



**THE NELSON A.
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HIGHLIGHTS

- State-local gambling revenues from lotteries, casinos, and racinos declined by 2.6 percent in fiscal 2009, preliminary data show — the first such decline in at least three decades.
- Preliminary 2009 figures for 40 early reporting states indicate an overall decline of 2.3 percent in income from state lotteries, the largest source of gambling revenue.
- Total state-local revenues from commercial casinos declined by 8.5 percent, from \$4.9 billion in fiscal 2008 to \$4.5 billion in fiscal 2009.
- The 12 states that have racinos collected \$2.9 billion in fiscal 2009, a 6.7 percent increase from last year. Most of the increase is attributable to the revenues collected by Indiana, which legalized racinos in FY 2008.
- At least 25 states have considered expanding gambling operations as part of budget-balancing efforts in the past year.
- Gambling revenue from existing operations tends to grow more slowly than state tax revenues, although during the recent recession gambling revenue has not declined as sharply as major tax collections.

For the First Time, a Smaller Jackpot

Trends in State Revenues from Gambling

Lucy Dadayan and Robert B. Ward

Introduction

This report examines the four major types of legalized gambling from which states earn significant revenues — lotteries, casinos, racinos, and pari-mutuel wagering. Lotteries and pari-mutuel wagering are legal in most of the states, while 12 states have casinos. Racinos are now operational in 12 states.¹ Thirty-two states have some type of Native American casinos. Comprehensive data on state revenue from Native American casinos are not available.²

States derive the bulk of gambling-related revenues from two major sources — lotteries and casinos. While casinos experienced dramatic growth during the 1990s, that trend shifted downward over the past decade. In recent years, much of the growth has shifted to racinos, as more states have approved such facilities. Pari-mutuel betting, once the major source of gambling revenue for states, now represents less than 2 percent of such revenue.

All states except Hawaii and Utah collect revenue from lotteries, casinos, racinos, or pari-mutuel wagering. (In Alaska, legal gambling occurs only where sponsored by Native American tribes.) When normal revenue growth softens during economic downturns, states often consider expanded gambling operations among other options for balancing budgets. In the past year, at least 25 states have proposed or considered such proposals. In Illinois, Governor Quinn signed the Video Gaming Act, making video gaming terminals legal in Illinois. Massachusetts Governor Patrick proposed opening Vegas-style resort casinos in the state. Hawaii, one of two states with no state-sanctioned gambling, is giving the possibility serious consideration at the urging of Governor Lingle. Colorado increased the limit on maximum bet from \$5 dollars to \$100, extended authorization for casino operations to 24 hours daily, and legalized additional forms of gambling devices.³

Overall Trends in Gambling Revenue

The Rockefeller Institute of Government collected and analyzed data from four major types of gambling: lotteries, casinos, racinos, and pari-mutuel wagering. We obtained lottery revenue data for fiscal years 1977-2007 from the U.S. Census Bureau. The North American Association of State and Provincial Lotteries (NASPL) also reports annual state lottery revenues. The NASPL and Census

Bureau figures track closely for most years. However, neither NASPL nor Census data were available for fiscal year 2009 as of the writing of this report. We obtained lottery revenue data for fiscal years 2008 and 2009 from individual state lottery agencies for 40 of the 42 states that raise revenues from lottery operations.

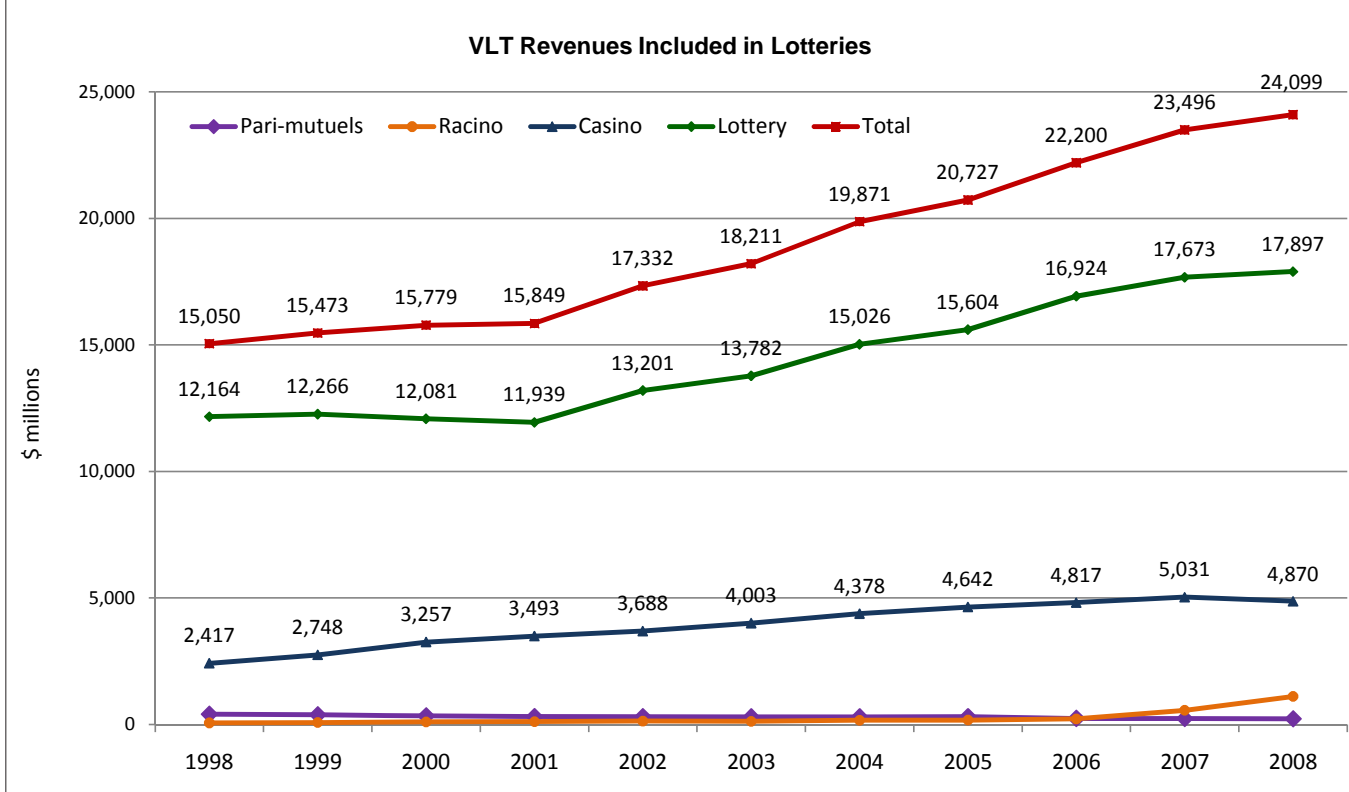
For casinos and racinos we report revenue numbers for fiscal years 1998-2009. We use 1998 as the starting point because comparable state-level data on casino and racino revenues were not readily available before that year. We collected casino and racino revenue data from individual state gaming regulatory agencies. Separate racino data for two of 12 states — Rhode Island and West Virginia — were unavailable for fiscal years 1998 to 2007. The racinos in these two states host video lottery terminals (VLTs) only. The only other two racino states hosting VLTs are Delaware and New York. These VLTs are generally considered part of the state lottery system and revenues to state and local governments from VLTs are counted in lottery revenues reported by the Census Bureau. Therefore, for historical analysis (as in Figure 1), we report revenues from VLTs as part of lottery revenues. However, for fiscal years 2008 and 2009 (as in Table 1) we report revenues from VLTs as part of racinos.

Finally, pari-mutuel wagering data for fiscal years 1977-2008 were obtained from the U.S. Census Bureau. We also report revenue figures for pari-mutuel wagering for the first three quarters of fiscal 2009, since the fourth quarter figures were not available as of this writing.

States' revenues from gambling rose continuously from 1998 to 2008, before dropping in 2009. Income from lotteries, commercial casinos, racinos, and pari-mutuel wagering combined increased by 60 percent, from \$15 billion in fiscal year 1998 to \$24 billion in fiscal year 2008 (see Figure 1), for an average annual increase of 4.9 percent. After adjusting for inflation, revenues from the major sources of gambling increased by 26 percent from fiscal 1998 to fiscal 2008.

A significant proportion of the growth in gambling revenue is attributable to new casinos, racinos, and other operations, although the precise amount of such increases is difficult to determine. An estimated \$2.3 billion of states' 2008 gambling revenues is attributable to lottery, casinos, and racinos operations brought online after 1998. Excluding such revenue, overall collections from state-sanctioned gambling activities rose by 43 percent over the period. That figure likely overstates revenue growth from gambling activities that were already online in 1998, however, because some states that had existing lotteries and casinos have expanded such operations in the past decade. Over the past three years, year-over-year growth in gambling revenue has softened significantly. State revenue from all gambling activities rose by 2.6 percent from fiscal 2007 to 2008. In the preceding year, revenue growth was more than twice that level, at 5.8 percent. Much of the increase in gambling revenues in fiscal 2008 was due to expansion of racino operations. As detailed later in this report, in fiscal year

Figure 1. Trends in State Gambling Revenue, FY 1998-2008



2009 revenues from lotteries and casinos have seen declines, likely influenced by the current economic downturn. States have seen periods of slower growth in gambling revenue in the past business cycles. For the period for which we have data on combined revenues from lotteries, casinos, racinos, and pari-mutuel gambling, 1998 through 2008, every individual year showed an increase in revenue. Before that period, data on collections from the largest source of state gambling revenue – lotteries – show an unbroken string of annual increases dating to 1977-78, the first years for which currently comparable Census data are available.

Looking at the last two fiscal years, currently available data show overall revenue collections from lotteries, casinos, and racinos dropped by 2.6 percent from fiscal 2008 to fiscal 2009 – the first such decline in at least three decades. Of the 42 states with major gambling revenue and for which information is available, 28 states reported declines over the year, with 15 states reporting decreases of more than 5 percent. Only 13 states showed growth in revenue collections from the three major sources of gambling. Tables 1 and 2 show state-by-state revenue collections and percent change in major gambling revenue from fiscal year 2008 to 2009.

Gambling revenue plays a consistently significant, if relatively small, role in state budgets. State revenues from lotteries, commercial casinos, racinos, and pari-mutuel wagering combined amounted to no less than 2.1 percent and no more than 2.5 percent of state own-source general revenues (taxes, charges, etc.) between fiscal years 1998 and 2007.⁴

Table 1. Gambling Revenues From Lotteries, Casinos, and Racinos, FY 2008 and 2009
VLT revenues included in racinos

State	FY 2008 (\$ millions)				Preliminary FY 2009 (\$ millions)			
	Lottery	Casino	Racino	Total	Lottery	Casino	Racino	Total
United States	16,320	4,870	2,684	23,874	14,772	4,458	2,863	22,093
New England	1,403	0	316	1,720	481	0	312	793
Connecticut	283			283	283			283
Maine	49		20	70	50		26	76
Massachusetts /1	913			913	ND			ND
New Hampshire	75			75	68			68
Rhode Island	60		296	356	59		285	344
Vermont	23			23	21			21
Mid-Atlantic	4,532	502	1,403	6,437	4,454	479	1,516	6,448
Delaware	39		213	253	37		211	248
Maryland	529			529	493			493
New Jersey	882	442		1,324	875	379		1,254
New York	2,153		478	2,631	2,115		440	2,554
Pennsylvania	928	61	712	1,701	934	99	866	1,899
Great Lakes	2,448	1,806	7	4,260	2,341	1,571	108	4,020
Illinois	657	698		1,355	625	532		1,157
Indiana	224	812	7	1,043	183	768	108	1,059
Michigan	753	295		1,048	700	271		972
Ohio	672			672	702			702
Wisconsin	141			141	130			130
Plains	668	651	112	1,431	661	682	105	1,448
Iowa	57	214	112	383	61	217	105	383
Kansas	70			70	67			67
Minnesota	116			116	120			120
Missouri	265	429		694	259	457		716
Nebraska	31			31	30			30
North Dakota	6			6	6			6
South Dakota	123	8		131	118	8		126
Southeast	3,869	823	771	5,463	3,629	773	742	5,145
Florida	1,283		123	1,406	1,285		104	1,389
Georgia	868			868	872			872
Kentucky	187			187	194			194
Louisiana	132	478	58	668	136	461	62	659
Mississippi		345		345		312		312
North Carolina	350			350	411			411
South Carolina	266			266	260			260
Tennessee /1	286			286	ND			ND
Virginia	455			455	431			431
West Virginia	41		590	631	41		576	617
Southwest	1,303	0	75	1,379	1,271	0	81	1,352
Arizona	145			145	129			129
New Mexico	41		65	105	41		67	108
Oklahoma	72		11	82	69		14	83
Texas	1,046			1,046	1,032			1,032
Rocky Mountain	168	108	0	276	165	95	0	260
Colorado	122	108		230	120	95		215
Idaho	35			35	35			35
Montana	11			11	10			10
Far West	1,928	980	0	2,908	1,769	858	0	2,627
California	1,095			1,095	1,053			1,053
Nevada		980		980		858		858
Oregon	703			703	596			596
Washington	130			130	120			120

Source: Rockefeller Institute survey of state lotteries and review of state gaming regulatory agencies' financial reports.

Notes: ND - No Data.

/1/ FY 2009 lottery data are not available for Massachusetts and Tennessee.

Table 2. Gambling Revenues, FY 2008 to FY 2009 Percent Change

<i>VLT revenues included in racinos</i>				
State	Lottery	Casino	Racino	Total
United States	-2.3%	-8.5%	6.7%	-2.6%
New England	-1.8%		-1.6%	-1.7%
Connecticut	0.0%			0.0%
Maine	0.7%		29.6%	9.1%
Massachusetts /1	ND			ND
New Hampshire	-9.7%			-9.7%
Rhode Island	-0.4%		-3.7%	-3.2%
Vermont	-7.7%			-7.7%
Mid-Atlantic	-1.7%	-4.7%	8.1%	0.2%
Delaware	-5.3%		-1.1%	-1.8%
Maryland	-6.9%			-6.9%
New Jersey	-0.8%	-14.1%		-5.2%
New York	-1.8%		-8.0%	-2.9%
Pennsylvania	0.7%	63.0%	21.6%	11.7%
Great Lakes	-4.4%	-13.0%	1545.9%	-5.6%
Illinois	-4.9%	-23.8%		-14.6%
Indiana	-18.1%	-5.5%	1545.9%	1.5%
Michigan	-7.0%	-8.0%		-7.3%
Ohio	4.5%			4.5%
Wisconsin	-8.1%			-8.1%
Plains	-1.0%	4.8%	-6.3%	1.2%
Iowa	7.2%	1.3%	-6.3%	-0.1%
Kansas	-3.9%			-3.9%
Minnesota	2.9%			2.9%
Missouri	-2.3%	6.6%		3.2%
Nebraska	-2.5%			-2.5%
North Dakota	7.8%			7.8%
South Dakota	-4.1%	1.1%		-3.8%
Southeast	1.3%	-6.0%	-3.7%	-0.6%
Florida	0.1%		-15.5%	-1.3%
Georgia	0.5%			0.5%
Kentucky	3.2%			3.2%
Louisiana	3.1%	-3.5%	6.5%	-1.3%
Mississippi		-9.4%		-9.4%
North Carolina	17.4%			17.4%
South Carolina	-2.1%			-2.1%
Tennessee /1	ND			ND
Virginia	-5.4%			-5.4%
West Virginia	-0.7%		-2.3%	-2.2%
Southwest	-2.4%		7.2%	-1.9%
Arizona	-10.7%			-10.7%
New Mexico	0.0%		3.5%	2.1%
Oklahoma	-3.3%		29.7%	1.0%
Texas	-1.3%			-1.3%
Rocky Mountain	-2.0%	-12.3%		-6.0%
Colorado	-2.2%	-12.3%		-6.9%
Idaho	0.7%			0.7%
Montana	-8.1%			-8.1%
Far West	-8.2%	-12.5%		-9.7%
California	-3.8%			-3.8%
Nevada		-12.5%		-12.5%
Oregon	-15.2%			-15.2%
Washington	-7.6%			-7.6%

Notes: ND - No Data.

1/ FY 2009 lottery data are not available for Massachusetts and Tennessee; and are excluded from regional and national totals.

Table 3. States' Reliance on Gambling Revenue

State	Change in gambling as share of own-source revenue, FY 1998-07	Gambling revenue as share of states' own-source general revenue, FY 2007
United States	0.0%	2.3%
Nevada	-2.2%	13.6%
West Virginia	6.8%	9.2%
Rhode Island	3.2%	7.7%
South Dakota	-1.3%	6.3%
Delaware	-0.5%	6.1%
Indiana	1.6%	5.5%
Oregon	-1.7%	5.3%
Missouri	0.9%	4.5%
Louisiana	0.7%	4.4%
Illinois	0.9%	4.2%
Mississippi	-0.6%	4.0%
Iowa	0.8%	3.8%
Georgia	-0.2%	3.7%
Michigan	1.2%	3.5%
New Jersey	-1.2%	3.4%
Massachusetts	-0.9%	3.0%
Florida	-0.1%	2.9%
New York	-0.5%	2.8%
Pennsylvania	0.2%	2.8%
Maryland	-0.9%	2.4%
New Hampshire	-0.9%	2.2%
South Carolina	2.0%	2.0%
Ohio	-1.9%	1.9%
Texas	-1.5%	1.8%
Connecticut	-0.5%	1.8%
Colorado	-0.3%	1.7%
Tennessee	1.7%	1.7%
Virginia	-0.2%	1.5%
Kentucky	-0.4%	1.5%
Maine	-0.2%	1.5%
New Mexico	0.8%	1.2%
North Carolina	1.0%	1.0%
Arizona	-0.1%	0.9%
California	-0.2%	0.9%
Kansas	-0.1%	0.8%
Idaho	0.0%	0.7%
Wisconsin	-0.2%	0.7%
Oklahoma	0.6%	0.7%
Vermont	-0.9%	0.7%
Washington	-0.3%	0.5%
Nebraska	-0.1%	0.5%
Minnesota	0.0%	0.4%
North Dakota	0.3%	0.3%
Montana	-0.2%	0.2%
Arkansas	-0.1%	0.1%
Alabama	0.0%	0.0%
Wyoming	0.0%	0.0%
Alaska	N/A	N/A
Hawaii	N/A	N/A
Utah	N/A	N/A

Source: U.S. Census Bureau for state general own-source revenue data.

In fiscal year 2007, Nevada and West Virginia had the highest share of gambling revenue as a percentage of own-source revenue, at 13.6 and 9.2 percent, respectively (see Table 3). Alabama, Arkansas, and Wyoming rely the least on revenue from gambling. As a share of states' own-source revenue, gambling revenue declined in 32 states from fiscal year 1998 to 2007. Eight states increased their dependence on gambling revenue by less than 1 percentage point, while seven saw increases of more than 1 percentage point. West Virginia and Rhode Island experienced the largest increases in dependence on gambling revenue over the period, at 6.8 and 3.2 percentage points, respectively.

Table 4 shows three related measures of gambling revenue in each state, including the state's share of nationwide gambling revenue to states, gambling revenue per resident above 21, and gambling revenue as a percentage of personal income in the state. Based on the rankings, New York and Pennsylvania are ranked as having the highest share of gambling revenue at 11.0 and 7.1 percent respectively. In 17 states gambling revenue as share of total is less than one percent, and in another 15 states less than three percent.

State revenue from gambling also varies widely when adjusted for population. In Delaware, Nevada, Rhode Island, and West Virginia, gambling revenue amounts to over \$400 per resident above 21 years old.⁵ In 23 states gambling revenue is less than \$100 per resident above 21 on an annual basis, and in another 12 states it is less than \$200.

Nationwide gambling revenue as a percent of personal income is slightly less than 0.2 percent. In five states — Delaware, Nevada, Oregon, Rhode Island, and West Virginia — gambling revenue as a percent of personal income is over 0.5 percent, with West Virginia having the highest share at 1.1 percent.

While the state share of gambling revenue in California, Florida, and Texas is relatively high, at 4.4 percent or above, in all three states the gambling revenue per resident and as a percent of personal income are below the national average. On the other hand, the state share of gambling revenue in four states — Delaware, Rhode Island, South Dakota, and West Virginia, is relatively low at 2.7 percent or less. But all four states rank well above the national average in terms of both gambling revenue per resident and as a percent of personal income.

Lotteries

While casinos and racinos are the focus of attention in many states, lotteries remain the primary source of gambling revenue to governments. Currently, 42 states have legalized state lotteries to raise revenues.⁶ New Hampshire was the first, in 1964, followed by New York in 1967. By 1996, 37 states had legalized lotteries, and another five states did so between 2001 and 2006.

Overall state revenues from lotteries, including revenues from video lottery terminals, more than doubled from \$8.8 billion in 1993 to \$17.7 billion in 2007, according to data reported by the

Table 4. Gambling Revenue: Ranking the States

State	State share of gambling revenue, FY 2008		Gambling revenue per resident above 21		Gambling revenue as % of personal income	
	Percent	Rank	Dollars	Rank	Percent	Rank
	United States	100.0%		110.1		0.2%
Arizona	0.6%	30	31.8	39	0.1%	36
California	4.6%	6	42.6	34	0.1%	35
Colorado	1.0%	28	65.0	28	0.1%	32
Connecticut	1.2%	25	111.4	20	0.1%	25
Delaware	1.1%	27	401.6	4	0.7%	4
Florida	5.9%	3	103.1	21	0.2%	19
Georgia	3.6%	12	128.7	19	0.3%	17
Idaho	0.1%	40	33.1	37	0.1%	34
Illinois	5.7%	4	148.3	16	0.2%	18
Indiana	4.4%	9	230.6	6	0.5%	6
Iowa	1.6%	20	177.9	13	0.3%	10
Kansas	0.3%	38	35.4	35	0.1%	38
Kentucky	0.8%	29	60.5	31	0.1%	26
Louisiana	2.8%	16	215.4	8	0.4%	8
Maine	0.3%	39	70.5	27	0.2%	24
Maryland	2.2%	18	130.7	18	0.2%	20
Massachusetts	3.8%	11	191.4	10	0.3%	16
Michigan	4.4%	7	146.1	17	0.3%	14
Minnesota	0.5%	34	31.0	40	0.1%	40
Mississippi	1.4%	23	169.3	14	0.4%	9
Missouri	2.9%	14	163.2	15	0.3%	12
Montana	0.0%	43	15.6	43	0.0%	43
Nebraska	0.1%	41	24.7	42	0.0%	42
Nevada	4.1%	10	530.1	1	0.9%	2
New Hampshire	0.3%	37	78.0	25	0.1%	29
New Jersey	5.5%	5	210.2	9	0.3%	13
New Mexico	0.4%	35	75.6	26	0.2%	22
New York	11.0%	1	185.4	12	0.3%	15
North Carolina	1.5%	22	53.1	32	0.1%	31
North Dakota	0.0%	44	12.8	44	0.0%	44
Ohio	2.8%	15	81.2	23	0.2%	23
Oklahoma	0.3%	36	31.9	38	0.1%	39
Oregon	2.9%	13	252.8	5	0.5%	5
Pennsylvania	7.1%	2	186.2	11	0.3%	11
Rhode Island	1.5%	21	463.3	3	0.8%	3
South Carolina	1.1%	26	82.7	22	0.2%	21
South Dakota	0.5%	32	230.2	7	0.4%	7
Tennessee	1.2%	24	63.5	29	0.1%	28
Texas	4.4%	8	63.2	30	0.1%	30
Vermont	0.1%	42	49.0	33	0.1%	33
Virginia	1.9%	19	81.1	24	0.1%	27
Washington	0.5%	33	27.4	41	0.0%	41
West Virginia	2.6%	17	464.7	2	1.1%	1
Wisconsin	0.6%	31	34.7	36	0.1%	37

Sources: U.S. Census Bureau for Population data and U.S. Bureau of Economic Analysis for Personal Income data.

Notes: Gambling revenue is based on the sum of lottery, casino and racino revenues for FY 2008. Population and personal income numbers are based on 2008 data.

Census Bureau. After adjusting for inflation, revenues from lotteries increased by nearly 48 percent for the same period.⁷ This large increase in revenues is partially attributable to the emergence of video lottery terminals (VLTs) since the early 1990s in states such as Delaware, New York, Rhode Island, and West Virginia. In addition, more states legalized lottery operations during the period. As of 1993 there were 34 states with lottery operations, while by 2007 the number had risen to 42. If we exclude the eight states that legalized lottery operations since 1993, lottery revenues increased by 80 percent in nominal terms and 33 percent in real terms from 1993 to 2007.

As Figure 2 shows, states' shares of nationwide revenue from lotteries vary significantly. In 2007, about 38 percent of total lottery revenue was collected in California, Florida, Michigan, New York, and Texas. Nearly 80 percent of total lottery revenues were collected in 15 states. The remaining 27 states collect only one-fifth of total lottery revenues.

Figure 3 shows the two-year moving average of year-over-year growth in lottery revenue collections, both in nominal and real terms. The graphic also shows the number of states with lottery operations for each year since 1977. While lottery revenues grow almost every year, the growth in revenue has been generally downward since 1986, despite the growing number of states legalizing lottery operations. After year-to-year declines in both nominal and adjusted terms in fiscal 2000 and 2001, revenue growth

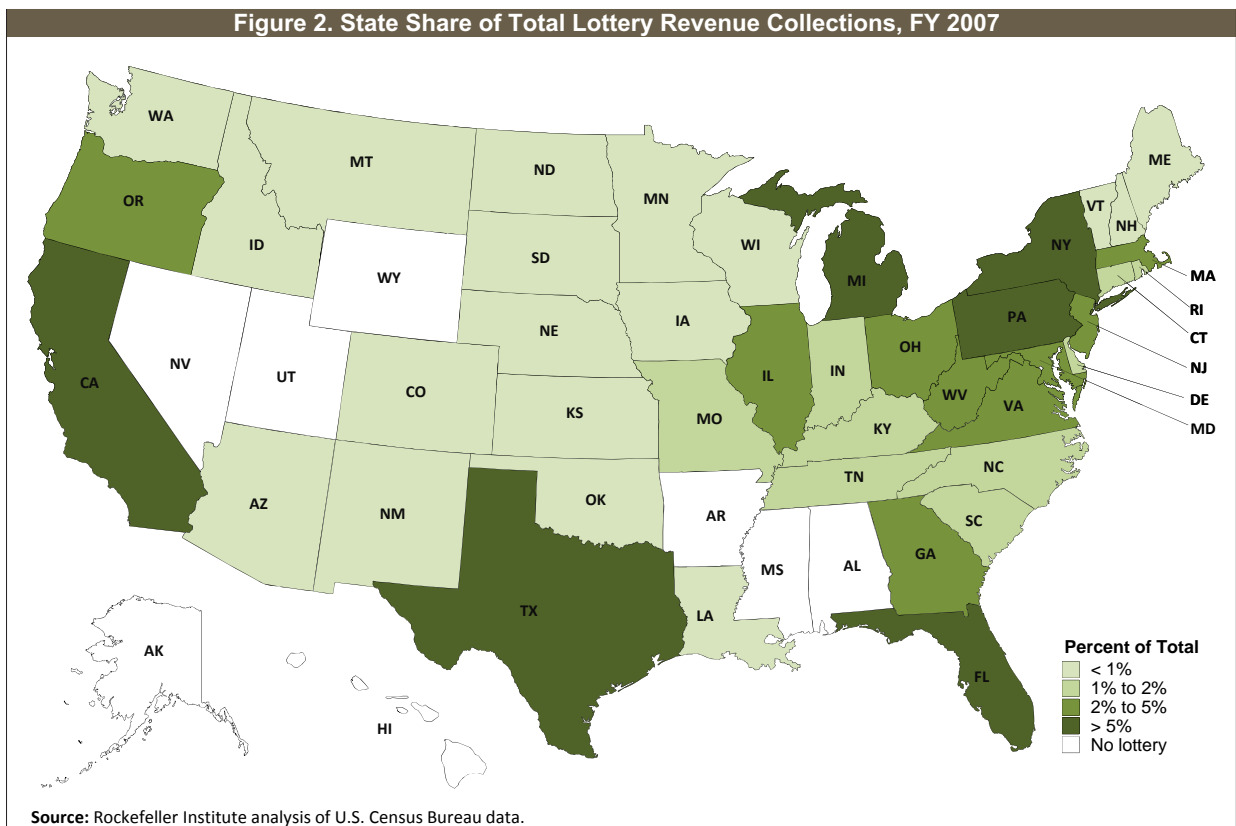
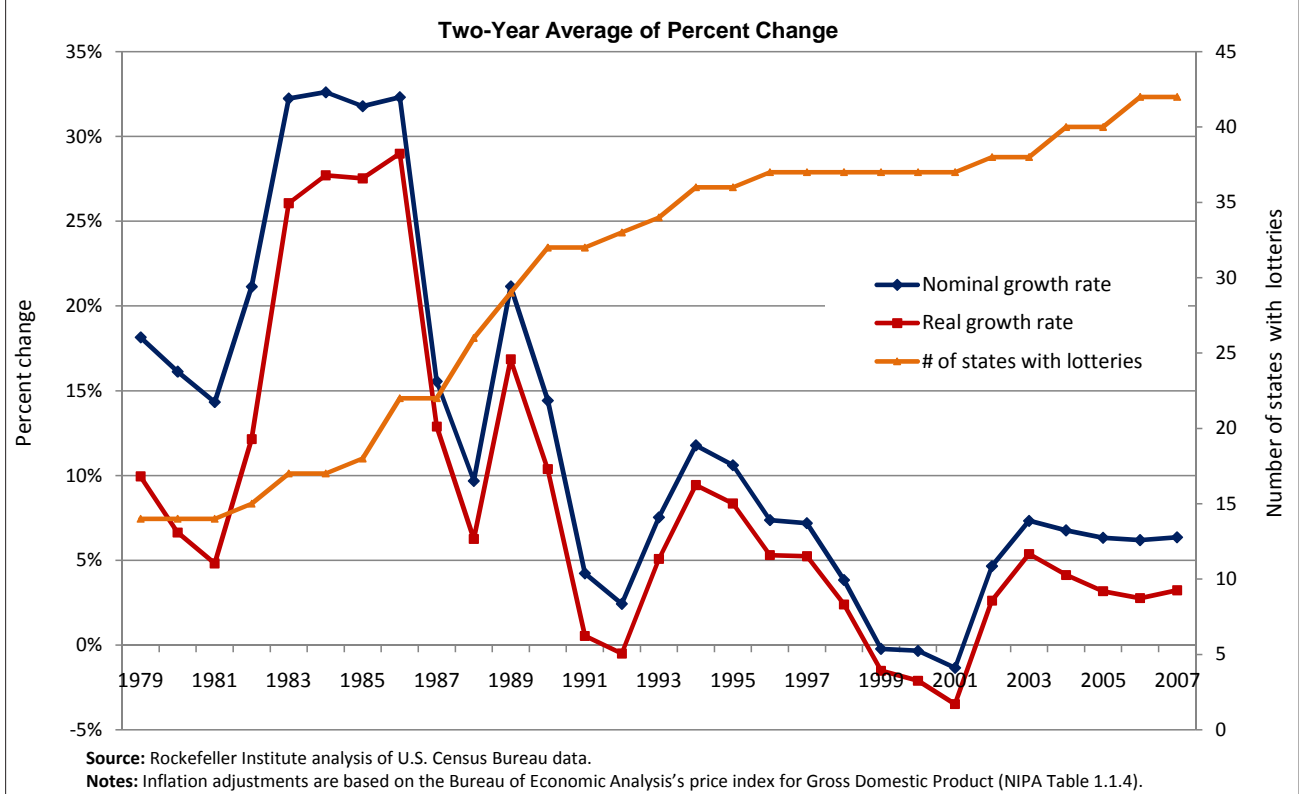


Figure 3. Year-Over-Year Percent Change in Nominal and Real State Lottery Collections



rebounded before declining modestly over the past four years. Real, year-over-year growth in lottery collections has slowed to an average of 3.2 percent in 2007, from 5.4 percent in 2005.

As of the writing of this report, lottery revenue data are not available from the Census Bureau for fiscal years 2008 and 2009. Rockefeller Institute staff surveyed the states and obtained state lottery revenue data for fiscal years 2008 and 2009 for 40 of the 42 states that have lottery operations. The two states for which we were unable to collect the most recent data are Massachusetts and Tennessee. Lottery collections from those two states combined made up about 6.5 percent of total lottery revenue in fiscal 2007.

Since one purpose of this report is to discuss revenue trends from different types of gambling, we have collected lottery revenue data for traditional lottery and VLTs separately for the four states that have both types of the games: Delaware, New York, Rhode Island, and West Virginia. For fiscal years 2008 and 2009, we report revenues collected from VLTs under racinos. However, VLT revenues are included in lottery revenues for 1977 to 2007 as reported by the Census Bureau.

Looking at the last two years for the 40 states for which data are available, lottery revenue collections declined by \$349 million, or 2.3 percent, from fiscal 2008 to 2009 (see Table 5). After adjusting for inflation, revenues declined by 4.2 percent from fiscal year 2008 to 2009. If we account for VLT revenues, then collections declined by 2.5 percent in nominal terms and 4.4 percent in real terms. Considering only the 40 states for which recent data are

Table 5. State Lottery Revenue, FY 2008 and 2009

State	FY 2008 (\$ millions)	FY 2009 (\$ millions)	Percent change, FY 2008-09
Arizona	145	129	-10.7%
California	1,095	1,053	-3.8%
Colorado	122	120	-2.2%
Connecticut	283	283	0.0%
Delaware /1	39	37	-5.3%
Florida	1,283	1,285	0.1%
Georgia	868	872	0.5%
Idaho	35	35	0.7%
Illinois	657	625	-4.9%
Indiana	224	183	-18.1%
Iowa	57	61	7.2%
Kansas	70	67	-3.9%
Kentucky	187	194	3.2%
Louisiana	132	136	3.1%
Maine	49	50	0.7%
Maryland	529	493	-6.9%
Michigan /2	753	700	-7.0%
Minnesota	116	120	2.9%
Missouri	265	259	-2.3%
Montana	11	10	-8.1%
Nebraska	31	30	-2.5%
New Hampshire	75	68	-9.7%
New Jersey	882	875	-0.8%
New Mexico	41	41	0.0%
New York /1,2	2,153	2,115	-1.8%
North Carolina	350	411	17.4%
North Dakota	6	6	7.8%
Ohio	672	702	4.5%
Oklahoma	72	69	-3.3%
Oregon	703	596	-15.2%
Pennsylvania	928	934	0.7%
Rhode Island /1	60	59	-0.4%
South Carolina	266	260	-2.1%
South Dakota	123	118	-4.1%
Texas /2	1,046	1,032	-1.3%
Vermont	23	21	-7.7%
Virginia	455	431	-5.4%
Washington	130	120	-7.6%
West Virginia /1	41	41	-0.7%
Wisconsin	141	130	-8.1%
US Total	15,120	14,772	-2.3%

Source: Rockefeller Institute survey of state lotteries.

Notes: Data are not available for two states – Massachusetts and Tennessee.

1/ VLT revenues are excluded for Delaware, New York, Rhode Island and West Virginia.

2/ For comparative purposes we report July-June revenue data for Michigan, New York, Texas.

available, this is the largest decline observable using the comparable Census data that date to 1977.

Among those 40 states, 27 reported declines over the year, with three – Arizona, Indiana, and Oregon – seeing double-digit declines. Only 14 states showed an increase in lottery revenues, the largest being 17.4 percent for North Carolina, followed by North Dakota at 7.8 percent. After adjusting for inflation, 33 of 40 states saw declines in lottery revenue collections.

Commercial Casinos

Commercial casinos are operated by businesses and taxed by the states. Currently, 12 states have legalized and operational commercial casinos. Nevada was the first to legalize the operation of casinos in 1931, followed by New Jersey in 1976. Another 10 states have legalized casinos since 1989 (see Table 6).

One state, Nevada, is home to 60 percent of U.S. casino facilities and in fiscal 2009 collected about 19 percent of all state revenue from casinos nationwide (despite a tax on casino activity that is relatively low, at 6.75 percent). Indiana and Illinois also collected relatively large shares of overall casino revenue, at 17.2 and 11.9 percent, respectively, in fiscal 2009.

Total state-local revenues from casinos increased by 84 percent, from \$2.4 billion to \$4.5 billion, between fiscal years 1998 and 2009. After adjusting for inflation, such revenue rose 43 percent. As Figure 4 shows, the year-over-year growth rate in revenues from casinos has been mostly downward since 2004 both in nominal and real terms.

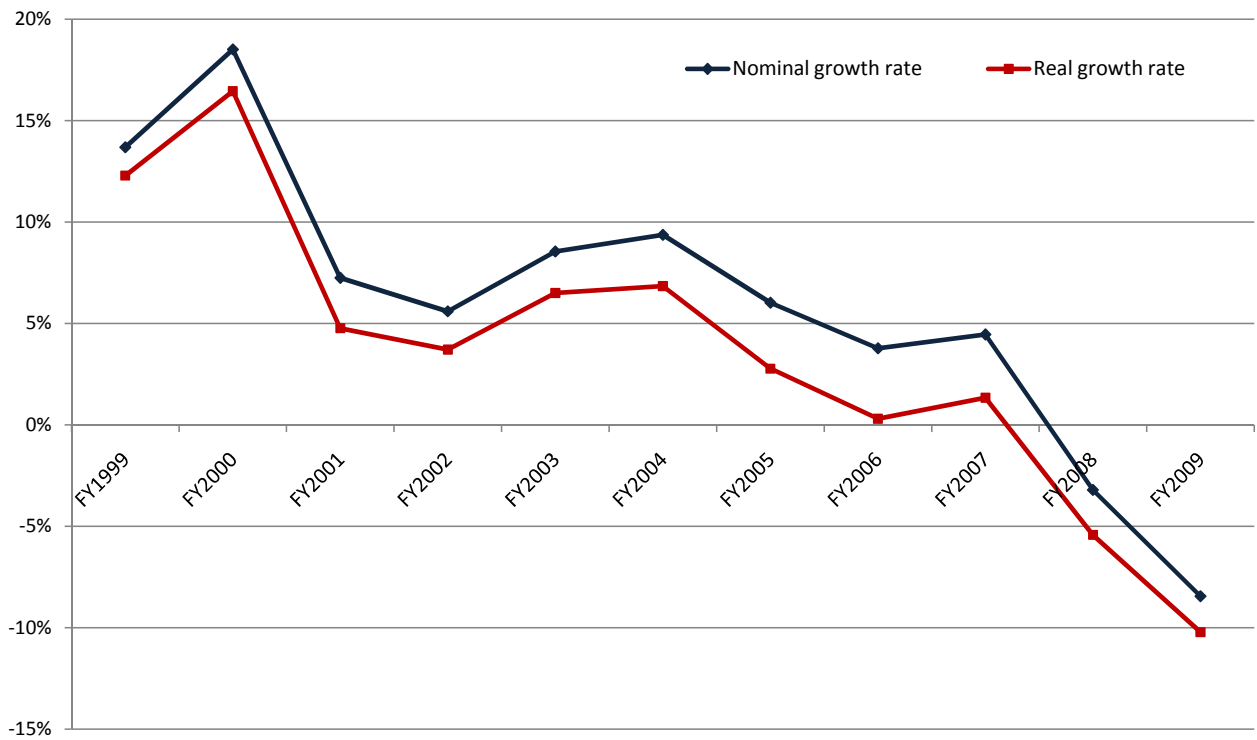
State and local government revenue from casinos declined by \$412 million or 8.5 percent from fiscal year 2008 to 2009. Revenues declined in eight of 12 states with commercial casinos in fiscal year 2009. Illinois and New Jersey reported the largest declines at 23.8 and 14.1 percent, respectively. After adjusting for inflation, revenues declined in 10 of 12 states. Pennsylvania and Missouri

Table 6. Casino Legalization and Opening Date, Distribution, and Format

State	Legalization Date	First Casino Opening Date	# of Operating Casinos, 2008	Casino Format
Colorado	Nov-90	Oct-91	41	Land-based
Illinois	Feb-90	Sep-91	9	Riverboat
Indiana	Nov-93	Dec-95	11	Riverboat
Iowa	Jul-89	Sep-91	14	Riverboat (10), Land-based (4)
Louisiana	Jul-91	Oct-93	14	Riverboat (13), Land-based (1)
Michigan	Dec-96	Jul-99	3	Land-based
Mississippi	Jun-90	Aug-92	29	Dockside, land-based
Missouri	Aug-93	May-94	12	Riverboat
Nevada	1931	1931	270	Land-based
New Jersey	1976	1978	11	Land-based
Pennsylvania	Jul-04	Oct-07	1	Land-based
South Dakota	Nov-89	Nov-89	36	Land-based

Source: American Gaming Association.

Figure 4. Year-Over-Year Growth Rate in Commercial Casino Revenue to State-Local Governments



Source: Rockefeller Institute analysis of state gaming regulatory agencies' financial reports.

reported the highest growth at 63 percent and 6.6 percent, respectively. The large increase in casino revenues has been in Pennsylvania, where the state opened its first and only casino during the second quarter of fiscal 2008. The revenue growth in Missouri is mostly attributable to revenues collected from an additional casino that was opened in the second half of fiscal 2008. If we exclude revenues from a newly opened single casino – Lumiere Place – revenues from Missouri casinos were essentially flat.

Officials in New Jersey blame the decline in casino revenue in their state on new competition in the form of casino and racinos in neighboring Pennsylvania. Differences in state tax rates may come into play, as well: New Jersey has a low gambling tax rate of 9.25 percent, compared to Pennsylvania's 55 percent. Meanwhile, officials in Illinois blame the smoking ban in casinos that was enacted in January 2008.

In order to understand whether smoking bans and opening of new casinos in neighboring states have an impact on state-local revenue collections from casinos, we looked at trends in casino admissions and number of casinos for the following six states – Illinois, Indiana, Iowa, Louisiana, Missouri, and New Jersey. Such data were not readily available for the remaining six states that have commercial casinos. As Figure 5 shows, the trend in casino admissions for the six states was generally downward since 2004 regardless of the growing number of casinos for the same period. The trend in casino admissions is similar to the trend in revenue collections shown on Figure 4.

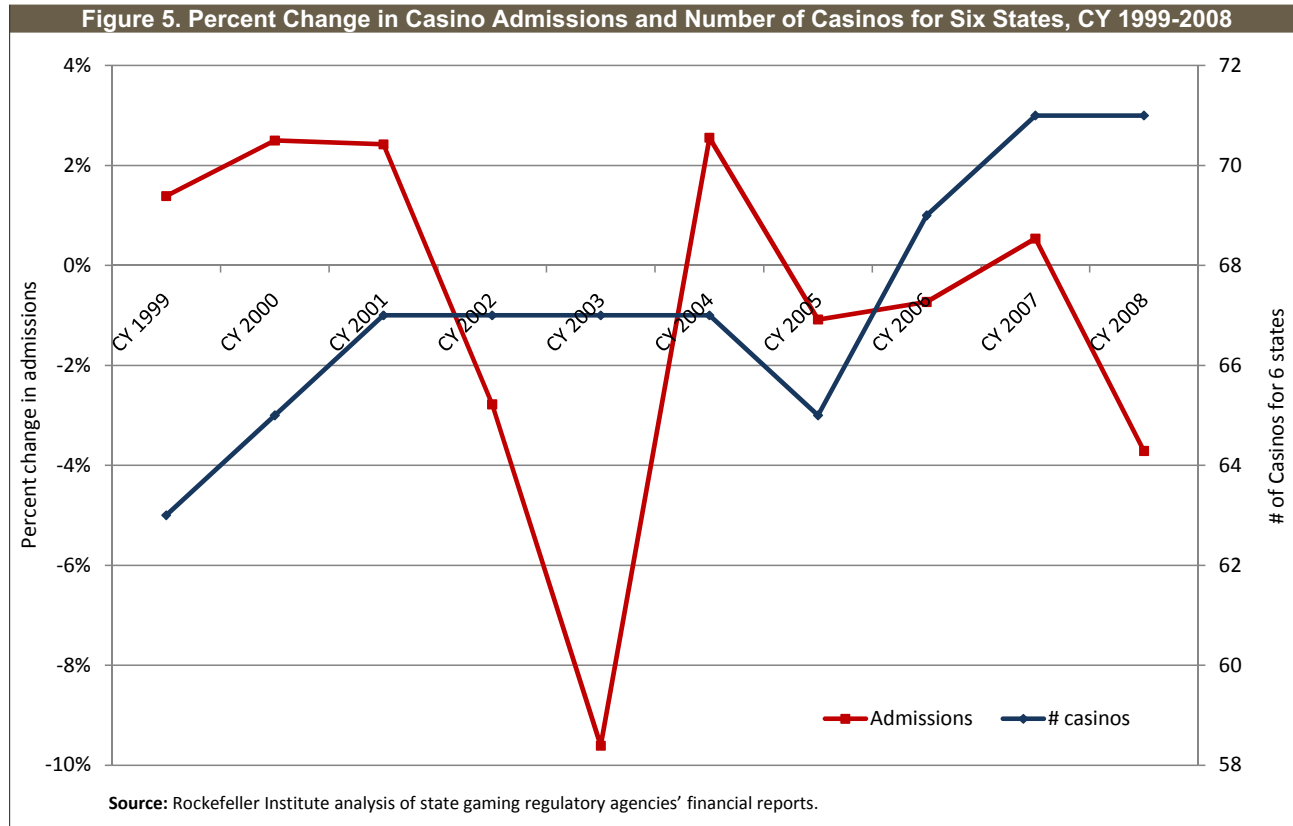


Table 7. Casino Revenues to State-Local Governments, FYs 2007-09

State	FY 2007 (\$ millions)	FY 2008 (\$ millions)	FY 2009 (\$ millions)	% change, FY 2007-08	% change, FY 2008-09
Colorado	112.0	108.2	94.9	-3.4%	-12.3%
Illinois	818.4	698.2	532.2	-14.7%	-23.8%
Indiana	851.5	812.4	767.9	-4.6%	-5.5%
Iowa	193.8	214.2	217.0	10.6%	1.3%
Louisiana	467.0	478.1	461.3	2.4%	-3.5%
Michigan /1	316.6	294.8	271.2	-6.9%	-8.0%
Mississippi	332.3	344.6	312.1	3.7%	-9.4%
Missouri	422.3	428.6	456.7	1.5%	6.6%
Nevada	1,036.7	980.1	858.0	-5.5%	-12.5%
New Jersey	473.3	441.5	379.4	-6.7%	-14.1%
Pennsylvania	N/A	60.8	99.1	N/A	63.0%
South Dakota /2	7.4	8.0	8.1	7.8%	1.1%
US Total	5,031.3	4,869.7	4,458.0	-3.2%	-8.5%

Source: Rockefeller Institute review of state gaming regulatory agencies' financial reports.

Notes: 1/ Michigan's state fiscal year runs from October 1st to September 30th. However, for comparative purposes, we report revenues for the July-June period.

2/ Revenue collections for South Dakota include 8% gaming tax only in here but exclude other revenue items such as device tax, city slot tax, etc. These figures are not available for FY 2009.

Table 8. Racino Legalization and Opening Date, Distribution, and Format

State	Legalization Date	First Racino Opening Date	# of Operating Racinos, FY 2009	Racino Format
Delaware	1994	1995	3	VLTs
Florida	2006	2006	3	Slot machines
Indiana	2007	2008	2	Slot machines
Iowa	1994	1995	3	Slot machines
Louisiana	1997	2002	4	Slot machines
Maine	2004	2005	1	Slot machines
New Mexico	1997	1999	5	Slot machines
New York	2001	2004	8	VLTs
Oklahoma	2004	2005	3	Slot machines
Pennsylvania	2004	2006	7	Slot machines
Rhode Island	1992	1992	2	VLTs
West Virginia	1994	1994	4	VLTs, Tables games

Source: American Gaming Association.

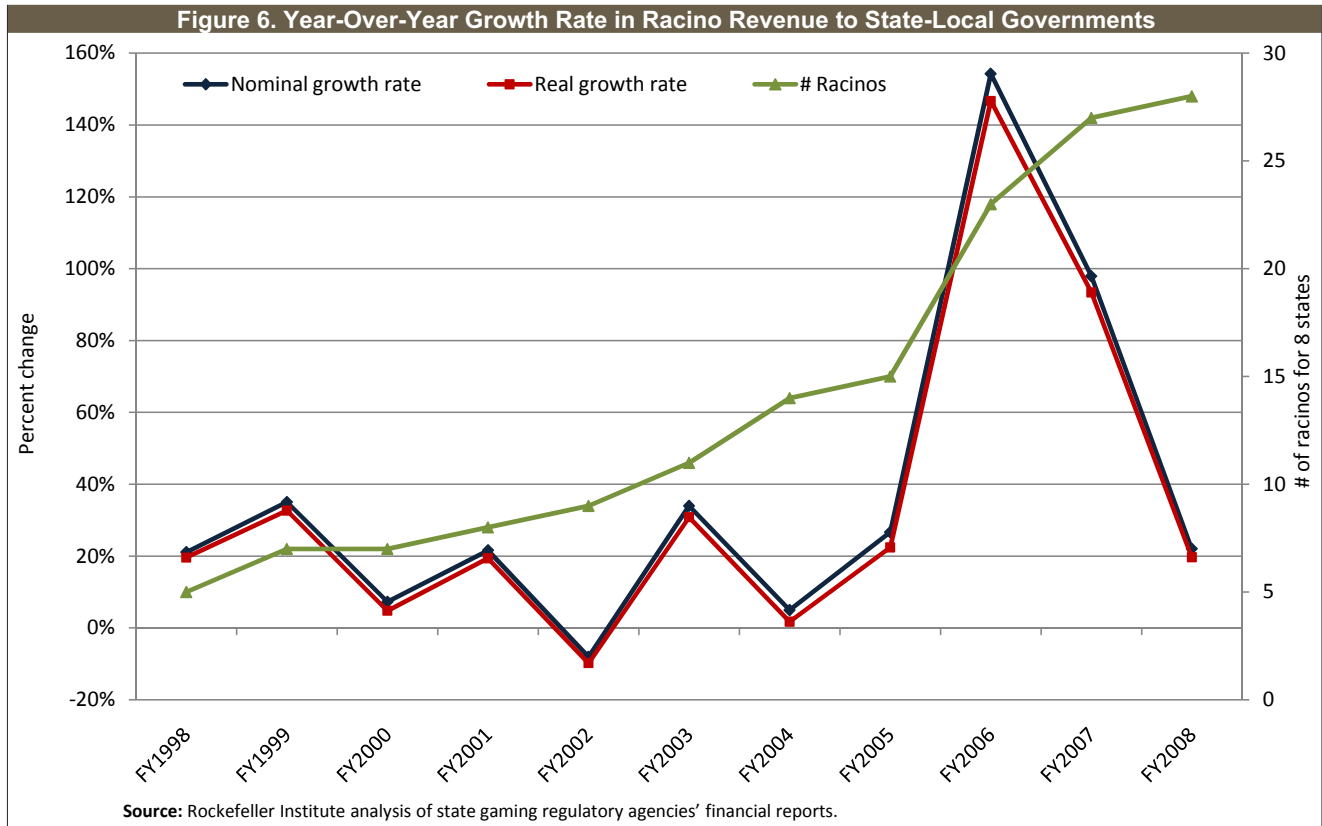
Table 7 shows state-by-state revenue collections and growth rates from commercial casinos for the last three fiscal years. Overall revenues declined both in 2008 and 2009, for a total revenue loss of more than \$570 million. Only two of the 12 states — Missouri and Pennsylvania — showed more positive trends in 2009 than the previous year. The higher growth rate in 2009 for Missouri was due to the recent opening of a new casino.

Racetrack Casinos or Racinos

Racinos are racetracks that host electronic gaming devices such as slot machines, table games, or VLTs. In other words, racinos are a hybrid of casinos and racetracks. Revenue from this source represents the fastest-growing element in states' gambling portfolio. Currently, racinos are operational in 12 states. Rhode Island was the first state to legalize racinos in 1992, followed by five other states between 1994 and 2004 and another six between 2001 and 2008. Currently there are 45 racino facilities in the 12 states, with eight operating in New York and seven in Pennsylvania (see Table 8).

Four of 12 racino states — Delaware, New York, Rhode Island, and West Virginia — host VLTs only. In this report, revenues from these VLTs are reported in lottery revenues for historical data. However, to provide a better picture of racino revenues in recent years, we separated revenues from VLTs for fiscal 2008 and 2009 (and fiscal 2007 where possible).

Total state revenues from racinos in eight states increased from \$63 million in fiscal 1998 to \$1.4 billion in fiscal 2009. Figure 6 shows year-over-year growth rate in racino revenues and the number of racinos for eight states. While revenues from racinos increased dramatically over time, such growth is mostly attributable to opening of new racinos, as depicted in Figure 6. The largest increase in revenues, 154 percent in fiscal 2007, was mostly due to the opening of five racinos in Pennsylvania and three in Florida



during the year. If we exclude Florida and Pennsylvania, racino revenues increased by 18 percent in fiscal 2007.

Overall revenues from racinos softened considerably in fiscal 2008 and 2009, although growth was still positive. If we include the four states that operate VLTs, revenues from racinos increased by 6.7 percent. Six of 12 states reported declines in racino revenues in fiscal 2009 (see Table 9). Florida and New York reported the largest declines at 15.5 and 8 percent, respectively.

About 30 percent of total racino revenue was collected in a single state, Pennsylvania, in fiscal 2009. If we exclude Pennsylvania, the racino revenue from the other 11 states was nearly flat, increasing by \$25 million, or 1.3 percent, that year. And this is given the fact that Indiana became a new racino state by opening two racinos in late fiscal 2008. If we exclude both Pennsylvania and Indiana, racino revenues from the other 10 states declined by \$76 million, or 3.9 percent, in fiscal 2009.

Pari-Mutuel Wagering

Pari-mutuel wagering is the longest-established form of state-sanctioned gambling. It includes events such as horse racing, dog racing, and jai-alai, where wagers relate to the order in which participants finish. As other forms of gambling have become more widespread, pari-mutuel wagering has lost popularity, and state revenues have seen a steady decline.

Table 9. Racino Revenues to State-Local Governments, FYs 2007-09

State	FY 2007 (\$ millions)	FY 2008 (\$ millions)	FY 2009 (\$ millions)	% change, FY 2007-08	% change, FY 2008-09
Delaware /2	ND	213.0	210.6	ND	-1.1%
Florida	49.6	122.9	103.9	147.7%	-15.5%
Indiana	N/A	6.5	107.8	N/A	1545.9%
Iowa	110.9	112.0	105.0	1.1%	-6.3%
Louisiana	55.5	58.3	62.1	5.1%	6.5%
Maine	19.9	20.4	26.5	2.5%	29.6%
New Mexico	63.5	64.6	66.9	1.8%	3.5%
New York /1	338.1	477.7	439.6	41.3%	-8.0%
Oklahoma	10.0	10.8	14.0	7.8%	29.7%
Pennsylvania	250.0	711.8	865.6	184.7%	21.6%
Rhode Island /2	ND	296.1	285.1	ND	-3.7%
West Virginia	596.4	590.2	576.4	-1.1%	-2.3%
US Total		2,684.4	2,863.4		6.7%

Source: Rockefeller Institute review of state gaming regulatory agencies' financial reports.

Notes: ND - No Data.

1/ New York's state fiscal year runs from April 1st to March 31st. However, for comparative purposes, we report revenues for the July-June period.

2/ Data are missing for Delaware and Rhode Island for FY 2007.

Figure 7. Year-Over-Year Percent Change in Nominal and Real State Pari-Mutuel Collections

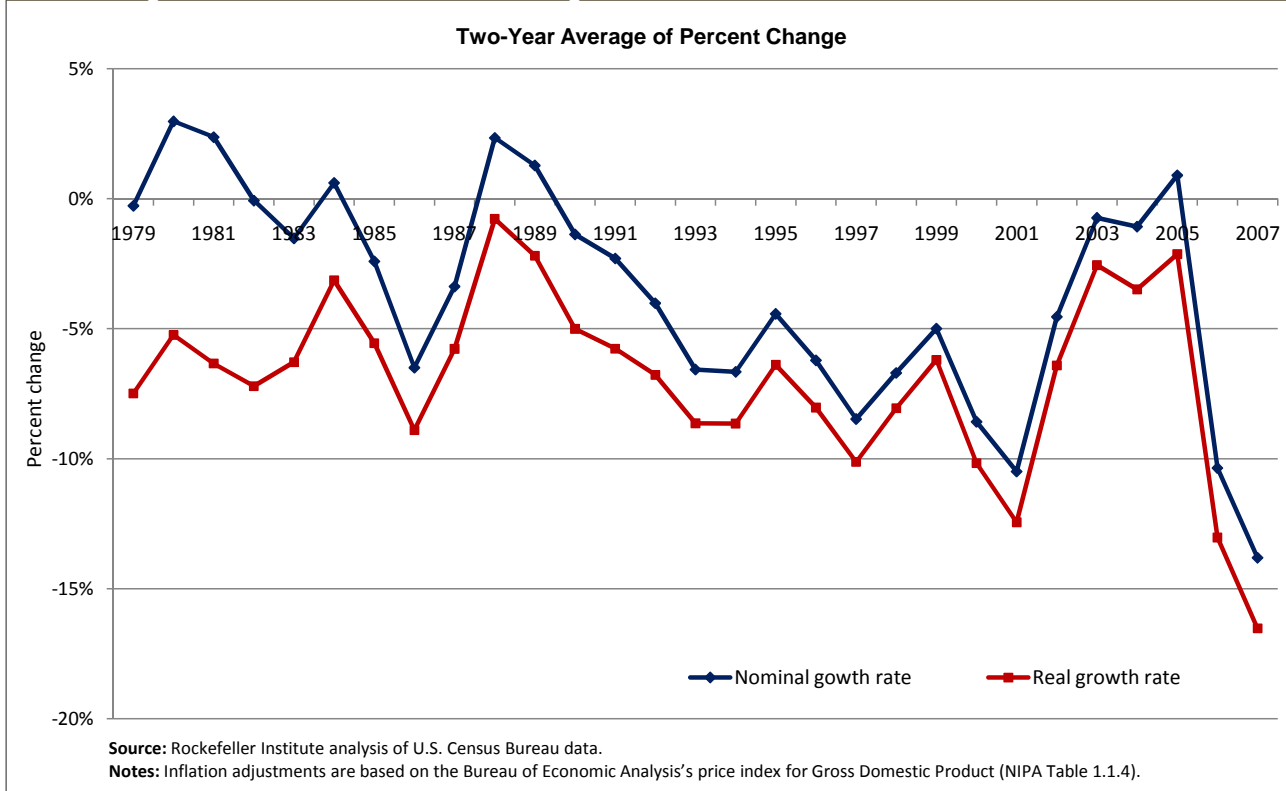


Table 10. State Pari-Mutuel Wagering Revenue, FYTD 2008 and 2009

State	Jul 2007 - Mar 2008 (\$ millions)	Jul 2008 - Mar 2009 (\$ millions)	Percent change, FYTD 2008 vs 2009
Alabama	2.0	1.9	-5.8%
Arizona	0.3	0.3	0.0%
Arkansas	3.8	3.9	3.1%
California	24.8	22.5	-9.0%
Colorado	2.3	0.7	-67.6%
Connecticut	6.2	5.6	-9.5%
Delaware	0.1	0.1	-18.5%
Florida	19.0	17.3	-9.0%
Idaho	1.2	1.0	-14.1%
Illinois	6.2	5.0	-18.6%
Indiana	3.2	3.1	-3.7%
Iowa	3.0	2.8	-7.2%
Kansas	1.5	0.3	-82.9%
Kentucky	2.6	2.4	-8.8%
Louisiana	3.4	2.9	-15.1%
Maine	2.3	2.2	-4.1%
Maryland	1.3	1.2	-9.0%
Massachusetts	2.5	2.1	-18.3%
Michigan	6.5	5.7	-12.0%
Minnesota	0.7	0.5	-25.5%
Montana	0.1	0.1	15.4%
Nebraska	0.2	0.2	-1.8%
New Hampshire	2.2	1.5	-33.5%
New York	25.2	22.2	-12.1%
North Dakota	0.3	0.2	-35.8%
Ohio	7.6	7.0	-8.5%
Oklahoma	1.3	1.1	-14.2%
Oregon	2.8	1.7	-37.6%
Pennsylvania	15.1	8.9	-41.1%
Rhode Island	2.1	1.8	-12.8%
South Dakota	0.2	0.2	-22.8%
Texas	7.4	6.8	-8.8%
Washington	2.3	2.1	-9.4%
West Virginia	2.7	3.1	17.8%
Wisconsin	0.7	0.5	-24.3%
Wyoming	0.1	0.1	10.2%
US Total	163.0	138.8	-14.8%

Source: U.S. Census Bureau.

Notes: Census Bureau reported data for 36 states for fiscal years 2008 and 2009. While there are about seven more states that collect revenues from pari-mutuel wagering, we estimate that total pari-mutuel revenue from these states would not exceed \$10 million.

Figure 7 shows the two-year moving average of year-over-year growth in pari-mutuel wagering revenue collections, both in nominal and real terms. As Figure 7 shows, revenue collections from pari-mutuel wagering declined almost continuously. Overall state revenues from pari-mutuel wagering declined significantly from \$554 million in 1993 to \$232 million in 2007, according to

Table 11. Growth in State Gambling Revenues and Tax Collections, FY 1999 to 2008

	<i>Not Adjusted for Legislated Changes</i>										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-08
Gambling revenue	2.8%	2.0%	0.4%	9.4%	5.1%	9.1%	4.3%	7.1%	5.8%	2.6%	60.1%
Tax collections	4.8%	9.5%	3.5%	-4.4%	2.2%	8.3%	10.9%	8.9%	5.2%	3.5%	65.0%

data reported by the U.S. Census Bureau. After adjusting for inflation, revenues from pari-mutuels declined by nearly 70 percent for the same period.

Complete fiscal year 2009 data for revenues from pari-mutuel wagering are not available as of the writing of this report. Therefore, we report revenue figures for pari-mutuel wagering for the first three quarters of fiscal 2009 compared to the same period of 2008. As Table 10 (see page 18) shows, total state revenues from pari-mutuel wagering decreased 14.8 percent in the first nine months of fiscal 2009 compared to the same period of fiscal 2008. Of the 36 states where pari-mutuel wagering is allowed and information is available, 31 states reported declining revenues from the first nine months of fiscal 2008 to 2009, with 18 states reporting double-digit declines. Only five states reported increases in revenues from pari-mutuel wagering. Over 50 percent of all revenue from pari-mutuel wagering is generated in four states — California, Florida, New York, and Pennsylvania.

Conclusions

Revenue from legally sanctioned gambling plays an important, if relatively small, role in states' overall revenues. From 1998 through 2007, such revenue represented a remarkably consistent 2.1 to 2.5 percent of states' own-source revenues. While such an amount may seem almost inconsequential at first glance, governors and legislators often face politically difficult choices in closing budget gaps that are much smaller.

States generally expand gambling operations when tax revenues are depressed by a weak economy, or to pay for new spending programs. Such policy choices implicitly treat revenues as similar to those from general tax revenues. Income from lotteries, casinos, and other gaming activities does not tend to grow over time as rapidly as general tax revenue, however. From 1998 through 2008, states' overall tax revenues rose by 65 percent, according to Census data. As shown in Table 11, gambling revenue rose by 60 percent, with much of that increase driven by new casinos, racinos, and lottery activities. After accounting for such expansion, revenue from previously existing operations was likely in the range of 40 percent or less. (The recent recession has brought a notable difference: The decline in state tax collections in fiscal 2009 was much larger than the 2.5 percent drop in gambling revenues.)

The historical tendency for revenues from existing gambling operations to grow at a significantly slower pace than other state revenues may hold important lessons for states as policymakers consider further expansion of casinos, racinos, and other

gambling activities. Expenditures on education and other programs will generally grow more rapidly than gambling revenue over time. Thus, new gambling operations that are intended to pay for normal increases in general state spending may add to, rather than ease, long-term budget imbalances.

References

- 1 The following four states have both casino and racino operations: Indiana, Iowa, Louisiana, and Pennsylvania.
- 2 Comprehensive data on revenue from Native American casinos are not readily available. Data for four states – Arizona, Connecticut, Michigan, and New Mexico – indicate that revenue collections from Native American casinos have softened considerably since 2005. We estimate that total state collections from Native American casinos are below \$1.5 billion.
- 3 For more information on gambling developments in the states, see NCSL report available at <http://www.ncsl.org/?tabid=17248>.
- 4 Census data on overall state revenues are not available for years after fiscal 2007.
- 5 In most states the legal gambling age is 21 years. Hence, we adjust the gambling revenue to state population that represents age 21 or above.
- 6 In this report, we define lottery revenues as lottery proceeds transferred to various state programs.
- 7 Inflation adjustments are based on the Bureau of Economic Analysis's price index for Gross Domestic Product (NIPA Table 1.1.4). Collections are adjusted to 2007 dollars.

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This report was researched and written by Lucy Dadayan, senior policy analyst, and Robert B. Ward, deputy director of the Institute, who directs the Fiscal Studies Program. Shuqin Pan, graduate research assistant, assisted with data collection. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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