

WILL REVENUES FROM CASINOS FILL HOLES IN SCHOOL BUDGETS?

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In 2009, Ohio voters approved the construction of four full-service casinos in the state of Ohio. The first two of the casinos, in Cleveland and Toledo, are within months of opening their doors. The Constitutional Amendment authorizing gambling set in place a tax of 33 percent of gross casino revenue ("GCR," total betting less payouts). A portion of the taxes paid by casinos is to be allocated to school districts as enumerated in the amendment:

(b) Thirty-four percent of the tax on gross casino revenue shall be distributed among all eighty-eight counties in proportion to such counties' respective public school district student populations at the time of such distribution. Each such distribution received by a county shall be distributed among all public school districts located (in whole or in part) within such county in proportion to each school district's respective student population who are residents of such county at the time of such distribution to the school districts. Each public school district shall determine how its distributions are appropriated, but all distributions shall only be used to support primary and secondary education.

Opening days have been set for the two casinos mentioned above. The Cleveland casino opened May 14th and the Toledo casino opens May 29th. The Columbus casino is currently scheduled to open late this year and the Cincinnati casino in the spring of 2013. No revenue will be received by school districts during fiscal year 2012.

Revenue allocations from the casino tax are **intended to supplement** current state aid to school districts. It is not supposed to supplant, as described in the passage below from the Constitution:

Tax collection, and distributions to public school districts and local governments, under sections 6(C)(2) and (3), are intended to supplement, not supplant, any funding obligations of the state. Accordingly, all such distributions shall be disregarded for purposes of determining whether funding obligations imposed by other sections of this Constitution are met.

This is not a guarantee that supplanting will not occur. Supplanting is highly unlikely to happen in FY 2013, but that is less certain as a new state funding formula should take effect in FY 2014. The remainder of this article shows revenue implications for schools of the casino money, **assuming supplanting does not occur.**

House Bill 386 is the implementing language for the constitutional amendment. It was passed by Conference Committee on May 24 and sent onto Governor Kasich for signing. HB 386 sets payments to school districts twice per year, at the end of January and the end of August. So the first payments will be made at the end of January 2013, and will include all revenue collected by the Department of Taxation (ODT) from the opening of the casinos through December 31, 2012. Payments will be made directly by ODT to school districts.



Under HB 386, school districts are defined to include regular local districts, joint vocational districts, community schools, and certain STEM schools. The actual mechanism for calculating each district's share of casino money is complicated, but is designed to follow as well as possible the language in the constitution. For that reason, students who reside in one county but are educated in a district that does not have land in the county of residence (primarily through open enrollment) will not count as students in the educating district. Instead, such students' share of money would be split among all the districts in the county of residence. Because of the requirement of the county based allocation, school districts will need to start reporting the county of residence of each of its students in their EMIS reporting. This will need to be done twice per year, once in October and again in June.

The tax revenue to be generated from the casinos was estimated by the Department of Taxation at the time the amendment was on the ballot (I oversaw the development and preparation of the analysis when I was at ODT). The tax revenue is to be paid to the state daily by the casinos.

The Department of Taxation analysis estimated GCR under two scenarios, one where there are just four casinos as allowed by the Constitutional Amendment and one where there are also video lottery terminals (VLTs, essentially slot machines) at the seven existing horse racing tracks. This analysis only looks at the former scenario, with an adjustment for the VLT facility scheduled to be opening this week at Scioto Downs near Columbus.

Once all four facilities are operating at full capacity, ODT estimated that the annual GCR of the casinos would total about \$1.95 billion. However, the Cleveland casino will be opening in two phases. The first phase is what opened in May. The second phase will likely not open for several more years. In addition, because of the opening of the Scioto Downs facility, I am assuming the GCR at the Columbus casino will be reduced by 30 percent from the original ODT analysis. Given these assumptions, I anticipate the total GCR once the four facilities are open, with Cleveland only at phase-one, would be about \$1.4 billion annually.

	Toledo	Cleveland	Columbus	Cincinnati	Total
Adjusted GCR	250,000,000	314,100,000	400,400,000	430,000,000	1,394,500,000
Monthly GCR	20,833,333	26,175,000	33,366,667	35,833,333	116,208,333
Monthly Schools' Share	2,337,500	2,936,835	3,743,740	4,020,500	13,038,575

The table above shows the estimated monthly school share of the casino tax revenue for a full month of operation in each casino. Using these monthly allocations, the tables below show the estimated semi-annual distributions for FY 2013 and FY 2014, assuming the opening dates outlined earlier and no supplanting.

	Toledo	Cleveland	Columbus	Cincinnati	Total
Jan-13	16,362,500	20,557,845	3,743,740	0	40,664,085
FY 2013 Total	16,362,500	20,557,845	3,743,740	0	40,664,085
Est. Per Pupil Amt.			Est. # of Pupils:	1,900,000	\$21.40



	Toledo	Cleveland	Columbus	Cincinnati	Total
Aug-13	16,362,266	20,557,551	26,205,806	8,040,598	71,166,221
Jan-14	11,687,734	14,684,469	18,719,074	20,102,902	65,194,179
FY 2014 Total	28,050,000	35,242,020	44,924,880	28,143,500	136,360,400
Est. Per Pupil Amt.			Est. # of Pupils:	1,900,000	\$71.77

The two tables show that revenue per pupil from casino taxes is estimated at \$21.40 in FY 2013 and \$71.77 in FY 2014. In FY 2015, the four casinos will be fully operating (with the exception of the second phase of the Cleveland casino). At that point, assuming there is no supplanting and that neither the second phase of the Cleveland casino nor any VLT facilities other than Scioto Downs have opened by January 1, 2015, the casino tax is estimated to produce \$82.35 per pupil.

While the amount of money that is estimated to be allocated to each district is not insubstantial, it is also not enough in most cases to make a significant difference in financial planning. For instance, consider a district with \$400,000,000 million of total valuation and 3,000 students. In that case, in FY 2014, the district would get an estimated \$215,300 from the casino tax. That amount of casino tax revenue would equate to about 0.54 mill of property tax.

Looking at the projected allocations another way, the amount of revenues estimated to be distributed in FY 2014 is a relative small percentage of overall budgets. For a district spending \$7,177 per pupil, the allocation would equal one percent of total operating spending. In general, the casino revenue will amount to between 0.5 percent and 1.5 percent of operating spending in most school districts.