

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

HOUSE GAMING OVERSIGHT COMMITTEE
PUBLIC HEARING

joint with the

SENATE COMMUNITY, ECONOMIC & RECREATIONAL
DEVELOPMENT COMMITTEE

STATE CAPITOL
HARRISBURG, PA

MAIN CAPITOL BUILDING
ROOMS 8A & 8B, EAST WING

TUESDAY, MARCH 7, 2017
2:00 P.M.

PRESENTATION ON
GAMING EXPANSION

HOUSE GAMING OVERSIGHT COMMITTEE MEMBERS PRESENT:

HONORABLE SCOTT PETRI, MAJORITY CHAIRMAN
HONORABLE BUD COOK
HONORABLE RUSS DIAMOND
HONORABLE MATTHEW DOWLING
HONORABLE GEORGE DUNBAR
HONORABLE SUE HELM
HONORABLE KRISTIN PHILLIPS-HILL
HONORABLE AARON KAUFER
HONORABLE HARRY LEWIS
HONORABLE THOMAS MEHAFFIE, III
HONORABLE TEDD NESBIT
HONORABLE JASON ORTITAY
HONORABLE JAMES SANTORA
HONORABLE JEFF WHEELAND
HONORABLE MORGAN CEPHAS
HONORABLE DOM COSTA
HONORABLE TINA DAVIS
HONORABLE SID KAVULICH

HOUSE GAMING OVERSIGHT COMMITTEE MEMBERS PRESENT (Cont'd):

HONORABLE ED NEILSON
HONORABLE MARK ROZZI

SENATE COMMUNITY, ECONOMIC & RECREATIONAL DEVELOPMENT
COMMITTEE MEMBERS PRESENT:

HONORABLE MARIO SCAVELLO, MAJORITY CHAIRMAN
HONORABLE PATRICK STEFANO
HONORABLE RICHARD ALLOWAY, II
HONORABLE CAMERA BARTOLOTTA
HONORABLE THOMAS MCGARRIGLE, SR.
HONORABLE GUY RESCHENTHALER
HONORABLE ROBERT TOMLINSON
HONORABLE KIM WARD
HONORABLE LAWRENCE FARNESE, JR., DEMOCRATIC CHAIRMAN
HONORABLE LISA BOSCOLA

* * * * *

*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

HOUSE COMMITTEE STAFF PRESENT:

JOSIAH SHELLY

MAJORITY EXECUTIVE DIRECTOR

CHRISTOPHER KING

DEMOCRATIC EXECUTIVE DIRECTOR

SENATE COMMITTEE STAFF PRESENT:

CHRISTINE ZUBECK

MAJORITY EXECUTIVE DIRECTOR

I N D E X

TESTIFIERS

* * *

<u>NAME</u>	<u>PAGE</u>
KEVIN O'TOOLE EXECUTIVE DIRECTOR, PA GAMING CONTROL BOARD, ACCOMPANIED BY: DOUG SHERMAN CHIEF COUNSEL, PA GAMING CONTROL BOARD.....	10
DAVID SATZ SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS AND DEVELOPMENT, CAESARS ENTERTAINMENT.....	26
ANNA SAINSBURY CHIEF EXECUTIVE OFFICER, GEOCOMPLY.....	31
DAVID COOKSON, ESQ. COALITION TO STOP INTERNET GAMBLING.....	73
DONN MITCHELL CHIEF ADMINISTRATIVE OFFICER, ISLE OF CAPRI CASINOS.....	90
ERIC PEARSON CHIEF EXECUTIVE OFFICER, VALLEY FORGE CASINO RESORT.....	94
BOB GREEN CHAIRMAN, PARX CASINO.....	103
ANTHONY RICCI CHIEF EXECUTIVE OFFICER, PARX CASINO.....	104
WENDY HAMILTON GENERAL MANAGER, SUGARHOUSE CASINO.....	130

I N D E X

TESTIFIERS
(Cont'd)

* * *

<u>NAME</u>	<u>PAGE</u>
RICHARD SCHWARTZ PRESIDENT, RUSH STREET INTERACTIVE.....	133
JOHN PAPPAS EXECUTIVE DIRECTOR, POKER PLAYERS ALLIANCE.....	151
PAUL IRVIN ASSOCIATE, THE INNOVATION GROUP.....	158
IRA GUBERNICK MEMBER OF COZEN O'CONNOR, ON BEHALF OF THE COALITION FOR A SAFE AND REGULATED INTERNET....	169
NICHOLAS MENAS VICE PRESIDENT, CORPORATE DEVELOPMENT AND GOVERNMENT AFFAIRS, AMAYA.....	171

SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts online.)

P R O C E E D I N G S

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3 SENATE MAJORITY CHAIRMAN SCAVELLO: Good
4 afternoon. I'm Senator Mario Scavello. I'm looking
5 forward to working with my colleagues, Senator Farnese,
6 Representative Petri, and standing in for Chairman Harkins
7 is Representative Neilson, and all the Members of the
8 Senate and House Committee to review possible changes to
9 Title 4.

10 As you all are aware, expansion of casino gaming
11 in the Commonwealth is not a new topic of discussion.
12 There are many proposals, a few pieces of legislation
13 floating around, and many different ideas on how to
14 implement various casino gaming expansion initiatives.
15 We're here to listen, to review each proposal, and to
16 carefully consider the testimony from those within the
17 industry. This is a basic overview and opportunity for the
18 Members of each respective Committee, especially those
19 Members new to the Committee, to review all of the
20 information.

21 All ideas aside, our first priority must be to
22 protect the gaming landscape in Pennsylvania, which has
23 been a crucial economic benefit for the Commonwealth and
24 many communities.

25 In addition to expansion of casino gambling,

1 we'll also be looking to the testifiers to talk briefly
2 about their vision of an appropriate methodology for
3 continuing the local share assessment that casinos pay to
4 host communities. As we continue to look at many gambling
5 and related issues, this is one area where I have heard
6 unanimous agreement from stakeholders the need to address
7 LSA.

8 As we move forward with the testimony, I ask that
9 you continue to keep in mind that we're here to discuss
10 issues specific to the expansion of casino gaming and not
11 new gaming initiatives such as the implementation of the
12 video gaming terminals, VGTs. Please stick to the topic of
13 discussion and reserve future commentary on VGTs for a
14 later date, which will probably be the end of this month.
15 We'll have a joint meeting.

16 Representative Petri, Chairman Petri.

17 HOUSE MAJORITY CHAIRMAN PETRI: Thank you,
18 Senator Scavello.

19 And I want to say to everybody if the optics
20 aren't apparent, we are working together with the House and
21 Senate, Republicans and Democrats, to try and run through
22 hearings. The goal is not to have as many hearings as my
23 former colleague who's sitting in the audience had. I
24 think you broke the record, and we want to leave it that
25 way. But the goal is to allow everyone to have a chance to

1 state their piece in front of the General Assembly.

2 So for those of you who were not able to make the
3 agenda -- I know that we're tight today -- there will be
4 subsequent hearings and certainly joint with the Senate to
5 talk about your issues and to have a chance to come before
6 the Committee.

7 I'd ask Members to try to be respectful since we
8 have a huge group. And I apologize to all my colleagues
9 that seem like they're on the other side. I don't know.
10 Are you at third base and we're at first base or is it the
11 other way around? I can't tell.

12 But I think the importance of having a joint
13 hearing cannot be understated. It sends a clear and
14 resounding message that we're going to try to come up with
15 an agreement that's going to balance the policy issues
16 against the need to find additional revenue. And I think
17 Chairman Scavello's comments reflect that balance as well
18 that we're looking for. There's a sweet spot we can land
19 in potentially, but we're going to have to be very
20 communicative and very cooperative. So I look forward to a
21 robust hearing.

22 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you,
23 Chairman.

24 Chairman Farnese.

25 SENATE DEMOCRATIC CHAIRMAN FARNESE: Thank you

1 very much, Mr. Chairman.

2 Just briefly, we have a large agenda to get
3 through today, so I just want to say that I look forward to
4 working the joint Committees here on this legislation and
5 moving forward. And of course, whether fortunately or
6 unfortunately, I'm the legislator here who has not one but
7 two licenses within their district. So certainly, we're
8 happy that this opportunity was presented, and I look
9 forward to the testifiers today.

10 Thank you, Mr. Chairman.

11 SENATE MAJORITY CHAIRMAN SCAVELLO: Vice Chairman
12 Neilson.

13 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

14 I look forward to hearing the testimony today.
15 We have a lot of interesting guests and speakers to move
16 this issue forward. We worked real hard under Chairman
17 Payne last year. I attended all 84 meetings that he had,
18 and we learned a whole lot. But with the Senate on board
19 and everybody working together, I look forward to moving
20 this quickly and swiftly through the process.

21 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

22 I would like to call up our first testifiers,
23 Mr. Kevin O'Toole, the Executive Director of the PA Gaming
24 Control Board; and Mr. Doug Sherman, Chief Counsel, PA
25 Gaming Control Board. And each panel will have

1 approximately 15 minutes, okay?

2 MR. O'TOOLE: Good afternoon, Chairman

3 Scavello --

4 MR. SHERMAN: Good afternoon.

5 MR. O'TOOLE: -- Chairman Farnese, Chairman
6 Petri, and Vice Chairman Neilson, and also Members of both
7 Committees who are present here today. I am Kevin O'Toole,
8 Executive Director of the Pennsylvania Gaming Control
9 Board. With me this afternoon is our Chief Counsel Doug
10 Sherman. Also present at the hearing today are two of our
11 board members, Tony Moscato and Dante Santoni.

12 It is a pleasure for Doug and I to be here with
13 you this afternoon to discuss changes to the Gaming Act, as
14 well as potential expansion of the activities covered under
15 the Gaming Act. Thank you very much for putting us in the
16 lead-off spot. We will not take our entire 15 minutes in
17 all likelihood.

18 Since the Board provided testimony at a series of
19 hearings held last legislative session, I will highlight
20 only a limited number of areas. I would like to note,
21 however, that we are eager to serve as a resource for the
22 Committees on any specific issue area in which the
23 Committees should ask.

24 I'm particularly proud, as a representative of
25 the Board, to be able to state that we have regulated

1 gambling for over 10 years in the Commonwealth of
2 Pennsylvania. We bring a high degree of knowledge and
3 experience in the regulation of gaming. We have a very
4 high percentage of employees who have already reached their
5 10-year anniversary as employees of the Gaming Control
6 Board.

7 So as such, the Board has the expertise to
8 recommend that any expansion of casino-style gaming,
9 including Internet gaming and fantasy sports be placed
10 under the purview of the Board if legislation is enacted by
11 the General Assembly and the Governor. We believe that
12 efficiencies can be achieved by using the experience of our
13 employees and that we can adequately protect the public and
14 the integrity of gaming in these areas.

15 Therefore, the Board is supportive of the
16 legislative language embodied in House Bill 392, which is
17 the one bill that we have been able to review and get a
18 good handle on. H.B. 392 places the oversight of Internet
19 gaming and fantasy contests under the regulatory oversight
20 of the Board. And it also did an outstanding job of
21 recognizing the duties and responsibilities of the
22 regulatory agency in that area.

23 So relative to additional changes to Title 4,
24 which are incorporated within House Bill 392, I offer the
25 following comments:

1 Any bill to expand gaming should include a
2 provision that would increase the license renewal period
3 from the current three-year term to a five-year term.
4 Internet gambling in particular, if that were to be
5 authorized by the Legislature, will include new categories
6 of entities and individuals who will need to be licensed,
7 licensed Internet operators who would work in concert with
8 existing licensed slot machine operators. So that term
9 extension is very important to us. It will help the Board
10 to continue its efforts to keep our personnel complement at
11 current levels or lower without any negative impact on
12 regulatory oversight.

13 The Board also supports allowing Pennsylvania
14 casinos to provide skill-based slot machines, as well as
15 hybrid slot machines to its gaming patrons. New Jersey
16 casinos have begun to offer skill-based slot machines to
17 their patrons, so this represents a competitive issue for
18 Pennsylvania casinos. It is important to note that a
19 change to the Gaming Act is required in order to accomplish
20 this in light of the current definition of slot machine,
21 which would require a predominance of chance. So for a
22 skill-based slot machine or a hybrid slot machine, there
23 has to be a greater reliance upon skill.

24 The third item that I'd like to bring to your
25 attention is that the Board supports requiring testing and

1 certification standards for Internet gaming operations.
2 That requirement is presently in H.B. 392, and it is
3 imperative that the games played from the Internet sites
4 meet standards of fairness.

5 The use of independent private labs to assist in
6 the testing of Internet-based games will facilitate the
7 approval process. While the Board has an in-house gaming
8 lab which achieves the mandates of the Gaming Act in an
9 efficient and timely manner, a year-and-a-half ago we
10 modified our testing protocols to incorporate relying upon
11 test results from private independent labs. This has
12 resulted in an increase of production for our lab from 300
13 approvals annually to approximately 500 approvals annually.
14 This efficiency has been found while maintaining the
15 integrity of the approval process for all slot machines and
16 can be applied effectively to Internet gaming operations.

17 It is also important to note that H.B. 392 gives
18 the Board authority and mandates that rules and regulations
19 be adopted to ensure data security, operational security,
20 effective management, and administrative control of all
21 aspects of interactive gaming. So those are important
22 responsibilities, and we will be up to the challenge to
23 ensure that they are promulgated timely and effectively.

24 The Board also supports allowing a greater
25 reliance on a notification process for nongaming service

1 providers at the Board's discretion. The Board is mandated
2 under the Gaming Act to develop systems to review and
3 approve businesses that seek to provide a product or
4 service to a casino. Under this provision, the Board
5 developed a system based upon the monetary amount of the
6 good or service provided.

7 At this time, it does seem appropriate to
8 delineate this further by recognizing a system of
9 notification for businesses which seek to provide a good or
10 service which would not involve access to the gaming floor
11 or a restricted area, provided that the Board is granted
12 discretion to require more of nongaming service providers
13 if it is determined by the Board that facts or
14 circumstances require additional vetting.

15 And finally, the proposed change that we would
16 also recommend, which is not included in House Bill 392, is
17 the removal of the slot machine license ownership
18 restriction currently in the Gaming Act. Ownership is
19 currently restricted to 1-1/3 licenses. This was
20 appropriate in the initial licensing stage of gaming, as it
21 assured that no one licensee would dominate.

22 As the Board has testified in several previous
23 legislative hearings, with a limited number of licenses yet
24 to be considered by the Board, it is probably best to allow
25 the market to determine the ownership of licenses and not

1 unduly limit the ownership with restrictions not found in
2 other gaming jurisdictions.

3 We understand that the legislative process is
4 fluid in nature. We look forward to providing our insight
5 as the process continues.

6 I appreciate the opportunity to speak with you
7 today. Chief Counsel Sherman and I are available to answer
8 any questions. Thank you.

9 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you
10 very much.

11 Any questions from the Senators?

12 Senator Boscola.

13 SENATOR BOSCOLA: I'll be so quick with all these
14 people.

15 Hi. Good afternoon. There's a couple things
16 that I have. I represent the Sands Casino in Bethlehem,
17 and there were indications recently that it might be sold.
18 And I know it's one of the highest -- probably one of the
19 best-performing casinos, you know, in this Commonwealth.

20 SENATOR TOMLINSON: Second.

21 SENATOR BOSCOLA: It is not second, number one.

22 SENATOR TOMLINSON: Table games, one.

23 SENATOR BOSCOLA: Table games, one.

24 Anyway, so I was asking these questions on -- I
25 was thinking -- I couldn't get definitive answers so I

1 wanted to bring it up today about -- I didn't know that
2 there was a transfer fee. When I asked the questions, some
3 individuals even that wrote the law didn't know if there
4 was a transfer fee when a casino changes hands. How is
5 that determined? Because I looked and it's not solid in
6 statute, so there must be some discretion maybe that you
7 have. I've heard that in the past maybe \$2.5 million was
8 the number, but how do you come at that? And then are you
9 going to apply those same principles or whatever you do,
10 how you determine it, to what might happen in the Sands in
11 the future?

12 And then maybe if we're going to open up the
13 gaming law, maybe some of this should be set in stone
14 because I think \$2.5 million on a sale is probably pretty
15 low considering what the buy-in is to begin with at \$50
16 million, just your thoughts.

17 MR. SHERMAN: Senator, Section 1328 of the act
18 governs the change of control, and therein it states that
19 the license fee can be reduced but not eliminated in whole.
20 So if we start with the \$50 million license fee initially
21 paid, I think when a couple of the early transfers of
22 control came before the Board, one of the arguments
23 advanced as to why the amount should be reduced was that
24 that \$50 million in the purchase price by the buyer was
25 already factored in to the purchase price. So as a result,

1 the early Board has set a presumptive \$2.5 million transfer
2 fee.

3 More recently, the last time there was a transfer
4 when Pinnacle Entertainment bought into The Meadows, the
5 Board announced at that time that they thought that, given
6 the passage of time, the \$2.5 million transfer fee would
7 probably be subject to revision upward. There has not been
8 an occasion that's come before the Board since then in
9 which they have decided what that number will be. So I
10 think it's fair to say it'll be a floor of \$2.5 million but
11 likely upward.

12 SENATOR BOSCOLA: Thank you. The Internet gaming
13 proposals that you hear, there are various bills out there
14 obviously. One of my concerns is that when we did gaming
15 10 years ago or so this was bought into by the public
16 because it was going to offer property tax relief. So on
17 the slots it was a 54 percent rate. Then we went to table
18 games, 16 percent, but that didn't go to the homeowners.
19 That went into the General Fund. And my concern is as we
20 move toward more Internet, and the taxing of it is
21 obviously going to be less than the 54 percent for slots,
22 how is this really going to help property tax owners
23 because I see it as just diluting from it. In fact, if we
24 have Internet gaming across this Commonwealth, I believe
25 you will see less property tax relief, and that's not what

1 the public bought into when we sold this to them.

2 MR. O'TOOLE: Senator, you know, I mean, that's a
3 question that doesn't have an easy answer, but I can tell
4 you this much. There's three jurisdictions, one of which
5 is very close. The leading Internet jurisdiction is New
6 Jersey. And their Internet revenue has increased somewhat
7 slow, but in just the last six to eight months, it's
8 getting close to \$20 million per month in Internet gaming
9 revenue.

10 So if you look at their highest-performing casino
11 Borgata, from 2014, 2015, and 2016, their slot revenue has
12 increased significantly each of those years. Now, that's
13 where the dynamics come in. It's certainly not -- you
14 know, there's a lot of factors involved, some of which is
15 casinos closed in the Atlantic City market without a doubt.
16 But if Internet gambling was taking away slot revenue from
17 the Borgata, I think we'd see different figures.

18 SENATOR BOSCOLA: Well, it is different because
19 their taxing rate, ours, you're comparing apples to oranges
20 in a way so I get that. I'm just more concerned about what
21 our tax rate was, what it's going to mean if you open it
22 up. And not only that. Maybe you can address this, too.
23 If we have Internet gaming and people are, you know, at
24 home on their computers, we also sold this as an economic
25 development tool so that all the spinoff that happens when

1 you have a brick-and-mortar casino, waitresses, hotels,
2 dealers, restaurants, I mean big in my area in fact, shops,
3 so forth, I don't know if these brick-and-mortar casinos
4 are really going to want to expand in those areas given
5 Internet gaming.

6 I don't know what's happened in other States, but
7 I know that most of the casinos want Internet gaming
8 because they are profits, but I'm more concerned about what
9 this means for our State as far as economic development and
10 then what we promised with property tax relief. I have a
11 bigger picture thing going on here.

12 MR. O'TOOLE: Well, Senator, if Internet gambling
13 generates anywhere from \$3 to \$5 million a month for even
14 the better casinos, it is just an amenity. It's not going
15 to compete against the slot operations and the table game
16 operations. I doubt if you'd find very many individuals
17 who enjoy going to the casino to just sit at home at a
18 laptop and gamble. Many of them may not be too proficient
19 at operating a laptop because it is true that, you know,
20 people, you know, above gen X enjoy going, you know, to the
21 brick-and-mortar casinos.

22 SENATOR BOSCOLA: Well, if you look at
23 statistics, it proves that usually those that are more
24 addicted to gambling are the ones that are staying at home,
25 so I don't know how good that is either.

1 In any case, I'll just end with this. If the
2 State -- because I see the direction we're going in -- is
3 going to explore and maybe even this Legislature approves
4 of Internet gaming, how similar and rigorous background
5 checks are you going to be because I knew you were when it
6 came to applicants for the casino licenses? How strong are
7 you going to be looking at the backgrounds of applicants?
8 Because some of them I understand were under criminal
9 indictment. Past performances in other States indicate
10 they weren't doing well. Are you going to be that vigilant
11 when it comes to online gaming and those companies that
12 want to try to get a license here? Because I've been
13 reading on some of them and they've been under criminal
14 indictment and other aspects that are criminal that I won't
15 want here in this Commonwealth.

16 MR. O'TOOLE: Senator, the answer is simple.
17 It's yes.

18 SENATOR BOSCOLA: Thank you. We need yes, yes,
19 and yes.

20 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
21 Tomlinson.

22 SENATOR TOMLINSON: Yes, just to pick up I think
23 what Senator Boscola was talking about is if you have a 54
24 percent tax rate for a slot machine and you have a 15
25 percent tax rate for a slot machine on the Internet, why

1 wouldn't the business try to drive their business to the 15
2 percent tax rate so they can make more money? And of
3 course you don't need as many employees.

4 So I think what Senator Boscola was asking, do
5 you think that this will cannibalize the industry based on
6 such -- and, for instance, in New Jersey the tax rate in a
7 casino is 9 percent. The tax rate on the Internet is 15
8 percent so they're higher on the Internet. In
9 Pennsylvania, the problem is that the tax rate is going to
10 be extremely low compared to what the tax rate is in a
11 casino.

12 So any businessman, I don't care which one, for
13 it or against it, if it's sunny out, I think they're going
14 to say, here, here's a \$100 card. Stay home and gamble
15 today because it's too hot to go outside. If it's snowing
16 out, hey, it's snowing out today, stay home and gamble;
17 it's snowing out today. I would think that any prudent
18 businessman -- and they all have investors. They have
19 stakeholders, investors. They have people that want return
20 on their money. What's going to stop these operators from
21 doing what their stakeholders and their managers would
22 expect them to do and to drive it to a more highly
23 profitable margin?

24 MR. O'TOOLE: Senator --

25 SENATOR TOMLINSON: That was the question she

1 wanted.

2 MR. O'TOOLE: Yes, your comments are well-taken,
3 and there are times that we're glad that we're sitting here
4 as regulators and not operators.

5 SENATE MAJORITY CHAIRMAN SCAVELLO: Got it. All
6 right. Senator Farnese.

7 SENATOR TOMLINSON: Well, anyway, I think that
8 our control commission has shown extreme ability in their
9 investigations and their following through and making sure
10 that our industry is operated as clean and to the highest
11 standards it can be, and I want to congratulate you for
12 that.

13 MR. O'TOOLE: Thank you.

14 SENATOR BOSCOLA: And make sure these casinos
15 don't put in gaming lounges.

16 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator?

17 HOUSE MAJORITY CHAIRMAN PETRI: We're going to
18 hear from a House Member. I can't see that far, so if you
19 have a question, would you just raise your hand and
20 identify yourself? Any questions over there?
21 Representative Santora, I can see you.

22 REPRESENTATIVE SANTORA: Thank you, Mr. Chairman.

23 In order to have an iGaming license, is it my
24 understanding that you also must have a brick-and-stick
25 casino?

1 MR. O'TOOLE: Well, that all depends on what the
2 legislation is that is ultimately drafted and approved.
3 That would be up to the legislation.

4 REPRESENTATIVE SANTORA: Well, let's make sure
5 that happens. All right. Thank you.

6 HOUSE MAJORITY CHAIRMAN PETRI: Representative
7 Kavulich.

8 REPRESENTATIVE KAVULICH: Thank you,
9 Mr. Chairman.

10 I think my concerns are more along the lines of
11 Senator Boscola with the fact that for every -- I just
12 can't wrap my head around the fact that for every person
13 that's sitting on their couch with their iPad or in front
14 of their computer, that's one less person serving them a
15 drink, parking their car, assisting them in the casino.
16 But can we fairly compare Pennsylvania to New Jersey?

17 When Pennsylvania set up our brick-and-mortar
18 casinos, we did it the right way by spreading them around
19 the State. When New Jersey did it, everything was
20 concentrated in Atlantic City. So is it fair to compare us
21 to Atlantic City or New Jersey because of the fact that no
22 matter where you live in Pennsylvania or in most places,
23 you're still a reasonable drive from a brick-and-mortar
24 casino. So that's my concern when we talk about Internet
25 gaming.

1 MR. O'TOOLE: Well, certainly, Pennsylvania had a
2 much better concept of how to make casino industry
3 successful in a large State such as ours. And having 12
4 operating casinos currently spread throughout the State,
5 most of those, with the exception of maybe a Category 3
6 casino, are in the largest populated areas of the State.
7 And the industry has coined and developed the concept of
8 convenience gaming, which really revolutionized the casino
9 industry in the country.

10 The comparison with New Jersey is strictly on the
11 Internet side, not on the brick-and-mortar side, so I
12 thought it was important to be able to suggest will
13 Internet affect the land-based casino revenue? And I think
14 that the best projection is to look at New Jersey, and I
15 think any effect would be relatively low if at all.

16 REPRESENTATIVE KAVULICH: And just as an add-on,
17 I still think that we're doing it the right way, and I
18 agree that you gentleman as well and everybody surrounding
19 you are doing a great job here in Pennsylvania. Hopefully,
20 we can continue to see an uptick and be able to take
21 advantage of this in this Commonwealth.

22 Thank you very much, gentleman.

23 MR. O'TOOLE: Thank you.

24 HOUSE MAJORITY CHAIRMAN PETRI: Vice Chairman
25 Neilson.

1 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

2 Thank you, gentleman, for testifying today. In
3 your testimony, you identified some key provisions that you
4 would like to see in the act as we make these changes.
5 With the way technology has changed since the Gaming Act
6 was passed, can you identify for us some of the regulations
7 within that you would like to see lifted that places a
8 burden on both you and the industry itself so we can run
9 more efficiency?

10 MR. O'TOOLE: With all due respect,
11 Representative, I'd like a little bit more time to prepare
12 for such a great question. I would be shooting from the
13 hip, and I'd prefer not to do that.

14 REPRESENTATIVE NEILSON: And that'd be great, but
15 if you can prepare that and get them to the Chairmen
16 because it's something that we really should look at as we
17 make these changes because I think there are some things
18 that we can change out there to lift some of the burdens on
19 both the industry and the Gaming Control Board.

20 MR. O'TOOLE: Certainly.

21 REPRESENTATIVE NEILSON: Thank you.

22 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you
23 very much for your testimony.

24 On the hearing calendar here I'd like to flip if
25 possible to bring up our next panel. The panel to testify

1 will include David Satz, Senior Vice President of
2 Government Relations and Development, Caesars
3 Entertainment; and Anna Sainsbury, Chief Executive Officer
4 of GeoComply.

5 And I will have Mr. Cookson right after if
6 possible, okay? Thank you.

7 MR. SATZ: Chairman Scavello, Chairman Petri,
8 Chairman --

9 SENATE MAJORITY CHAIRMAN SCAVELLO: Please turn
10 your mike on there, please.

11 MR. SATZ: Is it on?
12 Chairman Scavello, Chairman Petri, Chairman
13 Francese? Close?

14 SENATE DEMOCRATIC CHAIRMAN FARNESE: Farnese.

15 MR. SATZ: Farnese, thank you. And Vice Chairman
16 Neilson, thank you for having us here today, and we
17 appreciate the opportunity to speak to you today.

18 I've submitted a PowerPoint that really covers a
19 lot of the Internet issues from A to Z. And rather than
20 boring you by going through all of that, I'm just going to
21 hit some top policy points, and then I will turn it over to
22 Anna Sainsbury, who is the CEO of GeoComply, who will talk
23 about some of the technology involved with the registration
24 process and the like.

25 So let me set the table by just making the point

1 that millions of Americans gamble in every one of the 50
2 States today online, and they do it on illegal, unregulated
3 sites. They do it with no consumer protections, they do it
4 with no protections against underage gambling, nothing that
5 protects the vulnerable and problem gamblers, and nothing,
6 no protections against fraud or other kinds of illegalities
7 and, importantly, no tax revenues for the States in which
8 these occur. So it's not a question of, you know, should
9 the State look at it, but the question is should the State
10 consider regulating it and collecting the tax?

11 So just real quickly, I want to address three of
12 the key legal pieces that are at play here and that I'm
13 sure you'll hear testimony on today. The first is the Wire
14 Act, which was enacted back in the 1960s to deal with
15 illegal gambling occurring through organized crime and the
16 like. It was done long before Al Gore dreamed up the
17 Internet, and so at the time they enacted this law, nobody
18 was thinking the Internet.

19 The Department of Justice in the early '90s when
20 the Internet came into play initially took the position
21 that because it was involving, you know, communications
22 going across State lines that it involved the Internet.
23 But the Department of Justice and the law has changed since
24 then.

25 So in 2006 Congress passed the Unlawful Internet

1 Gambling Enforcement Act, which was designed to ferret out
2 illegal gambling, and it put certain prohibitions on
3 financial institutions. But I believe you're going to hear
4 testimony from some people opposed later today who make the
5 point that somehow that what's going on in the States today
6 legally through lotteries and other things is wrong and
7 illegal.

8 In the Unlawful Internet Gambling Act, Congress
9 very expressly and explicitly authorized intrastate
10 Internet gambling subject to certain technology
11 protections, which you will hear in a moment from
12 Ms. Sainsbury.

13 And the last point is the Department of Justice
14 in 2011 issued a memorandum which I think most of you know
15 about that expressly said the Wire Act only applied to
16 sports betting and that, therefore, States were not
17 prohibited by virtue of the Wire Act. And some of that was
18 based on case law, and some of it was based on the
19 expressed provisions of UIGEA and the like.

20 So what has happened since that time? There's
21 been five States that have jumped into online lottery --
22 Georgia, Illinois, Michigan, Minnesota, and Kentucky -- and
23 three States have jumped into various forms of Internet
24 gambling -- New Jersey, Nevada, and Delaware. And the key
25 takeaway I think from those States that have jumped into

1 this space is that with proper regulation, robust
2 regulation, and proper licensing of those involved that you
3 indeed can stop minors from gambling, that you can protect
4 that it only occurs within the borders, that the vulnerable
5 are protected, and that the States can collect revenue.

6 So I think Mr. O'Toole mentioned some of the
7 revenues. New Jersey began very slowly at like \$10 million
8 a month, and it's grown most recently to this January it
9 had \$18 million a month. So it's been consistently
10 growing, and I think some of that's the growing pains as
11 the technology's been adjusted. The regulators have turned
12 the dials down to make sure everything's protected but not
13 overly protected.

14 So as you review potential legislation, I think
15 it's important that you avoid some of the scaremongering
16 that you will likely hear today from those opposed. The
17 regulations really do work. There have been efforts of one
18 licensee to try to get a prohibition passed in Congress.
19 Those efforts have gone nowhere. There's been multiple
20 hearings in Congress, and I think for the most part
21 Congress has stayed away from it because they believe in
22 the fundamental State police powers and the right of each
23 State to determine whether they like gambling or they want
24 to prohibit it.

25 So in terms of overreaching policy issues, I

1 think the Internet is here to stay. Simple prohibition
2 doesn't work. In terms of what it means to us as a
3 licensee, I think it's important -- and Mr. O'Toole touched
4 upon this -- but very importantly, we don't want to go the
5 way of the Blockbusters and the newspapers and the like. I
6 think it's very important that every industry be able to
7 use the Internet in some shape or fashion. And I think
8 that's important to us.

9 In terms of the issue -- Senator Boscola, I think
10 you asked questions about cannibalization and the like. We
11 have found quite the opposite in New Jersey. We have found
12 that 80 percent of the customers we meet online are
13 customers we did not know through our rewards program or
14 something. So we've actually grown that business and grown
15 them to come to our property. So it's a way of reaching
16 out to them.

17 Of the other 20 percent, 46 percent of those
18 people who we did know beforehand actually were inactive
19 customers who we got to come back to our property. So it's
20 a way to engage people. And particularly there is the
21 issue of the younger demographic. And I think what's
22 important -- I'm just reading some statistics here -- 60
23 percent of the players who play online are between the ages
24 of 21 and 39. So I'm a Baby Boomer. I don't do everything
25 online but we all have kids and we see how they do

1 everything online as they graduate college and the like.
2 And so that age group is very much doing things, and we
3 don't want to lose them. We want to look for ways, whether
4 it's games of skill or whatever, to reach out and deal with
5 them.

6 It also creates, the Internet, a lot of online
7 cross-marketing opportunities.

8 And then lastly, I think the important point for
9 a lot of the Members here today is it creates revenue.
10 Just briefly, and I'll turn it over to Ms. Sainsbury, I
11 think Econsult did a study for the joint Legislative Budget
12 and Finance Committee that projected revenue of \$307
13 million or \$43 million a year in taxes if you assumed a 14
14 percent tax rate or \$430 million over 10 years.

15 In line with that, we had proffered a study
16 that's in the deck that I presented that showed a low of
17 256 and a high of 350, so it's basically in the same
18 ballpark. And then in addition to that, there's the
19 upfront fees that the State can get out of that and the
20 income tax.

21 But I'd like to just turn now a little bit to the
22 registration and the technology because I think it's
23 important for you all to understand just how that all works
24 together.

25 SENATE MAJORITY CHAIRMAN SCAVELLO: Please do.

1 MS. SAINSBURY: Thank you, Chairmen and Members
2 of the Committee, for having me here today. Also -- no. I
3 was going to say I had a few technical difficulties but we
4 have overcome them.

5 So I am founder and CEO of a company called
6 GeoComply, and we do the geolocation compliance and
7 verification for 100 percent of the market in the three
8 existing online gaming States, including New Jersey,
9 Nevada, and Delaware.

10 This map that you can see here today is an
11 analytics tool that we provided to the -- sorry, yes.

12 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

13 MS. SAINSBURY: This is an analytics tool that we
14 supplied to the DGE, the regulators in New Jersey, to help
15 them track and monitor transactions that are occurring in
16 their State today. So the green dots represent android
17 transactions, the white dots are iOS devices, and the blue
18 dots represent PC and Macs. The reason that I highlight
19 them is because each different device type has to be
20 considered and processed differently because different
21 types of frauds need to be considered.

22 The red dots that you see popping up now and
23 again, those are users that didn't meet the geolocation
24 requirements set out, so they could be users that are using
25 proxies, VPNs, remote desktop software, bots, or any other

1 type of virtual system that could allow a user to mask
2 their location or hide who they are online.

3 So I will just zoom in a little bit. There's not
4 too much action around the border here, but you can see a
5 few players right now that are playing around the border
6 areas. So we launched this in New Jersey in November of
7 2013 and have effectively been protecting the borders of
8 Philadelphia since that date.

9 I have a couple transactions to show you so you
10 can see actually how much data we are collecting and how
11 much is being analyzed with each transaction. So this
12 image here, the yellow circle represents IP geolocation.
13 This is what the industry relied on prior to regulating
14 U.S. online gaming. So the U.S. online gaming industry
15 essentially made us collaborate and work with regulators
16 and other industry suppliers to make sure that we can not
17 only get location data at that level but also pinpoint
18 exactly where a user is coming from to a street level. So
19 let me go here. So we know where these users are.

20 In addition, we collect all other information on
21 their device so we can see if they're spoofing their
22 location. We know what device type the user is on, how
23 close they are to the border, how often we need to relocate
24 them so if they were traveling in a car and about to cross
25 a bridge to go into Philadelphia at the moment, we would be

1 able to stop them before they actually crossed the bridge.

2 When you look at other concerns about spoofing
3 and people getting around and circumventing the systems, we
4 also collect all of the running processes on the device.
5 So in this case this user had 195 different processes on
6 the device. We look at those at the application level so
7 we look to see the executable file names on the device, but
8 we also look at the fingerprint of each of those softwares.
9 So if I was a sophisticated hacker, I might want to retitle
10 my VPN or fake location software to appear to be less
11 threatening like Anna's Learning System or whatever it
12 might be. So we would still be able to actually see
13 software that was being masked. If it could be used for
14 spoofing geolocation, we'd still be able to detect it.

15 I'm going to show you an interesting transaction
16 that could be of interest. So this is a user on the
17 border, and you can see that the blue circle represents the
18 Wi-Fi data. The Wi-Fi data in this case wasn't very
19 accurate. It came at 374 meters, which is not very
20 typical. The one I just showed you is 65 meters, which is
21 more common. So in this case the user's circle and radius
22 of accuracy we didn't trust it very much. And you can see
23 the accuracy radius goes across the straight line. So in
24 this case this user didn't pass. You can see the error
25 code on the top there. It said that the user failed due to

1 accuracy in the primary data source, as well as the
2 distance to border.

3 So we do look at a number of different things
4 when processing the transactions. We're also aware that
5 technologies change so our systems are updated 10 times a
6 year, and our databases are updated multiple times a day.
7 So as Wi-Fi routers move around, as new Wi-Fi routers are
8 established, as GPS is updated and device and hardware
9 changes, our systems are staying ahead of the curve.

10 So I know that border areas have always been a
11 concern to most regulators, so it has always been in our
12 interest to make sure that we analyze this data over time
13 and work with regulators to rest assured that all of their
14 concerns are being handled and managed.

15 We do analytics with operators as well as the
16 regulators, so we don't just look at each transaction as it
17 comes in. We analyze players' transactions over time so we
18 can see things that don't look like a player that you would
19 want to continue engaging with, so someone that's always
20 pushing the bounds, frequently failing due to fraud checks.
21 We would provide daily and weekly reports to operators and
22 regulators to say, hey, we might want to consider blocking
23 this user. And when we do proceed with blocking users, we
24 can block them by not only their user ID and have the
25 operator block them but we can also block or flag all of

1 the devices that user has ever used so that we know that
2 any user that looks like they are in a network of potential
3 fraud, that they wouldn't be able to continue accessing the
4 systems.

5 So I'm pleased to say that the iGaming industry
6 has really pioneered geolocation technology, and it's now
7 being used in more markets, so digital rights media and
8 then banking and finance are huge users and in need of the
9 geolocation parameters that we've set out.

10 Any questions?

11 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
12 Reschenthaler.

13 SENATOR RESCHENTHALER: You know what, Mr.
14 Chairman, my question was actually answered during the
15 presentation so --

16 SENATE MAJORITY CHAIRMAN SCAVELLO: Oh, your
17 questions are answered?

18 SENATOR RESCHENTHALER: Yes, thank you.

19 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay. Very
20 good. Okay.

21 We'll take a Senator and then we'll go to --
22 Senator Tomlinson and then we'll go to --

23 SENATOR TOMLINSON: Yes, I think you're probably
24 better than I want you to be.

25 MS. SAINSBURY: Thanks.

1 SENATOR TOMLINSON: I think you're going to know
2 a little bit more about me than I want you to know about
3 me, but I do believe that you have the ability to
4 geographically make sure that -- I mean, I'm sure there's
5 mistakes that can be made and you can correct them, but I'm
6 sure you're going to have a lot more knowledge about me and
7 where I am and what I'm doing than I want you to know where
8 I am and what I'm doing. So I'm not sure that that's a
9 positive for us. But I do think your technology can
10 probably do what you're saying even beyond what I would
11 like.

12 But I'd like to go back to the comparisons
13 between New Jersey and Pennsylvania. Once again, the tax
14 rate in New Jersey is probably almost 40 percent higher for
15 Internet than it is for in the casino, 9 percent versus 15
16 percent. Please explain to me why would you still want
17 people coming into your casino -- and I also understand if
18 you looked at all those little dots, the casinos are down
19 here and all the dots are in north Jersey where all the
20 population is. And that makes a lot of sense. In
21 Pennsylvania, we made the casinos convenient to the
22 population. Most of the population lives around our
23 casinos, so that's the biggest difference I see between New
24 Jersey and here. But the difference that I cannot
25 reconcile -- and I'll ask everybody -- how do you reconcile

1 New Jersey having such a higher tax rate on the Internet
2 and a lower tax rate on the casino?

3 MR. SATZ: I'd welcome to answer that. So,
4 first, you know, getting into the ultimate tax rates that
5 you chose and the Jersey Legislature chose, those are
6 policy decisions. I think New Jersey went for the low rate
7 to incent a lot more investment into some of the Atlantic
8 City properties. And, you know, there's benefit, pros and
9 cons to each side of that, and I defer to each State on
10 that.

11 In terms of what does it mean for our customers,
12 so our brick-and-mortar casinos, we're in the business of
13 providing entertainment, and the vast, vast majority of our
14 customers in New Jersey and frankly everywhere -- we have
15 48 properties throughout the country -- come to us for
16 entertainment. They come for the social element, they come
17 for our restaurants, they come for our spas, they come for
18 a whole different slew of things.

19 And so the person who is coming on for the
20 Internet isn't getting that, right? So I think, number
21 one, I don't see a difference -- the tax rate isn't going
22 to incent us because it's the customer and what they want
23 that ultimately is going to drive whether they want to come
24 to the casino or they want to go play that.

25 The second piece I'd hit on is just the issue of

1 convenience to the customer, right? So, again, I think I
2 mentioned the age demographic. It's not something you or I
3 would think of doing is picking up our phone and starting
4 to play games, or at least myself. I don't want to be
5 presumptuous with you. But the fact of the matter is a lot
6 of people in that age group like to do that, right? And
7 that's a customer choice. It's not a choice driven by
8 we're going to get less of a tax rate and pay the State
9 less. It's something the customer is determining.

10 I think Mr. O'Toole mentioned this. If you look
11 at the numbers of what's happening on the Internet, whether
12 it's New Jersey or anywhere, and the numbers that go to our
13 brick-and-mortar, it's just dwarfed. It's a small amenity.
14 It's an additional piece that's there that's frankly very
15 important to us. I mean, I'd ask you what other industry
16 do they say you cannot use the Internet? We all know the
17 Internet's here. We all know how, you know, it's shaking
18 up a whole bunch of industries, but we need to use that
19 Internet in some way, shape, or form.

20 SENATOR TOMLINSON: But in all those examples,
21 whether it's books or records or tapes or shirts from
22 Macy's or books from somebody or, I mean, a record shop,
23 there are no record shops, but the tax rates were all the
24 same. Now, we've incentivized to move people away from the
25 bricks and mortar by the tax rate. And I keep bringing it

1 up. It's just I can't see -- I mean, I'd be more than
2 happy to adjust the tax rate to be 40 percent higher on the
3 Internet than it is in the casino.

4 MR. SATZ: But the model is very different,
5 right, so --

6 SENATOR TOMLINSON: Exactly my point.

7 MR. SATZ: But it works very differently. So,
8 again, I think as Mr. O'Toole alluded to, there are
9 actually -- and there's lot of other factors so I'm not in
10 any way suggesting the only factor -- but New Jersey's
11 brick-and-mortar revenue has grown as it's stabilized
12 Atlantic City, as it's gotten used to the competition from
13 Pennsylvania and New York. That's at the same time as the
14 Internet was growing --

15 SENATOR TOMLINSON: But Atlantic City was making
16 \$5 billion a year at one time?

17 MR. SATZ: Correct.

18 SENATOR TOMLINSON: What are they making now?

19 MR. SATZ: Two-and-a-half billion.

20 SENATOR TOMLINSON: And Internet's brought that
21 back?

22 MR. SATZ: No, that's --

23 SENATOR TOMLINSON: I don't think so.

24 MR. SATZ: No. I think the industry itself has
25 stabilized in Atlantic City, and it's beginning to grow

1 again. At the same time --

2 SENATOR TOMLINSON: It's consolidating. It's
3 consolidating quite a bit.

4 MR. SATZ: Well, revenues I think have finally
5 stabilized. There's been growth.

6 SENATOR TOMLINSON: I mean, casinos themselves
7 have consolidated. How many casinos at one time did you
8 have in Atlantic City.

9 MR. SATZ: There were 11 and now there's --

10 SENATOR TOMLINSON: What do you have now?

11 MR. SATZ: -- seven. I think it's at seven.

12 SENATOR TOMLINSON: That might account for
13 casinos getting more customers, casinos closing?

14 MR. SATZ: There was definitely a supply-demand
15 imbalance, correct. You know, any kind of market that goes
16 from \$5 billion to --

17 SENATOR TOMLINSON: But to say that the
18 Internet's increased --

19 MR. SATZ: -- \$2.5 billion --

20 SENATOR TOMLINSON: -- the Internet has increased
21 your in-house customer I think is influenced more by the
22 number of casinos that closed down and customers are
23 looking for another casino --

24 MR. SATZ: No, I --

25 SENATOR TOMLINSON: -- and the good casinos --

1 great casinos.

2 MR. SATZ: As I mentioned, I think there are a
3 lot of factors, but I think in fact the industry has
4 stabilized. There's been a lot of efforts to revitalize
5 Atlantic City, and it's happening slowly. And Internet is
6 a small piece of what we feel are tools that were helpful
7 and I think will be helpful in Pennsylvania as well to
8 operations.

9 SENATOR TOMLINSON: And if you look at your dots,
10 you'll notice that you picked a lot of the western New
11 Jerseyans back that were coming over to Sands and Parx and
12 Harrah's Chester. A lot of those you were able to -- I
13 mean, our numbers went down at Parx 20 percent when you
14 guys went online.

15 MR. SATZ: Well, interestingly, my understanding
16 is there are various Pennsylvania licensees that have
17 licenses in New Jersey, so, you know, I think it's --
18 there's a lot of saturation within the Pennsylvania market.
19 There's actually I think 25 casinos within a two-hour
20 radius of Pennsylvania. I mean, there is no other market
21 in the United States or anywhere that has that kind of
22 competition, and that has all kinds of issues. You know,
23 with the new Philadelphia license that's in the courts
24 right now, that's a whole other issue. But those are
25 dynamics. I mean, like any other industry, there are lots

1 of fluid things that neither you nor us can control, and
2 you have to deal with them as businesspeople.

3 But I don't think, going back to the premise of
4 your question, that there's any truth to the fact that
5 because there are different tax rates that somehow there's
6 going to be an incentive to tell people don't come to our
7 facility and have the restaurants and shows, the things
8 that people go to be sociable about, and go gamble on your
9 mobile phone. I don't think that's going to happen. I
10 don't think there's any evidence to support it.

11 SENATOR TOMLINSON: Well, just the public policy
12 of turning this into a casino in everybody's home to me is
13 a bad policy I mean just from the moral standpoint. I
14 mean, I think you still have to go out to a casino. And as
15 Senator Boscola said earlier, to the parking attendants to
16 the waitresses, to the restaurants that are around the
17 casinos, to the motels that are around the casinos, I mean,
18 it's all those jobs included.

19 MR. SATZ: But that --

20 SENATOR TOMLINSON: And now you start turning
21 this into a casino and they're getting older and they --

22 MR. SATZ: This is an unregulated casino today
23 that millions of people gamble on offshore every single day
24 with zero regulation and no tax collection by Pennsylvania,
25 New Jersey, or any State. So I would suggest to you that

1 it's better to regulate it. I mean, we can't turn back the
2 clock --

3 SENATOR TOMLINSON: You can say that about a lot
4 of illegal activities, can't you? Yes.

5 MR. SATZ: Some, not all.

6 SENATOR TOMLINSON: Yes. Thank you, sir.

7 HOUSE MAJORITY CHAIRMAN PETRI: Okay. We have
8 some House Members in the following order: Representative
9 Nesbit, Representative Kaufer, Representative Dunbar, and
10 then Representative Santora. Please keep your questions
11 direct and short so we can move through everybody. Thanks.

12 REPRESENTATIVE NESBIT: All right. Just in terms
13 of the nuts and bolts of the geographic location and the
14 information, is that an exclusive contract with the State
15 to provide the computer services or do you do that through
16 the casinos? And I'll try to make it as brief as I can,
17 but the information that you're gleaning from that
18 obviously has significant value in terms you know the
19 players, you know when they're playing, you know where
20 they're playing from, all those things. And is that
21 proprietary to you or is that proprietary to the casinos?
22 Or how does that work into the New Jersey model?

23 MS. SAINSBURY: Well, we gather the location
24 data. We don't actually know who the player is. We just
25 know their unique player number. So we do gather the data,

1 and we do house it on behalf of our clients, but the data
2 is ultimately owned by our clients, which --

3 REPRESENTATIVE NESBIT: The clients are the
4 casinos? I'm sorry to interrupt, but I'm trying to keep it
5 brief.

6 MS. SAINSBURY: Our clients are generally the
7 platform providers, and in some contracts they are actually
8 the operators. This data is then shared. So in the
9 regulations, we actually have to share that data directly
10 with the regulators so that they can analyze it.

11 MR. SATZ: So let me -- I think in the deck that
12 I provided you, the geolocation is one piece of a much
13 larger piece of technology. As you register, if you were
14 to come onto one of our sites, we'd have to go through a
15 whole know-your-customer-type piece for the --

16 REPRESENTATIVE NESBIT: I tried to log on at the
17 last hearing, and it wouldn't let me because I was in
18 Pennsylvania, so I mean I know that part works. So then
19 that is part of the regulation itself, though?

20 MR. SATZ: So that's where I was going to go.
21 The regulators mandate that we the operator have, among
22 other things, geolocation in place to ensure it never goes
23 beyond the border. So we would retain or our platform
24 provider would retain GeoComply. The regulators, all the
25 stuff you saw that was back-of-house is really there for

1 the regulators and to the extent there's some issue, a
2 fraud issue or something. There is a trail to be able to
3 audit just like there is in a brick-and-mortar piece with
4 surveillance cameras and the like. So that's not stuff
5 that's public. What we have for our customer is not shared
6 with our competitors or the like, but the regulators, to
7 the extent they're ever investigating something, can
8 accumulate that and, you know, act on it if necessary.

9 But the point I wanted to make is there's
10 multiple technologies, geolocation, there's fraud checks,
11 there's algorithms that make sure people aren't engaging in
12 collusion and the like, and all of these work together.

13 REPRESENTATIVE NESBIT: And that's owned by the
14 State?

15 MR. SATZ: No, these are -- so as an operator
16 licensee, I'm held to the obligations to meet the
17 regulations, so we have pieces from the registration. I
18 have to do my age checks, and we'll use a certain vendor
19 that will cross-check a person's date of birth and their
20 credit card information and the like. And then separately,
21 you know, in the background are these algorithms running to
22 make sure whatever they're doing and playing isn't
23 upsetting any red flags that pop up and say there's
24 something not normal going on here.

25 There's the AML laws, the money laundering laws,

1 all kinds of stuff for suspicious transactions that we're
2 obligated to deal with but that we have third-party
3 technologies in place. So there's multiple softwares and
4 technologies that run through a transaction.

5 REPRESENTATIVE NESBIT: Okay.

6 MS. SAINSBURY: I should also just comment that
7 in the online space, all of the KYC and payment processors
8 also have to be licensed. So we go under the same checks
9 and rigor as a gaming operator or the platform providers
10 would. So in terms of reporting and requirements for
11 confidentiality, we have the same requirements that a
12 casino would ultimately have but not all of the software
13 providers by themselves could host or understand the full
14 picture like an operator could. So if you want to talk
15 about marketing data or repurposing this, it is for us just
16 location data.

17 REPRESENTATIVE NESBIT: Thank you, Mr. Chairman.

18 HOUSE MAJORITY CHAIRMAN PETRI: Representative
19 Kaufer.

20 REPRESENTATIVE KAUFER: Thank you, Mr. Chairman.

21 And thank you, everyone for your testimony. It's a
22 pleasure to be on here for a second consecutive term here
23 on our Gaming Oversight Committee. But once again, we
24 appear to be addressing issues that we were trying to
25 address last year.

1 I noticed that in your testimony on page 13 and
2 14 you talked about anti-money laundering and responsible
3 gaming. It seems again on here that we're dealing with the
4 same issue we dealt with last year about credit card
5 gambling. I find it infuriating because I have talked to a
6 number of constituents all throughout my district. I've
7 actually attended Gamblers Anonymous meetings, and I've
8 gone to a number of different platforms to talk about this
9 issue.

10 It seems once again we're at the same push once
11 again pushing for credit card gambling in the State which
12 is currently illegal with only small exceptions done
13 through a pilot program through our lottery and also
14 through cash advances at our physical casinos. I ask you,
15 why are we pushing for credit card gambling with this
16 legislation?

17 MR. SATZ: Well, I think, number one, credit
18 cards have become, you know, a way of life for most
19 commerce that happens within our country. I'd also note
20 that with horse racing credit card gambling's been
21 occurring for many, many, many years with none of the, you
22 know, issues that can come up.

23 I think one point to just get to the responsible
24 gaming piece because it's very important to us and I know
25 the industry as a whole and to the regulators is I would

1 proffer to you that online, with a credit card, there are
2 even more protections than you can have in a brick-and-
3 mortar space, particularly brick-and-mortar space where
4 somebody can leave one casino and go to the next because we
5 will know you. And a customer who comes in can set limits
6 on dollars, limits on time, all kinds of things that you
7 can't do in a brick-and-mortar space.

8 REPRESENTATIVE KAUFER: I'm glad you're
9 knowledgeable. Can you tell me what percentage of your
10 gamers are problem gamers then?

11 MR. SATZ: Generally, there's a number of about 2
12 percent. A little bit under 2 percent is I think the
13 national level that's been deemed problem gambling by the
14 scientific criteria that reach that.

15 REPRESENTATIVE KAUFER: And those are your
16 numbers?

17 MR. SATZ: Those aren't our numbers. Those are
18 numbers that worldwide apply when they do prevalence
19 studies to any population, that --

20 REPRESENTATIVE KAUFER: If you're accumulating
21 these numbers, though, and you're touting what you're
22 doing, I would think that you would have these numbers on
23 what would be considered problem gamers within your market.

24 MR. SATZ: Well, hopefully, we have zero problem
25 gamblers. We're in the business of entertainment. We're

1 not in the business of doing business with problem
2 gamblers. That's not good for us. That's not good for
3 somebody who has a problem. And there is a medical issue
4 with a certain percentage of the population, and we take
5 that seriously.

6 REPRESENTATIVE KAUFER: I would hope so, too. I
7 come from a gaming background who dealt with problem gaming
8 quite a bit at Mohegan Sun Casino. I worked there and had
9 to deal with it on a daily basis.

10 I have one quick follow-up question on a separate
11 issue. In *Bloomberg Businessweek* roughly a month ago, not
12 even quite a month ago, it was in mid-February, they had an
13 article about Libratus. Have you heard about this machine?

14 MR. SATZ: I have not.

15 REPRESENTATIVE KAUFER: Well, it was developed by
16 people from Carnegie Mellon, and it was at the Pittsburgh
17 Supercomputing Center, which was part of a 20-day
18 tournament with pros across the country where this
19 artificial intelligence machine took \$1.8 million by
20 outplaying these players. And what an article has been
21 deemed that this could be the end of Internet poker as we
22 know it. I'm happy to share the article with you, but --

23 MR. SATZ: I actually did read it. I didn't know
24 it was referred to as Libratus. So, I mean, there's all
25 kinds of computers that can do fantastic, amazing things.

1 I think what's very clear, and the regulators insisted upon
2 us and we would do it as a matter of business is that we
3 have lots of requirements to avoid fraud and collusion and
4 including that to ensure that robotics aren't playing other
5 players. So we have a whole bunch of sophisticated
6 algorithms running as players are playing poker that look
7 for something out of the ordinary or some different things
8 that cause red flags to come up that deal with those kind
9 of robotic-type things because we don't want them playing,
10 nor do our customers.

11 MS. SAINSBURY: Can I just jump in on the first
12 point and the second point? The first point is there is an
13 online database for self-excluded problem gamblers that, at
14 registration, the user is checked against and they are
15 checked against again and log-in. So anyone that has self-
16 excluded by no means can get around that system if they
17 have an account.

18 On the next part about bots, if you just look at
19 this transaction, I told you we do have a requirement to
20 detect running processes on a device, and this doesn't
21 exclude bots. So if you can see that any type of
22 fraudulent software is running on a device, that can be
23 added to our system and blocked. So it is all regulated
24 because it's all visible.

25 In the regulated markets, the fraud software has

1 to sit on the device, so it's actually quite a player
2 hurdle in some use cases. Like if you look at Internet
3 gaming, it's technically a download application in highly
4 regulated markets so that we can see what is happening on
5 the device and block these types of programs.

6 REPRESENTATIVE KAUFER: And I want to thank you
7 for your testimony, and I just want to say I find it
8 awfully concerning that you can quote figures about all
9 sorts of different numbers but can't quote figures about
10 your personal problem gaming that you see within your own
11 area. I find that very concerning and that it's very much
12 an afterthought of the industry right now.

13 This is my area of focus. I think the Committee
14 is sick of hearing these two sentences of me about this,
15 but it is an issue that constantly is made second fiddle to
16 all of our other concerns of how quickly can we bring in
17 revenue.

18 I appreciate your testimony today, but I think
19 there's a lot more that we have to be doing, especially
20 when we can make cash transfers out of bank accounts but
21 instead we're still pushing to tie credit cards to gambling
22 that people might not be able to afford. I find it very
23 troublesome of where we might be going, and I just want to
24 say thank you, Mr. Chairman, for allowing me to speak
25 today.

1 HOUSE MAJORITY CHAIRMAN PETRI: Sure.

2 Representative Dunbar.

3 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

4 And although what I wanted to say was mentioned, I do feel

5 it's worth repeating. Before Internet gaming was legal in

6 New Jersey, were you able to gamble on the Internet?

7 MR. SATZ: Yes.

8 REPRESENTATIVE DUNBAR: And how much revenues did

9 New Jersey collect from that?

10 MR. SATZ: Zero.

11 REPRESENTATIVE DUNBAR: Zero. And now how much

12 in your estimation is there still illegal gambling going on

13 and Internet gaming going on in New Jersey?

14 MR. SATZ: I'm sure some still exist but I think
15 consumers having a regulated environment much prefer that.

16 And so I think through that, coupled with what the

17 regulators have done, as well as the Federal Government,

18 most of that has been pushed away from New Jersey.

19 REPRESENTATIVE DUNBAR: Thank you.

20 HOUSE MAJORITY CHAIRMAN PETRI: Representative

21 Santora.

22 REPRESENTATIVE SANTORA: Thank you.

23 Now, let's dial it way down. Get out of

24 algorithms. Let's get out of flux capacitors and

25 everything else. Let's talk about bricks and sticks versus

1 iGaming. You're in both businesses. Is iGaming going to
2 interfere with your brick-and-stick business?

3 MR. SATZ: No. In fact, we think it can help
4 deal with particularly the younger demographic.

5 REPRESENTATIVE SANTORA: All right. I came from
6 real estate development. I know it's brick-and-mortar, but
7 I call it brick-and-stick. So the answer is no. I have
8 visited your casino in Chester once or twice. Last
9 weekend, I noticed that you've done a lot of upgrades.
10 When's the last time you made an investment like the ones
11 you're doing now where you just put in a concert venue, I
12 believe you redid all the carpeting, new games, a
13 Starbucks. You guys have made a substantial investment.
14 When's the last time you did that in that casino?

15 MR. SATZ: I don't know exactly capital, but
16 we're continually reinvesting capital into all of our
17 brick-and-sticks or brick-and-mortar casinos.

18 REPRESENTATIVE SANTORA: But something that big
19 probably when you opened, right?

20 MR. SATZ: Something big, although in New Jersey
21 where we've had Internet gambling I think since 2013,
22 during that period of time we put in \$120 million meeting
23 room facility. So it's not like one, you know, excludes
24 the other.

25 REPRESENTATIVE SANTORA: So iGaming, a lot of

1 people have brought up the fact that does it bring people
2 to the casino? Now, where I've heard that it may is things
3 like World Series of Poker and different things that you do
4 on iGaming that pull in people to the casino. Does that
5 also build a hype and bring people through the door?

6 MR. SATZ: We think so. I think it's part of the
7 marketing that in today's day and age is necessary for you
8 to deal as any business.

9 REPRESENTATIVE SANTORA: Okay. What's the
10 primary hurdle in the industry in order for you to make it
11 a reality here in Pennsylvania?

12 MR. SATZ: I'm looking at you guys. I think it's
13 the Legislature. But I do think it's important -- last
14 year, 10 of 12 licensees all said this was part of the
15 right policy. We know you guys have a big challenge in
16 terms of the budgetary issues. This is something that can
17 help. Again, it's not a panacea to you or to us, but it's
18 something that helps.

19 REPRESENTATIVE SANTORA: And the last thing, some
20 casino operators have mentioned let's make people come into
21 the casino to register. Is that going to work? I'm having
22 trouble with that one.

23 MR. SATZ: So with all due respect to -- I know
24 it comes from one of our competitors -- there's no reason
25 to have Internet if you're going to have that requirement.

1 REPRESENTATIVE SANTORA: That's what I was
2 thinking.

3 MR. SATZ: It just doesn't make any sense because
4 the whole purpose of the Internet is people can do that
5 without coming in and the like.

6 And there's one piece I'd like to get on that
7 issue because I think there's this fear that somehow
8 individual casinos are going to lose their market share
9 because of the Internet. And I already gave you the
10 statistics that we've actually seen it's added to our
11 customer base of people we bring to it. In New Jersey we
12 have I think about 40 percent of the bricks-and-sticks
13 market share. We have much less on the Internet, but we
14 still think it's very important to our future.

15 Now, back to your algorithms and things of that
16 nature, I was at your casino. I noticed a person that was
17 visibly intoxicated, and your folks came over very nicely
18 and said, sir, you're not going to place anymore bets. I
19 was not that person. But they nicely took him -- I can
20 verify that. They took him away. You know, they helped
21 him, escorted him from the casino floor, and it was done.
22 I thought it was done appropriately. They didn't embarrass
23 the person. And the only reason I knew was that I was at
24 the table next to the person. And are you telling me you
25 have systems in place when you see like odd play and things

1 like that on the tablets?

2 MS. SAINSBURY: I was speaking about the
3 analytics. We do on geolocation specifically, so
4 geolocation and fraud but --

5 REPRESENTATIVE SANTORA: So a bar?

6 MS. SAINSBURY: Okay. Okay. So you -- I see.
7 So you mean tagging the location of a bar with the user --

8 REPRESENTATIVE SANTORA: I'm just thinking if you
9 see some odd behavior in their gambling, they bet \$10 a
10 hand and all of a sudden they're betting \$500 out of the
11 blue, is that something that sets up a red flag?

12 MR. SATZ: So I think I'd need to get back to you
13 a little bit because I don't know the answer exactly to
14 that, although I think, as I mentioned before, online you
15 have the ability for somebody to create limits on time and
16 money, things that you couldn't do in a brick-and-mortar
17 environment, in addition to the exclusion that Anna
18 mentioned. But I will be happy to check and get some
19 answers on that.

20 I do know -- and this goes to the previous
21 question -- we take responsible gaming issues very
22 seriously on our bricks and sticks. We have the very
23 intricate responsible gaming policies involving responsible
24 gaming ambassadors that look for somebody like you
25 mentioned who may not be gambling for fun, that may be

1 intoxicated or the like, and I need to check on how we deal
2 with that on --

3 REPRESENTATIVE SANTORA: Thank you. I know I
4 well over-used my time, but I think it was good information
5 so thank you.

6 MR. SATZ: Thank you.

7 HOUSE MAJORITY CHAIRMAN PETRI: Yes, you have the
8 House back some time. I do have a question for you, and
9 it's one that a lot of my colleagues have been talking
10 about, so I know if it bothers me and it bothers them that
11 we ought to air it out, and that is the issue of these
12 commercials that we see at night. You know, I'm in the
13 media market close to New Jersey. Ten times a night
14 there's a segment of all the people that are gambling
15 online and thrilled about it, there's one guy -- I forget
16 whether he won \$2,500 or \$5,000, but he won a lot of money
17 during lunch and he smiles.

18 And of course the thought occurs to me that for
19 every one of them there's probably 10 that lost money at
20 lunch. And as an employer, I got to tell you it just
21 bothers the heck out of me. Is there any reason those
22 platforms could not contain a provision that the subscriber
23 agrees they will not gamble during working hours or during
24 lunch? Because those people are the kind that will come
25 back and find a way to recoup their losses through other

1 illegal means.

2 MR. SATZ: So a couple issues. I live in the
3 north Jersey area and have seen some of the commercials.
4 Our company I don't believe advertises in that way. I
5 think that's something for the regulators and the
6 Legislature to deal with in terms of what they deem to be
7 proper regulation. I'm not saying whether it's right or
8 wrong. And dealing with issues like you talked about, you
9 know, certain things are doable, certain things aren't.
10 You can't micromanage somebody's life, but you certainly
11 can put protections in place.

12 HOUSE MAJORITY CHAIRMAN PETRI: Thank you.

13 SENATE MAJORITY CHAIRMAN SCAVELLO: Chairman
14 Farnese, Senator Bartolotta, and Senator McGarrigle in that
15 order.

16 SENATE DEMOCRATIC CHAIRMAN FARNESE: Thank you.
17 Mr. Chairman, just -- Ms. Sainsbury, is that --

18 MS. SAINSBURY: Yes.

19 SENATE DEMOCRATIC CHAIRMAN FARNESE: So just so I
20 can understand, the software, I would assume that is
21 downloaded with the iGaming package by the end user, it
22 would have, I would assume, your software package included
23 within that software? Is that how it would go?

24 MS. SAINSBURY: For download poker, it's bundled
25 in. So our software data kit is bundled into the poker

1 application that the user downloads. If it's online, so
2 via a URL or a web address, the user actually has to
3 download a plug-in, which is called the Player Location
4 Check --

5 SENATE DEMOCRATIC CHAIRMAN FARNESE: Right.

6 MS. SAINSBURY: -- so that the STK is --

7 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay.

8 MS. SAINSBURY: -- sitting on the device.

9 SENATE DEMOCRATIC CHAIRMAN FARNESE: And so then
10 -- because in order to get -- I mean, I would assume this
11 is the case. So in order to identify the 195 processes
12 that are working on the phone at that time in your example,
13 your software is then on the end user's device, am I
14 correct?

15 MS. SAINSBURY: Correct.

16 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. So
17 the data that is collected by GeoComply you said is owned
18 by the casino and then shared with the regulators. Am I
19 correct?

20 MS. SAINSBURY: Correct.

21 SENATE DEMOCRATIC CHAIRMAN FARNESE: So is it
22 your testimony that you don't share that information with
23 any other entity or municipality, business, industry
24 whatsoever, and are you precluded from doing so?

25 MS. SAINSBURY: Each --

1 SENATE DEMOCRATIC CHAIRMAN FARNESE: And I only
2 ask that because I see that you're also now in the banking,
3 security, and entertainment business, so the fact that
4 you're gathering that data and you actually know what is on
5 -- for instance, I would assume that you could basically
6 see what is on someone's phone, what they're downloading.
7 I see they're laughing now. So, I mean, that's a great --
8 hey, look, it's a great -- I used to, you know, do this
9 for, you know -- but I understand you can see what people
10 are downloading so then you would be able to know what they
11 are -- I could see how that --

12 MS. SAINSBURY: I should --

13 SENATE DEMOCRATIC CHAIRMAN FARNESE: --
14 information might be --

15 MS. SAINSBURY: Valuable.

16 SENATE DEMOCRATIC CHAIRMAN FARNESE: -- valuable.

17 MS. SAINSBURY: There are a lot of geolocation
18 marketing companies out there, a lot of --

19 SENATE DEMOCRATIC CHAIRMAN FARNESE: But you have
20 100 percent of the market, at least according to --

21 MS. SAINSBURY: Yes, but our --

22 SENATE DEMOCRATIC CHAIRMAN FARNESE: -- the
23 papers.

24 MS. SAINSBURY: Our software is specific to
25 compliance. So in digital rights, actually \$18.5 billion

1 are being lost every year because of online piracy. It's a
2 separate market. We don't actually work with the media
3 industry in terms of more marketing. It's actually to
4 protect the rights' holders of movie content so that let's
5 say if you watch Netflix, you are precluded from watching
6 it in Canada.

7 SENATE DEMOCRATIC CHAIRMAN FARNESE: Right.
8 Would you be willing -- because I know we're behind --
9 given your vast experience and success in this market,
10 would you be willing to share your end user agreement, the
11 agreement that the individual player will be clicking to
12 agree to? Would you be willing to share that with the
13 Chairmen, number one? Number two, would you be willing to
14 share your agreements that you have with Caesars, Sands,
15 whatever it might be, New Jersey, so that we can take a
16 look at that? And so would you be willing to do that?

17 MS. SAINSBURY: I'm happy to share the required
18 end user license agreement. And with each of our clients
19 we can ask if they're open to sharing their contracts with
20 you.

21 SENATE DEMOCRATIC CHAIRMAN FARNESE: Sir, would
22 you be willing to allow us to take a look at the agreement
23 you have with GeoComply.

24 MR. SATZ: I would like to just talk to our
25 businesspeople to ensure there's no confidential

1 information, but subject to appropriate nondisclosure
2 agreements, there's -- we'd --

3 SENATE DEMOCRATIC CHAIRMAN FARNESE: Well, yes,
4 you could be sort of satisfied that we're not going to be
5 using it --

6 MR. SATZ: Sure.

7 SENATE DEMOCRATIC CHAIRMAN FARNESE: -- to go
8 into any business and either compete with yourself or Ms.
9 Sainsbury. So you'll be able to --

10 MR. SATZ: We'll follow up with you on that.

11 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. Thank
12 you. I look forward to that. I appreciate your testimony.
13 Thank you.

14 SENATOR BARTOLOTTA: Thank you, Mr. Chair. And
15 sorry about the laryngitis, and I'll talk very little.

16 Mr. Satz, you did address a question by a
17 Representative regarding how you bring people into a brick-
18 and-mortar casino. Do you offer -- I realize, too, that
19 people who are on the Internet are far different than the
20 people who often frequent the actual casino for the
21 restaurants, the spas, just like you said. Do you offer
22 any incentives to those who are playing online to try to
23 bring them in physically to the casino, any kind of
24 discounts for restaurants or --

25 MR. SATZ: Absolutely.

1 SENATOR BARTOLOTTA: Okay.

2 MR. SATZ: So cross-marketing in different
3 distribution channels is very fundamental to the whole idea
4 of the Internet. I'm sorry if I didn't make that clear
5 before. But I mean when we first got into this we looked
6 at a lot of other retail businesses and their different
7 distribution channels. So you have retail businesses with
8 the catalog and the Internet and there are boxes, and it's
9 trying to find the right mix of that. And what you find is
10 when you have these different channels and cross-marketing
11 people around it, you usually get a more loyal, better
12 customer.

13 SENATOR BARTOLOTTA: So those people who are
14 playing on the Internet, they have -- every player that
15 comes into your casino has a player's card usually,
16 typically --

17 MR. SATZ: Total rewards card --

18 SENATOR BARTOLOTTA: -- could track them --

19 MR. SATZ: -- right.

20 SENATOR BARTOLOTTA: So is that the same number
21 that they would have when they play on the Internet --

22 MR. SATZ: Yes.

23 SENATOR BARTOLOTTA: -- so you would know when
24 they actually come physically to the casino? You know when
25 they come in?

1 MR. SATZ: Correct. That's how I have those 80
2 percent numbers and other numbers I was using before.

3 SENATOR BARTOLOTTA: Right. My other question is
4 for you, Ms. Sainsbury. Because of the accuracy, the
5 pinpoint accuracy of your software to know exactly when
6 they start to cross that border, to me it seems like it
7 would be an ideal situation let's say for dividing up local
8 share account funds so that way anyone who would be online
9 gaming in one particular county, you know when they cross
10 over another county line. So in this instance you shut
11 them off when they start to cross outside of the border of
12 New Jersey. Is there an application -- I'm sure it would
13 be very simple -- to know to change from one county to
14 another county and still allow them to play but then accrue
15 that tax in a different county?

16 MS. SAINSBURY: The mechanisms for how the
17 geolocation work in terms of what boundaries are permitted,
18 that is up to the regulation. The data can be collected
19 and analyzed however is required, so anything is possible.

20 SENATOR BARTOLOTTA: Great. Thank you so much.

21 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
22 McGarrigle.

23 SENATOR MCGARRIGLE: Thank you, Mr. Chairman.

24 Caesars has been involved in Internet gaming in
25 New Jersey since the inception, is that correct?

1 MR. SATZ: Correct.

2 SENATOR MCGARRIGLE: How long has that been?

3 MR. SATZ: Almost three-and-a-half, four years.

4 SENATOR MCGARRIGLE: Okay. Now, you've heard
5 testimony in this room over and over that iGaming is going
6 to cannibalize the brick-and-mortar or, as my colleague
7 here says, brick-and-stick casinos. And to be honest,
8 we're not here concerned about how much money Caesars is
9 making. The truth of the matter is we're concerned about
10 is it going to affect less tax dollars coming to the State
11 or our local share that we all are concerned about in our
12 own neighborhood? So can you share with me the effect that
13 iGaming has had on the brick-and-mortar facilities in New
14 Jersey over the last three-plus years that you've had
15 iGaming?

16 MR. SATZ: Yes, I can talk generally now and I'd
17 be happy to get you specific statistics after this hearing.
18 But similar to my dialogue with Senator Tomlinson, I think
19 during that period of time you've seen an increase in the
20 brick-and-mortar revenues. Now, there's lots of factors
21 that go into that. And at the same time you've had the
22 growth of the online piece. So in terms of how local share
23 is distributed, I think if that were in Pennsylvania, for
24 whatever the factors were, the growth of the brick-and-
25 mortar, you'd be having that and however you determine to

1 divvy up the online would be incremental to that.

2 SENATOR MCGARRIGLE: You know, I'm not looking to
3 divvy it up or the percentages or talk about each
4 individual county's agreement. The question is have you
5 taken in less money at your brick-and-mortar facilities
6 since iGaming has started in New Jersey?

7 MR. SATZ: No, we've taken in more.

8 SENATOR MCGARRIGLE: Thank you.

9 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
10 Boscola.

11 SENATOR BOSCOLA: Right. Okay. A difference
12 between New Jersey and Pennsylvania, 9 percent and 54
13 percent, you cannot compare it. And I'm worried that
14 because -- well, let me ask you this question. What would
15 be the ideal tax rate that you would ask -- we'd have to
16 come up with it for Internet gaming.

17 MR. SATZ: We've always said we thought about 15
18 percent would be a fair tax.

19 SENATOR BOSCOLA: Okay. So we would go from
20 brick-and-mortar 54 percent and then 16 percent, and you
21 want to go to 15 percent. Okay. So say that scenario
22 happens and probably, assuming the Legislature always tries
23 to compromise, maybe be a little bit higher but say maybe
24 20 percent, why would you as a business -- and I'm talking
25 any business entity. I'm not talking because you're a

1 casino. I'm just talking businesses in general. What they
2 do is try to make more money. That's why you're in
3 business. I have no problem with that. But if you're
4 going to go from a rate of 54 to, say, 20 percent, wouldn't
5 you drive the people into that 20 percent taxing?

6 MR. SATZ: The answer is no. I mean, I think the
7 vast majority of people who come to our business come for
8 the social piece of going to a casino.

9 SENATOR BOSCOLA: Yes.

10 MR. SATZ: They don't come because --

11 SENATOR BOSCOLA: So it's not about making money
12 and --

13 MR. SATZ: Of course it --

14 SENATOR BOSCOLA: -- making more money?

15 MR. SATZ: Every business needs a fair return,
16 but the people who come to our casinos aren't people who
17 generally play on the telephone. And I understand where
18 your question is coming from, but it just doesn't have a
19 basis in fact.

20 SENATOR BOSCOLA: Yes, but in other States
21 sometimes they'll go to café-type settings in the casinos.
22 So you can offer online in a casino. Maybe the Legislature
23 should forbid that. I mean --

24 MR. SATZ: Which is certainly possible. I mean,
25 that's --

1 SENATOR BOSCOLA: Another way of the casino to
2 make money is by having these Internet cafés right there in
3 the casino.

4 MS. SAINSBURY: I think I can jump in. There is
5 actually a tax discount for online transactions in a casino
6 in New Jersey. And actually, we did the statistics to see
7 how many operators are capitalizing on that because I think
8 to your argument you're saying they would want to drive
9 people to be in their properties and gamble online because
10 then they would get to take advantage of the tax discount,
11 and it was less than 1 percent.

12 SENATOR BOSCOLA: Okay.

13 MS. SAINSBURY: It was like --

14 SENATOR BOSCOLA: All right.

15 MS. SAINSBURY: -- .5 percent. It was almost an
16 coincidental amount.

17 SENATOR BOSCOLA: Again, the difference between
18 what we're experiencing -- there's a total disconnect
19 between what's happening in New Jersey and Pennsylvania
20 based on our tax rates, the structure we have now.

21 MS. SAINSBURY: But that is actually a tax
22 incentive. So if you are online, you pay less tax --

23 SENATOR BOSCOLA: You're right.

24 MR. SATZ: You pay double the tax online than you
25 do if you're at the casino, so where --

1 SENATOR BOSCOLA: Okay.

2 MR. SATZ: -- Anna's going is if we were --

3 SENATOR BOSCOLA: Well, I guess it would depend
4 on --

5 MR. SATZ: -- motivated by this desire to
6 somehow --

7 SENATOR BOSCOLA: I guess it would depend on what
8 our tax rate is then, and we have to be cognizant of what
9 we set that rate at if there is Internet gaming to kind of
10 ensure or help ensure that the casinos won't try to divert
11 the money somewhere else I guess.

12 MR. SATZ: Yes. And --

13 SENATOR BOSCOLA: So I guess that's our
14 responsibility.

15 And the last thing I wanted to know about -- and
16 why I'm asking you all these questions is because you are
17 New Jersey and you border us. Some of these other casinos
18 we won't have these questions for, but because you're so
19 close, has there been an impact on the lottery, right, when
20 you went onto online gaming, the lottery fund? Because
21 that's another question Legislature always wants to be
22 protective of because our lottery fund goes towards senior
23 programs and, you know, we don't want to cut into that.

24 MR. SATZ: So I can give you an anecdotal answer,
25 and I'd be happy after this hearing to try to get you

1 actual numbers. But my understanding is our lottery has
2 done well over the past couple of years while the online --
3 I don't think there's been an overlap between or any
4 cannibalization of lottery versus online.

5 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay.

6 MR. SATZ: I think it's a different kind of
7 customer.

8 SENATOR BOSCOLA: Because they did legalize
9 online lottery. Why did they do that?

10 MR. SATZ: Well, let me just add that I don't
11 think New Jersey's -- other than subscription I don't think
12 there's online. We as a company have always told any State
13 that we address this issue that we don't have a problem
14 with the lottery being online as well --

15 SENATOR BOSCOLA: Okay.

16 MR. SATZ: -- for the same reason that I'm
17 telling you you need to be relevant with the Internet.

18 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay. Good.
19 That map has been dropping like crazy. School is out. Is
20 that why? That was Representative Neilson that brought --
21 is that a normal --

22 MALE SPEAKER: I got a text from my kid, "I'm
23 home from school," and these dots start coming.

24 SENATE MAJORITY CHAIRMAN SCAVELLO: I just have
25 one -- that is just your business. Now, you have everyone

1 else's in --

2 MS. SAINSBURY: Yes, this represents all of the
3 transactions that are occurring right now.

4 SENATE MAJORITY CHAIRMAN SCAVELLO: That's
5 everything?

6 MS. SAINSBURY: That's everything.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: So what's on
8 there is all the transactions of all the different
9 businesses?

10 MS. SAINSBURY: Yes. And I should note that on
11 average we're locating a user every 14 minutes I believe at
12 the moment. And so that is an average of both mobile and
13 PC and Mac so static devices. So a lot of those drops are
14 the same user.

15 SENATE MAJORITY CHAIRMAN SCAVELLO: There's no
16 way of you finding out if there's -- the illegal gaming,
17 how much of that's going on? You can't get that
18 information, can you?

19 MS. SAINSBURY: No. When New Jersey first went
20 live, due to search engine optimization and the prevalence
21 of the illegal sites, they were still getting more traction
22 if you Googled like "bet in New Jersey." And so they did
23 want to work with the telecommunication companies to block
24 those URLs with the ISPs, but we don't get involved in
25 that. I don't actually think that that was permitted in

1 the U.S.

2 MR. SATZ: I do know, though, that Jersey
3 regulators worked to take the affiliates that used to work
4 with the illegal unregulated sites to get them out of that
5 space and into a regulated space.

6 SENATE MAJORITY CHAIRMAN SCAVELLO: And most of
7 the gambling, is that all card play or is it everything?
8 What is that?

9 MS. SAINSBURY: Poker.

10 SENATE MAJORITY CHAIRMAN SCAVELLO: Poker.

11 MS. SAINSBURY: The majority of the transactions
12 are poker because --

13 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay.

14 MS. SAINSBURY: -- the players stay on longer.

15 SENATE MAJORITY CHAIRMAN SCAVELLO: Listen, thank
16 you so much for your testimony and taking the barrage of
17 questions.

18 MS. SAINSBURY: Thank you.

19 SENATE MAJORITY CHAIRMAN SCAVELLO: We really
20 appreciate it.

21 MR. SATZ: I appreciate it.

22 SENATE MAJORITY CHAIRMAN SCAVELLO: Mr. Cookson,
23 I owe you an apology, but David Cookson, Coalition to Stop
24 Internet Gaming. Thank you for -- I like the color of the
25 tie, perfect.

1 MR. COOKSON: I'm glad I got the memo. No
2 apology necessary, Mr. Chairman.

3 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

4 MR. COOKSON: Chairman Scavello, Farnese, Petri,
5 and Vice Chairman Neilson, thank you very much for allowing
6 me the opportunity to present testimony.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: Cookson,
8 could you -- is your -- pull it closer, please.

9 MR. COOKSON: Is that better?

10 SENATE MAJORITY CHAIRMAN SCAVELLO: Perfect.
11 Perfect.

12 MR. COOKSON: On behalf of the Coalition to Stop
13 Internet Gaming in strong opposition to H.B. 392's language
14 that would allow Internet gambling in Pennsylvania.

15 CSIG is a national effort to oppose Internet
16 gambling at the State and Federal levels. Before I discuss
17 CSIG's substantive and principled opposition to Internet
18 gambling, it's important to review the shaky legal
19 framework for Internet gambling.

20 From the day President Kennedy signed the Wire
21 Act in 1961, and for 50 years thereafter, the Department of
22 Justice consistently interpreted the Federal Wire Act as
23 covering all forms of gambling, whether it be on sports,
24 horses, casino games, or lotteries. Robert Kennedy, who
25 was Attorney General at the time, knew what the bill meant

1 because his department proposed the original version and
2 then worked with Congress as they revised the text.

3 To give law enforcement the tools to shut down
4 online poker and other forms of Internet gambling, Congress
5 reinforced this interpretation in 2006 when it enacted the
6 Unlawful Internet Gambling Enforcement Act. This law
7 prohibits any gambling businesses from knowingly accepting
8 payments in connection with the participation of another
9 person in a bet or wager that involves the use of the
10 Internet.

11 On Friday, December 23rd, 2011, the Department of
12 Justice's Office of Legal Counsel issued a 13-page legal
13 opinion that reinterpreted 50 years of the Federal Wire Act
14 of 1961, concluding that the law covers only bets on
15 sporting events and contests. No laws were changed by
16 Congress. No Federal court decision was issued. No new
17 rules were promulgated. As the author of the opinion,
18 then-Assistant Attorney General Virginia Seitz later
19 conceded, "It's just that: an opinion."

20 As former Attorney General Loretta Lynch
21 confirmed during her confirmation process, OLC opinions do
22 not carry the force of law. They do not change the law.
23 They can be withdrawn at any time and are, as President
24 Obama's Justice Department did with certain OLC opinions
25 issued by the Bush DOJ, and as the Bush DOJ did with the

1 Clinton DOJ and the Clinton DOJ did with the Bush DOJ. And
2 there is no grandfathering.

3 In January of this year, Senior Justice
4 Department officials coming in with the Trump
5 Administration stated they would revisit the opinion
6 regarding the Wire Act of 1961. If the OLC opinion is
7 withdrawn, no online casino or lottery sites would be
8 grandfathered or protected from prosecution, regardless of
9 when they were authorized. Withdrawal would return the DOJ
10 to the original, longstanding interpretation of the Wire
11 Act, under which the Act could be enforced against sports
12 and non-sports online gambling sites alike. Should any
13 gambling sites remain in operation following such a
14 decision, they risk being shut down by Federal enforcement,
15 regardless of where they operate or when those sites were
16 authorized.

17 The administrative overreach of the OLC opinion,
18 the tenuous legal basis for Internet gambling, the
19 announced intention of the new Justice Department
20 leadership to revisit the OLC opinion, and the inability to
21 grandfather OLC opinions should give pause for any
22 legislative action on Internet gambling in any State.

23 I know there has been a discussion in
24 Pennsylvania, as there is in many States, about using
25 Internet gambling revenue to fill a budget gap, but with

1 the fluid situation in Washington, Internet gambling is an
2 unreliable and potentially nonexistent source of revenue.

3 Beyond the problematic legal justification of
4 online gambling, CSIG has a principled and deep opposition
5 to allowing casino companies to put virtual slot machines
6 in every Pennsylvania home and video poker on everyone's
7 mobile devices. Internet gambling is a threat to families
8 and children. Supporters will tell you today there's
9 technology that can protect children and families from
10 getting access to Internet gambling sites, yet we just
11 listened to the testimony of the geotechnical person say
12 they can't tell you who it is.

13 There is no way to prevent a legal player from
14 having a child use their device to gamble. Those of us who
15 are parents with small children know they get access to our
16 iPads and our phones. There is no way to guard against a
17 child using a password to access online gambling sites. We
18 know this is true because the largest and most successful
19 Internet companies have shown they cannot successfully
20 restrict child access.

21 In 2014, Apple agreed to provide full refunds to
22 customers, paying a minimum of \$32.5 million to settle an
23 FTC complaint that the company billed consumers for
24 millions of dollars of charges incurred by their children
25 without their parent's consent.

1 Also lost in the debate about Internet gambling
2 are recent advances in technology that Representative
3 Kaufer referenced earlier, including the Pittsburgh
4 Supercomputer Center, which built an artificial
5 intelligence bot which handily beat four of the world's
6 best poker players over a 20-day tournament. We've seen
7 this same problem with the fantasy gaming sites and
8 algorithms designed to game those systems as well. And if
9 you can't tell who it is, despite the technology you have
10 and having come from a 15-year career in law enforcement,
11 the technology always lags behind the perpetrators.

12 The bot created by Carnegie Mellon won \$1.8
13 million, easily taking over that particular gaming system.
14 One of the poker pros who played in the tournament stated,
15 "It's the toughest opponent I've ever played, and I'm not
16 being generous. It's stomping us out." The scientist who
17 created the artificial intelligence bot made it clear when
18 stated, "Of course, a lot of gambling people are worried
19 that it may kill Internet gambling for money." One
20 researcher revealed that a client had paid him tens of
21 thousands of dollars to build a poker bot. "I imagine they
22 are trying to play online with them," the researcher said.

23 The Internet gambling industry has little ability
24 to guarantee that their customers are not playing against
25 bots or using bots whom they cannot possibly beat. Why

1 should the Commonwealth, with a strong track record of high
2 gaming standards and rigorous enforcement, allow the
3 fundamental integrity of legalized gambling in Pennsylvania
4 to be undermined by Internet gambling companies or
5 individuals using poker bots to fleece gamblers?

6 Some will argue that Internet gambling is
7 necessary to make Pennsylvania more competitive and improve
8 economic development. Again, nothing could be further from
9 the truth. Internet gambling steals jobs, as has been
10 discussed here, and will damage the huge investment
11 Pennsylvania casinos have made over the last decade.

12 In 2014, the Pennsylvania Legislative Budget and
13 Finance Committee reported that "PA casinos have made \$3.1
14 billion in initial capital investments and annually produce
15 about \$2.9 billion in total output. Pennsylvania casinos
16 directly employ about 16,650 people. Casino operations and
17 induced spending from casino employees support about 25,500
18 jobs and produce about \$3 billion annually in total
19 economic output. Ongoing renovations and upkeep generate
20 an additional \$81 million annually in total output,
21 supporting another 600 jobs." These results would not have
22 happened if Internet gambling was legal in Pennsylvania.

23 Internet gambling will not lead to new economic
24 development opportunities because Internet gambling is a
25 job killer, not a job creator. Internet gambling companies

1 want to get rid of casino workers and end investment in
2 bricks and mortar, replacing casino and construction jobs
3 with a few servers and IT staff overseas. At a time when
4 you are looking to grow employment in Pennsylvania and
5 across the country, why would you approve laws that
6 threaten to eliminate Pennsylvania jobs?

7 The legal basis for Internet gambling is shaky
8 and getting less secure. Internet gambling is a threat to
9 children and families. It will reduce investment in
10 Pennsylvania jobs. For these and many more reasons, we
11 urge this Committee to oppose the Internet gambling
12 provisions and any attempt to legalize online gaming in
13 Pennsylvania.

14 Again, I appreciate the opportunity and would
15 welcome any questions.

16 HOUSE MAJORITY CHAIRMAN PETRI: The first
17 question will be from Representative Diamond, followed by
18 Representative Nesbit.

19 REPRESENTATIVE DIAMOND: Thank you, sir, for your
20 testimony. I'm over here behind the pole.

21 I want to ask you about your testimony because
22 you've said this, you made this statement twice in your
23 testimony. You've said, "Internet gambling is a threat to
24 families and children." As such, is that happening today
25 in Pennsylvania?

1 MR. COOKSON: It can be. I mean, there are
2 constant threats on the Internet to families and children
3 from a variety of sources.

4 REPRESENTATIVE DIAMOND: And which law
5 enforcement agency, which oversight agency is currently
6 prosecuting, you know, the parents of children who are
7 gambling today?

8 MR. COOKSON: Well, if it's located intrastate,
9 it would probably be your Attorney General's cybercrime
10 unit. I know there was one created under Attorney General
11 Corbett because we modeled ours in Nebraska after his. If
12 it's done in interstate commerce, it would be done by the
13 FBI and other Federal law enforcement agencies through
14 their Cybercrime Fusion Task Force.

15 REPRESENTATIVE DIAMOND: And which law
16 enforcement agency or oversight agency is making sure that
17 the offshore people perhaps who are offering this Internet
18 gambling are comporting to rules of fairness and consumer
19 protection, that sort of thing?

20 MR. COOKSON: The Justice Department is primary
21 responsible for that, and during the Bush Administration,
22 they were very aggressive in prosecuting, including
23 shutting down most of the major online poker sites in the
24 mid-2000s.

25 REPRESENTATIVE DIAMOND: And so what you're

1 saying is because of Bush Administration actions, there's
2 very little online gambling now, is that correct?

3 MR. COOKSON: No, I'm saying that the last active
4 law enforcement by the Federal Department of Justice was
5 primarily done during the Bush Administration, although the
6 Obama Administration has done a little bit on overseas
7 influence on gambling.

8 REPRESENTATIVE DIAMOND: All right. Thank you.
9 And just to expand on the aspect of children playing here,
10 your testimony says, "There's no way to prevent a legal
11 player from letting a child use their device to gamble.
12 There's no way to guard against a child using their
13 parent's password to access online gambling sites." And I
14 guess you have a point there, but here in Pennsylvania
15 there's also no way to prevent a legal adult from letting
16 their child drink alcohol, and there's no way to guard
17 against a child accessing their parents' liquor cabinet at
18 home, yet we still sell alcohol because we assign that as
19 bad parenting, not an issue before the Legislature. Is
20 that correct?

21 MR. COOKSON: That's true because we don't allow
22 the children to walk into the liquor store and purchase the
23 liquor. We see who they are, we check their ID, and we
24 know who they are. Yet with this system, we don't have the
25 ability to identify who it is on the other end of the

1 terminal.

2 REPRESENTATIVE DIAMOND: All right. I just think
3 that what you're bringing us today is an argument that for
4 some reason because I live within two miles of a Walmart I
5 shouldn't be able to shop on Walmart.com, and I think that
6 the Pennsylvania Legislature has to get up to speed. This
7 is happening. It's unregulated. There are very few
8 protections for children. And I will agree 100 percent
9 with you in that. There's very few protections for
10 children, and I think we can build them in.

11 Thank you, Mr. Chairman.

12 HOUSE MAJORITY CHAIRMAN PETRI: Representative
13 Nesbit.

14 REPRESENTATIVE NESBIT: Thank you, Mr. Chairman.
15 And thank you for your testimony.

16 Following up on Mr. Diamond, I was at a sporting
17 event this weekend, and I watched a group of recent college
18 graduates sitting there playing fantasy basketball. I
19 didn't get too into the details, but I asked them what they
20 were doing. And they were all playing fantasy basketball
21 online. I don't even know how to do it. But by your
22 testimony, you're saying that that activity, if we would
23 regulate it and license it somehow and tax it, would then
24 keep them from going to the casino. I just don't know --
25 where are we getting the information that that's going to

1 kill the brick-and-mortar casino industry? I mean, what
2 basis are you bringing that claim forward?

3 MR. COOKSON: Well, again, I'm looking at a
4 couple of different factors. One is I'm not comparing
5 fantasy sports players to casino gamblers. They're
6 different animals. But --

7 REPRESENTATIVE NESBIT: I think that's part of my
8 concern. And I know I disagree apparently with the
9 Senators on that. If we have a 22-, 25-year-old person
10 playing on the Internet whether it be, you know, poker or
11 just, you know, fantasy sports, FanDuel, and I'm not
12 Mr. Dunbar that knows all the details of these things, but
13 I'm not seeing the connection that that person would have
14 gone to the casino on Saturday night rather than sit with
15 me at a sporting event playing fantasy sports. So if we
16 would regulate the Internet gambling, how is that taking
17 away from the brick-and-mortar casino?

18 MR. COOKSON: If they're going to play poker and
19 they're going to play it on the Internet and they can't
20 play it legally on the Internet but they want to gamble on
21 poker, then they go to the casino. And again, in
22 Pennsylvania, as you've shown, you've spread your casinos
23 in a way to make it accessible to the consumer in order to
24 get there.

25 REPRESENTATIVE NESBIT: So where I was would have

1 been at least an hour to the casino or maybe an hour and 15
2 minutes, you know, depending on where it went. So you're
3 saying if they couldn't do it on the Internet, those folks
4 are going to drive to the casino?

5 MR. COOKSON: I can speak to my experience having
6 been the Chief Deputy Attorney General in Nebraska. I knew
7 a lot of Legislatures -- we had no casino gambling in
8 Nebraska -- would drive the hour-and-a-half to Iowa across
9 the river at Omaha to go to the Harrah's Casino or
10 whatever. We called it going to the boats, and in fact,
11 lobbyists would routinely have outings for Senators and
12 Legislatures, and people from my town an hour-and-a-half
13 away would drive to the casino because there was legalized
14 casino gambling in Iowa.

15 REPRESENTATIVE NESBIT: Right. And there's
16 people in my neighborhood drive I'm sure drive to the
17 casino all the time, but I still want to get back to where,
18 you know, some of the testimony is coming from that the
19 online gambler is the same gambler that would go to the
20 casino. Do we have studies that show that? Where are we
21 getting that information from I guess is my --

22 MR. COOKSON: I think --

23 REPRESENTATIVE NESBIT: -- the root of my
24 question.

25 MR. COOKSON: Well, we can look at -- and again,

1 there's a whole host of factors that go into New Jersey,
2 but the fact you've gone from 11 casinos to 7 has to have
3 some impact having come from the Internet gaming.

4 REPRESENTATIVE NESBIT: But, I mean, you could go
5 back to --

6 MR. COOKSON: And again, I can --

7 REPRESENTATIVE NESBIT: -- we have it in
8 Pennsylvania --

9 MR. COOKSON: I can go back --

10 REPRESENTATIVE NESBIT: -- and it's the same --
11 we're in western Pennsylvania. They opened a casino in
12 Cleveland, they opened one in Youngstown, it's still within
13 45 minutes --

14 SENATE MAJORITY CHAIRMAN SCAVELLO: Excuse me,
15 Representative --

16 REPRESENTATIVE NESBIT: I'm sorry.

17 SENATE MAJORITY CHAIRMAN SCAVELLO: No, if you
18 don't mind, if you could just -- because --

19 REPRESENTATIVE NESBIT: I know. Sorry.

20 SENATE MAJORITY CHAIRMAN SCAVELLO: We're really
21 late now --

22 REPRESENTATIVE NESBIT: I apologize.

23 SENATE MAJORITY CHAIRMAN SCAVELLO: -- so I'm
24 going to ask the Members --

25 REPRESENTATIVE NESBIT: I'll stop --

1 SENATE MAJORITY CHAIRMAN SCAVELLO: -- from this
2 point on if we can just shorten your questions, please.

3 MR. COOKSON: To your point, we'll get you
4 information.

5 REPRESENTATIVE NESBIT: Okay. Thank you. Sorry,
6 Mr. Chairman.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: That's quite
8 all right.

9 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

10 Who makes up your coalition and who funds your
11 coalition? Because we were trying to do some stuff last
12 year, and I remember our former Chairman, the coalition
13 running many, many commercials and mailings against our
14 former Chairman. I was wondering where you get your
15 funding from to do the advertising on TV in regards to
16 former Representative Payne and some of the mailings that
17 -- who funds the coalition to stop this?

18 MR. COOKSON: The coalition is a 501(c)(4)
19 corporation with numerous donors. As with most
20 501(c)(4)'s, there's no requirement to identify who the
21 donors are.

22 To the points that we bring in regards to this
23 issue, who the donors are really aren't relevant. The
24 problems and the facts --

25 REPRESENTATIVE NEILSON: Well, excuse me --

1 MR. COOKSON: -- we've identified are.

2 REPRESENTATIVE NEILSON: Just a quick follow-up.
3 Are you funded by any casinos?

4 MR. COOKSON: There are casinos who are members
5 of our coalition.

6 REPRESENTATIVE NEILSON: Thank you.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
8 Tomlinson.

9 SENATOR TOMLINSON: Yes, just a follow-up. I
10 know there is a question whether we changed the Federal
11 opinion or not the Federal opinion, but the hard numbers
12 from Atlantic City are -- or New Jersey is it took them
13 four years to get to about \$29 million, and I think we're
14 struggling with about a \$3 billion deficit or a \$1 billion
15 deficit and we're talking about a lot of money, but it took
16 about four years to get to \$30 million. And again, I want
17 to emphasize that the tax rate on Internet gaming is 40
18 percent higher than it is in the casino. And that's just
19 one of my bigger points.

20 But I know we're here because we're trying to
21 look for more money in the budget. We don't want to raise
22 taxes. We want to get somebody else to pay this tax bill.
23 But let's cut it in half and in probably two years you
24 maybe get \$20 million to fill your budget. So if we're
25 going to argue here that we need this money to fund our

1 budget, there is a question that this opinion could be
2 overturned and you'd lose it all, but there's also an
3 opinion that -- or also the hard facts are that it's only
4 \$29 million after four years. And the important point is
5 that I have no problem with poker. I don't even have a
6 problem with fantasy sports. But most of the play is in
7 casino play. It's in slots. So that's my point. My point
8 keeps coming back 54 percent tax on slots in casinos, 15
9 percent on the Internet. It's just not a fair game, and
10 that's my biggest point here.

11 You're not going to get the money you think
12 you're going to get, and you might even have the overturn
13 of the opinion. But my point is it's going to take you
14 several years before you get there and what we were
15 supposed to get, \$100 to \$250 million in this budget cycle,
16 and the dollars aren't there just using Atlantic City's
17 model.

18 Just to close, someone asked earlier, Governor
19 Christie declared March Problem Gambling Month. It was
20 asked earlier about the problem gambling. There's 300,000
21 adults in New Jersey that have a problem gambling, 87,000
22 seniors, and 30,000 teenagers. I'm sorry Senator
23 Reschenthaler left. No millennials have a gambling
24 problem. That's a joke between Senator Reschenthaler and
25 I. Senator Reschenthaler thinks that I'm not a millennial,

1 and he's right.

2 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you,
3 Senator.

4 SENATOR TOMLINSON: And the Rutgers' study found
5 that Internet gaming is much more addictive than casino
6 gaming. Thank you.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator,
8 don't we have one in the Senate also we're doing a
9 resolution on? I think we have. I think we're doing a
10 resolution as well.

11 MALE SPEAKER: Millennials?

12 SENATE MAJORITY CHAIRMAN SCAVELLO: No, no, no,
13 on the problem gambling. Yes.

14 Thank you very much.

15 MR. COOKSON: Thank you, Chairman.

16 SENATE MAJORITY CHAIRMAN SCAVELLO: At this time
17 to testify is Eric Pearson, Chief Executive Officer of
18 Valley Forge Casino Resort; Donn Mitchell, Chief
19 Administrative Officer, Isle of Capri Casinos.

20 Thank you, gentleman. You may begin. And please
21 make sure that your mike is turned on and have it close to
22 you. Thank you.

23 MR. MITCHELL: Yes, sir. Good afternoon,
24 Chairmen and Members of the Committee. I very much
25 appreciate the opportunity to speak with you today. My

1 name is Donn Mitchell. I'm the Chief Administrative
2 Officer for Isle of Capri Casinos.

3 A little closer? It's green. Is that better?
4 Okay.

5 Isle operates 14 casinos in seven States across
6 the country, including the Lady Luck Casino at the
7 Nemaocolin Woodlands Resort. Lady Luck Casino at Nemaocolin
8 is just over three years old. We opened in July of 2013
9 with an initial investment of \$60 million. The casino
10 currently operates 597 slot machines 27 table games. Our
11 fiscal 2015 to '16 gross gaming revenues were approximately
12 \$35 million.

13 Based on the Pennsylvania Department of Labor and
14 Industry statistics, Lady Luck and Nemaocolin is the 16th
15 largest employer in Fayette County with over 300 individual
16 employees, 96 percent of which are Pennsylvania residents.

17 Before providing remarks on the multiple gaming
18 proposals that are before the General Assembly, I would
19 first like to give the Committees some context on why we
20 feel the way we do about some of these issues. Since
21 opening the Lady Luck Casino, we have lost between \$1
22 million and \$2 million a year, a trend that obviously is
23 not sustainable. Between the unexpected and aggressive
24 out-of-State competition that we face with the Rocky Gap
25 Casino in Maryland, the barrier to entry that our customers

1 face just to get into our facility, which is the access
2 fee, as well as the high and increasing cost of regulation.
3 Frankly, we just underestimated the impacts and the
4 challenges of this market.

5 Fortunately, we do see a path forward. We would
6 like to make Lady Luck an ongoing operation. The biggest
7 opportunity that we see has been in multiple gaming
8 proposals that you've seen, and it's language that provides
9 for the Category 3 casinos, the opportunity to remove the
10 requirements that an individual patronize the amenity of
11 the resort before they can gain access to the casino.

12 The removal of the "patron of the amenities"
13 requirement for a \$1 million fee from each of the
14 individual Category 3 casinos would bring these casinos in
15 line with the other casinos across the country. Its
16 removal would increase revenue to the Commonwealth, free up
17 money for customers to play with, and allow us to compete
18 on a level playing field, particularly with our largest and
19 closest competitor, the Rocky Gap Casino just across the
20 border in Cumberland, Maryland.

21 In addition to the removal of the "patron of the
22 amenities" requirement, we are supportive of the
23 Commonwealth authorizing iGaming so long as it is
24 affiliated with and run directly through the 12 brick-and-
25 mortar casinos. Legalizing online gaming through the

1 existing casinos will allow the current licensees to drive
2 new customers to our facilities and increase revenues to
3 the State.

4 We also support a legislative solution to fix the
5 local share assessment issue, making sure that it does no
6 harm, keeping the local communities whole. And I can tell
7 you from direct experience with our Fayette County and
8 Wharton Township representatives, the money that we provide
9 in that local community makes a very meaningful difference,
10 and we want to make sure that it stays that way. But it
11 also needs to do no harm to the existing casinos. As you
12 can see, we cannot afford to pay additional monies.

13 So with that, I say that we have a path forward,
14 and I think that we do, but with the implementation of any
15 convenience gaming, call it VGTs, VLTs, they are slot
16 machines. Anything in bars, taverns, social clubs, truck
17 stops, bowling alleys, frankly could even be grocery
18 stores, this would quickly close that path forward for us
19 and possibly likely close the Lady Luck Casino in
20 Nemacolin, putting 300 Pennsylvanians out of work.

21 In closing, I'd just like to say the gaming
22 market created here in Pennsylvania by this Legislature
23 over 10 years ago is one of the tops in the U.S. It
24 generates more tax revenues for this State than any other
25 State in the country. It's frankly a model for other

1 jurisdictions to look to. We agree that there is a need
2 for some fine-tuning in the industry. Many of the
3 components contained in H.B. 392, as well as other
4 proposals, including the elimination of the access fee, the
5 iGaming issues, as well as a good solution for the local
6 share assessment, these could all be very beneficial to the
7 State. We do not believe that there's any need to
8 introduce any additional casino-style gaming outside of the
9 highly regulated and established existing casino industry.

10 Thank you for your time, and with that, Eric
11 Pearson would like to also speak.

12 MR. PEARSON: Thank you. Good afternoon,
13 Mr. Chairman, Chairmen of both Committees, and Committee
14 Members. I'd like to thank you for the opportunity to
15 speak here today.

16 My name is Eric Pearson. I'm the new President
17 and CEO of the Valley Forge Casino Resort located in King
18 of Prussia. I've been on for a little over four months
19 now.

20 Since opening in 2012, Valley Forget has become
21 an engine in economic development in Montgomery County.
22 Our overall impact is over \$6 million, and we probably
23 employ over 1,000 employees. To date, our property has
24 contributed over \$13.7 million in local share assessment to
25 Upper Merion Township and Montgomery County.

1 We take our role as a community partner very
2 seriously and have funded or contributed to county-based
3 and local traffic improvements, community welfare programs,
4 local sports organizations, and college scholarship
5 programs. Our commitment to being a conscientious
6 community partner is what led us to enter into a Memorandum
7 of Understanding with Upper Merion Township following the
8 2016 court ruling on the local share assessment last
9 September. We worked collaboratively with Upper Merion to
10 ensure they would be held harmless during this time until a
11 legislative prescription is put into place, and we look
12 forward to working with the Legislature to expedite a
13 permanent solution that doesn't exceed our previous
14 commitments.

15 As one of two of the Category 3 licensees in the
16 Commonwealth, I ask you to consider initiatives which would
17 address restrictions imposed on us that are limiting our
18 growth and contribution to the Commonwealth, the largest of
19 which, as my colleague mentioned, was the "patron of the
20 amenities" access restriction. We believe any discussions
21 about Cat 3's must begin with this removal.

22 After years of operating with this restriction,
23 it's clear that it does not work and instead only creates
24 an uninviting and unwelcoming experience for our guests.
25 This requirement forces unnecessary burdens on the

1 Commonwealth's smallest casinos and causes a
2 disproportionate amount of regulatory oversight on us.

3 Additionally, I hope you will consider allowing
4 Internet gaming in the Commonwealth. Pennsylvania has an
5 opportunity to be among the first in what will be a
6 significant growth opportunity for the industry moving
7 forward. As we can see from our neighbors to the East,
8 once the Internet gaming market is established, a real
9 opportunity for consistent healthy growth exists. If
10 Internet gaming is considered here in Pennsylvania, then I
11 ask that Category 3 casinos be able to participate in this
12 exciting new era.

13 Other restrictions levied only in Cat 3's include
14 a limit of slot machines and table games. This number
15 ultimately limits revenues and taxes collected by the
16 Commonwealth. There are times when our games are at
17 capacity and we literally have to turn people away. I
18 can't imagine, as an over-50-percent stakeholder in our
19 slot revenues that the Commonwealth would like to keep
20 these patrons out of action. Additionally, poker tables,
21 which are non-house-banked games, should be permitted
22 without counting against our table game allotment.

23 We recognize Category 3 licenses come at a cost
24 commiserate with the intentions of the Legislature, and the
25 type of relief requested today will come with a price.

1 We're eager to discuss that further with all of you and are
2 prepared to pay a practical and realistic amount levied by
3 the Legislature.

4 I'd be remiss if I came before you today and
5 didn't mention our opposition to proposals -- referring to
6 VGTs -- in our bars and taverns. So I'm not going to
7 belabor that, but I welcome the opportunity to discuss that
8 later.

9 SENATE MAJORITY CHAIRMAN SCAVELLO: It's not a
10 VGT. Okay.

11 MR. PEARSON: A collaborative and comprehensive
12 expansion of gaming, which benefits the citizens, the
13 Commonwealth, and the gaming industry as a whole, is what
14 we're asking for today. We're committed to working with
15 you to improve Pennsylvania's gaming industry to enhance
16 our competitiveness regionally, maximize our shared growth,
17 and help our local communities thrive.

18 Thank you again for this opportunity.

19 SENATE MAJORITY CHAIRMAN SCAVELLO: You know,
20 Mr. Pearson, you can get rid of that \$10 fee right away.
21 Just apply for a Category 2. I'm looking at your numbers.
22 There's a strong rumor that you might. I hope that they're
23 right. We could use the revenue.

24 Any questions? Go ahead.

25 SENATOR STEFANO: Thank you, Mr. Chairman. This

1 is a question for Mr. Mitchell.

2 SENATE MAJORITY CHAIRMAN SCAVELLO: Your
3 microphone.

4 SENATOR STEFANO: It's on.

5 You represent and run the Lady Luck Casino, and
6 you mentioned that it's lost a little over \$1 million a
7 year, and you have heard a debate about iGaming. I just
8 wanted to know why you feel that iGaming would be a benefit
9 to a casino that -- for Lady Luck and its success.

10 MR. MITCHELL: So I think some of the points that
11 you have heard here already today would apply to us in our
12 market as well. We know that this gaming is already going
13 on. It's a very different customer than our current
14 customer, and we feel like with the ability to have that as
15 another tool just as almost another amenity as part of our
16 offering to our customers, it will allow us to reach out to
17 other customers, a younger demographic, and also be able to
18 incentivize them to come into our brick-and-mortar casino.

19 And to, you know, add on to the point, if there's
20 going to be iGaming within the State, in order for us to be
21 able to all remain competitive, it needs to be among all
22 the Category 1, 2, and 3 casinos.

23 SENATOR STEFANO: All right. Thank you for that.
24 Thank you, Mr. Chairman.

25 HOUSE MAJORITY CHAIRMAN PETRI: Yes,

1 Representative Dunbar.

2 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.
3 And thank you, Secretary, for my cup of coffee. I
4 appreciate that, too. It was good timing.

5 First off, the entry fee, the \$10 entry fee, in
6 392 it's waived for \$1 million. Would you both be doing
7 that?

8 MR. MITCHELL: Yes.

9 MR. PEARSON: Yes.

10 REPRESENTATIVE DUNBAR: Okay. That would be my
11 assumption. And not to editorialize but just in quick
12 answer to Senator Tomlinson, I know we never look at
13 anybody's motivation as far as bills, and I am the sponsor
14 of 329, and the motivation certainly was not revenue. It
15 was consumer protection and regulating an unregulated
16 industry. But just to correct just some things, he had
17 mentioned \$39 million, which I understand what New Jersey's
18 revenues are, and I would assume we would far exceed New
19 Jersey just on population alone, but the revenues that we
20 will see up front are licensure fees, which are estimated
21 in the \$100 million range. It was not the motivation, but
22 I just wanted to make sure that was on the record that
23 there are dollars up front for it.

24 Thank you, Mr. Chairman. Sorry for
25 editorializing.

1 HOUSE MAJORITY CHAIRMAN PETRI: I want to ask a
2 question about the Category 3's since you're both here.
3 Earlier, there was some testimony from the Gaming Board
4 about changing the ownership requirements or maxims if you
5 will. I think you were here when that testimony took
6 place. I haven't had a chance to think about it, but since
7 you're here, what's your impression of that? Maybe you
8 have to talk to corporate, but if you have an impression,
9 is that a good thing or a bad thing for the casino industry
10 in Pennsylvania?

11 MR. MITCHELL: Generally, we would see that as a
12 good thing. It doesn't directly impact us, but we would
13 think that open market would be positive.

14 MR. PEARSON: Yes, I agree.

15 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
16 Tomlinson.

17 SENATOR TOMLINSON: I had a great opportunity to
18 visit your casino in Nemaquin and Valley Forge both, and
19 they're -- actually, I like them very, very much. Would
20 you in fact pay the \$10 million for a license to do
21 Internet gaming?

22 MR. MITCHELL: I am not in a position to answer
23 that question at this time. We would strongly look at it,
24 but I --

25 SENATOR TOMLINSON: I think Atlantic City is like

1 400 and some thousand and then a \$250,000 renewal. So
2 you're talking about under \$1 million for a license in
3 Atlantic City, and we're talking about \$10 million for a
4 license here. And maybe some of the bigger corporations
5 that have multi locations and are big corporations might be
6 able to pay \$10 million, but it would be awful if you
7 couldn't afford the vig to get into the bet and somebody
8 else could. Then you'd be frozen out of the market because
9 the price is too high. So talk to your corporate people
10 and let us know would you be willing to pay \$10 million.

11 MR. PEARSON: Yes, it's definitely -- I mean,
12 it's different for the Category 3's because we are smaller.
13 We have smaller player bases and so there is definitely a
14 lot more calculus that goes into that. But I think online
15 gaming represents a very exciting opportunity for us, and
16 I'll give you more detail. We'll get back to you.

17 SENATOR TOMLINSON: Sure. You beat me, too.

18 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you
19 very much, gentlemen.

20 Our next presenters -- oh, we have another
21 question. Oh, excuse me. I'm sorry.

22 REPRESENTATIVE PHILLIPS-HILL: Thank you, Senator
23 Scavello.

24 I'm new to the Committee, but just for
25 clarification, and perhaps it would be better directed to

1 one of the Chairmen, am I correct that the fee is \$8
2 million?

3 SENATE MAJORITY CHAIRMAN SCAVELLO: I don't know
4 what's in his bill. What's in your bill?

5 REPRESENTATIVE DUNBAR: Eight million for the
6 casino, \$2 million for the operator [inaudible].

7 SENATE MAJORITY CHAIRMAN SCAVELLO: And again,
8 this is just one bill. We're just listening today. It
9 isn't necessarily that we're endorsing any particular bill.
10 This is just to hear what each one of the casinos have to
11 say about online. And it's an education piece for most of
12 us. I have no idea what's in the Representative's bill,
13 George's bill. I'm sorry, I don't. I've stayed away from
14 it. I want to hear from people. I'm educating myself on
15 the issue. I have not looked at your bill, nor any of the
16 others. There's about eight of them already introduced.

17 REPRESENTATIVE PHILLIPS-HILL: Thank you very
18 much, Senator.

19 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

20 REPRESENTATIVE PHILLIPS-HILL: I appreciate that.

21 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you
22 very much, gentlemen.

23 MR. MITCHELL: Thank you.

24 SENATE MAJORITY CHAIRMAN SCAVELLO: I just want
25 for the Members and -- there's going to be another joint

1 hearing on a continued -- to discuss other gaming options,
2 and it'll be at 10:00 a.m. And we don't have a location
3 yet, but it'll be at 10:00 a.m. on March 20th. That
4 location will be to be announced. I'm assuming it might be
5 right here because this is probably the biggest if we can
6 get the double room.

7 Okay. The next presenters, Bob Green, Chairman,
8 Parx Casino; and Anthony Ricci, Chief Executive Officer,
9 Parx Casino. Good afternoon, gentlemen.

10 MR. GREEN: Good afternoon.

11 SENATE MAJORITY CHAIRMAN SCAVELLO: It's not
12 evening yet, is it?

13 MR. GREEN: I'll be very brief. Chairmen
14 Scavello and Petri, Vice Chairmen Farnese and Neilson,
15 thank you. My name is Bob Green. I'm the Chairman of the
16 Parx. I set up our company in 1989, and somewhat unusually
17 for this space we are still under the same ownership and
18 structure as we were then.

19 Over the last 28 years, we've been privileged to
20 put forward proposals regarding the racing and gaming
21 industries. And that has involved assumptions,
22 projections, and tax revenue forecasting. There have been
23 a lot of numbers thrown about this afternoon. Our numbers,
24 whether for [inaudible] simulcasting, account wagering,
25 slot revenue, table games revenue, and [inaudible] that we

1 have been remarkably accurate and absolutely reliable for
2 planning and budgeting forecasts.

3 It's against that background that I would like to
4 introduce our CEO, Mr. Tony Ricci. Tony has been with us
5 for 20 years, first as our Chief Financial Officer, and for
6 the last six years, as our Chief Executive. And I will
7 leave our testimony and any questions for either of us in
8 his capable and knowledgeable hands. Thank you.

9 MR. RICCI: Thank you, Bob. And good afternoon.
10 And for the record, Senator Boscola, I am for making money
11 so you don't have to ask that question.

12 We are extremely proud to represent Parx Casino
13 and Racing. We're the number one casino in Pennsylvania,
14 just to correct the record of earlier. Parx generates the
15 most tax revenue of any casino in Pennsylvania, and our
16 beautiful facilities serve as a testament to the benefits
17 of the enabling legislation that created the gaming
18 industry in 2004 and saved our great racing industry.

19 We're equally proud to say that we've delivered,
20 as Bob said, on the promises that we made back in 2004 in
21 the face of much skepticism if you recall at the time, that
22 we could produce significant tax revenue, investment, jobs,
23 and economic growth, and conduct our operations with great
24 integrity and benefit to the community.

25 Some key facts related to our business are as

1 follows: We generated revenue of \$581 million in calendar
2 2016, and that does include our racing operation.

3 We pay approximately \$250 million per year in tax
4 payments to State and local governments. That's a high
5 percentage of the revenue number I just quoted. We also
6 paid \$26.8 million of nongaming taxes, such as property
7 taxes in 2016. We paid \$87.7 million in local share
8 assessments in the last five years, which includes the
9 county and the local minimum.

10 We employ more than 2,500 people, and 1,210 full-
11 time employees receive first-class benefits. Eighty-two
12 percent of our employees are PA residents, and our overall
13 compensation cost is approximately \$100 million a year.

14 Two-thirds of our revenue is derived from
15 customers who live within 30 miles of our casino. The
16 remaining one-third is predominately from New Jersey and
17 from New York area. As Senator Tomlinson mentioned
18 earlier, we did notice that when the online gaming law was
19 introduced in Pennsylvania, our poker revenue in our poker
20 room dropped 20 percent the next day. So the
21 cannibalization issue we'll talk to later.

22 Only 5 percent of our revenue is generated from
23 customers in Pennsylvania who are more than 30 miles from
24 our casino.

25 We've invested approximately \$700 million into

1 our operation, and we've transformed our racing backstretch
2 into the best in the industry.

3 The gaming industry, as it exists today, serves
4 as model for the entire Nation. Pennsylvania is second in
5 the country in overall gaming revenue at \$3.2 billion, but
6 we generate significantly more tax revenue than any other
7 State with \$1.4 billion in total. This is more than 50
8 percent higher than the second State, Nevada, just under
9 \$900 million. It's a phenomenal result.

10 Furthermore, our industry has made an overall
11 investment of approximately \$6 million in the brick-and-
12 sticks. Did I say million -- \$6 billion in the brick-and-
13 sticks, and we directly employ 18,000 people in well-paying
14 jobs. This overwhelming success reflects the significantly
15 higher gaming tax, as we referred to earlier in the
16 conversation, on casinos in Pennsylvania. With the overall
17 effective rate on slot machines when you apply the local
18 minimum and the Gaming Board costs that we also absorb, our
19 effective rate is 59 percent, the prudent structural
20 framework that the industry -- that was established in our
21 enabling legislation. I know the legislators that were
22 here, part of that legislation, are pleased to hear this
23 framework was very intelligent.

24 We have twelve casinos today, with another soon
25 to arrive in Philadelphia, which effectively serves the

1 residents of the Commonwealth by locating them judiciously
2 in the major population centers and by avoiding
3 oversaturation of markets. We have an orderly market
4 structure that respects the investments made in our
5 communities. And after 10 years of development, our
6 industry has matured to the point where approximately two-
7 thirds of Pennsylvanians now reside within 25 miles of a
8 casino. We have access for everyone.

9 Now, we are mindful that the Legislature is faced
10 with a budget deficit and is exploring options to increase
11 revenue. We are also aware that forces from outside the
12 Commonwealth are advocating an expansion of gaming based on
13 results in other States. Although it could be tempting on
14 the surface to look at your major tax contributor to see if
15 there is additional opportunity, we caution that great care
16 must be taken to avoid undermining the very foundation of
17 our success.

18 We believe that many of the proposals currently
19 under consideration will actually lower the tax revenue
20 generated by our industry and effectively kill the golden
21 goose. To be clear, these proposals ask the Commonwealth
22 to trade 59 cents on the dollar from brick-and-mortar
23 casinos for either 30 percent for VGTs or 15 percent for
24 Internet. It is clear that the net effect of these
25 proposals will actually be a reduction of tax revenue to

1 the Commonwealth, along with the thousands of jobs and
2 hundreds of millions of dollars of investments that are
3 being made today by the brick-and-mortar operators.

4 I didn't get the memo on VGTs so you have my
5 testimony in there. I'll move on to that and we can speak
6 about that at a later date.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

8 MR. RICCI: So I will say the first issue that
9 we'd like to discuss is Internet gaming. Once again, here
10 the Legislature is asked to accept the 15 percent rate of
11 tax versus the 59 percent that it currently receives.
12 We're being told this is incremental revenue. It's an
13 opportunity based on the experience in New Jersey.

14 However, even more so than in the VGT discussion,
15 there couldn't be a greater difference in approach,
16 structure, and success than in New Jersey and Pennsylvania
17 models. As you know, New Jersey gaming revenues have
18 decreased from a peak of more than \$5 billion to \$2.8
19 billion in 2014 and approximately \$2.2 billion today.
20 Despite some of the earlier comments, revenue in Atlantic
21 City is down since online gaming was enacted.

22 Their casinos pay a tax of 9 percent for brick-
23 and-mortar, as opposed to our 59. They pay 15 percent for
24 online gaming. So as the Senator said earlier, that's a
25 substantial increase over the brick-and-mortar rate. And

1 there really isn't any issue on that side for the State of
2 New Jersey. However, they only contributed \$237 million in
3 tax revenue to the State of New Jersey in fiscal 2015.
4 That is one-sixth of what is being generated here in
5 Pennsylvania.

6 All their casinos are concentrated in one central
7 location, Atlantic City, as New Jersey originally created a
8 destination-type market that drew from the major population
9 centers of Philadelphia, New York, and northern New Jersey
10 rather than the approach that was taken here, which was a
11 more local convenience structure that populated the casinos
12 where the people live. In fact, only 5 percent of New
13 Jersey residents live within 25 miles of a casino, as
14 opposed to the two-thirds we have here in Pennsylvania, 5
15 percent.

16 Once Pennsylvania and New York legalized casino
17 gaming, the precipitous decline in revenue that I spoke
18 about earlier commenced. As a result, it's a long trip to
19 a casino for most New Jersey residents because most of them
20 are concentrated in the northern part of the State. And
21 whether to patronize Atlantic City, New York, or the
22 Pennsylvania casinos still requires a long trip.

23 So New Jersey legalized online gaming to give the
24 struggling casinos in Atlantic City more access to that
25 northern New Jersey market. But interestingly, they did

1 stop short of expanding casinos geographically and
2 physically throughout the State, as we do here in
3 Pennsylvania. So New Jersey represents what I call a
4 unique situation with respect to online gaming and in no
5 way reflects the opportunity that's available here in
6 Pennsylvania.

7 The most recent reports from New Jersey indicate
8 a current level of online gross gaming revenue of just
9 under \$200 million. However, this amount actually includes
10 free play that we don't know exactly how much that is
11 because that number is not reported, but the actual cash
12 revenue is more likely in the \$150 million range, even less
13 than what you were speaking about earlier, Senator.

14 It's important to note that the State only
15 receives 15 percent of this amount so it's \$29 million, as
16 you'd said earlier. This is a completely different
17 situation to what exists in Pennsylvania today, and we
18 should not assume anywhere near the same outcome as New
19 Jersey, despite the population differences. I know we have
20 13 million and they have 9, but the way we've laid out our
21 market will deter from that increase. Due to our more
22 extensive geographic reach, there's much less upside
23 opportunity and a much greater risk for cannibalization of
24 the existing business.

25 It's also interesting to note that Delaware

1 offers online gaming, and it generates approximately \$3
2 million per year in total, \$3 million. Now, I recognize
3 that Delaware has 7 percent of Pennsylvania's population,
4 but it offers a better representation of what our market
5 structure is because they have their casinos where the
6 people live in Delaware. And if you extrapolated their
7 result, you would come out with about \$45 million in
8 revenue.

9 In addition, I just want to point out that Nevada
10 offers poker only, strictly poker online, and they generate
11 revenue of about \$7 million per annum, \$7 million for
12 online poker. Nevada has clearly protected its brick-and-
13 mortar casinos from online cannibalization. Even sports
14 wagering can only be made at a sportsbook in a casino.
15 Given the anemic results in New Jersey, Delaware, and
16 Nevada, the opportunity for incremental gaming revenue
17 appears to be insignificant in the grand scheme.

18 Another point that must be addressed with
19 Internet gaming is the theory that this is incremental
20 revenue and will not affect the existing casinos. How can
21 we reasonably assume that after Blockbuster Video, Tower
22 Records, Borders, and now many major retailers like Macy's,
23 JCPenney, and Sears are closing stores and eliminating jobs
24 due to their competition from online retailing that somehow
25 we'll be different? Who else could we expect to gamble at

1 an online casino but someone who has visited a casino at
2 some point and is a gambler.

3 It is even more important to note that the demise
4 of the brick-and-mortar retailers came when they had a
5 level playing field. In our case, we're talking about 59
6 percent slots tax versus 15 percent online tax. At least
7 Amazon pays the same tax as the brick-and-mortar retailers,
8 and they still took them down.

9 I find it impossible to assume that a brick-and-
10 mortar casino paying 59 percent in taxes will not lose
11 significant business to an online operator paying 15
12 percent in an open, unprotected market, unlike what we have
13 here in the real world. Therefore, it is our view that the
14 Commonwealth will lose revenue by implementing Internet
15 gaming. If you assume generously that we could generate
16 \$100 million of revenue through Internet gaming, I am
17 certain that 50 percent of that total at least would come
18 at the expense of an existing casino.

19 This is not like New Jersey. They are already
20 talking to all the customers in the State. In that case
21 the Commonwealth would actually lose about \$15 million
22 dollars a year on the swap from our revenue at 59 percent
23 versus incremental online revenue at 15.

24 Given the tax rate differential, there's no value
25 in Internet as the numbers will either be insignificant as

1 I suggest or maybe even worse, they could be significant
2 but it will be at the expense of the casinos at 59 percent
3 to the Commonwealth versus 15 percent. Either way, it's a
4 loser.

5 Another discussion topic I'd like to address is
6 the local share assessment for casinos. Parx has never
7 sought a change from the current approach. In our view it
8 was part of the deal when we accepted our license, and we
9 fully intend to honor that commitment. In fact, we along
10 with several other casinos have reached an agreement with
11 our county and township to continue the previous structure
12 until the legislative fix has been implemented.

13 Our only comments on this topic are that we're
14 flexible on the approach so long as it does not increase
15 our payments above the 2 percent county and \$10 million
16 minimum level at the township. However, I would like to
17 point out that we would have to reassess this position if
18 some of the proposals that are being put forward for the
19 VGTs and Internet, et cetera, were actually implemented due
20 to the threat of the cannibalization of our business and
21 the destabilizing effect it would have on the local revenue
22 stream.

23 One last point I'd like to make is regarding
24 Gaming Board costs. And while I do concur with Senator
25 Tomlinson's comment regarding the integrity of our

1 industry, I do feel there needs to be some control on these
2 costs. Just recently, we were advised that our assessment
3 from the Department of Revenue would increase from the
4 current level of 1.7 percent of revenue to 1.9 percent of
5 revenue. Now, this represents a 26 percent increase from
6 where we were in 2015 when we were at 1.5 percent of
7 revenue, and we have been at that level from the day we
8 opened back in 2006.

9 I can assure you that our costs to operate the
10 business have not increased by 26 percent over the past two
11 years, and nor am I aware of any inflationary statistic
12 that would support this kind of a charge. So we
13 respectfully request that a review and some type of cap on
14 Gaming Board charges be placed because it -- and I also
15 like to point out it's interesting that New Jersey and
16 Illinois do not have this pseudo-tax on casinos even though
17 they do have much lower tax rates than what we have here in
18 Pennsylvania.

19 In closing, I'd like to offer the old adage "if
20 it ain't broke, don't fix it." Far from being broken, our
21 industry is an unparalleled success. It will most
22 assuredly be a losing deal for the Commonwealth to trade 59
23 percent from a casino to 30 cents of 15 cents for VGTs and
24 Internet gaming. We do understand the importance of the
25 current fiscal situation, and our industry members have met

1 in an attempt to find alternative revenue streams that
2 don't harm the existing casinos. Now, to date, we don't
3 have a consensus on that, but are committed to working
4 together to find solutions, just as we've have done in the
5 past.

6 So I thank you very much for your time and this
7 opportunity, and we're available for questions.

8 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you,
9 gentlemen.

10 Any questions?

11 HOUSE MAJORITY CHAIRMAN PETRI: Representative
12 Santora.

13 REPRESENTATIVE SANTORA: Thank you, Mr. Ricci.
14 Thank you, Mr. Green.

15 You touched a lot of bases there, and my first
16 question is a lot of your southeast competition I'll call
17 it don't necessarily agree with you on some of these
18 things. Valley Forge was here. They're looking into
19 iGaming. I cheated. I looked ahead at SugarHouse and
20 they're looking into iGaming. They have a partner.
21 Harrah's, through Caesars, iGaming. You've got a different
22 viewpoint there. They have a different viewpoint, I
23 believe, on the additional casino for Philadelphia than you
24 do. Do you have an interest in that casino being built
25 that would be built?

1 MR. RICCI: The stadium?

2 REPRESENTATIVE SANTORA: Yes.

3 MR. RICCI: Yes.

4 REPRESENTATIVE SANTORA: Okay.

5 MR. RICCI: We're partners in that.

6 REPRESENTATIVE SANTORA: You're partners in that?

7 MR. RICCI: Yes.

8 REPRESENTATIVE SANTORA: Okay. So that would be
9 a reason you would support it. I understand. They feel
10 that that can hurt their business, another casino. So we
11 got to look at options for everybody.

12 You're against iGaming. Can you tell me, you
13 said why you think it would hurt Pennsylvania and a bunch
14 of other casinos came up and said why it wouldn't, why it
15 would actually just add to the revenue. Am I missing
16 something?

17 MR. RICCI: I don't think I said it would add. I
18 said it would reduce the revenue.

19 REPRESENTATIVE SANTORA: You did.

20 MR. RICCI: Yes.

21 REPRESENTATIVE SANTORA: I said other casinos
22 came in and said --

23 MR. RICCI: They have.

24 REPRESENTATIVE SANTORA: -- it would add to their
25 revenue, which would then add to Pennsylvania's revenue.

1 MR. RICCI: Right. And I was speaking in terms
2 of the legislators' positions. It's an unusual position to
3 be in. I actually agree with some of the comments that
4 Senators Boscola and Tomlinson made. Why wouldn't I, as an
5 operator who wants to make money, rather have 15 cents
6 rather than 59? It probably is a better deal. I was
7 presenting it in terms of your perspective, that as you
8 look at this -- and I think Bob touched on it before we
9 started.

10 Going back to the time Bob bought our company
11 back in 1990, we've made representations, whether it's to
12 the Racing Commission, to the Gaming Commission, to the
13 Legislature to that we've delivered on. And we understand
14 this market. We understand how it works. I would suggest
15 that, given the numbers in New Jersey -- and let's be
16 honest, that's the only place online gaming is -- \$3
17 million in Delaware, \$7 million in Nevada. That's not an
18 industry. It's really a waste of everybody's time here to
19 even discuss it.

20 Yes, there's a couple hundred million at the
21 gross level. I don't know what the cash level is in New
22 Jersey, but let's assume it's \$150. And the way New Jersey
23 is structured, that could make sense, but in Pennsylvania,
24 it doesn't because we have casinos. I doubt you would have
25 seen that groundswell of support for Internet in New Jersey

1 if there were casinos in north Jersey and other places.
2 They wouldn't do it.

3 And we have some experience in account wagering
4 from the racing side, so we understand how that works, and
5 it's very important that you protect the market for the
6 brick-and-sticks operator. And that's the other side of
7 this coin that I think it's important to point out that if
8 operators have 15 percent tax rates and very low overheads
9 because all they've got is a computer server that they've
10 got to maintain, it's very reasonable to assume that
11 they're going to go attack the Philadelphia market, the
12 Pittsburgh market even though today I don't speak to the
13 Pittsburgh market. I could in an online world.

14 With potentially 13 online casinos all going
15 after the same customers with free play offers, et cetera,
16 et cetera, I think it would be foolish to assume that
17 wouldn't have a pretty significant impact on the brick-and-
18 mortar casinos, particularly since most of the business is
19 slots on the online gaming. I mean, poker in New Jersey
20 represents a little more than 10 percent of the total.

21 So I think you really have to look at it from two
22 aspects. One is the disruption in the marketplace because
23 there are no competitive boundaries that exist today. We
24 have market protections in our legislation today. No
25 casino can open up within 10 miles of us. We made

1 investments and continue to on the basis of that. That all
2 changes if Internet comes online. You know, the smallest
3 casino -- and I could certainly understand why a smaller
4 casino would be interested in this. You just opened up the
5 Philadelphia market to me and I'm paying 15 percent tax.

6 REPRESENTATIVE SANTORA: Isn't the Philadelphia
7 casino within 10 miles of Chester?

8 MR. RICCI: The Philadelphia casino and stadium.

9 REPRESENTATIVE SANTORA: It's proposed, the
10 stadium?

11 MR. RICCI: It is, but that's a physical casino.

12 REPRESENTATIVE SANTORA: But you said about a 10-
13 mile --

14 MR. RICCI: That's outside of 10 miles. I think
15 it's --

16 REPRESENTATIVE SANTORA: Of Chester?

17 MR. RICCI: Yes.

18 REPRESENTATIVE SANTORA: Wow. I didn't realize
19 that.

20 MR. RICCI: Ten point two.

21 REPRESENTATIVE SANTORA: Okay. All right. So
22 here's the thing. And Representative Dunbar did put his
23 legislation forth because he does want consumer protections
24 and he's been very clear about that. I look at it from a
25 revenue standpoint. We have \$100 million we've got to make

1 up in last year's budget, and we got 150 in this year's,
2 and we've got to figure out where that's coming from. And
3 I believe gaming is a good solution because I really don't
4 want to raise people's personal income tax and I don't want
5 to raise overall sales tax.

6 I also believe if we don't get this done the only
7 option is VGTs. And I know I'm not allowed to touch base
8 on that except for that statement, so we've got to be
9 careful.

10 MR. RICCI: We respect that. We appreciate that.
11 And I did mention that we as an industry are trying to come
12 together to find solutions for this revenue shortfall --

13 SENATE MAJORITY CHAIRMAN SCAVELLO: We're going
14 to have to move along --

15 MR. RICCI: -- that don't involve that.

16 SENATE MAJORITY CHAIRMAN SCAVELLO: -- please.

17 REPRESENTATIVE SANTORA: It's a good option.

18 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
19 Stefano.

20 SENATOR STEFANO: All right. Thank you,
21 Mr. Chairman.

22 Mr. Ricci, I have a quick question for you.

23 MR. RICCI: Sure.

24 SENATOR STEFANO: How do you feel that the
25 current illegal unregulated gambling that goes on in

1 Pennsylvania affects your revenue?

2 MR. RICCI: It's impossible to know, isn't it? I
3 mean, you hear this talk that it exists and it's possible
4 that it does, but then I look and see we're doing \$3.2
5 billion of revenue, paying \$1.4 billion in taxes, and I
6 suspect that most of the online gaming -- and this is my
7 guess; you're asking me, my personal opinion because nobody
8 has data. They don't disclose this publicly how much
9 business they do.

10 I think most of the online gaming is sports
11 betting. I know I have -- there's ads all over to go
12 offshore to do sports betting, radio, football season every
13 day. You're getting betting with MyBookie.com or somebody
14 like that. That is who the millennials -- the millennials
15 like Fantasy and they like sports betting. I really don't
16 think they like slots that much, and I don't think that,
17 you know, that's something that, you know, online gaming
18 offers them that they really want.

19 I don't know the answer to the question, but I
20 don't think it's adversely impacting us. I think we've got
21 a significant success here. And I would suggest that it
22 probably would continue whether we offered online gaming or
23 not because those guys aren't going to go away; they have
24 businesses to run. And they like to make money, too.

25 SENATOR STEFANO: All right. Thank you for your

1 answer.

2 Thank you, Mr. Chairman.

3 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
4 Bartolotta and then Senator Boscola.

5 SENATOR BARTOLOTTA: Thank you, Mr. Chairman.

6 We're really honing in only on the iGaming aspect
7 of expanding gaming, but there's other options beside the
8 VGT. How do you feel about off-track betting parlors,
9 setting up a --

10 MR. RICCI: We do have a few still --

11 SENATOR BARTOLOTTA: How many --

12 MR. RICCI: -- so -- we have three now.

13 SENATOR BARTOLOTTA: Okay.

14 MR. RICCI: Yes, we just closed a few because the
15 racing industry has been in decline, but we had six at our
16 peak.

17 SENATOR BARTOLOTTA: And that didn't help pick up
18 the racing industry for you?

19 MR. RICCI: It did for a short term and then, you
20 know, when casino gaming came into Pennsylvania, it
21 actually did take away dollars from the off-track wagering
22 locations.

23 SENATOR BARTOLOTTA: Okay. But was that a good
24 use of your extra -- how many slot machines do you own and
25 how many are in your physical casinos?

1 MR. RICCI: We have a little over 3,400 in our
2 casino today. And to your earlier question was that
3 incremental for the racing industry? Yes, it was.

4 SENATOR BARTOLOTTA: Thank you.

5 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
6 Boscola.

7 SENATOR BOSCOLA: Most casino revenue when it's
8 online you say comes from poker?

9 MR. RICCI: Slots.

10 SENATOR BOSCOLA: Slots. Okay. So if most of it
11 comes from slots, the online gaming, and the rate is 54
12 percent that we have at brick-and-mortar and now we're
13 going to pay 15 percent and the slot money is the only
14 money that goes to property tax relief because the table
15 game money doesn't, our property owners are going to see a
16 lot less money coming in, aren't they?

17 MR. RICCI: That's what I was saying --

18 SENATOR BOSCOLA: Yes.

19 MR. RICCI: -- and in fact, if --

20 SENATOR BOSCOLA: And the whole reason we sold
21 the public on gaming was because they get property tax
22 relief. Now, we're going backwards. That's just great.

23 MR. RICCI: We don't want you to have buyer's
24 remorse, as Bob said in the beginning.

25 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you,

1 Senator.

2 SENATOR BOSCOLA: I'm just saying.

3 SENATE MAJORITY CHAIRMAN SCAVELLO: I'm a little
4 confused here because I asked the question to the prior --
5 and they're not here right now, but I did ask them what's
6 the majority of online, and they said poker.

7 MR. RICCI: Well, that was the geolocator, and
8 there may be a lot of activity, but their revenue is about
9 10 percent poker. That information you have. That's in --

10 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay. All
11 right. No, that's fine.

12 MR. RICCI: -- the DGE's website.

13 SENATE MAJORITY CHAIRMAN SCAVELLO: Good. Any
14 other questions?

15 REPRESENTATIVE DUNBAR: Mr. Chairman? Thank you.

16 SENATE MAJORITY CHAIRMAN SCAVELLO:
17 Representative Dunbar.

18 REPRESENTATIVE DUNBAR: Thank you. Thank you,
19 Chairman. Real quickly, first off, poker is a very slow
20 game and it's not a whole lot of margin for the casinos to
21 make so they may have more people but it's not generating
22 any revenues. But the funny thing I see as I sat here and
23 I listened to your testimony and it was very articulate and
24 very bright, and as you nodded your head up and down, every
25 other casino operator out there was going like this except

1 when you said VGTs, then everybody agreed with you. It's
2 such a matter of --

3 MR. RICCI: That's pretty typical.

4 REPRESENTATIVE DUNBAR: -- opinion right now.

5 And I appreciate what Senator Boscola was saying as far as
6 taxes, but I don't share the same opinion. I don't share
7 the same opinion as far as cannibalization and exactly how
8 it all worked out. But I do find it kind of interesting
9 sitting here watching all the head nods.

10 Thank you, Mr. Chairman.

11 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

12 Thank you, gentlemen for your testimony. While
13 we have you here and everybody is listening, I just want to
14 make certain what is your overall investment on the
15 economic development that you've done so far and plan to do
16 on this new casino? And we're talking about the expansion
17 project to --

18 MR. RICCI: Are you referring to the stadium?

19 REPRESENTATIVE NEILSON: Yes, because that's a
20 big project that's about to begin. I know you're in a
21 process of doing --

22 MR. RICCI: Yes.

23 REPRESENTATIVE NEILSON: -- a whole lot of stuff
24 and some people are trying to hold it up. But what jobs is
25 it going to create and how much investment are you putting

1 into the city?

2 MR. RICCI: We're looking at about \$650 million
3 of investment for the stadium casino and also 2,200 jobs.
4 I forget the number of construction jobs, but they're
5 significant.

6 REPRESENTATIVE NEILSON: And as far as Parx, do
7 you recall what that investment up there was?

8 MR. RICCI: We're over \$700 million to date, and
9 we have an expansion that we are currently undertaking,
10 which will be another \$60 million that will add a
11 multipurpose showroom similar to what Sands has and a few
12 more amenities for restaurants to support that.

13 REPRESENTATIVE NEILSON: According to your
14 testimony, you pointed out that you thought this was going
15 to hurt, and you mentioned probably five, six times that
16 Pennsylvania is a 59 percent stakeholder in your company?

17 MR. RICCI: That's correct.

18 REPRESENTATIVE NEILSON: How much did the State
19 have to pay you to do that. They get that 59 percent. I
20 mean --

21 MR. RICCI: We didn't have you negotiating for
22 us. We actually pay for that privilege.

23 REPRESENTATIVE NEILSON: All right. So you pay
24 us 59 percent --

25 SENATOR TOMLINSON: [inaudible].

1 REPRESENTATIVE NEILSON: I understand that.
2 That's the point I'm trying to bring out here that we are a
3 59 percent stakeholder in the casinos in Pennsylvania, and
4 to try and dilute that -- I know we're not going to VGTs
5 and all that other stuff, but while you're here testifying
6 today, I just wanted to make sure everybody knew that, we
7 are a 59 percent stakeholder and we do not want to hurt our
8 industry because we own it more than you. I mean, that's
9 clear. And I want to thank you.

10 Mr. Chairman, one more thing. How much do you
11 donate locally to charities? I didn't see that on
12 anybody's reports today. However, I see the signs all over
13 southeast PA.

14 MR. RICCI: Yes --

15 REPRESENTATIVE NEILSON: Do you know that number?

16 MR. RICCI: Since we've opened, we've contributed
17 over \$50 million --

18 REPRESENTATIVE NEILSON: In addition to the
19 taxes?

20 MR. RICCI: -- to various national,
21 international, local charities.

22 REPRESENTATIVE NEILSON: All right.

23 MR. RICCI: Yes.

24 REPRESENTATIVE NEILSON: Thank you. Nothing
25 further, Mr. Chairman.

1 HOUSE MAJORITY CHAIRMAN PETRI: Mr. Ricci, I do
2 have a couple questions, and I want to thank you for the
3 data. Twelve hundred ten full-time employees, 2,500 other
4 employees. Is there any other track in Pennsylvania that
5 has what I would call a full-time back side, you know,
6 where people --

7 MR. RICCI: Yes, Penn National.

8 HOUSE MAJORITY CHAIRMAN PETRI: -- stay over?

9 MR. RICCI: Penn National does.

10 HOUSE MAJORITY CHAIRMAN PETRI: Penn National as
11 well?

12 MR. RICCI: Yes.

13 HOUSE MAJORITY CHAIRMAN PETRI: Okay. In your
14 case, how many -- the 2,500, does that include the -- those
15 aren't your employees on the back side?

16 MR. RICCI: No, they work for the trainers and
17 the owners on the horse racing side.

18 HOUSE MAJORITY CHAIRMAN PETRI: Give me the
19 economics of that?

20 MR. RICCI: Of the racing industry?

21 HOUSE MAJORITY CHAIRMAN PETRI: Well, on the back
22 side, approximately how many people are there daily?

23 MR. RICCI: It's 1,000 people a day.

24 HOUSE MAJORITY CHAIRMAN PETRI: Okay. And
25 that's --

1 MR. RICCI: It's like another city.

2 HOUSE MAJORITY CHAIRMAN PETRI: -- the trainers,
3 the walkers, the groomers --

4 MR. RICCI: Yes.

5 HOUSE MAJORITY CHAIRMAN PETRI: -- and --

6 MR. RICCI: Yes.

7 HOUSE MAJORITY CHAIRMAN PETRI: -- and that's all
8 paid for out of the purse, out of the purses?

9 MR. RICCI: It's supported by the purses.

10 HOUSE MAJORITY CHAIRMAN PETRI: I think I know
11 the answer, but I have to ask this. In your opinion, would
12 the 1,000 people on the back side, would their jobs be in
13 jeopardy and would the horseracing industry be in jeopardy
14 if the casino was not there to support it?

15 MR. RICCI: Absolutely.

16 HOUSE MAJORITY CHAIRMAN PETRI: So --

17 MR. RICCI: Absolutely.

18 HOUSE MAJORITY CHAIRMAN PETRI: You know, I know
19 that was --

20 MR. RICCI: They wouldn't exist.

21 HOUSE MAJORITY CHAIRMAN PETRI: I know that was
22 the Senator's initial goal was to save the horseracing
23 industry, and I just want the Members to be mindful when
24 we're looking at these employees, we're also looking at
25 employees of other parties. Yes, there's third-party

1 contracts in all the casinos, but at two facilities there
2 are people that depend upon a livelihood because of the
3 purses. Thank you.

4 SENATE MAJORITY CHAIRMAN SCAVELLO: Gentlemen,
5 thank you very much for your testimony.

6 MR. RICCI: Thank you very much.

7 HOUSE MAJORITY CHAIRMAN PETRI: Next testifier is
8 Richard Schwartz, President, Rush Street Interactive; and
9 Wendy Hamilton, General Manager, SugarHouse Casino. Good
10 afternoon. And you may start when you're ready. It'll
11 probably be evening in a little bit.

12 MS. HAMILTON: Pretty soon. Good afternoon,
13 Chairmen Scavello and Petri, Vice Chairman Farnese and
14 Representative Neilson, Members of the Committees. We
15 thank you for the opportunity to testify this afternoon.

16 You've asked for feedback today on gaming
17 expansion being considered for our Commonwealth. I speak
18 today on behalf of SugarHouse and Rivers Casinos.

19 Given the intensely competitive state of the
20 Pennsylvania and frankly the entire regional slot market,
21 we respectfully stand in staunch opposition to any gaming
22 expansion that places further competitive pressure on
23 existing casino operators. We support the legalization of
24 online gaming for current casino licensees as data
25 consistently shows this can be a business-builder for us.

1 A few words about the state of our regional slot
2 market: Between December 2015 and May 2016, Parx and
3 SugarHouse Casinos added a combined total of 504 new slot
4 machines, a supply increase of 4.6 percent of total slot
5 machines in the Philadelphia region. SugarHouse in
6 particular spent \$164 million on an entire remake of our
7 Philadelphia property. We more than doubled our original
8 size, adding six new food and beverage options and a
9 30,000-square foot event center. However, still, slots
10 revenue for the four Philadelphia-area casinos was flat at
11 .7 percent year over year. We grew. SugarHouse's slot
12 revenue grew by 4 percent, but Harrah's Philadelphia
13 decreased by 5.3 percent. SugarHouse's modest growth on
14 this sizeable capital investment was at the direct expense
15 of a competitor.

16 Interestingly, 83 percent of the 2016 growth in
17 southeast Pennsylvania came in September where the 2015
18 comparison was the month the Pope visited. We were very
19 excited to have him in Philadelphia, but he didn't do
20 anything for our business.

21 In addition -- this is important -- in 2016, we
22 had a leap year. There were 29 days in February, and
23 still, a hair's breadth of growth in the market.

24 MALE SPEAKER: [inaudible].

25 MS. HAMILTON: Every slot player in the region

1 has multiple casinos to choose from. There is no way to
2 spin this. These are the facts.

3 Since opening in 2010, SugarHouse Casino has
4 generated over \$98 million in direct tax revenue for the
5 city and school district of Philadelphia and an additional
6 \$650 million in State tax revenue. In addition, we employ
7 almost 1,600 people at our facility with good family-
8 sustaining jobs, and we make significant charitable
9 donations to our community. Aside from being the title
10 sponsor of the city's economically valuable Mummers Parade
11 and New Year's Eve fireworks, we've given almost \$8 million
12 to local charitable partners. Also, we are very proud to
13 have been an early trigger for the phenomenal development
14 happening in Fishtown and Northern Liberties today.

15 The contributions that SugarHouse and other
16 casinos have made to our State and community in many ways
17 reflect the successful framework established in 2004. That
18 framework created a partnership between the Commonwealth
19 and the gaming industry that has provided billions in tax
20 relief and economic development in Pennsylvania. However,
21 the significant economic contributions of the casino
22 industry in Pennsylvania are at risk without stability and
23 predictability for our industry.

24 There is some promising news, though. Online
25 gaming represents a unique opportunity to increase the

1 health and financial performance of the brick-and-mortar
2 casino industry in Pennsylvania, while at the same time
3 generating significant licensing fees and tax revenues for
4 the Commonwealth. My colleague Richard Schwartz will
5 elaborate on the following very exciting findings, four of
6 them:

7 1) Online is predominantly a new set of players.

8 2) These are demographically different players.
9 They're younger.

10 3) The small slice of the online database that
11 has been an active bricks-and-mortar player played more in
12 the bricks-and-mortar after their online registration.

13 4) This multichannel approach to player
14 engagement empowers a brand, strengthening even the bricks-
15 and-mortar casino.

16
17 Richard?

18 MR. SCHWARTZ: Thank you. Good afternoon. We
19 believe that, if implemented properly, online gaming
20 represents a unique opportunity to increase the financial
21 performance of the brick-and-mortar casinos in
22 Pennsylvania, while at the same time generate significant
23 licensing fees and tax revenues for the Commonwealth.

24 First, while there's much discussion about market
25 saturation and competition for a limited pool of gamers and

1 limited gaming dollars, there is compelling evidence that
2 online gaming helps to attract new players to the casinos,
3 the land-based casinos. SugarHouse's online gaming partner
4 in New Jersey is the Golden Nugget in Atlantic City, and
5 they've been operating online for over three years.

6 Specifically, for the first 35 months since the Golden
7 Nugget launched its online casino in New Jersey, only 8
8 percent -- I say 8 percent of its online players were
9 active at the Golden Nugget in the 12 months prior to
10 signing up for an online account. So 92 percent of these
11 players were not active at that property for a year before
12 they signed up for an online account. The fact that online
13 gaming is attracting a different demographic than land-
14 based casinos validates why we believe online gaming
15 represents a compelling marketing tool to acquire new
16 players into the gaming industry.

17 The next point I'll address is the younger
18 demographics. The brick-and-mortar industry has focused in
19 recent years on attracting millennial players. As it turns
20 out, Internet gaming is an effective way to attract younger
21 customers who are looking for a different gaming experience
22 than their parents. As some of you may know, again,
23 through a partnership with the Golden Nugget in Atlantic
24 City, the SugarHouse brand has been operating online in New
25 Jersey through the PlaySugarHouse.com branded website for

1 the past six months. Although this time period is too
2 short to evaluate any meaningful financial impact on land-
3 based SugarHouse property, we have seen that on average
4 SugarHouse online players are eight years younger than
5 those players visiting the SugarHouse land-based property.
6 So as the brick-and-mortar industry seeks to acquire
7 younger players, online gaming represents a proven and
8 effective player acquisition tool for new players.

9 Next, I'd like to address the small percentage of
10 the land-based players who do sign up for online accounts,
11 what impact it is on them. As we know, the only way to
12 grow revenues for a business is to either find new players
13 or grow existing revenues from existing players. As I
14 previously mentioned, online gaming does attract the new
15 players, but now I'd like to shift the focus on how online
16 gaming helps to grow revenues from existing players.

17 Again, looking at New Jersey as a model, Internet
18 casinos have had a materially positive impact on revenues
19 generated from the existing brick-and-mortar casino
20 players. Specifically, Golden Nugget has found that online
21 casino players increased their average monthly spend at the
22 Golden Nugget brick-and-mortar casino by 15 percent after
23 they opened an online account. So when an existing land-
24 based player opens an account with the online account, they
25 subsequently spend 15 percent more at the same property

1 than they did before. This is a big deal because, again,
2 it validates that when online gaming becomes available as
3 an option in the market, the existing land-based players
4 are still increasing their entertainment spend at the land-
5 based properties.

6 And the fourth point that I'd like to address is
7 the multiple channels of having an ability to engage
8 players online and through land-based work well together in
9 parallel to complement each other. Players who are cross-
10 sold from an online casino to a brick-and-mortar casino or
11 vice versa going from a brick-and-mortar casino to an
12 online casino, they spent 33 percent more with the Golden
13 Nugget in aggregate after they started playing at both
14 online and brick-and-mortar properties. This demonstrates
15 that when players can access and play casino games through
16 online and brick-and-mortar, both of them through both
17 channels, they will increase their entertainment spend
18 overall by 33 percent with that brand. So ultimately,
19 having multiple channels, online and offline working
20 together, will increase revenues generated from that brand
21 and increase tax revenues for the Commonwealth.

22 In closing, there are few other marketing
23 programs in the industry that share the same capacity to
24 generate both new players and grow the spend of existing
25 players in such a fashion that will materially improve the

1 performance of the brick-and-mortar casinos in
2 Pennsylvania. Brick-and-mortar casinos and online gaming
3 increasingly offer different and complementary services and
4 experiences. As the casino industry has matured in
5 Pennsylvania, it has become more than just the gaming
6 experience. With expanded dining and entertainment options
7 at many casinos, including SugarHouse and Rivers, as a
8 result of this and other compelling data points, we believe
9 that online gaming represents an exciting opportunity to
10 again increase the health of the brick-and-mortar casino
11 industry in the State of Pennsylvania, while at the same
12 time generating licensing and tax revenue for the
13 Commonwealth.

14 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you
15 very much. Thank you for your testimony. You know,
16 Representative Petri, I think we've found something that's
17 actually harder to do than property tax reform.

18 HOUSE MAJORITY CHAIRMAN PETRI: Absolutely.

19 SENATE MAJORITY CHAIRMAN SCAVELLO: Any
20 questions?

21 Okay. We'll start there and then we'll go to
22 Senator.

23 I'm sorry. Excuse me. Excuse me.

24 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.
25 I know it's in the Senator's district.

1 SENATE MAJORITY CHAIRMAN SCAVELLO: Yes, let the
2 Senator go first.

3 REPRESENTATIVE NEILSON: I was going to yield
4 that as well, too.

5 SENATE MAJORITY CHAIRMAN SCAVELLO: Good.

6 REPRESENTATIVE NEILSON: However, you know, being
7 as I had the mic, I figured I was not giving it up.

8 SENATE DEMOCRATIC CHAIRMAN FARNESE: It is late,
9 so whatever you want to do.

10 SENATE MAJORITY CHAIRMAN SCAVELLO: Go, Senator.

11 SENATE DEMOCRATIC CHAIRMAN FARNESE: Again, I
12 just wanted to congratulate SugarHouse. Wendy, you know,
13 the operation down there is really a partner and a neighbor
14 with the community. And I think that when we look at
15 gaming in the Commonwealth and specifically within the City
16 of Philadelphia, there was a lot of concerns -- I think we
17 all knew that -- a lot of concerns about what the industry
18 would bring.

19 But in terms of working with the community, the
20 charitable endeavors by SugarHouse has been really amazing.
21 And I think that we certainly are privileged to have the
22 casino. I know I am, to have it in my district. And I
23 just wanted to say that I usually will get an opportunity
24 to do this during the appropriation hearings, but I'm not
25 on the Appropriations Committee anymore, so I wanted to

1 just say that I think that we really are -- what we have in
2 Philadelphia with SugarHouse is a real model I think for
3 the rest of the State.

4 I know that Senator Tomlinson is very happy with
5 his and proud of his, and I am equally proud of SugarHouse,
6 so I just wanted to make those comments. And thank you,
7 Mr. Chairman.

8 MS. HAMILTON: Thank you, Senator.

9 SENATE MAJORITY CHAIRMAN SCAVELLO:
10 Representative.

11 REPRESENTATIVE NEILSON: Thank you. Thanks for
12 coming. It's good to see you all again.

13 As a Philadelphia resident, I too know as a
14 councilman how much you partner up. I wanted to echo what
15 the Senator said. But I do have a few questions.

16 Being in our immediate market, we've noticed the
17 commercials about the online gaming that you do currently
18 through New Jersey. Can you talk about that a little bit
19 and what that's done for the revenue? I don't know exactly
20 how that's set up because you have an online gaming site
21 now and you advertise for Jersey residents. Do you have a
22 facility in Jersey as well or is that all coming back to
23 PA?

24 MR. SCHWARTZ: Yes, we do. We have an office in
25 New Jersey.

1 REPRESENTATIVE NEILSON: Just an office?

2 MR. SCHWARTZ: Yes.

3 REPRESENTATIVE NEILSON: And, revenue-wise, has
4 that helped anybody coming in? Do we know?

5 MR. SCHWARTZ: Well, it's only been live for a
6 short period of time so we haven't really done a thorough
7 evaluation that we will be doing when we have a little more
8 time under our belt, but what we can say is that obviously
9 there's two media markets in New Jersey that you have to
10 use to promote your commercials, either New York media
11 market or the Philadelphia so --

12 REPRESENTATIVE NEILSON: Well, no doubt. No
13 doubt.

14 MR. SCHWARTZ: -- when you're advertising
15 commercials or doing anything on the radio, you are going
16 to have some overlap with folks in Pennsylvania. And so,
17 you know, you do expect that there will be some enhancement
18 of brand recognition. And promoting a brand is only a good
19 thing online to drive more players to the property.

20 REPRESENTATIVE NEILSON: We've also heard some
21 things today about expanding the lottery system online, and
22 we saw previous proposals by previous Governors about doing
23 Keno and stuff like that, some of those games of chance and
24 stuff like that. I know that hasn't been a topic, but
25 wouldn't that affect the online market as well if that goes

1 online?

2 MR. SCHWARTZ: So, you know the key with the
3 online market is the engagement of new players and
4 attracting existing players, and you've seen it in other
5 States. I know Michigan has launched a very successful
6 online lottery program over the last few years, and the
7 results financially have been very strong, and the land-
8 based properties also continue to perform.

9 So like online gaming when the lottery player
10 wants to purchase a lottery product, when they have the
11 opportunity to do it online, it gives them an extra
12 opportunity to reach new players that otherwise wouldn't
13 visit the retail locations to purchase. So we think a
14 lottery is certainly a product that online, you know, has
15 proven to work, that five States, as someone mentioned
16 earlier, have already legalized it.

17 So if you look at the three online casino
18 markets, their gaming markets plus the five lottery
19 markets, is eight States in the United States have already
20 rode out, you know, online gaming and, you know, certainly
21 you've seen results that have been positive, that it
22 doesn't impact in any way the sales of the land-based
23 products.

24 REPRESENTATIVE NEILSON: We've heard a lot of
25 testimony today and I'm sure before you made an investment

1 to go in online you look at all the stats and I'll be -- do
2 you happen to have the numbers of how many people do online
3 never step into a physical casino? Is that like something
4 that you consider? Because it's like a new player, a new
5 age kid. I mean --

6 MR. SCHWARTZ: We haven't surveyed our existing
7 players, but we certainly could. Certainly --

8 REPRESENTATIVE NEILSON: I would be curious for
9 the Committee to see that kind of number like --

10 MR. SCHWARTZ: Right.

11 REPRESENTATIVE NEILSON: -- because we hear it
12 here and hear it there, but if we could say hey, look, none
13 of these people actually ever went into a casino, that'd be
14 a telltale sign for us all as we go through this process.

15 MS. HAMILTON: Well, and I want to point out if
16 they start online and then, through brand affiliation, come
17 to our bricks-and-mortar casino, as has been pointed out
18 today, at 59 percent, that would be a good thing.

19 REPRESENTATIVE NEILSON: Correct.

20 MS. HAMILTON: What we do know is there's a very,
21 very small percentage of people who are in the online
22 player databases who were ever bricks-and-mortar players.
23 So it's not cannibalizing. Borgata has said that, Caesars
24 has said that, Golden Nugget has said that.

25 REPRESENTATIVE NEILSON: Well, thank you. Thanks

1 again. Nothing further, Mr. Chairman.

2 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

3 Senator Tomlinson.

4 SENATOR TOMLINSON: Wendy, do you keep a record
5 of how many New Jersey residents actually use your casino,
6 what percentage or number of people?

7 MS. HAMILTON: We do.

8 SENATOR TOMLINSON: Are you marketing them to be
9 online now?

10 MS. HAMILTON: No. I'm not involved and my
11 organization is not involved in the online effort. You
12 know, our parent company uses the same brand name with the
13 New Jersey business that is PlaySugarHouse.com.

14 SENATOR TOMLINSON: So SugarHouse is advertising
15 online gaming in New Jersey. How many New Jersey -- I
16 mean, what percentage of your business is already in New
17 Jersey that are coming across the bridge? I mean, it's
18 significant at Sands, it's a significant at Parx, I thought
19 it was fairly significant at your location.

20 MS. HAMILTON: Yes, I don't want to share
21 publicly the percent of our business that's coming to
22 SugarHouse Casino in Fishtown that's coming over the bridge
23 from Jersey. I will tell you this because I'm sure it's
24 obvious to anyone, you know, involved with the industry.
25 It is and has been an initiative for me and my team at the

1 bricks-and-mortar. Again, the parent company, using the
2 same SugarHouse brand-name, operates the online site in New
3 Jersey, which I welcome it because they're advertising and
4 they're putting the brand name that I operate under, you
5 know, out over the airwaves. But --

6 SENATOR TOMLINSON: When New Jersey went online,
7 did you experience the same decline in poker players that
8 they did at other casinos?

9 MS. HAMILTON: No, our poker business is alive
10 and growing at double digits that start with a two.

11 SENATOR TOMLINSON: Good. Well, good.
12 Congratulations.

13 MS. HAMILTON: Thank you.

14 HOUSE MAJORITY CHAIRMAN PETRI: Representative
15 Nesbit.

16 REPRESENTATIVE NESBIT: Thank you. And thank
17 you, Mr. Chairman.

18 You just testified that the online business is
19 not cannibalizing your brick-and-mortar business. A
20 previous witness just testified to the exact opposite. Do
21 you have a study -- I mean, do you study that? Do you have
22 demographics? I mean, I'm assuming that you come up with
23 that for some reason. Why the disparity between the
24 witnesses on the cannibalization?

25 MS. HAMILTON: You know, let me state the

1 obvious. I think the key difference between the last
2 testimony and our testimony is that, you know, admittedly,
3 the folks from Parx, my good friend Mr. Green and
4 Mr. Ricci, a former colleague, they want to open the second
5 Philadelphia license in South Philly. It's the first time
6 I've ever heard them speak of saturation or
7 cannibalization. They fear that the enemy is online
8 gaming. They think we're saturated right after South
9 Philly opens. The rest of us say we think we're saturated
10 now. Look at the numbers, and we have evidence from other
11 operators that has been published, Borgata, Caesars, and
12 Golden Nugget, because we're partners with them and so they
13 have given us the information. That evidence shows that
14 online is a different customer. You know, we have every
15 evidence to believe the South Philly bricks-and-mortar
16 customer is the same one that plenty of casinos are serving
17 today, but we have evidence that the online customer is
18 perhaps a different customer.

19 REPRESENTATIVE NESBIT: So in your marketing
20 model, you want to groom -- for lack of a better word --
21 groom the online person to then come into brick-and-mortar.
22 Has that happened and does that -- like they learn how to
23 play poker online and then they come into the casino? Is
24 that --

25 MS. HAMILTON: I think it's more -- if that

1 happened, that's wonderful and we've seen some of that,
2 that if you engage with us on both fronts, your brick-and-
3 mortar revenue with us tends to go up. And we conjecture
4 that that's because we've enhanced your brand affiliation
5 with us. But I think, you know, primarily, what we're
6 saying based on the data that has been published is that
7 it's just a different customer. And so while it's much
8 smaller, as has been pointed out today, than brick-and-
9 mortar revenue, it's additional, you know, plus the
10 licensing fees.

11 MR. SCHWARTZ: I'd just like to add one quick
12 point is that when we launched our online site in New
13 Jersey, we didn't really have any connection with the land-
14 based property in terms of loyalty programs, but there was
15 a lot of requests from some players saying, hey, I haven't
16 been to your property before; I'd like to give it a try.
17 Are there any opportunities that a player online can get
18 any value when it comes to the land-based properties? So
19 starting last month we offered a promotion for new players
20 to come visit the land-based property for the first time.
21 So there was some interest in exposing the property to
22 players in New Jersey who hadn't been to the property
23 before and giving them a motivation and chance to visit the
24 property to give it a try.

25 REPRESENTATIVE NESBIT: Great. Thank you.

1 HOUSE MAJORITY CHAIRMAN PETRI: Representative
2 Santora.

3 REPRESENTATIVE SANTORA: First of all, thank you
4 for your sponsorship of the mummies. I'm glad that you are
5 doing that because it keeps it going on the air and
6 everything else.

7 You mentioned that online gamblers are not
8 necessarily the same as you're coming into the casino. Do
9 you think that would be the same for VGTs as well, online
10 might be VGT people?

11 MS. HAMILTON: I'd be guessing. I mean, there's
12 obviously no evidence, no data to look at and we like to
13 stick to what we've seen in the data. But, you know, we
14 can explain after we see the data why perhaps a millennial
15 customer is more attracted to a higher technology online
16 experience. It doesn't seem that that same thing would
17 apply in the case of VGTs.

18 REPRESENTATIVE SANTORA: Okay. And I know we're
19 not going down this road, but there's right now games of
20 skill in bars that are legal in Pennsylvania right now, not
21 regulated. One of the courts ruled on it. I don't know if
22 it's made it to the Supreme Court yet.

23 The issue there is we've got to take a look at
24 that. We've got to look at that. And that to me is more
25 would affect your slot business than the actual VGTs, but I

1 could be wrong and that's something we need to start
2 looking at as well.

3 MR. SCHWARTZ: Just one anecdote is when we had
4 an event at our SugarHouse property initially just to kind
5 of -- you know, just mentioning, hey, we have an online
6 product if you live in New Jersey. We saw that a lot of
7 players really had no idea how to even use a phone to
8 download the apps and things like that. So I think that
9 you're going to find that a lot of online players are a
10 little more technical savvy. And so when it comes to VGTs,
11 you might find that the players don't really have to have a
12 barrier to entry to get started. They can walk up to a
13 machine and start playing it in the same way you can in a
14 land-based casino. So I think there might be a difference.
15 I would surmise there's a difference in the player that's
16 going to visit a VGT who might be more similar to a casino
17 slot player in the land-based property than someone online
18 that really has to jump through a lot of steps of
19 downloading the geolocation software you saw earlier,
20 learning how to download apps on your phone, open them up,
21 register, go through the whole self-exclusion process, the
22 KYC process, and the geolocation processes. So I do think
23 that you may find there's a different player there.

24 REPRESENTATIVE SANTORA: Well, hopefully, our
25 Chairmen are going to see fit to have that. I support

1 VGTs, so I'd like to see some more dialogue on it. Thank
2 you.

3 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator
4 Stefano.

5 SENATOR STEFANO: Thank you, Mr. Chairman.
6 Real quick, the numbers that you quote from the
7 marketing figures out of New Jersey are very impressive
8 numbers. How do you feel those are qualified to translate
9 into Pennsylvania?

10 MR. SCHWARTZ: I think they're very, very similar
11 because you have a mature casino business, and regardless
12 of whether you have a casino five minutes from your house
13 or a 20-minute drive, in the whole region you can drive to
14 a casino within a reasonable distance. And so when you
15 have a land-based player base, that's, you know, still
16 growing, it has -- the land-based business in New Jersey
17 has grown for the first time recently month over month from
18 where it was historically where it had been a five-year
19 decline and recently it started to grow. So we do think
20 the online is showing an ability to attract new players and
21 to grow existing revenues from existing players. And
22 there's really no reason why that same model wouldn't work
23 here.

24 In fact, it's worked globally. I mean, if you
25 look at British Columbia in Canada, you've seen they have

1 online. The lottery runs online sites and they run land-
2 based, and they both have grown consistently since online
3 was introduced probably seven, eight years ago. So I think
4 there's a lot of data across the globe that really
5 validates that online is a different player and it helps to
6 grow new players that can be feeders for the land-based
7 property.

8 And by the way, every land-based casino group is
9 saying we need younger players, we need younger players.
10 Where are we going to find them? Well, they're playing
11 online, and as their disposable income grows, there's
12 opportunity for them to also become land-based players,
13 too.

14 SENATOR STEFANO: Okay. So based on your answer
15 then, you don't feel that differences in tax structure have
16 any effect on the marketing of these new younger players?

17 MR. SCHWARTZ: Yes, as Mr. Satz said earlier, you
18 know, a player is going to choose where they're going to
19 want to go and we don't really have a lot of impact. But I
20 would argue that even if we did have some sort of
21 motivation to drive players to a different tax rate, you
22 know, the truth is is that the land-based casino industry
23 has a much higher margin than the online business does. So
24 if you're a good businessperson and you're looking for
25 profits, you're going to draw your players to where you

1 make the best profits, and the best profits are easily the
2 land-based properties.

3 SENATOR STEFANO: All right. Thank you very
4 much.

5 Thank you, Mr. Chairman.

6 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you,
7 Senator. And thank you very much for your testimony.
8 Thank you very much.

9 And we're to the last presenter, Nicholas Menas,
10 Vice President of Corporate Development and Government
11 Affairs for AMAYA; John Pappas, Executive Director of Poker
12 Players Alliance; Paul Irvin, Associate, the Innovation
13 Group; and Ira Gubernick, Member of Cozen O'Connor on
14 behalf of the Coalition for a Safe and Regulated Internet.

15 Gentlemen, before you start, I just want to make
16 a comment that about three-and-a-half years ago I
17 introduced legislation to criminalize Internet gaming. And
18 I could not believe how many in the 40th Senate District
19 were on the Internet gaming because they bashed me almost
20 like they did poor John back there with the mailers.

21 When you're ready please, go ahead and testify.
22 We'll take your testimony.

23 MR. PAPPAS: Thank you. And I just want to make
24 sure that these computer screens are up because I will be
25 providing some live visual demonstration.

1 And Mr. Chairman Scavello and Chairman Petri, I
2 appreciate the invitation. I'll hold on. Sure.

3 SENATE MAJORITY CHAIRMAN SCAVELLO: We have
4 plenty of room for all of you here. There's a seat up in
5 the front, one here, two here. Anywhere there.

6 Okay. Go ahead, sir.

7 MR. PAPPAS: Thank you.

8 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

9 MR. PAPPAS: And thank you, Chairman Scavello,
10 Chairman Petri, and distinguished Members of the Committee
11 for holding this hearing. And I want to compliment you on
12 your stamina. I guess in poker parlance, this is a good
13 thing I've made it to the final table, and I thank
14 Mr. Dunbar for that quip.

15 SENATE MAJORITY CHAIRMAN SCAVELLO: I mean what
16 I say. It is tougher to do -- this is tougher than school
17 property tax reform I can tell you right now.

18 MR. PAPPAS: It is a complicated issue, and
19 that's why I think it's important to have this type of a
20 hearing to discuss it and people can understand it. And I
21 think one of the perspectives that's been left out is the
22 perspective of the consumer, and I want to present that
23 today.

24 I represent an organization called the Poker
25 Players Alliance. I'm the Executive Director of that

1 organization. Mr. Scavello, many of those people that you
2 heard from in the 40th District were our members who were
3 very upset with legislation that would seek to make them
4 criminals for playing online.

5 And throughout the entire Commonwealth of
6 Pennsylvania, we claim over 25,000 activists. And we want
7 to see a safe and regulated environment for people to be
8 able to play online, and unfortunately, legislation fell
9 short last year, but today, we stand on the doorstep of a
10 new opportunity to provide your constituents with much-
11 needed consumer protections and new revenues without
12 raising taxes.

13 I'd like to take a moment to thank Committee
14 Member George Dunbar for his long-time leadership on this
15 issue and for introducing H.B. 392. The PPA wholeheartedly
16 endorses this bill.

17 I'd also like to acknowledge former Committee
18 Chairman John Payne, who, along with Mr. Dunbar, have had a
19 tremendous perspective on this issue.

20 Too often, politicians look at gaming as a money
21 grab for ailing State budgets. While there's no question
22 that revenue will come from regulated Internet gaming, the
23 former Chairman and Mr. Dunbar and others on this Committee
24 recognize that that is simply a byproduct of doing the
25 right thing for the citizens of Pennsylvania.

1 First and foremost, regulating Internet gaming is
2 about protecting consumers. It's good public policy.
3 Regulation corrals the unregulated market and makes it safe
4 and accountable to consumers and the Commonwealth. We
5 applaud this approach, and we look forward to continuing to
6 educate this Committee.

7 There is no policy or political justification for
8 the status quo. Delay is not an option. Each and every
9 day that the Commonwealth goes without regulation is
10 another day that consumers are left unprotected and revenue
11 is left on the table. Doing nothing is simply not an
12 option. Pennsylvania consumers and taxpayers have waited
13 long enough.

14 Let me be clear. Today, tomorrow, yesterday,
15 thousands of people in this State are playing online for
16 real dollars, albeit they do so on unlicensed sites with
17 zero consumer protections.

18 I want to quickly demonstrate for you, if you
19 don't believe me, how easy it is to find an online gambling
20 site here in Pennsylvania. Just simply go on to Google, as
21 you'll see here, and I'll say "Can I gamble online in
22 Pennsylvania?" There it pops up. And boom, right off the
23 top it tells you can gamble online. There are sites that
24 are legal to play in Pennsylvania. We'll go to this and
25 see what we find, numerous sites inviting you to come play,

1 best online gambling sites, number of sites that show you
2 exactly where you can play. And it's not limited to this.
3 There are a number of these places. This one was one of my
4 favorites. Let the Internet catch up here.

5 Can players from Pennsylvania play online poker?
6 Whether you're from the tough streets of Philadelphia or
7 Amish country, you can play online Internet poker games
8 like Texas hold 'em, poker for real money on poker websites
9 on the State of Pennsylvania, as long as you have an
10 Internet connection of course, and then again lists number
11 of sites that people can go to to play online.

12 Finally, this one was I thought kind of chilling.
13 "There are plenty of options for Pennsylvanians to play
14 online. We can tell you that the list is fairly long.
15 Casinos, poker rooms, sports books, and even bingo halls
16 can be found through the online gaming sites. We have a
17 few select sites that we prefer over others, and we're
18 going to share those with you," again, linking you to a
19 number of sites where players can go on and play online.

20 So the reality is online gaming is here. It's
21 existing, and the players in this State are able to play
22 today.

23 We want to change that dynamic. State regulation
24 does that. It puts Pennsylvania in control of Internet
25 gaming and turns it into a State-based industry that is

1 safe for consumers and accountable to regulators.

2 And this is not a theory. Regulated Internet
3 gaming is not a theory. We've heard from a number of
4 people who testified about New Jersey and the success of
5 the New Jersey Internet gaming market. And it has been
6 successful. It's been successful to prevent underage
7 access. It's been successful on a geolocation perspective.
8 It's been successful in excluding those with excessive
9 gambling habits. And it's also been successful in making
10 sure that fraud and collusion don't happen.

11 There are of course going to be those who
12 advocate that we don't do anything, that you delay, and
13 they're going to try to scare you into delay. I would say
14 that this rhetoric is dangerous. And in fact I think it's
15 somewhat confusing.

16 I actually thank the gentleman from -- Mr.
17 Cookson for his testimony today because I think he clearly
18 illustrated the reason why this Legislature needs to act
19 now. All of the perceived, real or imagined, dangers of
20 online gambling are happening in the unregulated
21 marketplace. They will not happen when this State takes
22 control of it. So I appreciate his testimony because I
23 think it shines some light on what you guys need to do and
24 do it immediately.

25 I was also confused on this idea of

1 cannibalization. And funny, while we were testifying, I
2 got an email from one of my members saying what do you mean
3 Parx is against online gambling? I play on their online
4 gambling site. And he sent me this link. And wouldn't you
5 know, Parx Online, 150 real casino games you can play for
6 fun for free, albeit for free, although Parx clearly
7 recognizes the opportunity to market to an online customer
8 and bring them into their casino. "Register for your
9 chance to win up to \$500 in real casino slot play." That
10 means come to the casino and win \$500 to play in our
11 casino. The online game is not competitive. It is
12 complementary. And even Parx, who testified against it,
13 recognize it. It's clear because they're offering online
14 games today.

15 Finally, I just want to reiterate with this
16 Committee that online gaming is -- you're not going to
17 decide whether online gambling is happening. Online
18 gambling is happening. You're going to decide whether
19 online gambling can be done in a safe and regulated
20 fashion. And your consumers deserve this protection; they
21 absolutely do.

22 Let's be clear. Internet gaming is being
23 successfully regulated in States across the country, online
24 lotteries in five more States. And don't forget, online
25 horseracing has been regulated in the United States for

1 over a decade. So online gaming is here in a regulated
2 fashion. It's here in an unregulated fashion. And it's up
3 to this Committee to make a decision whether they want to
4 protect consumers or leave consumers to an unregulated
5 marketplace vulnerable to fraud.

6 And that's the rest of my testimony. Thank you.

7 MR. IRVIN: Good afternoon, ladies and gentlemen.
8 Good afternoon. Is that better? Okay. Closer still?

9 SENATE MAJORITY CHAIRMAN SCAVELLO: Yes.

10 MR. IRVIN: Yes. Okay. Right up here. Okay.
11 Well, my name is Paul Irvin. I'm an Associate with the
12 Innovation Group. I'm one of the founding partners of that
13 group by the way. It is one of about four companies, and
14 it really focuses under one umbrella of the Innovation
15 Group of companies and the Innovation Group specializes in
16 feasibility studies, economic impacts, and any analyses
17 associated with casinos.

18 And I've been personally conducting these
19 analyses since 1990, and while I don't recognize many of
20 you up here, I did appear before you back in 1990 I believe
21 for the land-based analysis and projections then, which,
22 thank God, have proven to be accurate. Otherwise, I
23 probably wouldn't be here today.

24 So, anyway, I just wanted to -- this will give
25 you a brief idea of the type of clients we have. They

1 range from tribal governments to major iGaming operators.
2 And at this juncture I'd also like to note that prior to
3 the advent of iGaming in New Jersey, a number of analysts
4 came forward with their projections. The vast majority of
5 these were way, way over the top and obviously weren't
6 going to be realized. We produced our own projection. And
7 while it was a little bit high, it was the lowest of all
8 those produced.

9 Why do I believe that we did so well? Well, we
10 are very much integrated into the iGaming community, and I
11 knew personally the individuals that were in charge
12 [inaudible] -- oh, there we go. I think that's it now.

13 So, you know, I just want to give you a little
14 background in the iGaming. I'll be quick. September 2006,
15 the House and Senate passed UIGEA. This basically made
16 Internet gambling illegal in the U.S. In late 2011 the DOJ
17 opinion came out on the Wire Act, which allowed States to
18 legalize iGaming within their boundaries. New Jersey was
19 the first to legalize, followed by Nevada and Delaware.
20 And to date, they remain the only three States with
21 legalized online gaming.

22 Of these States to legalize online gaming, only
23 New Jersey and Delaware report data on a monthly basis,
24 which makes analysis very difficult. New Jersey for that
25 reason, being the largest and with the greatest population

1 size and having an existing competitive land-based market,
2 has become the benchmark for projecting revenues for other
3 locations. The online gaming there officially launched in
4 2013, and gaming revenues admittedly started off very
5 sluggish.

6 However, the rate of growth in the last year to
7 year-and-a-half has been tremendous, 32 percent growth in
8 online gaming revenues last year alone. And that does not
9 appear to be slacking. I checked the January numbers
10 before I came up here, and that grew 28 percent over the
11 same period last year. So it's an ongoing process of
12 growth that is occurring there. And I think a lot of that
13 has to do with the ramp-up period and lot of the issues
14 that they had initially. And I would expect that the
15 Pennsylvania Gaming Commission and folks here will learn a
16 lot of lessons when they study New Jersey, so my
17 expectation is for a much, much more rapid ramp-up period
18 and growth in revenues in this location rather than New
19 Jersey.

20 Now, in projecting the revenues for Pennsylvania,
21 we wanted to ground our analysis in reality and the reality
22 that is represented by New Jersey. And therefore, we
23 decided that a model calibrated to New Jersey experience
24 was the most appropriate. We established from the New
25 Jersey experience --

1 SENATE MAJORITY CHAIRMAN SCAVELLO: Excuse me.
2 Can I just interrupt you? Is there any way that we can get
3 that so that I can share with the Members in case -- for
4 some of the Members that weren't here? Oh, we have it
5 here?

6 MR. IRVIN: I thought you have it here.

7 SENATE MAJORITY CHAIRMAN SCAVELLO: Okay. We
8 have it. Okay. It's hidden in the packet. Okay. Good.
9 Thank you.

10 MR. IRVIN: We established from the New Jersey
11 experience what the penetration of the local population was
12 in terms of iGaming play, and we looked at the average
13 spend per gamer as seen in this slide. That produced a
14 2016 market size of \$192 million, which is pretty close to
15 what it actually was. This analysis was done a month
16 before the end of the year.

17 You know, given that there's been such rapid
18 growth in New Jersey, we fully expect this to continue.
19 Some have argued it'll continue at the same rate. I tend
20 to be more conservative and am suggesting that this rate
21 will decline over the next year to about 17 percent, then
22 dropping to 12 percent, and then down to 11 percent in the
23 subsequent years.

24 So we've tried to take a realistic viewpoint
25 where the revenues have gone up rapidly and then will start

1 -- the rate of revenue growth has become really rapid and
2 then is going to start to tail off, as we've seen in
3 multiple markets across the country both in the land-based
4 and in the iGaming space. So this is a typical pattern you
5 see in this industry.

6 So what we did then is we projected the New
7 Jersey parameters using these relatively conservative
8 growth estimates through to 2019, which we've assumed is
9 the first full year of maturity of a Pennsylvania iGaming
10 industry. And it's shown in the second table -- sorry, I
11 jumped ahead. And so we projected the New Jersey revenues
12 forward to 2019 and then adjusted our penetration rates and
13 spend per gamer to those.

14 Based on this, we have then projected the
15 Pennsylvania -- using the same parameters as we used in New
16 Jersey and applying them to the Pennsylvania population, we
17 determined the market size of the mature market for 2019
18 for Pennsylvania to be just over \$400 million. We used a
19 couple of other methods, which are essentially rule-of-
20 thumb methods to triangulate this, and we're really very
21 close so we came up with a merged estimate of \$413 million.

22 Obviously, you gentlemen are interested in what
23 the tax implications are for the State. We have assumed a
24 14 percent tax rate, and that we estimate to generate \$60
25 million plus in the first mature year of operation. That

1 would be about \$300 million plus over five years.

2 We have assumed initial licensing fee, primary
3 license fee to be \$8 million and the operator license to be
4 \$2 million. And, you know, potentially, there could be
5 more than one operator under each primary license, so we
6 think the total revenues from the licensing in year one or
7 year zero would be at least \$110 million if not more.

8 We also looked at the value of compacting, and
9 that essentially really applies to the poker market where
10 you can increase liquidity by increasing the size of the
11 market you have so that everyone can find the right game of
12 poker for the right stakes any time of day. And that's
13 what liquidity is. So we have estimated a 2.5 percent
14 increase if you have a compact with New Jersey, 7.4 percent
15 increase by compacting with New York, and by compacting
16 with both, almost a 10 percent increase. And a vast
17 majority of that would accrue to the poker market.

18 You know, we've spent a lot of time here talking
19 about New Jersey, but I think it's worthwhile to take a
20 brief look at what has happened there. As you can see the
21 red line here are casino games, and they have consistently
22 increased from day one. Poker has been relatively flat,
23 but I think there's a number of reasons for that, and I
24 think one of the primary reasons would be the --

25 MALE SPEAKER: [inaudible]?

1 MR. IRVIN: Sorry, no, this is iPoker.

2 MALE SPEAKER: IPoker?

3 MR. IRVIN: Yes. And that has remained
4 relatively small and relatively constant. But I believe
5 that to be associated primarily with a liquidity issue that
6 could be solved by compacting and increasing the overall
7 market size, thereby allowing these poker players to find a
8 \$5 game at 11:00 at night and, you know, a \$200 game at
9 1:00 a.m. in the morning if they want to.

10 So, you know, as you can see, this growth I
11 believe is really accounted for by the ongoing amelioration
12 of the initial problems that were there. New operators
13 have entered the market, which has given it a boost, and
14 there's been a distinct improvement in marketing efforts by
15 the operators, which were horrific in the initial early
16 stages of the process.

17 And just to make a point here, someone mentioned
18 earlier, you know, how is Pennsylvania different from New
19 Jersey? Well, your local casinos know your local markets.
20 They're going to know how to market to them already, so
21 we're not going to see that lag in marketing that we saw in
22 New Jersey where they had no clue how to reach their local
23 markets. They were pulling overnight trips. Your guys are
24 pulling local daytrips. They'll know how to draw those
25 individuals in their specific markets into the iGaming

1 arena. So I'm much more bullish on your casinos' ability
2 to generate iGaming revenues than a lot of folks I would
3 guess.

4 Anyway, this growth and these improvements all
5 really help fuel an increase also in the GGR land-based
6 first in a decade. And I'll come back to that in a second.

7 So what do we take away from the New Jersey
8 experience? Each controls work. There have been no
9 reported cases of underage gambling. As you saw earlier,
10 geolocation works. Early refinements actually made is to
11 that patrons in some of the border locations were not able
12 to play in New Jersey, and that has been gradually refined
13 over time such as you saw today.

14 And I just want to point out, according to the
15 New Jersey Division of Gaming Enforcement -- that's my
16 clients here -- had just two geolocation failures out of
17 190 million hits on their computer. That's a percentage of
18 .000001 percent, pretty impressive.

19 Initially, major banks were declining credit card
20 charges. That has been resolved, and the new designated
21 code for legal online gambling has been applied. And
22 that's another issue that Pennsylvania will not have to
23 fight against.

24 As I said, marketing efforts were ineffective.
25 There was low awareness statewide, and many online brands

1 were actually relying on current land-based brand
2 awareness, which I think was a mistake.

3 Now, one of the big questions I've heard here
4 today is cannibalization. And, you know, before I get into
5 that in depth, I just want to make a statement. There was
6 some talk earlier about the differential tax rates and why
7 that would not incentivize an operator to go to the lower
8 tax environment. I think the other side of that coin is
9 you have to look at the operating expenses, too. IGaming
10 is very intensive in terms of the incentives and
11 inducements for people to come and play, and then very
12 intensive in terms of the inducements and incentives to
13 retain those individuals. That costs a lot of money. So
14 as someone said earlier, it's a low-margin business
15 compared with the casino, and therefore, the tax rate is
16 only one part of the complete formula you have to look at
17 when you're determining what the profitability of a
18 particular activity is. And so that explains hopefully the
19 tax issue.

20 Again, cannibalization, it's been an early
21 concern for many land-based operators, and as you saw, most
22 of them have actually gotten over that now and it seems
23 like to me that's a big issue for some of the primary
24 stakeholders in the casino industry such as Legislatures
25 like yourself. But I can offer some comfort. Primary

1 research conducted among operating States suggests
2 cannibalization is a nonissue. Let's take Caesars, who
3 were here today. They've stated in the past that 90
4 percent of their online signups in New Jersey were not
5 previously in their database program, many of which later
6 visited the land-based property. The Golden Nugget
7 casinos, their VP of online gaming stated, "Online and
8 land-based players are generally from two different stocks.
9 The effective cross-promotional strategies online players can
10 be coerced to supplement their play at a brand's land-based
11 local."

12 Eight-five percent of their online customers --
13 that's at the Golden Nugget -- are not regular visitors to
14 their casinos. That's 80 to 85 percent never set foot in
15 their casinos prior to the advent of iGaming.

16 And we ourselves, the Innovation Group, have done
17 numerous nationwide surveys on iGaming. And what we
18 arrived at is that more survey participants stated their
19 spend and frequency to land-based casinos would increase
20 with the ability to play online than those who said they
21 would spend less and visit less.

22 Now, we again talked about the cannibalization in
23 New Jersey so let's look at it. This is an impact analysis
24 here. What we first did is we took the New Jersey revenue
25 numbers from the inception and used a linear regression --

1 this is land-based by the way -- and extended it out. This
2 is iGaming, I'm sorry. No, that should be land-based I
3 think. So we extended it out for four months until the end
4 of 2014 so it's been growing.

5 So look at the GGR figures for the land-based
6 after and before we had iGaming. If you look at the red
7 number, that is the -- the red line is the actual revenues.
8 The blue extension you see in the right-hand side is the
9 projected land-based GGR prior to the implementation of
10 iGaming. The point at which they diverge is essentially
11 the point at which iGaming came onboard, so it's very
12 difficult to argue that iGaming had anything but a positive
13 effect on land-based GGR revenues.

14 So just to summarize the benefits to land-based
15 operators, new players are attracted to the casino via
16 online play. Their database is expanded. It provides
17 another albeit relatively small revenue stream for the
18 casino, and provides cross-marketing opportunities for the
19 land-based operator for gaming product, as well as the
20 array of the other amenities offered. And essentially what
21 it does, it strengthens the position of the land-based
22 casino primarily from a competitive point of view and also
23 from a financial point of view.

24 Benefits to the State, creates new tax revenues,
25 creates both high-paying technical jobs. In other words,

1 the nerds are going to sit in these computer rooms and so
2 forth and so on who are going to do all these wonderful
3 things with computers. They're going to get paid
4 relatively high. Then you've got a series of low-entry-
5 requirement jobs which primarily will be in the area of
6 call centers and things like that. It regulates an
7 industry, as we've heard today, which is currently
8 available to residents through offshore websites. And it
9 strengthens, as I said earlier, the viability and
10 profitability of land-based casino operators, which, as you
11 guys have pointed out so properly, you're the primary
12 stakeholders in.

13 And that's the end of me. I'm going to try to
14 summarize my remarks and go quickly.

15 MR. GUBERNICK: I'll try to summarize my remarks
16 and go quickly. So --

17 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

18 MR. GUBERNICK: Good evening. Chairman Scavello,
19 Chairman Farnese, Chairman Petri, and Vice Chairman
20 Neilson, and Members of the Committee, it's a pleasure to
21 be here today, and I thank you for the opportunity to speak
22 on this important matter. My name is Ira Gubernick. I'm a
23 partner with the law firm Cozen O'Connor, and I'm here
24 today to testify on behalf of the Coalition for a Safe and
25 Regulated Internet.

1 Unfortunately, my partner Tad Decker, who drafted
2 the opinion that we've shared with this Committee, is not
3 available to be here today. As you may know, Ted serves as
4 the first Chairman of the Pennsylvania Gaming Control
5 Board.

6 In the past, I've represented several clients
7 dating back to the Gaming Act's passage in 2004, and along
8 with Tad Decker, also served as Special Counsel to the
9 State of Delaware in drafting the first-ever multi-State
10 Internet gaming agreement that was entered into between the
11 States of Delaware and Nevada.

12 And I'm here to explain today why there are no
13 legal obstacles to this State Legislature's ability and
14 right to pass House Bill 392 and refute any suggestions to
15 the contrary. There are three primary reasons why the
16 State Legislature has the absolute right and ability to
17 pass House Bill 392 without any basis to fear criminal
18 punishment or sanction by the Federal Government.

19 First, it's highly unlikely that the Office of
20 Legal Counsel will reverse its 2011 finding that the
21 Federal Wire Act applies only to sports-based gambling
22 activities. Historically, the Office of Legal Counsel has
23 reversed its position in less than 3 percent of its issued
24 opinions, making a reversal highly unlikely. And it's
25 entirely consistent with the internal OLC guidance and its

1 best practices memorandum of July 2010.

2 Additionally, even if the 2011 OLC opinion was
3 reversed, the standing Federal law as held by two Federal
4 courts, the First Circuit and the Fifth Circuit, addressing
5 whether Federal law criminalizes online gaming have held
6 that the Federal Wire Act criminalizes only online sports
7 betting. Those Federal appellate opinions are the
8 controlling legal authority on the application of the Wire
9 Act under Federal law.

10 Finally, there's no history of the Department of
11 Justice criminally prosecuting State officials for passing
12 a law that's later found to be preempted by Federal law.
13 Any such Federal prosecution would raise serious concerns
14 under the First Amendment and the Tenth and the powers that
15 it reserves to the States and the people in the Tenth
16 Amendment. Everyone knows that's how our democracy works.

17 Thank you again for the opportunity to meet with
18 you today.

19 MR. MENAS: Thank you. My name is Nicholas
20 Menas. I am the Vice President of Corporate Development
21 and Government Affairs with AMAYA.

22 So, first, thank you, Chairman Scavello, Chairman
23 Petri, Vice Chairman Farnese, Mr. Neilson, Members of the
24 Committee. An extra special thank you for still being here
25 and clearly being attentive to the testimony that you've

1 heard.

2 A little background on who we are, and I want to
3 try to not be repetitive. You've heard some testimony from
4 various land-based operators, and the vast majority of the
5 testimony we agree with. Obviously, I agree with these
6 gentlemen that are sitting to my left and right regarding
7 the benefits associated with iGaming.

8 I think there is one, you know, concept though to
9 talk about, and that's, you know, reasonable people can
10 agree or disagree. And in this case it's a case of, I
11 think, intellectual honesty in an approach to the debate of
12 whether online gaming benefits the Commonwealth or not.

13 And we speak from a broad platform. So I say
14 we're the largest online gaming company in the world. We
15 are a publicly traded company. We are listed on both the
16 NASDAQ and the Toronto Stock Exchange. We have a single-
17 largest investor is Blackstone, who owns 20 percent of our
18 company for \$4.9 billion. As a result, you can understand
19 being publicly traded, having investors of Blackstone --
20 and I add Black Rock to another 10 percent of our company
21 -- the concepts associated with safe and regulated Internet
22 operating in a way in which we embrace the consumer
23 protections that we're here to talk about today is
24 essential to our business model, it's essential to
25 operating in a regulated marketplace, and it's also

1 essential and consistent with the way we operate as a
2 publicly traded company.

3 Now, we've talked about issues like
4 cannibalization and we've talked about issues such as
5 revenue. Well, when we talk about those issues, let's take
6 a pause and listen to some of the testimony we heard today.
7 We heard testimony about how Amazon.com cannibalized
8 Blockbuster and other types of brick-and-mortar industries.
9 The difference with those analogies as opposed to what we
10 do is our business model isn't to compete with your land-
11 based casinos. Our business model is to be a vendor to
12 those land-based casinos. So whereas Amazon sought to
13 directly compete with the Blockbusters and the Macy's of
14 the world, that is not what we do.

15 We will only operate in your jurisdiction to the
16 extent you want it. Obviously, you pass legislation; and
17 two, that legislation, we assume, will require and we will
18 advocate for it to require us to partner with a land-based
19 casino. So the concept of cannibalization just doesn't fit
20 into this discussion.

21 Essentially, when you look at the context of the
22 discussion as it relates to the tax revenue, you cannot
23 ignore the fact that there are two different demographics
24 that we're talking about. You had David Satz talk about 80
25 percent of the folks that they've identified from online

1 have never been into a brick-and-mortar casino. He further
2 testified that those demographics were between the age of
3 21 to 36. You have done an incredible job in Pennsylvania,
4 probably the best job of any gaming jurisdiction across the
5 country in the way that you have created your gaming
6 marketplace. But it is a convenience gaming location, as I
7 think Senator Tomlinson and others have talked about. Even
8 Parx talked about the proximity of its customers to its
9 land-based operation.

10 Well, there's something that we know. There's a
11 story that's been written over and over in the casino
12 gambling world. And all you need to do is look to Nevada
13 to see what happened when they started popping up with
14 land-based convenience gaming locations. Those towns
15 essentially today are ghost towns. They had a shelf life
16 because they failed to reinvent themselves. Atlantic City
17 failed to reinvent itself.

18 This is a tool that will allow your land-based
19 casinos to reinvent themselves in the context of taking
20 existing activity, taking folks that are enjoying the
21 entertainment of online gaming, and bringing them into the
22 brick-and-mortar casino. This is not creating the next
23 generation of gambling. This is acknowledging the clear
24 fact when you look at the testimony of Mr. Pappas and you
25 hear the testimony of others that this commercial activity

1 is taking place right now that legalizing, regulating, and
2 licensing is the only thing to do.

3 Now, there was a comment I believe by Senator
4 Tomlinson that there are other industries that operate
5 illegally, and that doesn't mean we just go and we
6 decriminalize those. The difference is here is you've
7 already made a policy decision as it relates to gaming.
8 You've made a policy decision that you want gaming in the
9 Commonwealth. You went through countless hearings and
10 years before you introduced slots, countless hearings again
11 before you did table games. I think Representative Neilson
12 may have said 80 hearings or 81 hearings that he sat
13 through through John Payne. Now, I didn't count that high,
14 but, you know, a number of hearings over -- it was clear --

15 MALE SPEAKER: [inaudible].

16 MR. MENAS: So the methodical rollout, the
17 responsible way in which you have approached gambling and
18 its management, I submit to you that this is not expansion
19 of gambling. This is merely the extension of gambling, the
20 extension of gambling not also as it relates to what's
21 happening online right now but also as it relates to the
22 extension of the same games that your land-based casinos
23 are operating, including Parx, that are operating right now
24 and recognize their value.

25 Now, it's unquestioned that, you know, Parx has

1 done an incredible job in the Commonwealth. I mean I've
2 visited the property. It is an amazing property, amazing
3 management, amazing ownership, and they've done a fantastic
4 job. Part of that is the gentleman that spoke here today
5 and testified, Mr. Bob Green. There's nobody that can
6 question his expertise. And his expertise as a visionary
7 in the gaming world is well-known. For example, he is
8 credited, very rightly so, for helping stabilize the
9 horseracing industry. Well, if you read Mr. Green's bio,
10 he helped stabilize the horseracing industry by allowing
11 you to gamble on the horses online.

12 We are suggesting you take it, you get ahead of
13 the curve here, you utilize the expertise you have in the
14 Commonwealth and you create that safe and regulated
15 environment that we'll be happy to partner with your brick-
16 and-mortar casinos, help grow, help leverage those two
17 platforms together, create that database of customers that
18 are currently playing right now in a safe and regulated way
19 and bring them into that brick-and-mortar experience so
20 they can enjoy other things as opposed to just gambling,
21 enjoy the restaurants, enjoy the nightclubs, enjoy the
22 hotel rooms.

23 Thank you.

24 SENATE MAJORITY CHAIRMAN SCAVELLO: Thank you.

25 Senator Tomlinson.

1 SENATOR TOMLINSON: Thank you very much.

2 I don't have a problem with gaming. I don't have
3 a problem with poker. I have a problem with the tax rates,
4 and that's all. I mean Parx Casino is going to be online,
5 and if this goes through tomorrow, they'll be one of the
6 top players. I'm sure they'll partner with somebody.

7 My problem is my local community. My problem is
8 that every person that moves off onto that, they pay my
9 community less. I'll take the New Jersey deal. Give them
10 9 percent in the casino, take 15, 14 percent online. That
11 works for me. But what I can't get around is all the play
12 that goes on in the casino games, which is a lot more than
13 in poker games, and then that's where our fault -- we taxed
14 maybe too high. I mean, 54 percent is one of the highest
15 tax rates in the Nation. Add to that the cost, and they're
16 right. They're at 59 percent.

17 So you guys want to be at 25 percent, we'll be at
18 15 percent, we'll be at 9 percent, you be at 15 percent. I
19 don't have a problem with poker online at all. And I think
20 it does add greatly to the gaming casino experience. I
21 don't have a problem with that. Where I run into problems
22 is the other casino games that we've got taxed so high and
23 they don't in New Jersey. They're taxed at 9 percent. So
24 it's really easy on the slots and the other games.

25 Poker, I think Borgata has done a phenomenal job

1 with what they've done and brought people in. I've been to
2 Borgata. I've looked at these places.

3 But where I'm running into a problem is how do I
4 go back to my community and say, okay, you're not going to
5 get \$20 million anymore next year, you know? Now, you're
6 only going to get this or you're going to get that. That's
7 the only thing I've been trying to say all along is that
8 the tax rate, which we put in not anticipating anything
9 else, is just so high on slot machines. And you go on slot
10 machines on the Internet and play at 15 percent. What I'm
11 saying is Parx, everybody else, will -- why wouldn't they?
12 I would. We all would.

13 MR. MENAS: Senator Tomlinson, I understand that
14 concern. I mean, it obviously makes all the sense in the
15 world. You're protecting your district. You're protecting
16 the property that I've sat here and complimented. So it
17 makes all the sense in the world. However --

18 SENATOR TOMLINSON: We're giving people in
19 Pennsylvania \$700 million in property tax relief. We're
20 giving local communities an amount of money. If you come
21 in and start playing -- and I'm not talking about poker
22 because poker's only taxed at 15 percent now in the casino,
23 so I'm not talking about that. I'm talking about slots.
24 I'm talking about casino games online taxed at a lower rate
25 than what they taxed in the casino.

1 So we really don't have an argument here. I
2 mean, it's late and there's no sense in really even arguing
3 about that. But my concern is what do I do about the other
4 games because as I look at the numbers in Atlantic City,
5 the poker was \$27 million but the casino games were \$169
6 million.

7 MR. MENAS: Well, Senator Tomlinson, I --

8 SENATOR TOMLINSON: That's a lot more play than
9 in the poker.

10 MR. MENAS: I understand the point you're making.
11 I go back to some of the previous testimony. We can't
12 worry about the market being nonexistent and at the same
13 time cannibalizing, whether it's cannibalizing gaming
14 revenues and/or cannibalizing tax revenues. That's a
15 logically inconsistent position.

16 SENATOR TOMLINSON: People aren't really playing
17 slot machines online now. They're playing poker online.
18 I'm not disagreeing with anything that you've said here
19 about what's going on. I don't necessarily know that those
20 other guys will drop and go away because people are looking
21 for more liquidity. I think that's why they go to those
22 other sites.

23 I totally understand -- I think we're talking too
24 fast for maybe everybody else to understand, but I totally
25 understand the liquidity and the partnering with other

1 States to build liquidity. I get that. But my problem is
2 not with you. My problem is not with poker. My problem is
3 with my huge tax rate on slots.

4 MR. MENAS: Well, what really guides that is if I
5 go back to Mr. Satz's testimony, I believe Mr. Schwartz's
6 testimony as well, you have to look at the foundation of
7 where those players come from. They're different
8 demographics. They're adding to the pot. They're not
9 subtracting from the pot. And then when you layer on top
10 of that the margins, one part of the analysis is the tax
11 rate, but the other part of the analysis is the margins
12 that it takes to operate a brick-and-mortar casino versus
13 an online operation.

14 When you layer those three components, no land-
15 based operator is going to market to the online side.
16 Land-based operators want to get people in their land-based
17 properties. You've heard from SugarHouse today, you've
18 heard from Caesars, you've heard from others, you've heard
19 from Parx, and they've quantified for you what investments
20 they've made and plan to make. So it would fly in the face
21 of logic that anybody that had a brick-and-mortar operation
22 would want to migrate people to a small incremental part of
23 their revenues where the margins are less as opposed to
24 trying to use that as a tool to get them through the door
25 where the margins are greater, that is the tool. That is

1 what we offer them.

2 SENATOR TOMLINSON: But on slot machines, the
3 margin isn't greater. On slot machines on the Internet the
4 margin isn't greater.

5 MR. MENAS: The margins are less on the online.
6 That's what we're saying. The greater profit margins --
7 when I use the word and the term margins, I'm using the
8 term margins in the context of online versus brick-and-
9 mortar profit side. The amount of money we spend --

10 SENATOR TOMLINSON: You're talking about casino
11 owners. I'm talking about communities, and my community's
12 going to lose because they're not in it. They're not in
13 the tax. They don't get any of it.

14 MR. MENAS: Well --

15 SENATOR TOMLINSON: And if people migrate off of
16 that onto an Internet to play slot machines, my community
17 loses and the property tax payers lose in Pennsylvania.

18 MR. MENAS: The reason why they won't lose is the
19 casino in your district is either the number one or number
20 two casino in terms of revenue in the State.

21 SENATOR TOMLINSON: Number one overall. Sands is
22 number one on table games.

23 MR. MENAS: So I would assume -- and go back to
24 Mr. Green and, you know, who he is as an individual and as
25 an operator, I go back to his executive team, and I submit

1 to you that they will use online to grow their bottom line.
2 I don't think they are the types of operators -- in fact, I
3 think they've proven that they're not the types of
4 operators that look to lose money. I could see them
5 leveraging every aspect of the tools that we provide to
6 grow their most profitable business, which is the brick-
7 and-mortar business, using the online market.

8 That translates, Senator, into a bottom-line
9 benefit to your local community because several things are
10 going to happen. We talked about jobs today. When you're
11 driving more bodies through a front door, you're going to
12 need to hire more people. When you're doing special
13 events, you're going to need to hire more people. There
14 are multiple ways that you look at the revenue and the
15 benefits that we provide. There's the incremental
16 benefits, but there's essentially no value that you can put
17 on a database that's merged.

18 SENATE MAJORITY CHAIRMAN SCAVELLO: Senator,
19 we're going to move on because it's six o'clock.

20 Senator Farnese, and then we'll have all the --

21 SENATE DEMOCRATIC CHAIRMAN FARNESE: Yes.
22 Mr. Menas, thank you for your testimony. I wanted to ask
23 you a question about one of the points that was brought out
24 in your testimony about -- and it's a pretty, you know,
25 significant statistic. It says here that you had two

1 geolocation failures out of approximately 190 million?

2 MR. MENAS: Yes, Senator.

3 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. And
4 that's like a 99.999 percent rate. Is that just in --
5 those hits, those 190 million hits, is that just in New
6 Jersey or is that in other parts where you're teaming up
7 with other casinos?

8 MR. MENAS: It's just in New Jersey. That's data
9 provided by the New Jersey Division of Gaming Enforcement.

10 I would add one thing, Senator. I would say it
11 worked 100 percent of the time because, quite frankly, if
12 it wasn't working, we wouldn't have discovered those two
13 incidences that came about. The system was able to
14 identify those problems so that they could be corrected.
15 If the system didn't work, we wouldn't have known.

16 SENATE DEMOCRATIC CHAIRMAN FARNESE: And who do
17 you use for your geolocation services there?

18 MR. MENAS: You heard a very bright young lady
19 testify earlier today.

20 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. And
21 just so I understand this, so the software package then
22 would be bundled together with the games that you would
23 have? The online games would be then downloaded to the end
24 user, and then within your AMAYA software package you would
25 include the geolocation software as well, too, so that they

1 can both be downloaded onto the end user, and then that
2 would actually be able to use the geolocation services so
3 that you stay compliant? Is that really sort of how it
4 works?

5 MR. MENAS: Essentially. I mean, I believe that
6 a prior witness testified and I agree with her testimony.

7 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. So is
8 New Jersey the only time that you've partnered up with
9 geolocation?

10 MR. MENAS: No.

11 SENATE DEMOCRATIC CHAIRMAN FARNESE: Whatever
12 it's called --

13 MR. MENAS: GeoComply.

14 SENATE DEMOCRATIC CHAIRMAN FARNESE: Yes,
15 GeoComply.

16 MR. MENAS: No, we use geolocation all across the
17 world.

18 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay.

19 MR. MENAS: The issues are different. You know,
20 we don't have the geographic boundary constraints, say, in
21 certain markets that we do and others. But essentially,
22 yes, I mean GeoComply is a vendor of ours all across the
23 world.

24 SENATE DEMOCRATIC CHAIRMAN FARNESE: And you have
25 a contract then, I would assume, with her company, correct?

1 MR. MENAS: That's correct.

2 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. The
3 data that is collected by the geolocation services, she
4 said that it was owned by the casino and the operator and
5 shared with the regulators. Do you get that data as well?

6 MR. MENAS: We do.

7 SENATE DEMOCRATIC CHAIRMAN FARNESE: Does your
8 company get that -- okay. And what if anything do you do
9 with that data?

10 MR. MENAS: So --

11 SENATE DEMOCRATIC CHAIRMAN FARNESE: Actually,
12 you know what, let me go back and ask that question. What
13 if anything are you permitted to do with that data under,
14 say, New Jersey law?

15 MR. MENAS: All we do with that data is build a
16 database with our land-based partners so that we can
17 continue to market and cross-market and integrate our
18 marketing programs with our land-based marketing programs.
19 That's it.

20 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay. And
21 is it your understanding that the casino and yourself own
22 that data or is it just the operator owns that data?

23 MR. MENAS: It's subject to the commercial deal.

24 SENATE DEMOCRATIC CHAIRMAN FARNESE: Okay.

25 MR. MENAS: There's a couple of different

1 approaches to a land-based model. I mean, you could have a
2 B-to-B or a B-to-C. The commercial agreement's going to
3 dictate a lot. Databases that are created tend to be
4 something of significant value that are a negotiation point
5 in agreements.

6 SENATE DEMOCRATIC CHAIRMAN FARNESE: And just one
7 last thing if you could get this to the Chairman if you
8 wouldn't mind, could we take a look at that agreement you
9 have with GeoComply? Would that be a --

10 MR. MENAS: So I am a recovering and, you know,
11 reformed lawyer from Fox Rothschild, a firm in --

12 SENATE DEMOCRATIC CHAIRMAN FARNESE: I'm so sorry
13 to hear that.

14 MR. MENAS: -- your Commonwealth. So --

15 SENATE DEMOCRATIC CHAIRMAN FARNESE: But at least
16 in your recovery so hopefully you're not practicing.

17 MR. MENAS: Recovering, recovering. So with
18 that, I would say I will check with one of my in-house
19 lawyers, if not my general counsel, and see what it is we
20 can provide to you. To the extent there's something I can
21 provide, I'll provide it.

22 SENATE DEMOCRATIC CHAIRMAN FARNESE: Yes, and
23 just so that you're -- you know, you can take this back to
24 your clients. We've had a situation before, you know, most
25 recently with the Uber, UberX where information has been

1 provided which was proprietary to Committee Members, and we
2 certainly kept those nondisclosure issues recognizing
3 those. So, you know, just if you could take that back.
4 But thank you again --

5 MR. MENAS: Yes, subject --

6 SENATE DEMOCRATIC CHAIRMAN FARNESE: -- for your
7 testimony and for the work you guys have done.

8 MR. MENAS: Thank you.

9 HOUSE MAJORITY CHAIRMAN PETRI: Mr. Irvin, I have
10 a brief question for you. In your presentation you were on
11 the part about assumed initial licensing fees and you said
12 something that caught my ears. And you said at least \$10
13 million and then you said maybe more than \$110 million.
14 What did you mean by that?

15 MR. IRVIN: Well, in some jurisdictions each
16 primary license holder can have more than one iGaming
17 operator.

18 HOUSE MAJORITY CHAIRMAN PETRI: Okay. So that
19 would -- you're saying --

20 MR. IRVIN: That's --

21 HOUSE MAJORITY CHAIRMAN PETRI: -- there's the
22 potential that the casinos would pay more than that?

23 MR. IRVIN: No, not the casinos because they're
24 the primary license holder. I'm saying there could be more
25 than one --

1 HOUSE MAJORITY CHAIRMAN PETRI: The operator?

2 MR. IRVIN: Yes.

3 HOUSE MAJORITY CHAIRMAN PETRI: So you get \$8
4 million from the license and then how many typical
5 operators would they have?

6 MR. IRVIN: Two maybe, two to three --

7 HOUSE MAJORITY CHAIRMAN PETRI: Two to three?

8 MR. IRVIN: -- at most. At most. You know,
9 quite a few are one, but, you know, you've got to expect --

10 HOUSE MAJORITY CHAIRMAN PETRI: Well, you had me
11 excited for a minute. That's not that much more money.

12 MR. IRVIN: You're not going to have --

13 HOUSE MAJORITY CHAIRMAN PETRI: Now I'm not as
14 excited.

15 MR. IRVIN: No.

16 HOUSE MAJORITY CHAIRMAN PETRI: Representative
17 Ortitay.

18 REPRESENTATIVE ORTITAY: Thank you, Mr. Chairman.
19 And I'll be brief because I know everybody wants to go eat
20 dinner. I'm one of those people.

21 Mr. Pappas, are there any instances where the
22 lack of regulation has harmed consumers who chose to gamble
23 online?

24 MR. PAPPAS: Well, unfortunately, the list is
25 long. The unregulated marketplace is a place where

1 consumers can get defrauded, and it has happened. We've
2 heard from numerous people in Pennsylvania who were
3 affected most recently by a poker site called Full Flush
4 Poker that shut down just in October of this last year,
5 taking with them about \$3 to \$4 million in player deposits
6 or high profile was a year previous was a company called
7 Lock Poker that shut down again taking player deposits up
8 to about \$15 million. And again, we had Pennsylvania
9 players who came to us as an organization saying what can I
10 do? What can I do to get my money back? I had money on
11 there that I deposited and the site has simply gone away.
12 And unfortunately, what we have to tell them is there's
13 nothing we can do until Pennsylvania acts.

14 REPRESENTATIVE ORTITAY: Well, in regards to some
15 of those companies, especially the illegal offshore
16 websites that already operate, what do you think will
17 happen if we regulate and legalize online gambling in the
18 State?

19 MR. PAPPAS: Sure.

20 MR. MENAS: If I may take that, Representative,
21 just because in a recent meeting with the Executive
22 Director of the Division of Gaming Enforcement, which I'm
23 happy to share his contact information with anybody from
24 the Committee, he had explained to someone, you know, very
25 similar to yourself that the largest online black market

1 operator in the world no longer operates in New Jersey
2 because it cannot compete in a regulated marketplace where
3 the consumer protections are in place, which allows folks
4 like us and the land-based casinos to work together on the
5 marketing side, on the bonusing side. So it becomes
6 diminishing returns for those black-market operators. The
7 larger ones take time to get out, but the smaller ones get
8 out pretty quickly.

9 REPRESENTATIVE ORTITAY: All right.

10 MR. PAPPAS: I would add that regulation creates
11 a bright line, right? So then you know who the regulated
12 operators are and the unregulated operators are. That's
13 good for the consumer because they know to gravitate to the
14 regulated operators. But it's also good for law
15 enforcement so they can identify who the unregulated
16 operators are and use the tools, whether as regulators or
17 the State Attorney General, to go after those sites.

18 REPRESENTATIVE ORTITAY: All right. Thank you
19 guys. Thank you, Mr. Chairman.

20 HOUSE MAJORITY CHAIRMAN PETRI: Representative
21 Diamond.

22 REPRESENTATIVE DIAMOND: Thank you, Mr. Chairman.
23 Thank you, gentlemen, for your testimony and your
24 stamina.

25 I do want to disagree with you on one point. I

1 don't think we need to get ahead of the curve here. I
2 think we're already behind the curve, and I think we're
3 losing an opportunity here in Pennsylvania, and I think we
4 really need to get on this.

5 Mr. Pappas, I did want to ask you, how many
6 members of your organization are actually Pennsylvanians?

7 MR. PAPPAS: We have 25,000 members in the State
8 of Pennsylvania, a little over one million nationwide. And
9 unfortunately, I had --

10 REPRESENTATIVE DIAMOND: Twenty-five thousand in
11 Pennsylvania alone?

12 MR. PAPPAS: Correct --

13 REPRESENTATIVE DIAMOND: Okay.

14 MR. PAPPAS: -- of our members. And these are
15 poker enthusiasts, gaming enthusiasts, people who want the
16 freedom to play online in a safe and regulated market.

17 REPRESENTATIVE DIAMOND: That's fantastic. And I
18 do want to commend -- I guess it's your organization
19 because I've got a Twitter account but I don't use it but
20 your members are the only ones I get hammered on on
21 Twitter.

22 MR. PAPPAS: Yes, they're very --

23 REPRESENTATIVE DIAMOND: So you do a great job
24 at --

25 MR. PAPPAS: -- active on social media. They

1 view it as a very good way to advocate for their position.

2 REPRESENTATIVE DIAMOND: Yes. And, Mr. Chairman,
3 I just want to close by saying I share Senator Tomlinson's
4 concerns about the money that's going back home now.
5 unfortunately, he's better off than I am because I live in
6 a district that's within a stone's throw of a casino and we
7 get nothing. And I hope that when we have that hearing on
8 the LSA, we also talk about fixing the LSA distribution.
9 Thank you.

10 HOUSE MAJORITY CHAIRMAN PETRI: Thank you. We're
11 going to go to Representative Neilson.

12 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.
13 Thank you, gentlemen, for your testimony today.

14 We talked about how the iGaming isn't as
15 profitable because so far -- so what we're getting out
16 today is like there's four different vendors or people in
17 each dollar that's spent. Can you like basically -- we're
18 going to come up with a tax rate here eventually if this
19 proposal moves through. Right now, it's set at 15. We
20 heard testimony today we'd like to see it doubled and
21 tripled. But where does that come? Where's that margin
22 at? Is it 15 percent? Say it's 15 percent, we get 15
23 percent, you get 15 percent, the casino gets 15 percent,
24 the geo tracker gets 15 percent. How is that one dollar
25 split up in your eyes?

1 MR. MENAS: I think where you're at proposed in
2 the legislation at 15 percent is essentially the sweet
3 spot. I think as you consider going any higher than that,
4 what you run the risk of is creating a chilling environment
5 on the marketplace, not only a marketplace today. I would
6 actually correct my testimony and agree with Representative
7 Diamond. I think he's right and I'm wrong. We are behind
8 the curve here in the Commonwealth. But --

9 REPRESENTATIVE NEILSON: But we want to get way
10 ahead on the Pennsylvania side of the sweet side of things
11 and 15 just doesn't do it. So where do you think we could
12 be?

13 MR. MENAS: You have to look at revenues from a
14 total perspective. You have to look at the licensing
15 revenues you're going to get and you have to look at the
16 online revenues and the margins. I mean, going over 15
17 percent starts to become problematic for the operators.
18 And what ends up happening is if you end up with an online
19 network working with the brick-and-mortar casinos, you're
20 taking money away from one pot and, say, taking it away
21 from the marketing pot, which you're going to use money to
22 drive people in those brick-and-mortar casinos and dumping
23 it on the tax revenue side.

24 What we should be doing is worrying about growing
25 the market, you know, with the proper regulations, the

1 appropriate amount of taxes. Senator Tomlinson had
2 mentioned he'd like the 15 and 9 percent tax rates that are
3 in New Jersey. I think every casino operating in the
4 Commonwealth would sign off on that today. So I think the
5 15 percent is where it really needs to be. I think
6 anything else becomes problematic.

7 REPRESENTATIVE NEILSON: Yes, but if I put in
8 there 20 percent, you may be saying, hey, I think 20
9 percent is where it needs to be, and that's what I'm trying
10 to see flexibility in there.

11 MR. MENAS: I don't know that I'd be saying that.
12 For example, there's a bill that's going to be voted out of
13 committee tomorrow possibly in Michigan from a committee
14 like yours where we're optimistic because seven of the nine
15 committee members have all signed on and cosponsored the
16 bill. That tax rate there is 10 percent. I know Michigan
17 and Pennsylvania are different States with different
18 issues, but when you take a look at the 10 percent to 15
19 percent, it's informative from the perspective of where are
20 these tax rates, where can they adjust, what can they
21 really stand in terms of a burden.

22 MR. IRVIN: I just wanted to add that I've taken
23 a look at tax rates beyond the U.S. and looked at, you
24 know, France, Germany, and a lot of European countries.
25 And what we saw there is that when the tax rates get to 20

1 percent or above, the iGaming industry crumbles. Operators
2 leave, the market revenues decline. That's both the case
3 in Germany and France right now.

4 REPRESENTATIVE NEILSON: All right. Thank you.
5 Nothing further, Chairman.

6 MR. MENAS: And just to add, Representative
7 Neilson, one point because I think Senator Tomlinson
8 brought this out earlier. I think he identified \$600,000
9 cost of doing business in New Jersey on the licensing side
10 and the relicensing side. We're talking about \$10 million
11 here in the Commonwealth. So you can only stretch that
12 rubber band so many different ways. It's a lot of money.

13 HOUSE MAJORITY CHAIRMAN PETRI: Representative
14 Dunbar, as the sponsor, you get the last question or word.

15 REPRESENTATIVE DUNBAR: Woohoo. Thank you,
16 Chairman. And thank you all for being here. And a special
17 thank you to my dear friend Senator Scavello for having it
18 over here because they have really nice cushy chairs in the
19 Senate. In the House we don't get treated quite as well.

20 SENATE MAJORITY CHAIRMAN SCAVELLO: I wanted to
21 take care of you, George.

22 REPRESENTATIVE DUNBAR: Well, you're a good man.
23 You're a good man, Senator.

24 A couple quick things I wanted to follow up on.
25 First off, I appreciate Senator Tomlinson's desire to keep

1 his local share what it is. I can understand that. Like
2 Representative Diamond, as a point of reference, my entire
3 legislative district falls inside Senator Ward's District,
4 so you can tell where I will be at on local share
5 discussion.

6 As far as the Internet gaming --

7 MALE SPEAKER: [inaudible].

8 REPRESENTATIVE DUNBAR: Yes. As far as the
9 iGaming bill, in H.B. 392 there is a local share assessment
10 of 2 percent, although it won't generate a whole lot. It's
11 \$10 million that we can fight over some more as well.

12 As far as questions, and I really don't know the
13 answer to this Mr. Menas, and maybe you can help me with
14 it, in New Jersey as far as Internet gaming, they have
15 poker, they have slots, do they also have like some type of
16 table games as well?

17 MR. MENAS: Yes.

18 REPRESENTATIVE DUNBAR: Can you tell me the
19 breakdown of how much -- because I heard, you know, poker
20 is so much but how much is slots and how much is the
21 regular table games?

22 MR. MENAS: Rough, we're talking about -- it's
23 about a 45/35 split on the slot side.

24 REPRESENTATIVE DUNBAR: All right. So that's
25 interesting because our table game rates are not 54

1 percent.

2 MR. MENAS: And, you know, the other thing that I
3 think you heard earlier, which was inaccurate, you heard
4 that poker was 10 percent of the market. It's 20 percent
5 of the market.

6 REPRESENTATIVE DUNBAR: Yes. Okay. So that does
7 make a slight difference as far as the tax revenues because
8 I kept hearing it made it sound like all the dollars going
9 into iGaming was going to be at 54 versus 15 when really
10 you're only saying 45 percent of it?

11 MR. MENAS: Yes, correct.

12 REPRESENTATIVE DUNBAR: Okay. Thank you. I
13 appreciate that.

14 And, Mr. Pappas, you had responded to my
15 colleague Mr. Diamond about 25,000 members. I don't know
16 if that was your peak or if that's where you're at right
17 now, but can you tell us where you were at prior to Black
18 Friday and where you're at now or --

19 MR. PAPPAS: Well, our membership hasn't changed
20 necessarily since Black Friday. Obviously, the amount of
21 people playing online has changed since then, but people
22 willing to be part of our organization and express their
23 feelings about the need for safe, regulated Internet gaming
24 has not changed. In fact, I think it's probably grown
25 because of the lack of viable trusted options out there now

1 for the consumer that more people are gravitating to our
2 organization to use it as a vehicle to express their wishes
3 to lawmakers.

4 REPRESENTATIVE DUNBAR: Do you know what
5 percentage of your members go to casinos to play poker?

6 MR. PAPPAS: We've done some studies in the past,
7 and generally, the poker community, if we're talking about
8 poker only, I would say a vast majority of them -- I'd say
9 I think it was somewhere in the 70 percent -- play at live
10 settings as well as online.

11 REPRESENTATIVE DUNBAR: Okay. Well, thank you.
12 Thank you, gentlemen.

13 SENATE MAJORITY CHAIRMAN SCAVELLO: I was told by
14 Representative Petri, Chairman Petri, that we surpassed
15 Chairman Metcalfe's meetings in time.

16 I really want to thank all the Members for
17 staying on and all of the testifiers and everyone here.

18 You know, it's an issue that we have to deal with
19 somehow because there was \$100 million booked in last
20 year's budget that we have not addressed, which becomes a
21 \$200 million problem next year. And plus we have to also
22 fix the local share stuff.

23 So I thank all of you. Again, we're probably
24 going to have another one or two meetings, am I right? And
25 hopefully, all the information that we learn today is going

1 to be shared with the Members that weren't here from the
2 Committee and as well from the Members that are not on the
3 Gaming Committee.

4 HOUSE MAJORITY CHAIRMAN PETRI: I also want to
5 thank all the Members for your indulgence and your
6 testimony and everybody for waiting. I know we went well
7 over the time, but I think it was well worth it.

8 For those of you who did not get to testify this
9 time, I've heard that you want to testify. You've called
10 me. We'll get you an opportunity to testify. The plan
11 would be -- and I have not had a chance to talk to Senator
12 Scavello about it, but my preference would be to start
13 talking about VGTs when we actually have a real VGT bill
14 that we can talk about as opposed to shooting in a fish
15 barrel. So that should be shortly. I would anticipate
16 next week or two there'll probably be a VGT bill introduced
17 that we can talk about, okay?

18 I think we're done.

19

20 (The hearing concluded at 6:11 p.m.)

1 I hereby certify that the foregoing proceedings
2 are a true and accurate transcription produced from audio
3 on the said proceedings and that this is a correct
4 transcript of the same.

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