

**R. Douglas Sherman, Chief Counsel  
Pennsylvania Gaming Control Board  
House Gaming Oversight Committee  
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Good morning, Chairman Petri, Chairman Harkins and members of the Committee. I am Doug Sherman and I serve as the Chief Counsel for the Pennsylvania Gaming Control Board.

I am happy to be here to discuss House Bill 1010 which, among other things, seeks to authorize and regulate VGTs at entities that hold a liquor license, truck stops and off-track betting parlors, and to answer any questions regarding the Board's role in regulating that activity if appropriate to do so. The Board has historically taken the approach that the General Assembly establishes policy, and if House Bill 1010 becomes law, we would seek to implement it in an efficient and effective manner.

In conjunction with other members of the Board's staff, I have reviewed House Bill 1010 and it would appear that the regulatory framework would be established in the following manner:

- The Board would license retail establishments that house and provide VGTs for play; those entities referred to as the operators who oversee the placement and operation of the VGT's, and the suppliers and manufacturers of the VGT's. The Board would oversee testing and approval of VGT's, associated equipment and redemption terminals. Finally, the Board would adjudicate regulatory violations which would be prosecuted by the Board's Office of Enforcement Counsel;

- The Department of Revenue would oversee the Central Control Computer System, assure the integrity of the central system and collect taxes based on the play of VGTs; and
- Criminal law enforcement of the various provisions of the proposed legislation as well as the conduct of administrative inspections and reporting would fall under auspices of Liquor Control Enforcement and the Pennsylvania State Police.

With that context in mind, I will address aspects of House Bill 1010 that fall under the Board's review, such as the licensing of the various applicants, the treatment of confidential information provided by the applicants and the challenge of effectively enforcing regulatory prohibitions in a manner consistent with that of the State's casinos.

As compared to casino licensing where the Board has licensed 12 casinos and their owners, officials and employees, House Bill 1010 has the potential to create thousands of new applications for the Board's consideration. For example, at the end of 2013 (the first full year of legalization in Illinois), there were 3,253 establishments licensed to provide VGTs. In March of this year, the number of licensed establishments climbed to 5,932. This does not include applications for principal, key employee, supplier or manufacturer licenses. Given the sheer number of applicants that can be expected, we believe that the licensing system should be developed in a manner which promotes efficiencies for the Board to handle the task.

For example, House Bill 1010 establishes licensing periods and renewals at intervals of one year or three years. As we have stated with respect to the licensing periods of casinos, license periods can be extended to five years

without sacrificing regulatory oversight. This is due, in part, to the fact that casino licensees have the ongoing obligation to provide updated information to the Board concerning facts impacting their licensing status. We believe that it would be reasonable to also make the licensing terms five years for VGT establishment licensees and VGT operators as they would have the same reporting obligations and we do not believe that a five year term, as opposed to a three year term, would adversely impact the public interest or safety.

Next, I want to address items in connection with background investigations of applicants. Generally, in the regulation of gaming, a priority is to perform a background investigation and license individuals and entities that come in contact with the patrons and the money, or which provide a vehicle for gaming, in this instance, the video gaming terminals themselves.

The legislation appears to mirror or be substantially similar to the standards currently embodied in the Pennsylvania Race Horse Development and Gaming Act in terms of the treatment of non-public information provided to the Board in connection with the background investigations to be conducted. As such the Board is comfortable in the receipt, treatment and consideration of this information in a manner maintaining its confidentiality.

The Board's Bureau of Investigations and Enforcement is tasked with conducting the investigations of applicants for VGT licenses. Given the goal of prompt implementation of VGT gaming which appears in House Bill 1010, and the potential for thousands of applicants, it is suggested that careful attention be given to the investigative process to assure that it can be accomplished in an efficient manner to avoid backlogs and avoidable delay.

Turning to the topic of regulation of retail establishments which provide video gaming terminals, I note that there are substantial and differing challenges between regulating casinos and establishments with VGT's in terms of the numbers of facilities involved, the size of the operations, issues of public accessibility and the presence, or lack thereof, of an on-site regulatory staff. This was mentioned by Chairman Barasch last year when he testified about his concern as it relates to underage gaming and problem gaming issues implicated by VGT placement in thousands of retail establishments throughout the Commonwealth.

The Board currently regulates 12 casinos having just over 26,000 slot machines and over 1,200 tables. The casinos have heavy burdens placed on them with respect to security and surveillance, minimum staffing requirements, on-site regulatory presence and are subject to stiff fines for regulatory violations. Yet we continue to see the challenges they face with respect to incidents of underage individuals and problem or excluded gamblers who attempt to access the casinos.

There is no reason to believe that the same issues will not exist in the VGT setting with thousands of locations and with differing oversight than applied to casinos, the question of how best to deal with these issues given the wide dispersion of VGT retail entities is one which should be at the forefront of any conversation of the nature of that today. Therefore, we believe it prudent to raise the issue to be considered in developing policy to protect the public and the integrity of the gaming activity.

Finally, relative to the funding of regulatory expenses, these expenses are typically borne by the regulated industry. The Board recognizes the need to

be judicious in the expenditure of these funds. For the past 9 years, the Board has not spent its appropriated budgets relative to casino gaming. The surplus has been credited to the casinos 1401 accounts. We would expect the same mindset to carry over to the regulation of VGTs.

The legislation currently provides for a 1.5% cap of gross terminal revenue generated which in turn would fund the budgets of the Board, the Department of Revenue and Liquor Control Enforcement. We urge caution in this regard as the cost of the agencies to provide regulatory oversight does not decrease if revenues fall due to a downturn in the economy or gaming market. Nor do we think agencies should retract their level of oversight at the expense of public safety and the integrity of gaming based upon a cap on costs if the regulation is appropriate.

In closing, the Board will continue to implement any policies as directed by the General Assembly and the Governor in an effective and efficient manner. I am available to respond to any questions that you may have.