	158,341,789	249,022,137	271,361,752	154,803,453	--	--	833,529,131	(5.1)
05/2007	157,091,053	269,119,741	294,790,545	158,509,490	--	--	879,510,829	5.5
06/2007	171,751,838	293,336,600	300,270,365	146,867,020	\$167,257,764	--	1,079,483,587	22.7
07/2007	197,560,026	323,815,006	357,346,314	167,383,679	248,937,834	--	1,295,042,859	20.0
08/2007	188,357,829	328,614,504	338,770,525	161,052,573	230,953,626	--	1,247,749,057	(3.7)
09/2007	182,881,799	339,113,735	318,921,778	175,211,316	221,035,564	--	1,237,164,192	(0.8)
10/2007	168,889,536	341,310,827	310,965,538	165,896,138	211,111,029	\$61,777,572	1,259,950,640	1.8
11/2007	143,384,449	306,637,848	292,538,740	149,400,743	201,348,897	157,829,923	1,251,140,600	(0.7)
12/2007	148,169,993	331,244,529	292,919,019	133,280,523	188,045,679	152,525,178	1,246,184,921	(0.4)
01/2008	<u>149,636,866</u>	<u>346,614,175</u>	<u>319,025,734</u>	<u>134,018,410</u>	<u>204,627,585</u>	<u>178,444,361</u>	<u>1,332,367,131</u>	6.9
Totals <sup>a</sup>	\$2,299,703,601	\$3,984,032,784	\$3,653,306,767	\$1,763,943,872	\$1,673,317,978	\$550,577,033	\$13,924,882,035	--

**Appendix B (Continued)**

**Payouts**

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	<u>Mohegan Sun</u>	<u>Philadelphia Park</u>	<u>Harrah's Chester</u>	<u>Presque Isle</u>	<u>The Meadows</u>	<u>Mount Airy</u>	<u>Total</u>	<u>% Change</u>
11/2006	\$77,465,009	--	--	--	--	--	\$77,465,009	--
12/2006	117,551,789	\$103,729,875	--	--	--	--	221,281,664	185.7%
01/2007	123,967,223	230,131,305	\$81,883,560	--	--	--	435,982,088	97.0
02/2007	114,476,309	205,912,968	189,581,490	\$10,381,988	--	--	520,352,755	19.4
03/2007	138,234,807	239,680,389	231,593,280	186,914,595	--	--	796,423,071	53.1
04/2007	143,303,427	225,931,493	245,625,387	140,513,392	--	--	755,373,699	(5.2)
05/2007	142,176,892	244,909,975	267,305,497	143,647,762	--	--	798,040,126	5.6
06/2007	156,783,342	267,981,370	272,887,166	132,886,211	\$153,851,602	--	984,389,691	23.4
07/2007	180,185,942	296,197,950	324,324,855	152,041,732	228,974,823	--	1,181,725,302	20.0
08/2007	171,690,239	300,806,172	308,465,506	145,988,800	211,191,782	--	1,138,142,499	(3.7)
09/2007	166,797,414	310,320,022	290,584,997	160,048,474	201,558,899	--	1,129,309,806	(0.8)
10/2007	153,500,800	312,563,312	282,510,923	151,569,049	192,723,147	\$ 57,227,028	1,150,094,259	1.8
11/2007	130,783,437	280,622,360	265,860,005	136,471,642	183,765,624	146,334,690	1,143,837,758	(0.5)
12/2007	135,397,186	302,768,797	265,497,475	121,186,598	172,036,605	141,720,746	1,138,607,407	(0.5)
01/2008	<u>136,673,202</u>	<u>317,539,354</u>	<u>289,061,944</u>	<u>122,230,724</u>	<u>187,344,915</u>	<u>165,451,733</u>	<u>1,218,301,872</u>	7.0
Totals <sup>a</sup>	\$2,088,987,019	\$3,639,095,342	\$3,315,182,083	\$1,603,880,968	\$1,531,447,396	\$510,734,197	\$12,689,327,005	--

**Appendix B (Continued)**

**Gross Terminal Revenues**

	Mohegan <u>Sun</u>	Philadelphia <u>Park</u>	Harrah's <u>Chester</u>	Presque <u>Isle</u>	The <u>Meadows</u>	Mount <u>Airy</u>	<u>Total</u>	<u>% Change</u>
11/2006	\$ 8,832,623	--	--	--	--	--	\$ 8,832,623	--
12/2006	12,822,410	\$ 9,912,892	--	--	--	--	22,735,302	157.4%
01/2007	13,774,041	22,215,859	\$ 8,588,475	--	--	--	44,578,375	96.1
02/2007	11,949,289	19,583,310	20,173,105	\$ 1,047,158	--	--	52,752,862	18.3
03/2007	14,757,665	23,400,147	24,232,769	19,094,649	--	--	81,485,230	54.5
04/2007	15,038,361	22,609,117	24,213,872	14,211,917	--	--	76,073,267	(6.6)
05/2007	14,914,161	22,757,237	25,017,663	14,474,496	--	--	77,163,557	1.4
06/2007	14,968,495	23,807,429	25,091,885	13,684,445	\$ 13,406,163	--	90,958,417	17.9
07/2007	17,374,084	25,591,145	28,736,853	14,763,892	19,963,012	--	106,428,986	17.0
08/2007	16,667,462	25,318,803	26,993,980	14,373,648	19,761,844	--	103,115,737	(3.1)
09/2007	16,084,385	25,732,968	26,070,135	14,237,881	19,476,665	--	101,602,034	(1.5)
10/2007	15,388,736	25,716,471	26,244,100	13,197,224	18,387,882	\$ 4,535,521	103,469,934	1.8
11/2007	12,594,977	23,203,273	24,968,483	11,898,680	17,583,273	11,304,722	101,553,408	(1.9)
12/2007	11,991,935	25,096,386	25,647,343	11,198,562	16,009,074	9,905,590	99,848,890	(1.7)
01/2008	<u>12,960,274</u>	<u>26,733,129</u>	<u>27,565,803</u>	<u>10,724,002</u>	<u>17,282,670</u>	<u>12,209,979</u>	<u>107,475,857</u>	7.6
Totals <sup>a</sup>	\$210,118,900	\$321,678,166	\$313,544,465	\$152,906,556	\$141,870,582	\$37,955,811	\$1,178,074,480	--

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<sup>a</sup>May not add due to rounding.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Gaming Control Board.

## APPENDIX C

### Weekly Wagers, Payouts, and Gross Terminal Revenues At Hollywood Casino at Penn National

(February 12, 2008, Through March 23, 2008)

**Penn National**

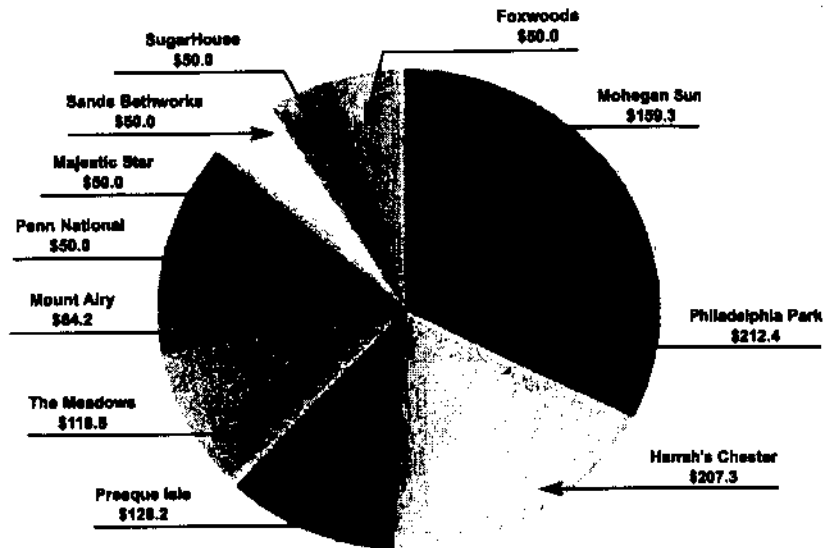
	<u>February 11 - 17</u>	<u>February 18 - 24</u>	<u>February 25 - March 2</u>
Wagers .....	\$45,371,322	\$44,568,767	\$44,068,611
Payouts .....	41,337,988	40,828,705	40,389,109
Gross Terminal Revenue .....	4,031,954	3,736,028	3,677,927
	<u>March 3 - 9</u>	<u>March 10 - 16</u>	<u>March 17 - 23</u>
Wagers .....	\$43,902,876	\$42,431,530	\$42,994,854
Payouts .....	40,220,782	38,962,917	39,574,349
Gross Terminal Revenue .....	3,680,545	3,467,357	3,394,064
	<u>Total: 2/11 - 3/23</u>		
Wagers .....	\$263,337,960		
Payouts .....	241,313,850		
Gross Terminal Revenue .....	21,987,875		

Source: Pennsylvania Gaming Control Board.

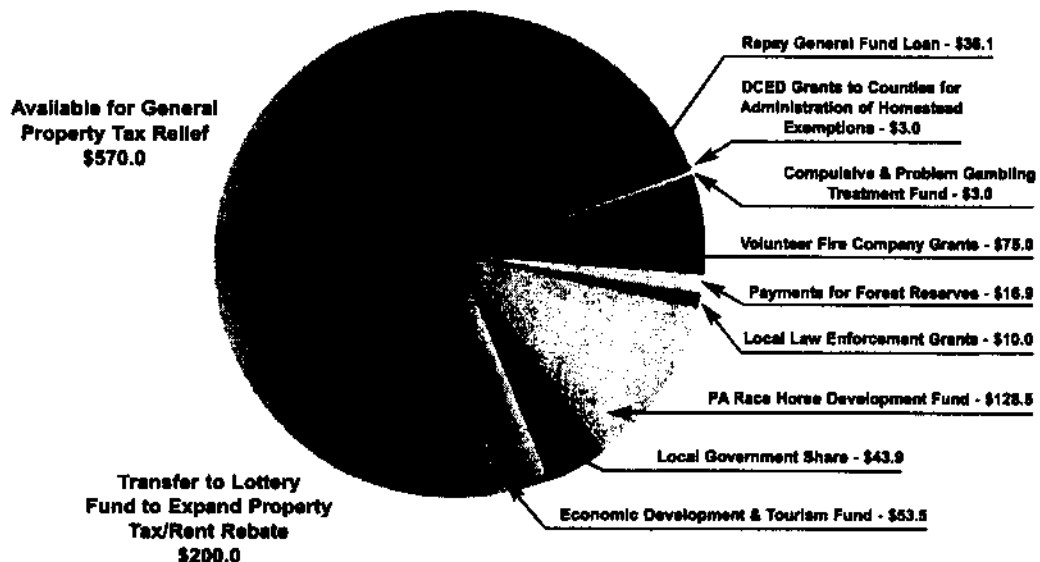
## APPENDIX D

### Licensing Fees and New Tax Revenue Generated by Slots Gaming; Distribution/Allocation of Revenues From Slots Licenses and the State's Share of Gaming Revenues Through December 31, 2007<sup>1</sup>

**Where Did the \$1.14 Billion in Revenue Come From?**  
November 14, 2006 through December 31, 2007



**Where Did the \$1.14 Billion in Revenue Go?**  
Through December 31, 2007



<sup>1</sup>The \$200 million transferred from the Property Tax Relief Fund to the State Lottery Fund as of December 31, 2007 is comprised of \$100 million in Category 1 (racino) slot machine gaming license fees (which followed the award of the fourth Category 1 license) and \$100 million from Category 2 license fees (which followed the award of the third Category 2 license). This transfer was made pursuant to provisions of the Taxpayer Relief Act (Act 2006-1, Special Session 1) which, among other provisions, expanded the state property tax/rent rebate program to provide supplemental property tax relief to senior citizen renters and homeowners. Further transfers made from the Property Tax Relief Fund to the State Lottery Fund are based on the amount of certain homeowner and renter claims filed under the program in future fiscal years as provided in law.

Source: *Pennsylvania Gaming Control Board 2007 Annual Report*.

## APPENDIX E

### State Lottery Fund Financial Statement

(FY 2006-07 Through FY 2008-09)

Lottery ticket sales are deposited into the State Lottery Fund, which is a special revenue fund administered by the Department of Revenue. The Fund receives net lottery collections (ticket sales less retailer commissions and field-paid prizes), unclaimed prize monies, federal grants, and miscellaneous revenues such as interest on securities and deposits, refunds of expenditures, and repayments and transfers from other state funds. Expenditures are made from the Fund for Lottery prizes, administrative and operational costs, and a variety of programs and services for older Pennsylvanians. In FY 2006-07, total Lottery sales were \$3.07 billion, with contributions to the Lottery Fund totaling \$948.6 million.

Currently, Lottery proceeds (following prize payments and operating expenses) are used to fund programs benefiting older Pennsylvanians, including property tax and rent rebates; free mass transit and reduced fare shared-ride programs; the prescription drug programs PACE, PACENET, and PACE Plus Medicare; PENNCARE, which provides nursing facility and home and community-based services to qualifying low-income seniors and individuals with disabilities (through a mix of Lottery and federal funding); and programs and services provided by Pennsylvania's 52 Area Agencies on Aging as well as full- and part-time senior community centers throughout the Commonwealth (including hot meals; home-delivered meals; support services; in-home care; and social, recreational, and educational activities).

### State Lottery Fund Financial Statement

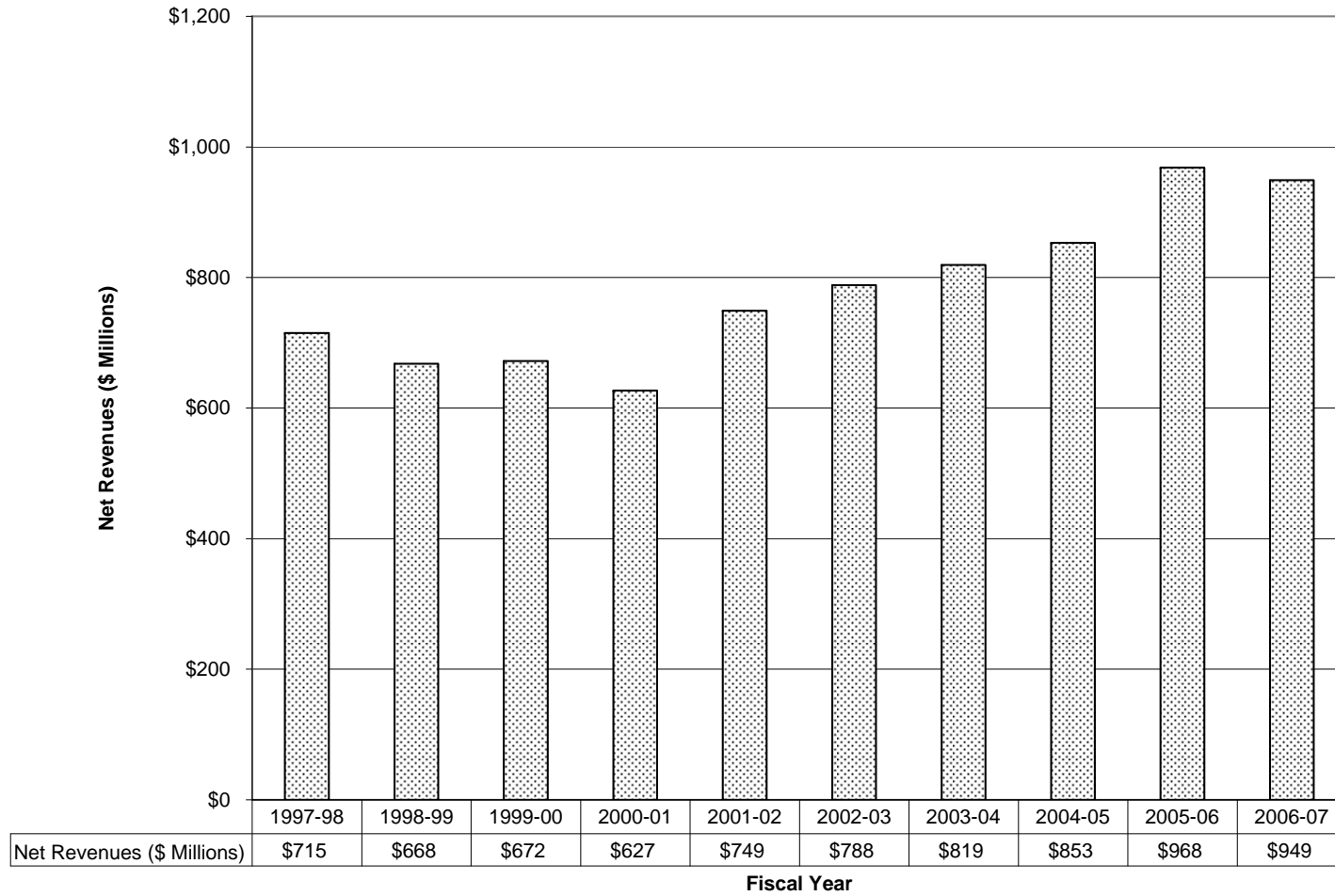
(\$000)

	2006-07 <u>Actual</u>	2007-08 <u>Available</u>	2008-09 <u>Estimated</u>
Beginning Balance .....	\$ 339,012	\$ 476,515	\$ 301,066
Reserve From Previous Year .....	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total Beginning Balance .....	\$ 439,012	\$ 576,515	\$ 401,066
Receipts:			
Revenue Estimate .....	\$1,498,652	\$1,439,716	\$1,393,909
Prior Year Lapses .....	<u>81,904</u>	<u>33,565</u>	<u>0</u>
Total Receipts .....	\$1,580,556	\$1,473,281	\$1,393,909
Funds Available .....	\$2,019,568	\$2,049,796	\$1,794,975
Expenditures:			
Appropriated .....	\$1,443,053	\$ 1,651,730	\$1,760,290
Current Year Lapses .....	<u>(0)</u>	<u>(3,000)</u>	<u>(0)</u>
Estimated Expenditures .....	(\$1,443,053)	(\$1,648,730)	(\$1,760,290)
Reserve for Current Year .....	<u>(\$ 100,000)</u>	<u>(\$ 100,000)</u>	<u>\$ 0</u>
Ending Balance .....	<u>\$ 476,515</u>	<u>\$ 301,066</u>	<u>\$ 34,685</u>

Source: State Lottery Fund budget presentation, FY 2008-09 Governor's Executive Budget.

## APPENDIX F

### Pennsylvania Lottery Net Revenues (FY 1997-98 Through FY 2006-07)



Source: The Pennsylvania Lottery.



# APPENDIX G

## Results of a Survey of Pennsylvania Lottery Players and Non-Players

During late 2007, the Pennsylvania Lottery commissioned MARC USA, a marketing communications firm headquartered in Pittsburgh, to conduct a survey of Lottery players and non-players regarding holiday tickets and spending behavior. A number of the findings from this survey are pertinent to the “slots impact on Lottery sales” question.

The survey had three objectives:

- To determine the incidence and attitudes regarding giving and receiving Pennsylvania Lottery tickets as gifts.
- To determine the incidence and attitudes regarding the purchase of holiday-themed Pennsylvania Lottery tickets.
- To determine changes in spending behavior among current Pennsylvania Lottery players.

Survey data was collected online using a commercial research panel approach. The sample was collected in two stages:

- Stage 1: Target sample of 1,000 general population age 18+ residents who had lived at least one year in Pennsylvania.
- Stage 2: Augment the sample to bring the total to 400 respondents who played both the Pennsylvania Lottery and slot machines in Pennsylvania since the beginning of 2007.

After removal of “conflicting occupation” and “morally opposed” to the Pennsylvania Lottery, this yielded a total of 1,111 respondents: 915 in the general population sample; and 383 who played both the Lottery and slots since the beginning of 2007.

The survey posed the following questions:

*(1) Please think about how much you spent on Pennsylvania Lottery games during 2007 in comparison to 2006. Which of the following would you say is correct?*

Responses:

– My spending was less in 2007 than in 2006 .....	23%
– My spending was more in 2007 than in 2006.....	25
– My spending was the same in 2006 and 2007.....	42
– I do not recall.....	10

*(2) For those who indicated that their Lottery spending decreased from 2006 to 2007, please indicate which of the following you feel contributed to your spending less on Pennsylvania Lottery games. Please check all that apply.*

**Appendix G (Continued)**

Responses:

- My cost of living or household expenses went up ..... 62%
- I am trying to save more and spend less..... 54
- My income decreased ..... 34
- I just lost interest in playing the Lottery ..... 19
- I am spending more on other recreational activities ..... 14
- I am betting on horses more than I used to ..... 11
- I am playing slot machines more than I used to ..... 7
- I am playing small games of chance more than I used to ..... 2
- I am playing bingo more than I used to ..... 2
- I am playing more lottery games in other states..... 1

*(3) Please think about how much you spent on Pennsylvania Lottery games during 2007 in comparison to 2006. Which of the following would you say is correct?*

For persons who played the Lottery only:

- Less in 2007 than 2006
- More in 2007 than 2006
- Same in 2007 as 2006
- I do not recall

For persons who played both Lottery and slots:

- Less in 2007 than 2006
- More in 2007 than 2006
- Same in 2007 as 2006
- I do not recall

Responses:

For persons who played Lottery only:

Less in 2007 than 2006.....	22%	Same in 2007 as 2006 .....	44%
More in 2007 than 2006.....	23%	I do not recall.....	11%

For persons who played both Lottery and slots:

Less in 2007 than 2006.....	25%	Same in 2007 as 2006.....	38%
More in 2007 than 2006 .....	29%	I do not recall .....	9%

*(4) Please indicate which of the following you feel contributed to your spending less on Pennsylvania Lottery games. Please check all that apply*

- Expenses increased
- Saving more, spending less
- Income decreased
- Spending more on recreational activities
- Lost interest in the Lottery
- Playing slots more

## Appendix G (Continued)

Responses:

Players who said their spending decreased from 2006 to 2007 and played Lottery but no slots said the decreased spending was due to:

Expenses increased .....	60%
Saving more, spending less.....	44
Income decreased .....	35
Spending more on recreational activities.....	9
Lost interest in the Lottery .....	21

Players who said their spending decreased from 2006 to 2007 and played both Lottery and slots said their decreased spending was due to:

Expenses increased .....	62%
Saving more, spending less.....	64
Income decreased .....	33
Spending more on recreational activities.....	21
Lost interest in the Lottery .....	19
Playing slots more .....	16

The survey's overall conclusions can be summarized as follows:

1. Individuals who played both slots and the Pennsylvania Lottery did not have significantly different spending behavior than non-slots players.
2. For those that cited a decrease in Lottery spending, economic reasons, rather than other gaming activities, were the primary reasons for the decline.
3. 23 percent of Lottery players said their Lottery spending had declined, with economics, rather than other forms of gaming, being the dominant reason for this decline.
  - 58 (46 percent) of these players were also slots players.
    - 9 (16 percent) of the 58 said they were playing slots more than they used to.
    - Only 1 of the 58 said slots were extremely important in their decline in Lottery spending.
    - Most cited economic reasons for any decline in spending.

Source: A Survey of Lottery Players and Non-Players Completed for the Pennsylvania Lottery by MARC USA, January 2008.

## APPENDIX H

### Pending Legislation Related to the Pennsylvania Gaming Control Board and the Pennsylvania Lottery

(As of February 28, 2008)

#### Gaming-Related Bills

- **Senate Bill 113:** Provides for qualified majority vote by the members of the Pennsylvania Gaming Control Board.
- **Senate Bill 423:** Provides that the Board is to require each licensed gaming entity, which offers patrons total rewards cards that track the amount of money and time spent gaming in order to determine the value of provisions or complimentary services to patrons, to issue monthly statements that list patrons' gaming winnings and losses. (**House Bill 783** is similar.)
- **Senate Bill 600:** Directs the Board to institute and enforce strict and specific personnel policies.
- **Senate Bill 658:** Provides that lobbyists are not permitted to make contributions or otherwise influence administrative decisions affecting licensees and potential licensees.
- **Senate Bill 683:** Provides for the license or permit application hearing process.
- **Senate Bill 855:** Amends the procedure by which members of the Board are appointed in instances of vacancies.
- **Senate Bill 856:** Provides that license applicants are not permitted to make contributions to campaigns of former nomination or election candidates.
- **Senate Bill 920:** Provides for gubernatorial appointment of the executive director of the Gaming Control Board.
- **Senate Bill 1031:** Prohibits Category 2 slot machine licenses from being issued for facilities that are within 12.5 linear miles of schools, places of worship, recreation centers, playgrounds, or personal residences.
- **Senate Bill 1032:** Prohibits Category 2 slot machine licenses from being issued for facilities that are within 14 linear miles of a Category 1 facility, or within 1,500 linear feet of schools, places of worship, recreation centers, playgrounds, or personal residences.
- **Senate Bill 1286:** Provides for restrictions on certain projects, which are paid from the Pennsylvania Gaming Economic Development and Tourism Fund, in certain first and second class counties and cities.
- **House Bill 14:** Provides that a municipality shall have the authority to place a binding ballot question before the electorate to approve or disapprove the expansion of gambling operations or increases in the number of licensees within the municipality.
- **House Bill 357:** Proposes to eliminate Category 2 slot machine licenses.

## Appendix H (Continued)

- **House Bill 460:** Provides that no member of the Senate or House of Representatives shall be eligible for appointment as a member of the Board during the term of office for which the person was elected and for a period of 12 months thereafter.
- **House Bill 482:** Provides for the compensation of the members of the Pennsylvania Game Control Board.
- **House Bill 901:** Provides for priority distribution from the State Gaming Fund to the State Lottery Fund to ensure its preservation.
- **House Bill 909:** Directs the Board to conduct an audit of a licensed gaming entity that fails to generate 85 percent of its anticipated revenues for a year.
- **House Bill 911:** Repeals provisions relating to the Bureau of Investigations and Enforcement and provides that enforcement is to be conducted by the newly created Bureau of Gaming Investigations and Enforcement in the also newly established Department of Public Safety.
- **House Bill 567:** Prohibits the expansion of gambling and gaming except by referendum or by a two-thirds vote of the General Assembly.
- **House Bill 1181:** Provides for the number of Category 2 slot machine licenses.
- **House Bill 1450:** Provides for the Attorney General to assist in selecting the director of the Bureau of Investigations and Enforcement and to establish a unit within the Office of Attorney General to supervise and jointly conduct with the bureau and the Pennsylvania State Police background investigations; provides for the General Assembly to appropriate funds to cover the Attorney General, the PSP, and Department of Revenue's costs in carrying out their responsibilities under the act.
- **House Bill 1477:** Prohibits Category 2 slot machine licenses from being issued for facilities that are within 1,500 linear feet of schools, places of worship, recreation centers, playgrounds, or personal residences. (**House Bill 14** contains a similar provision.)
- **House Bill 1488:** Provides for the interception of slot machine winnings to satisfy a winner's delinquent support obligation.
- **House Bill 1568:** Increases the slot machine daily tax by 5 percent and repeals the provisions relating to the Pennsylvania Gaming Economic Development and Tourism Fund.
- **House Bill 1715:** Deletes the provisions relating to grants to local law enforcement agencies to prevent the unlawful operation of slot machines.
- **House Bill 1840:** Provides for the location and nonportability of slot machine licenses.
- **House Bill 1975:** Provides for transfer of funds from the Pennsylvania Gaming Economic Development and Tourism Fund into the Compulsive and Problem Gambling Treatment Fund for treatment programs.

## Appendix H (Continued)

- **House Bill 2076:** Provides that proceeds from a riparian transfer to a casino property shall be deposited into the Property Tax Relief Fund.
- **House Bill 2121:** Authorizes table games.
- **House Bill 2151:** Provides for net revenue distribution to municipalities.
- **House Bill 2225:** Provides that no funds from the Pennsylvania Gaming Economic Development and Tourism Fund shall be distributed for any project for infrastructure improvements, environmental remediation, site preparation, parking, and exhibition space for multipurpose recreational facilities or sports facilities in any county in this Commonwealth.

### Lottery-Related Bills

- **Senate Bill 202:** Provides for sales of Pennsylvania lottery tickets in state liquor stores.
- **House Bill 1240:** Provides for the disposition of the funds in the State Lottery Fund.

Source: Developed by LB&FC staff.

## APPENDIX I

### **Response to This Report**



THE SECRETARY

RECEIVED APR 22 2008  
COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF REVENUE  
STRAWBERRY SQUARE  
HARRISBURG, PA. 17128-1100

(717) 783-3680

April 22, 2008

Philip R. Durgin  
Executive Director  
Legislative Budget and  
Finance Committee  
Room 400 Finance Building  
Harrisburg, PA 17120

Dear Mr. Durgin:

I would like to take this opportunity to compliment you and your staff on a very thorough, fair and objective report about what, if any, effect Pennsylvania's new casinos are having on the Pennsylvania Lottery.

Many people have speculated that slots are affecting lottery sales. Your detailed analysis illustrates the complexity of the Lottery business and how numerous factors affect lottery sales.

We have no reason to believe slots are negatively affecting sales; however, as you also pointed out, it may still be too soon to tell, since most of the facilities have not been open a year yet.

Your conclusion supports Lottery's business plan that I have discussed before the Appropriations Committees of both chambers, as well as the House Aging and Older Adults Services Committee. In the face of challenging economic conditions and lower than favorable Powerball jackpots, the Lottery will continue to focus on what it knows works: recruiting new business partners to sell its products; developing new and exciting games that players want to play, especially instant ticket games; changing the matrix of some of its most popular matrix games; installing new technology to make it easier for retailers to sell Lottery products and easier for customers to buy Lottery products; and gaining relief from the 30 percent statutory net profit requirement.

Over the past five years, under the leadership of Governor Rendell, the Pennsylvania Lottery has been one of the fastest growing lotteries in the nation. I can assure you that the Lottery is committed to maximizing revenues to benefit vital programs for older Pennsylvanians

I look forward to working with you and your staff on next year's report.

Sincerely,

Thomas W. Wolf  
Secretary of Revenue



**XI. LB&FC Addendum Sheet:**

**Monthly Pennsylvania Lottery Sales and Slots Wagering  
Totals During February, March, and April 2008**

**LB&FC Addendum Sheet**  
**Monthly Pennsylvania Lottery Sales and Slots Wagering Totals**  
(During February, March, and April 2008)

Because field work for this study was completed in March 2008, the cut-off date for the Pennsylvania Lottery sales data and data on gaming activity at Pennsylvania slots facilities that is presented in the body of this report was January 31, 2008. The purpose of this addendum sheet is to provide updated sales and wagering statistics for February, March, and April 2008.

**Pennsylvania Lottery Sales**

Total game sales for February, March, and April 2008 were as follows: February - \$243,407,493, March - \$295,341,144, and April - \$275,258,655. Taking total sales for these three months into account brings the Lottery's year-to-date sales to \$2,587,721,041, or 0.4 percent ahead of sales totals at the end of April 2007.

<b>Monthly Pennsylvania Lottery Sales</b> (FY 2007-08 to Date Compared to FY 2006-07)			
	Lottery Sales		% FY 2007-08 Higher+ Lower- Than FY 2006-07
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	
July .....	\$236,053,002	\$256,468,202	+8.6%
August.....	246,984,033	284,921,816	+15.4
September .....	253,229,778	230,148,060	-9.1
October.....	251,640,575	247,440,565	-1.7
November .....	250,933,255	245,717,305	-2.1
December .....	290,638,286	269,571,512	-7.2
January.....	291,366,076	239,446,290	-17.8
February .....	238,432,665	243,407,493	+2.1
March.....	273,747,232	295,341,144	+7.9
April.....	<u>243,912,561</u>	<u>275,258,655</u>	+12.9
YTD Totals.....	\$2,576,937,463	\$2,587,721,042	+0.4
May .....	254,623,668	--	
June .....	<u>246,007,029<sup>a</sup></u>	--	
Totals.....	\$3,077,568,159	--	

<sup>a</sup>As reported by the Pennsylvania Lottery, the modified figure for June 2007 is \$244,777,979.

Source: The Pennsylvania Lottery.

Following five consecutive months of sales declines from prior year levels (from September 2007 through January 2008, Lottery sales have improved during the period February through April of 2008.

According to the Pennsylvania Lottery Executive Director, the primary reasons for this sales improvement are:

1. Powerball: Average weekly sales increased by 8.3 percent compared to the first of the fiscal year as a result of two sizable jackpot runs of \$275 million won in March, and \$179 million won in May.
2. Cash 5: The Lottery implemented a change to this game in February and has experienced an increase in average weekly sales of approximately 35 percent since the change was made.
3. Instant Tickets: Overall, instant ticket sales in the second half of this fiscal year have increased by approximately 9.1 percent compared to the first half of the fiscal year.
4. During May, the Lottery experienced positive growth in the numbers games (Daily Number, Big 4), and the in-state lotto game, Match 6.

All indications at this point are that total Lottery sales for FY 2007-08 will come in slightly above FY 2006-07's all-time record of \$3.076 billion.

### **Wagering Totals at Pennsylvania Slots Facilities**

Wagers at slots gaming facilities for February, March, and April 2008 totaled: February - \$1.48 billion; March - \$1.75 billion; and April - \$1.63 billion. Total wagers in February and March 2008 represented increases of 10.7 percent and 18.5 percent, respectively, from the prior month. The \$1.75 billion wagered at Pennsylvania slots gaming facilities in March 2008 was the highest total monthly wager amount to date. While total wagers decreased by 6.9 percent in April 2008, the \$1.63 billion wagered in that month equaled the second-highest monthly total to date.

The table on the following page lists total monthly wager amounts at Pennsylvania slots gaming facilities from November 2006 through April 2008.

**Monthly Wagers at Pennsylvania  
Slots Gaming Facilities**  
(November 2006 Through April 2008)

	<u>Monthly Amounts</u>	<u>% Change</u>
November 2006.....	\$ 86,297,632 <sup>a</sup>	First Slots Location Opened 11/14/06
December 2006.....	244,016,971 <sup>b</sup>	182.8%
January 2007 .....	480,506,484 <sup>c</sup>	96.9
February 2007 .....	573,399,176 <sup>d</sup>	19.3
March 2007 .....	878,538,826	53.2
April 2007 .....	833,529,131	(5.1)
May 2007 .....	879,510,828	5.5
June 2007 .....	1,079,483,587 <sup>e</sup>	22.7
July 2007.....	1,295,042,858	20.0
August 2007 .....	1,247,749,057	(3.7)
September 2007.....	1,237,164,191	(0.8)
October 2007 .....	1,259,950,640 <sup>f</sup>	1.8
November 2007.....	1,251,140,600	(0.7)
December 2007.....	1,246,184,921	(0.4)
January 2008 .....	1,332,367,130	6.9
February 2008.....	1,475,567,296 <sup>g</sup>	10.7
March 2008 .....	1,748,598,723	18.5
April 2008 .....	1,628,233,781	(6.9)

<sup>a</sup>Mohegan Sun at Pocono Downs opens.

<sup>b</sup>Philadelphia Park Casino and Racetrack opens.

<sup>c</sup>Harrah's Chester Casino and Racetrack opens.

<sup>d</sup>Presque Isle Downs and Casino opens.

<sup>e</sup>The Meadows Racetrack and Casino opens.

<sup>f</sup>Mount Airy Casino Resort opens.

<sup>g</sup>Hollywood Casino at Penn National opens.

Source: Developed by LB&FC staff using information obtained from the Pennsylvania Gaming Control Board.