

1 COMMONWEALTH OF PENNSYLVANIA  
2 HOUSE OF REPRESENTATIVES  
3 HOUSE GAMING OVERSIGHT COMMITTEE HEARING

4 IN RE: HOUSE BILL 1317

5 STATE CAPITOL  
6 IRVIS OFFICE BUILDING  
7 ROOM G-50  
8 HARRISBURG, PENNSYLVANIA

9 THURSDAY, MAY 21, 2009, 10:00 A.M.

10 BEFORE:

11 HONORABLE DANTE SANTONI, JR., CHAIRMAN  
12 HONORABLE BRYAN BARBIN  
13 HONORABLE JOSEPH F. BRENNAN  
14 HONORABLE THOMAS R. CALTAGIRONE  
15 HONORABLE PAUL I. CLYMER  
16 HONORABLE DOM COSTA  
17 HONORABLE FLORINDO J. FABRIZIO  
18 HONORABLE EDDIE DAY PASHINSKI  
19 HONORABLE MICHAEL PEIFER  
20 HONORABLE CHRIS SAINATO  
21 HONORABLE CURT SCHRODER  
22 HONORABLE EDWARD G. STABACK  
23 HONORABLE ROSEMARIE SWANGER  
24 HONORABLE MIKE VEREB  
25 HONORABLE RANDY VULAKOVICH  
HONORABLE JAMES WANSACZ

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## 1 P R O C E E D I N G S

2 CHAIRMAN SANTONI: I'd like to call the hearing  
3 of the House Gaming Oversight Committee to order on House  
4 Bill 1317. This is our fourth of four hearings. We've  
5 traveled the state. We started here in Harrisburg about a  
6 month ago and then went out to the western part of the  
7 state, Westmoreland County Community College.

8 Last week, we were in Berks County, Kutztown  
9 University, and we're concluding today here back in  
10 Harrisburg. We welcome all of you, and we're glad you're  
11 here. Before we get started with the formal testimony, I  
12 would like to have the members introduce themselves and  
13 where they're from, starting on my far right with my good  
14 friend, Representative Sainato.

15 REPRESENTATIVE SAINATO: Thank you, Mr.  
16 Chairman.

17 I'm Representative Chris Sainato. I represent  
18 the 9th Legislative District, which is parts of Lawrence  
19 and a small section of Beaver County.

20 REPRESENTATIVE PASHINSKI: Good morning. I'm  
21 Representative Eddie Day Pashinski, 121st District, Luzerne  
22 County.

23 REPRESENTATIVE SCHRODER: Good morning.  
24 Representative Curt Schroder, 155th District of Chester  
25 County.

1                   CHAIRMAN SANTONI: Dante Santoni, Berks County.

2                   REPRESENTATIVE CALTAGIRONE: Tom Caltagirone,  
3 Berks County.

4                   REPRESENTATIVE COSTA: Representative Dom Costa,  
5 21st District, Allegheny County.

6                   REPRESENTATIVE CLYMER: Paul Clymer, 145th  
7 District, Bucks County.

8                   REPRESENTATIVE VULAKOVICH: Randy Vulakovich,  
9 30th District, Allegheny County.

10                  REPRESENTATIVE FABRIZIO: Flo Fabrizio, 2nd  
11 District, Erie County.

12                  CHAIRMAN SANTONI: Thank you very much. I just  
13 want to alert the members and the audience that this is  
14 being taped for PCN, so be on your best behavior. I would  
15 like to allow the Republican Chairman of the Committee,  
16 Representative Schroder, to make some brief comments to  
17 start the meeting.

18                  REPRESENTATIVE SCHRODER: Thank you, Chairman  
19 Santoni.

20                  Good morning, ladies and gentlemen. This is the  
21 fourth hearing of the Gaming Oversight Committee on the  
22 video poker proposal of the administration. I appreciate  
23 the Chairman's willingness and indulgence in holding these  
24 hearings to let different views be aired. He is to be  
25 commended for the process that has been put into place for

1 this.

2 I do note, however, that this, as I said, this  
3 is our fourth hearing, and that's four more hearings that  
4 we have had on the issues that I believe we should be  
5 holding here, which is the oversight and the problems  
6 related to the existing gaming industry in Pennsylvania.

7 It's been my position we should not be moving  
8 forward on any legislative proposals that would expand the  
9 scope of gambling in Pennsylvania until various issues with  
10 the Pennsylvania Gaming Control Board, the existing  
11 licensing process and a lot of the controversies that have  
12 arisen with that are, in fact, resolved.

13 But be that as it may, we have this matter  
14 before us, and I also note that we have some individuals on  
15 the agenda who will be testifying for the third and,  
16 indeed, fourth times on the same proposal, the same bill  
17 before the Committee. It's getting to a point where I  
18 believe that we're crossing over from an inquiry, trying to  
19 get to the truth and trying to get to the facts of the  
20 particular issues in the bill to really something that is  
21 more --

22 (Lights went out.)

23 Now that we brought the light back onto the  
24 process here, this is the fourth hearing where we're  
25 hearing from some of these individuals, and while they're

1 always welcome as individuals and their agencies certainly  
2 before this Committee, I do have to wonder whether we've  
3 crossed the line from inquiry and trying to get the true  
4 facts of the underlying issues in this matter and have  
5 turned more into a dog and pony show for the administration  
6 to taut and to sell this issue.

7           So with that said, I appreciate the efforts of  
8 the Committee in putting this together. I'll look forward  
9 to the testimony of the individual testifiers, and I thank  
10 Chairman Santoni for his indulgence.

11           CHAIRMAN SANTONI: Thank you, Mr. Chairman. I  
12 appreciate your comments, and I have enjoyed working with  
13 you throughout this process, this being our fourth hearing  
14 now. It's always a challenge. I've been criticized in  
15 some circles for not having enough hearings. I've been  
16 criticized for having too many hearings, so maybe I hit it  
17 right with four. So I do want to recognize Representative  
18 Vereb that just came in.

19           Welcome.

20           And to get the hearing started, I would like to  
21 call our first testifiers from the Pennsylvania State  
22 Police, Colonel Frank Pawlowski, the Commissioner; Major  
23 John Lutz, Director of Bureau of Liquor Control  
24 Enforcement.

25           I know, gentlemen, you've been gracious enough

1 to testify at past hearings and have submitted testimony  
2 and have spoke directly from that testimony. I think, if  
3 you could, just summarize -- I think we've spoken about  
4 that -- just summarize, and then maybe we can have some  
5 questions.

6 COLONEL PAWLOWSKI: Thank you, Mr. Chairman, and  
7 committee members. It's a pleasure to be here today. You  
8 have my testimony in front of you, and it pretty much is  
9 similar to testimony over the past few sessions. So I'd  
10 just like to make a brief statement, and then we'll be  
11 available to answer any of your questions.

12 The State Police believe House Bill 1317 sets  
13 forth an effective plan to regulate an illegal and  
14 underground industry that has flourished in Pennsylvania  
15 for nearly three decades. With the regulatory and  
16 enforcement provisions of this legislation and the legal  
17 alternative it offers to licensed establishments, we  
18 believe this legislation will result in a significant  
19 reduction in the number of illegal machines in  
20 Pennsylvania.

21 At the same time, House Bill 1317 will provide  
22 much needed economic support for students who wish to  
23 pursue higher education throughout this Commonwealth. The  
24 State Police have estimated that approximately 17 thousand  
25 or more illegal video gambling devices are currently in

1 play throughout the state. We believe this number will  
2 grow if law enforcement does not get the type of support  
3 set forth and the regulatory provisions and penalties of  
4 House Bill 1317.

5           We are optimistic this legislation will result  
6 in significant voluntary compliance by our  
7 licensed liquor establishments for this popular form of  
8 entertainment. Consequently, our goal of voluntary  
9 compliance will make the Commonwealth's liquor enforcement  
10 efforts much more efficient and effective. Thank you.

11           CHAIRMAN SANTONI: The first question goes to  
12 Chairman Schroder.

13           REPRESENTATIVE SCHRODER: Thank you, Colonel  
14 Pawlowski. Welcome.

15           Major Lutz, welcome again, of course.

16           Colonel Pawlowski, this is, I think, the third  
17 time in your testimony that you have testified that the  
18 vendor in this equation regarding the existing illegal  
19 operations of the video gaming machines, that the vendor is  
20 actually engaged in a criminal enterprise within the  
21 Commonwealth and avoiding taxes on millions of dollars per  
22 year in profits.

23           And I guess my question to you is, since you  
24 have first testified to this, has there been any change in  
25 the operations of the State Police in recognition of this



1 criminal enterprise to shut it down?

2 COLONEL PAWLOWSKI: We always recognize that  
3 this criminal enterprise exists. It's been a matter of  
4 priorities though as to how we pursue things. I mentioned  
5 in earlier testimony that it's difficult enough  
6 investigating video poker machines itself. It's labor  
7 intensive. I think the record pretty much reflects the  
8 amount of manpower we deploy towards this problem.

9 And in investigating the vendors, it's even much  
10 more difficult. I mean, these vendors operate where our  
11 surveillances would require watching the liquor  
12 establishment and then doing surveillances and tracing the  
13 activities of the vendors, the interaction with the liquor  
14 establishments and then through their books back to their  
15 locations. It's just an extremely complex investigation.

16 That does not mean we don't undertake these  
17 investigations. In prioritizing things, we look for  
18 organized crime influence, and if that is there, we will  
19 pursue it to the fullest extent. These investigations take  
20 a long time. We're talking at least a year for one of  
21 these investigations to get going, and that really doesn't  
22 include prosecution.

23 We do elicit the support of our federal  
24 counterpart, the Internal Revenue Service, and other  
25 federal agencies to help there. But as you know, the

1 Internal Revenue Service, they have to prioritize as well.  
2 And with all the problems that America's facing; Wall  
3 Street, the banking, the housing industry and the like,  
4 fraud is everywhere. And they have to make decisions on  
5 what they're going to pursue.

6 And to be honest with you, video gaming and  
7 poker and vendors are not high on anybody's priority list  
8 unless there's a certain personality involved here that's  
9 linked to organized crime. That gets their attention.

10 REPRESENTATIVE SCHRODER: I understand that  
11 there are many more bars, taverns, private clubs than there  
12 are number of vendors, however; and I understand the  
13 difficulty that you describe in tracking this activity in  
14 the private clubs and the intensity of investigation.

15 The fact that there are fewer vendors, however,  
16 could not the State Police turn their attention to the  
17 vendors as opposed to the clubs and, in essence, track the  
18 activity of the vendors and, in the process, shut down the  
19 entire criminal enterprise as described in your testimony  
20 throughout the Commonwealth?

21 COLONEL PAWLOWSKI: The problem is there's  
22 virtually hundreds of vendors, each one competing with each  
23 other and very quick to fill the void. When we take one  
24 off, another one just steps right in.

25 And, again, due to the length of investigations

1 and perplexity, we just don't have the resources to take  
2 all these vendors out, so to speak. So that's the problem  
3 there. The problem's so huge. There's so many  
4 personalities and opportunities for them to fill that void  
5 that it just is difficult.

6 REPRESENTATIVE SCHRODER: Okay. Well, I  
7 appreciate your comments. I'm still very concerned about  
8 the criminal enterprise as described in your testimony over  
9 the course of these hearings.

10 As I stated, the last hearing, Kutztown, I  
11 intend to follow up with various law enforcement agencies  
12 within the state and federal levels and point out your  
13 testimony to them about the tax avoidance and tax fraud  
14 that is going on right under their eyes and challenge them  
15 to, in fact, get a hold of this, take the bulls by the horn  
16 and end this criminal enterprise that's been festering here  
17 in Pennsylvania. Thank you.

18 CHAIRMAN SANTONI: Representative Vereb.

19 REPRESENTATIVE VEREB: Thank you, Mr. Chairman.

20 Colonel, good morning.

21 COLONEL PAWLOWSKI: Good morning, sir.

22 REPRESENTATIVE VEREB: Major, good morning.

23 MAJOR LUTZ: Good morning.

24 REPRESENTATIVE VEREB: Colonel, I obviously  
25 consider you a friend, so I will ask you these questions.

1           Or, Major, if you'd be so gracious to answer my  
2 questions, that will be good too.

3           Colonel, we obviously, we have a slight  
4 disagreement with each other on this issue. And I came  
5 upon the press conference here on education since its first  
6 release, but I must apologize for not attending other  
7 hearings due to some other commitments I had.

8           My questions are going to be focused on where we  
9 are with video poker investigations in terms of the  
10 manpower it takes out of PSP and then where will we go, who  
11 will be doing the investigations of the absolute illegal  
12 poker machines that will still exist in the back rooms of  
13 these bars and same clubs that so many local departments  
14 are resisting to investigate.

15           So where are we, and then if for some reason  
16 this would become law and these machines would become  
17 legal, where would we be in terms of who will conduct these  
18 investigations?

19           COLONEL PAWLOWSKI: Right now, we propose that  
20 Bureau Liquor Control enforcement, our liquor enforcement  
21 officers would be leading this with state troopers that are  
22 in the liquor control enforcement acting as supervisors,  
23 much like we're structured now. They would be in charge of  
24 conducting these investigations. That's for the licensed  
25 establishments.

1           We all know that some of these machines exist in  
2 the unlicensed establishments and the like there, and  
3 there's opportunities for local police to take up this  
4 enforcement. We all know that on the stages of that  
5 enforcement effort, there's liquor enforcement and training  
6 of local police to bring them along on the nuisances in the  
7 law and the enforcement.

8           But what we like about this legislation is  
9 there's finally some teeth that allows us to efficiently  
10 investigate these things. It declares that these devices  
11 are, per se, gambling devices. That makes it a lot easier  
12 for us to take enforcement. We don't have to do the  
13 tracking surveillances. We don't have to do witness  
14 payoffs.

15           We like the way this legislation is structured.  
16 What we like about it is the fact that these devices are,  
17 per se, illegal, and we can seize them right then and  
18 there. And that would help us out an awful lot. So we  
19 have a plan to add additional personnel to meet this need  
20 if this legislation were passed. And we think that by the  
21 fact that there's finally a regulatory structure in place,  
22 this will help us work a lot more efficiently.

23           This is a cat and mouse game that's been going  
24 on a long time. Take a look at the penalties involved  
25 here, and they're serious penalties. It's going to get

1 their attention for the first time, and it no longer will  
2 be a simple business decision that as the State Police  
3 takes a machine out the front door, the vendor brings in a  
4 new machine in the back door because the vendor's willing  
5 to pay a \$250 fine or no fine at all.

6 It's just a matter of keeping business as usual  
7 there. We think that the penalties and the regulations in  
8 this legislation will really help us a lot.

9 REPRESENTATIVE VEREB: Okay. I have not  
10 reviewed the legislation, but is there any costs in terms  
11 of bar owners? Can a current bar owner be a convicted  
12 felon? Can they currently possess a liquor license and own  
13 a liquor-licensed establishment in Pennsylvania? I don't  
14 remember. If someone's a convicted felon, can they own a  
15 bar?

16 COLONEL PAWLOWSKI: Major Lutz knows the  
17 standards that the Liquor Control Board assesses in issuing  
18 these licenses, and I'll allow him to address this  
19 question.

20 MAJOR LUTZ: Representative, obviously the  
21 Liquor Control Board does the licensing, and there are  
22 certain felonies for which you can be prohibited from  
23 having a liquor license. But I don't believe it's all  
24 felonies, and that's something that they control.

25 REPRESENTATIVE VEREB: Is either one of your

1 opinions that it's good to have a convicted felon in charge  
2 of expanding gaming at an establishment?

3 COLONEL PAWLOWSKI: Absolutely not.

4 REPRESENTATIVE VEREB: In -- I see my friends  
5 from the Gaming Board here this morning. How about  
6 vendors -- the Chairman asked about vendors, machine  
7 vendors, but how far would we investigate vendors and the  
8 background of vendors doing work at these establishments to  
9 these machines and maintenance, upkeep and monitoring of  
10 them? And would you also agree that the vendors working on  
11 those machines should not be convicted felons?

12 COLONEL PAWLOWSKI: The actual, the issue of  
13 vendors and the number of vendors, I think, is up for  
14 discussion, and this legislation is part of that. There's  
15 been some talk about one vendor working for the entire  
16 state. I'm sure there's people out there who would see  
17 this as a business opportunity for other vendors. But  
18 obviously the license of that would be handled by the  
19 Department of Revenue with State Police input with regard  
20 to their backgrounds.

21 So we would be partners with Department of  
22 Revenue evaluating the backgrounds to make sure that people  
23 that are associated with organized crime or have those  
24 links to gambling, legal gambling -- and convictions,  
25 that's part of the legislation there -- they would be

1 precluded.

2           REPRESENTATIVE VEREB: Is there anything in the  
3 legislation here where, or anything you'd recommend if the  
4 licensed establishment has a few machines legal and then a  
5 few machines illegal? Is there a revocation process for  
6 their approval of having the licensed machines if they're  
7 caught with illegal machines?

8           COLONEL PAWLOWSKI: Well, right off the git-go,  
9 that results in hefty fines as well as suspension of their  
10 license. That's the big stick right there, by closing down  
11 these places. And I actually mention in my testimony  
12 voluntary compliance. This is the way we're structured.  
13 We'd really like everybody to carry out business without  
14 having the State Police or the Liquor Control Board looking  
15 at every one of their moves.

16           So we think that the fact that the threat of  
17 them losing their license with fines and accelerating fines  
18 in place here, that they'll see that the business model,  
19 the opportunity here for legitimate machines will certainly  
20 override any interest in having both legitimate machines  
21 and these gray machines here.

22           We're hoping that the model that's put forth in  
23 the regulations will make it clear to people in the liquor  
24 business that it's best to partner with the Commonwealth as  
25 opposed to trying to pursue illegal activity.



1                   REPRESENTATIVE VEREB: Okay. Just a couple  
2 more, I promise. Is there any room for BIE (ph) here, when  
3 we hopefully move BIE to either yourself or to the Attorney  
4 General? Is there any room for cooperation in reducing the  
5 amount of resources, maybe combining resources for  
6 reinforcement once they move, not under -- hopefully when  
7 they move -- I'm sorry, Mr. Chairman. But if they move to  
8 a law enforcement agency, to yourself or the AG's office,  
9 would you see a consolidation of resources at that time  
10 potentially?

11                   COLONEL PAWLOWSKI: That would be an interesting  
12 proposal, and if that does happen, we then certainly would  
13 take a look at the way we do business across the board.  
14 And actually, it would depend on the type of -- how the  
15 liquor industry embraces this proposal. We really don't  
16 know. We're hopeful. These are projected revenue figures  
17 and the projections with regard to interest of liquor  
18 establishments.

19                   We'll have to see exactly how many people are  
20 interested in moving these machines into their  
21 establishments. They take up floor space, and there has to  
22 be some renovations and the like. So as the work expands,  
23 we would certainly look to, look anywhere in the State  
24 Police to expand the enforcement operations as needed.

25                   REPRESENTATIVE VEREB: Okay. And I know in a

1 few statements, you suggested, with the overwhelming fight  
2 you're up against with the current enforcement of the  
3 machines, by legislation or by the amount of machines that  
4 are out there, as you're aware, \$5 million exist in the  
5 Gaming Act for law enforcement agencies to enforce these  
6 illegal machines.

7                   And I guess the fortunate ability of having an  
8 aggressive DA in my county, we've seen those  
9 investigations, and we have used some of that money. Do  
10 you have an opinion as to why that \$5 million isn't gone in  
11 the first few months it's available to local law  
12 enforcement agencies to enforce the current law?

13                   COLONEL PAWLOWSKI: I think, one, it's a new  
14 proposal, relatively new proposal. I think that's one  
15 thing. I think there are other priorities in all the law  
16 enforcement agencies, violent crime being one of them. A  
17 chief has to make a decision. They don't automatically  
18 make a decision based on available funding.

19                   They have only so many officers. They want to  
20 keep them focused on the needs of the city, the township,  
21 the borough. So I think it's a matter of priorities. And  
22 we have 12 hundred police departments, about 12 hundred  
23 police departments in the Commonwealth, and it's up to them  
24 to see exactly what the requirements are. I'm not so naive  
25 as to ignore the fact that these machines have been around

1 a long time.

2           They've become a part of the culture of the  
3 town. They're licensed by some towns, and I think that  
4 there's some benign neglect going on out there. But I  
5 think as this issue -- and hearings like this help -- it  
6 sheds some light on these issues. And I think as we  
7 continue to educate law enforcement, you'll see that \$5  
8 million being used more efficiently and effectively by law  
9 enforcement.

10           REPRESENTATIVE VEREB: But if this became law,  
11 then we would have no need for that fund, correct, or not  
12 that large amount because I think -- do you think that fund  
13 would still supplement the investigations of the illegal  
14 machines?

15           COLONEL PAWLOWSKI: I'm not in a position to  
16 discuss how that money gets chalked up, so to speak. And I  
17 think we have to see how the state changes and how many  
18 gray machines are out there, and then I think the  
19 Legislature would take a look at the needs and make  
20 decisions accordingly.

21           REPRESENTATIVE VEREB: Colonel, do you have any  
22 statistics or can you get any statistics that would  
23 indicate where these investigations of illegal machines  
24 have taken place? You mentioned violent crime. I'm going  
25 to submit that I would be willing to bet that these

1 machines exist in all neighborhoods, including those ridden  
2 with violent crime; and I would just see that, for locals,  
3 as an opportunity to get into some of these establishments  
4 with the revenue to support their investigation.

5 Are there any statistics that either PSP has, or  
6 is there something in the federal reporting -- I forget the  
7 name of the report -- UCRS, is there something in there  
8 that would indicate or break things down by geography where  
9 these illegal machine investigations are taking place?

10 COLONEL PAWLOWSKI: No. The UCRS don't allow  
11 for those type of nuisances. But generally, from the  
12 observations of our liquor enforcement officers around the  
13 state, the concentration is in southwest Pennsylvania and  
14 southeast Pennsylvania.

15 There's other places where these machines just  
16 are nonexistent for a number of reasons; one, there's a  
17 lack of interest; two, there's heavy enforcement by  
18 district attorneys in certain counties. So we don't map  
19 it. We don't track it that way. We just move on  
20 complaints, and then as our liquor enforcement agents and  
21 also our state troopers come across information, we address  
22 it as it comes to us.

23 REPRESENTATIVE VEREB: Colonel, Major, thank  
24 you.

25 Mr. Chairman, thank you.

1                   We're very concerned about the word gambling  
2 device, so we can get that later on.

3                   CHAIRMAN SANTONI: I would like to note the  
4 presence of some members that have joined us;  
5 Representative Peifer, Representative Barbin and  
6 Representative Wansacz.

7                   The next line of questioning is from  
8 Representative Pashinski.

9                   REPRESENTATIVE PASHINSKI: Thank you, Mr.  
10 Chairman.

11                   Thank you, Colonel.

12                   Thank you, Major, for being here.

13                   If 1317 is not passed, what kind of increase in  
14 staff would be necessary in order to deal with the illegal  
15 activities?

16                   COLONEL PAWLOWSKI: Again, it's priorities. I  
17 could always use more liquor enforcement agents. And  
18 priorities right now with us are keeping  
19 visibly-intoxicated individuals from leaving bars, getting  
20 served, leaving bars and getting out of their car, getting  
21 out of their cars and causing homicide on the highways.

22                   Additionally, we put significant resources in  
23 college towns because of the influence of young college  
24 students and the liquor industry in those towns. There's a  
25 lot of disruption and activity going on there that needs

1 our attention. So we certainly need more liquor  
2 enforcement officers, but again, it's a matter of  
3 priorities.

4           And typical with police work, I don't think  
5 there's a chief of police anywhere that would look you  
6 straight in the face and say, oh, we have enough; we don't  
7 need any more. We could always use more because there's so  
8 many programs that we could pursue.

9           REPRESENTATIVE PASHINSKI: The reason I'm asking  
10 this question is because then the next question is if 1317  
11 passes, what kind of staffing would you need in order to  
12 make sure that the system runs. And I'm going to ask  
13 another question so you can see where I'm going with this.  
14 Right now, the casinos, all the machines are connected to  
15 one system.

16           COLONEL PAWLOWSKI: Yes.

17           REPRESENTATIVE PASHINSKI: Has that system been  
18 efficient; has it worked well; what kind of problems have  
19 you discovered because that is a concern with these new  
20 poker machines that may be initiated?

21           COLONEL PAWLOWSKI: Your first question, right  
22 now, we have a proposal. Again, it's a preliminary  
23 proposal waiting to see its passage through legislation as  
24 well as how the whole concept is embraced by the industry,  
25 but we have put forth as many as, starting at 25

1 enforcement officers to begin there. And, again, that's a  
2 flexible move. If we find that we need more, we could go  
3 that way, but the number 25 has been discussed for  
4 starters.

5           Secondly, the idea to centralize computers  
6 really helps us out a lot because there's very strict  
7 controls on that, and that's been proven in the gaming  
8 industry. There's been a number of problems discussed in  
9 state government with Pennsylvania's gaming industry, and  
10 many of those problems have to do with discussions of  
11 things that happened up here in Harrisburg. But I can tell  
12 you about the gaming sites around the state.

13           The machines that are extremely well controlled  
14 and monitored aren't any problem. The gaming sites are  
15 extremely safe gaming sites. All the concerns and the  
16 horror stories about crime running rampant, that did not  
17 really materialize. We're proud of the work that our  
18 gaming enforcement officers and our partners of local  
19 police are doing in the area of gaming to make these sites  
20 safe and inviting for the citizens of the Commonwealth.

21           REPRESENTATIVE PASHINSKI: Terrific. To your  
22 knowledge, what would be the positives or the negatives  
23 between having one vendor distribute, service all the  
24 machines as opposed to keeping the present system of  
25 amusement vendors in place? There's a significant number

1 of people that are employed, so there's some concern about  
2 that. Could the present system work as well as a  
3 one-vendor system to your knowledge?

4 COLONEL PAWLOWSKI: A one-vendor system would be  
5 simple from the standpoint that we're doing one background  
6 investigation. But then again, when you get into  
7 discussion about good business in Pennsylvania, creating  
8 jobs and opportunities, if there are vendors in the  
9 hundreds that are interested in getting involved, a  
10 decision has to be made about how we want to open the  
11 industry to them; one, it would become more work, but, two,  
12 from my vantage point, it would also be an opportunity.

13 If additional vendors are licensed, it would  
14 seem that they would be motivated to get rid of these gray  
15 machines knowing that the Department of Revenue agents as  
16 well as state troopers would be looking over their  
17 shoulders a lot closer than we do now. They're coming out  
18 from the shadows.

19 If they want to get involved in this industry,  
20 it's going to require them to come out from the shadows.  
21 So there will be a business opportunity for them; do they  
22 want the opportunity to become involved in this venture and  
23 are they willing to undergo the scrutiny of the State  
24 Police as well as the Department of Revenue.

25 REPRESENTATIVE PAWLOWSKI: Thank you very much,



1 Colonel.

2 Thank you, Major.

3 Thank you, Mr. Chairman.

4 CHAIRMAN SANTONI: Representative Clymer.

5 REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

6 And good morning, Colonel Pawlowski.

7 And, Major Lutz, good to see you again.

8 Is there any other industry that the State  
9 Police are involved in here in Pennsylvania where there is  
10 so much law enforcement involved and the laws have to be  
11 written so restrictive and background checks? Can you give  
12 me another industry here in Pennsylvania that's very  
13 similar to what we're dealing with with the video poker  
14 gambling?

15 COLONEL PAWLOWSKI: Actually, the gaming  
16 industry, our gaming office is involved there. Also, motor  
17 carrier enforcement, there's an awful lot of federal  
18 regulations as well as state regulations and the like to  
19 keep that industry safe and effective. It appears that  
20 just about everywhere we go, there's an awful lot of  
21 regulation out there, but those two are the first two that  
22 come to mind.

23 REPRESENTATIVE CLYMER: My point being, of  
24 course, that when you go into the arena of casino, video  
25 poker gambling, that it seems from my experience, there has

1 to be a lot more emphasis on law enforcement, on  
2 restrictions. And the problems seem to bubble over  
3 continuously within this industry, not as much as in some  
4 other industries. That's just an observation that I wanted  
5 to make.

6 But going on to some further questions, in the  
7 City of Philadelphia, there are approximately 2 thousand  
8 liquor-licensed establishments. Who would be responsible  
9 for investigating and patrolling those liquor-licensed  
10 establishments?

11 COLONEL PAWLOWSKI: Again, our Bureau of Liquor  
12 Control enforcement and the Philadelphia Police Department.  
13 Nothing would stop a Philadelphia police officer from  
14 entering one of these establishments and taking action if  
15 they see a machine there.

16 REPRESENTATIVE CLYMER: Colonel, wasn't it -- I  
17 thought I just read recently where the Pennsylvania State  
18 Police had to supplement the Philadelphia Police Department  
19 because they had so many problems within the city that they  
20 were going to take over some of their responsibilities on  
21 the Schuylkill Expressway and some of those areas because  
22 they needed the police just to deal with the problems they  
23 were having within the city. Is that not a fair  
24 assessment?

25 COLONEL PAWLOWSKI: Well, we took over the

1 interstates in the city for a number of reasons; one, it  
2 does allow Commissioner Ramsey to deploy those officers  
3 that were doing highway work on the interstates into his  
4 problems area of the city. So we did give him relief  
5 there, and he was able to take those officers off the  
6 interstates.

7           But the involvement with the Pennsylvania State  
8 Police and the Philadelphia Police is not so much  
9 supplemental. It's partnerships that we engage in all  
10 around the state where we go in to work on problems that  
11 they may be incurring in the City of Philadelphia, but some  
12 of the criminal element that's involved in Philadelphia  
13 comes out to our surrounding areas and causes havoc too.  
14 So it's a benefit to the Pennsylvania State Police to  
15 partner in a number of ways.

16           REPRESENTATIVE CLYMER: Well, of course, my  
17 concern is that we'll see continued, an increase in the  
18 problems from some of these neighborhood bars and increase  
19 in crime resulting from the video poker machines and  
20 putting more demands on the police force in the City of  
21 Philadelphia that already, I think, is stretched to the  
22 limits, and now they're going to have to make more calls  
23 and have more involvement in these video poker machines.

24           Well, moving on, you mentioned that the college  
25 towns where they have liquor licenses, that that is a

1 concern, and it is a concern to myself as well. And, of  
2 course, those same liquor licenses that are in the college  
3 towns, they're going to, in all probability, apply for the  
4 video poker machine licenses as well.

5 Don't you see a growing problem here with  
6 gambling and liquor in our college towns where students may  
7 be underage and they'll try to get in to play the machines?  
8 Isn't that a serious concern to you, or do you think it's  
9 not a possibility?

10 COLONEL PAWLOWSKI: Well, I think that our  
11 enforcement inside these establishments for underage  
12 drinking is strong, and it will remain strong. And that's  
13 what we work towards, so I think that will -- people  
14 underage are not going to be coming in to these bars.

15 We're going to continue that enforcement. Now,  
16 these machines will also be available in restaurants that  
17 have liquor licenses and the like, but they will be located  
18 away from the general restaurant area, in the bar area.

19 And, again, what the Pennsylvania State Police  
20 likes about this legislation is it gives us penalties that  
21 we go back and we hold their liquor license hostage, and no  
22 business wants to give up their liquor license. That is  
23 gold to them. And that's what we like about this  
24 legislation because finally we have something there that we  
25 can use other than just going in and taking the machine and

1 going through the routine that we've had for the last few  
2 years.

3           REPRESENTATIVE CLYMER: I just think  
4 it's -- this is a comment, but it's really bad public  
5 policy that we need to find a mechanism whereby we can do  
6 serious damage to our fellow man, to our families and to  
7 some citizens of Pennsylvania. That just, to me, they  
8 should be our number one value that we should always try to  
9 uphold and strengthen, and here we are, you know,  
10 disintegrating them with the gambling addiction.

11           My final question on this issue is that if a  
12 person is inside and they're now drinking and it looks like  
13 they've had more than enough and they continue  
14 gambling -- because that's, like I say, is a lethal  
15 combination that's going to hurt a lot of our fellow  
16 Pennsylvanians -- who is going to be there to tell that, to  
17 intercept that person, if you will, from continuing his  
18 gambling when he should not be?

19           If he is at a point where he is intoxicated and  
20 he should not be putting any more of his paycheck into the  
21 video poker machine, who will be there to intercede and  
22 tell that person enough is enough; you better stop putting  
23 money into the video poker machines?

24           COLONEL PAWLOWSKI: Well, first off, the first  
25 problem there is serving a visibly-intoxicated individual.

1 We have enforcement ongoing in our bars for that, and  
2 actually we don't have enough officers to be in every bar  
3 all the time. That's where the idea of voluntary  
4 compliance comes in. There are provisions in this law for  
5 sanctions against allowing visibly-intoxicated people to  
6 play.

7           And, again, what I want to emphasize is  
8 voluntary compliance. This is a business opportunity and a  
9 privilege to have these machines in your liquor  
10 establishment, so we're very hopeful and optimistic that  
11 this idea of voluntary compliance will bring about an  
12 orderly, well-regulated industry.

13           REPRESENTATIVE CLYMER: Well, Colonel, you are  
14 far more optimistic than I am because I can tell you that  
15 even with the bars that we have out today and the taverns,  
16 that there are problems and that they're only going to  
17 accent those problems when you're bringing these video  
18 poker machines to them should the bill become law. But I  
19 do thank you for your courtesy and for your response.

20           Thank you, Mr. Chairman.

21           CHAIRMAN SANTONI: You're welcome.

22           I would like to recognize another colleague.  
23 Representative Harhai has joined us.

24           And for questions, Representative Fabrizio.

25           REPRESENTATIVE FABRIZIO: Thank you, Mr.

1 Chairman.

2                   And thank you, Colonel and Major, for your  
3 testimony this morning. I think we had a wonderful  
4 opportunity to take a lesson from history. We've been  
5 inundated with commentary this morning indicating that we  
6 got these criminal activities going on within the  
7 Commonwealth, 17 thousand illegal machines.

8                   Well, back in the turn -- well, the early 20th  
9 century, they passed a little act called the Volstead Act,  
10 which stopped people from drinking, which created a whole  
11 hell of a lot of criminal activity.

12                   I'm going to ask you this, Colonel: If we take  
13 the criminality out of this operation and we legitimize  
14 the enterprise, will that afford you the opportunity, will  
15 you have the manpower to rid the Commonwealth of any  
16 illegal remnants that are left?

17                   COLONEL PAWLOWSKI: Well, we're not so naive to  
18 say that in a matter of days --

19                   REPRESENTATIVE FABRIZIO: No time frame.

20                   COLONEL PAWLOWSKI: -- if this legislation is  
21 passed that it's going to go away, but what has our  
22 interest here is that finally we have some penalties and  
23 some regulations that allow us to act quickly to get rid of  
24 these machines and to put pressure on the people that  
25 possess these machines as well as the vendors here.

1           Up to this point in time, and as I testified,  
2 it's just too labor intensive to be able to get your arms  
3 around and to strangle the problem. They just keep coming,  
4 and it's a very lucrative industry here.

5           With this regulation, I think that that's the  
6 value that I see, that we can come after -- and they have a  
7 liquor license, which is the golden goose for them. It's a  
8 motivation for them to act in accordance with the law, so  
9 that's why I have this optimism. That's why I'm positive  
10 about this venture.

11           REPRESENTATIVE FABRIZIO: Thank you.

12           COLONEL PAWLOWSKI: And you're talking to  
13 somebody that I can go to Atlantic City for a convention,  
14 spend two or three days there and not put a nickel into a  
15 slot machine, so I'm not one of those advocates for the  
16 industry itself.

17           I'm just here as an advocate for the  
18 Pennsylvania State Police in trying to articulate the best  
19 I can how the present problem exists. And I see this as an  
20 opportunity to address not only the present problem, but  
21 also generate revenues for education.

22           REPRESENTATIVE FABRIZIO: Thank you. I come  
23 from the county where the machines essentially are  
24 nonexistent because we have had some local tough  
25 enforcement, which I agree with. My question being, if, in



1 fact, we look to amend this bill to provide a zero  
2 tolerance, one violation and you permanently have your  
3 liquor license revoked, can you comment on that?

4 COLONEL PAWLOWSKI: I'm not going to say it's  
5 draconian. But the idea is voluntary compliance, and I  
6 think that the provisions in this legislation are enough of  
7 a threat to keep you going to straight and narrow.

8 REPRESENTATIVE FABRIZIO: Thank you.

9 COLONEL PAWLOWSKI: We're not in the business of  
10 making the unemployment rate in Pennsylvania increase.  
11 That has to be a concern. There's a lot of people employed  
12 as a result of this industry.

13 REPRESENTATIVE FABRIZIO: Precisely my point.  
14 Thank you.

15 MAJOR LUTZ: Representative, this is a follow-up  
16 to that. The bill does make those machines, per se,  
17 illegal devices, so it no longer includes a lengthy  
18 investigation. We'd be able to confiscate those machines.  
19 The bill also has a very stiff penalty, criminal penalty  
20 involved.

21 The first offense is a second degree  
22 misdemeanor. The second offense becomes a third degree  
23 felony. Both carry jail terms of five years for the  
24 misdemeanor and up to ten years for the felony, and they  
25 also include very stiff fines that we don't currently have

1 on the administrative side. Currently, we see fines of  
2 anywhere from \$4 and \$5 hundred for a violation of having  
3 illegal machines.

4 This bill provides for fines of \$5 thousand for  
5 the first offense and up to \$15 thousand for the second  
6 offense and a mandatory suspension of the liquor license.  
7 Now, it's not a full revocation, but it is a suspension,  
8 which we seldom see currently when we bring an  
9 administrative action.

10 REPRESENTATIVE FABRIZIO: Thank you. What  
11 you're saying then, the punishment fits the crime then in  
12 this particular case?

13 MAJOR LUTZ: I do believe that this bill has the  
14 more stiffer penalty we needed.

15 REPRESENTATIVE FABRIZIO: Thank you.

16 CHAIRMAN SANTONI: Colonel, Major, we want to  
17 thank you for your testimony. We appreciate it, not just  
18 today, but in past hearings. I think I can speak for the  
19 General Assembly when I say that your service to our state  
20 is, you know, with the utmost respect and dignity, and I  
21 think you guys do a terrific job.

22 My only comment is I'm sure that you would not  
23 be sitting here supporting House Bill 1317 if it was going  
24 to cause you more grief, if it was going to cause you more  
25 problems and more work. I know we're never going to have

1 enough troopers to do the work that you do for all of us,  
2 so we appreciate that. And with that, I will thank you and  
3 wish you the best. Thank you.

4 We have been joined by another one of my  
5 colleagues. Chairman Ed Staback is here with us.

6 Our next testifiers will be from the  
7 State-Related and Independent Colleges and Universities.  
8 We're going to bring both gentlemen up here and ask that  
9 they testify, of course, separately. We'll start with Mr.  
10 Robert Pangborn, Ph.D., Vice President, Undergraduate  
11 Education from Pennsylvania State University. And Dr. Don  
12 Francis is the President of the Association of Independent  
13 Colleges and Universities.

14 And, Dr. Richard Juneau (ph), Special Assistant  
15 for the President of Penn State, you're more than welcome  
16 to join.

17 Dr. Pangborn, why don't you start?

18 DR. PANGBORN: Thank you very much. Good  
19 morning, Chairman Santoni; and good morning, Chair  
20 Schroder, members of the Gaming Oversight Committee. As  
21 noted, my name is Rob Pangborn. I'm Penn State's Vice  
22 President and Dean for Undergraduate Education and a  
23 professor of engineering.

24 We're here today to discuss a proposed solution  
25 to a troubling problem that has been 30 years in the

1 making; the growing concern that the price of a college  
2 education is exceeding the grasp of many Pennsylvanians.  
3 The Governor has proposed to establish a substantial  
4 scholarship program for students from low and middle-income  
5 families attending state system schools or community  
6 colleges to be funded out of proceeds from legalizing video  
7 poker.

8           I'm not here to discuss how the program is to be  
9 funded, though I urge you to provide for a reliable funding  
10 stream to support this program. I am here, rather, to  
11 discuss a major flaw in the proposal, the exclusion of  
12 students attending state-related institutions such as Penn  
13 State from access to this very much needed financial  
14 support.

15           College affordability is an issue that has been  
16 central to Penn State's mission since its inception. First  
17 established by Acts of Congress and the Pennsylvania  
18 General Assembly in the 1860's at the height of the Civil  
19 War, the founders of the land grant school were given three  
20 objectives: first, to establish a college in which  
21 scientific research and engineering were the backbone of  
22 academic instruction; second, to share that newly created  
23 knowledge with citizens throughout the state; and third, to  
24 make these academic programs accessible to the average  
25 citizen.

1           For nearly 150 years, Penn State has  
2 successfully met and exceeded all three objectives to the  
3 enormous benefit of the Commonwealth. The University, with  
4 over \$715 million in annual research, has become a top-ten  
5 institution in the nation and the largest in Pennsylvania.  
6 Through its 67 extension offices, public TV, outreach and  
7 scores of other vehicles, Penn State delivers cutting-edge  
8 knowledge to nearly all Pennsylvanians.

9           And through its 24 campuses distributed  
10 throughout the state, Pennsylvanians have had, for  
11 generations, acquired an affordable Penn State education,  
12 which is widely acknowledged as one of the nation's finest.  
13 But the state began falling behind on college affordability  
14 in the 1970s. Not too long before then, Penn State was the  
15 Pennsylvania public university.

16           Before the Universities of Pittsburgh and Temple  
17 were converted to public institutions, prior to the  
18 creation of the community colleges and before the teacher  
19 colleges broadened their mission, the Commonwealth had an  
20 established and affordable statewide public education  
21 system through the Pennsylvania State University.

22           Since then, public funding for higher education  
23 has become more and more diffused across the new public  
24 institutions. While not too long ago the state picked up  
25 nearly two-thirds of the cost of a Penn State degree, now

1 it pays just 20 percent. The state share of our total  
2 budget has fallen to only 8.5 percent. Tuition and fees,  
3 once furnishing a third of a Penn State education, now must  
4 account for three-quarters, 72 percent of our general funds  
5 budget.

6           Throughout this period, Penn State has remained  
7 dedicated to its three-part mission of teaching, research  
8 and service. Despite the proliferation of other public and  
9 publicly-supported institutions of higher education, the  
10 fact is is that there is no other university in  
11 Pennsylvania like Penn State. Its research and extension  
12 programs are unmatched.

13           Its Agricultural Sciences programs are  
14 completely integrated with the state's food and forestry  
15 industries. Further, the Colleges of Science, Engineering,  
16 Earth and Mineral Sciences and others are national leaders  
17 in many disciplines critical to the economy of  
18 Pennsylvania.

19           The Governor himself in his budget address,  
20 emphasized how crucial the education of more scientists and  
21 engineers is to economic development in the state. Yet,  
22 later in that same address, the Governor proposed a massive  
23 new investment in higher education that omits support for  
24 the vast majority of the state's future scientists and  
25 engineers studying at its public universities.

1           The Governor has said that our students should  
2 not benefit from this new assistance because Penn State has  
3 not kept its tuition in line with the community colleges  
4 and the state system schools, those state system schools  
5 that receive nearly \$1,470 more per student in state  
6 subsidy than Penn State receives for its students.

7           Furthermore, he fails to mention that during his  
8 administration, appropriations to state-related schools  
9 have remained stagnate, while appropriations to other  
10 institutions and priorities have grown significantly. But  
11 the tuition differential is also influenced by the  
12 educational model and product.

13           The truth is, there is an enormous difference  
14 between the nature of academic programs at Penn State and  
15 those at the state system schools or community colleges,  
16 and there is a cost associated with that difference. Many  
17 highly-technical degrees can only be offered by research  
18 universities where the faculty engage in cutting-edge  
19 research and students have access to state-of-the-art  
20 facilities.

21           In Engineering, for instance, students at our  
22 campuses work under the mentorship of faculty who have  
23 partnered with local industry defining real-world problems  
24 and projects of importance. But one cannot study to become  
25 a nuclear engineer or gain experience in an on-campus

1 reactor in a state system school. In fact, there are no  
2 engineering programs available at those schools.

3 Penn State's Engineering school, on the other  
4 hand, is one of the largest in the nation, enrolling over 8  
5 thousand students in fields such as Acoustics, Aerospace,  
6 Biological, Chemical, Civil, Electrical, industrial,  
7 Mechanical and Nuclear engineering among others. As you  
8 might imagine, the infrastructure needed to deliver these  
9 programs is not inexpensive.

10 When Pennsylvania's farmers are confronted with  
11 a new disease threatening their livestock, their flocks or  
12 their crops, they don't turn to a community college or a  
13 state system school. They turn to Penn State, as they have  
14 for over 150 years. The College of Agricultural Sciences  
15 delivers new knowledge to our largest economic sector, the  
16 food and fiber industry, and educates the next generation  
17 of leaders in that field.

18 These, too, are not inexpensive programs. When  
19 a Penn State scientist, working for over 30 years on this  
20 problem, reassessed the size and value of the natural gas  
21 in the Marcellus Shale play, it created an explosion of  
22 economic activity in Pennsylvania not seen since the  
23 discovery of oil. The graduates of our College of Earth  
24 and Mineral Sciences will address the significant  
25 challenges of energy and environment in the future, but



1 their education and training is not inexpensive.

2           These are but a few of the scores of Penn State  
3 academic programs that are among the best in the world that  
4 require world-class facilities throughout the Penn State  
5 system and are critical to our state's future. And like it  
6 or not, they require more of an investment than programs  
7 needing only classrooms and a library.

8           An unfortunate consequence of the Governor's  
9 tuition assistance proposal is that it has needlessly  
10 pitted institutions of higher education against one  
11 another. It has muddied the water and confused many  
12 students and families. As policymakers, you have a very  
13 difficult task determining the best and most efficient use  
14 of state tax revenues.

15           I am suggesting that limiting the first major  
16 new investment in higher education in decades to students  
17 choosing only majors available at state system schools and  
18 community colleges is bad public policy due to its  
19 inefficient use of the state's resources and its patently  
20 unfair treatment of many Pennsylvanians.

21           Now more than ever, Pennsylvania should be  
22 investing in our future leaders in fields that will help  
23 jump start and maintain a vibrant economy. We need to be  
24 encouraging students to become scientists and engineers  
25 rather than making it disproportionately more difficult for

1 them to do so.

2           What is the message being sent by this proposal  
3 to that talented high school student in your legislative  
4 district who may be from a low income family and who  
5 aspires to be a meteorologist, a food scientist or a  
6 petroleum and natural gas engineer? This program tells  
7 that student that he or she should not hold such lofty  
8 aspirations.

9           So in conclusion, we are not here to urge you to  
10 kill or abandon this proposal, but rather to improve it, to  
11 make it fairer and a better use of state resources by  
12 including students from state-related schools as eligible  
13 recipients of this needed and long overdue state  
14 assistance. Thank you very much.

15           CHAIRMAN SANTONI: Thank you, Dr. Pangborn.

16           Next testifier, Don Francis, Ph.D.

17           Dr. Francis?

18           DR. FRANCIS: Thank you, and good morning,  
19 Mr. Chairman, and members of the House Gaming Oversight  
20 Committee. I want to thank you for giving me the  
21 opportunity to testify on behalf of the 87 private colleges  
22 and universities throughout the Commonwealth. Pennsylvania  
23 is the second largest private college state in the nation.

24           We enroll 41 percent of the students, award 50  
25 percent of the bachelor's degrees and 63 percent of the

1 advanced degrees, and we do this while receiving only 15  
2 percent of the state funds devoted to higher education.  
3 First, I want to applaud Governor Rendell for making higher  
4 education affordability an issue through this Tuition  
5 Relief Act proposal.

6           Everyone supports the Governor's goal of  
7 providing tuition relief for Pennsylvania families.  
8 Affordability is a serious problem, and I know that the  
9 presidents in my sector, and I think in all the sectors,  
10 take that problem very seriously. Just in the private  
11 sector, for instance, 87 percent of our freshmen last year  
12 received financial aid, and we used institutional grants to  
13 comprise 60 percent of the aid that the students received.

14           While our sector's average tuition that year was  
15 \$25,049, the average net cost to students after federal,  
16 state and institutional grants -- not loans, grants -- was  
17 subtracted was \$58 hundred. We recognize that we must keep  
18 tuition affordable or students won't attend our  
19 universities.

20           While I applaud the Governor's goal of  
21 increasing college affordability, the Tuition Relief Act's  
22 proposal to create a new grant program designated only for  
23 students attending community colleges and the state system  
24 universities is bad public policy that is unfair to many  
25 Pennsylvania families, communities and the state taxpayer.

1           I'd like to give you just a few reasons; first,  
2 the current inequities in state support for Pennsylvania's  
3 higher education cost could be made severely worse.  
4 According to the Joint State Government Commission, in  
5 2007-8, students attending a state system university  
6 received an average of \$4,580 in instructional subsidy from  
7 the state taxpayer through the institutional appropriation.

8           If this same student attended a Pennsylvania  
9 private college, she would receive approximately \$3 hundred  
10 in instructional subsidy through the Institutional  
11 Assistance Grant program. If that student happened to be a  
12 PHEAA grant recipient, she would receive a PHEAA grant to  
13 attend both institutions with the grant being about \$760  
14 more to go to the private institution. So there is already  
15 a great incentive for that student, particularly if they're  
16 not a PHEAA grant recipient, to go to the public  
17 institution.

18           And we've lived with that for a long time, but  
19 this proposal would significantly increase that subsidy for  
20 that student to attend only the public institution.  
21 Existing capacity is the second reason. The private  
22 college sector will be wasted while already-full community  
23 colleges and state system universities will be further  
24 overcrowded. By drastically reducing the price only at the  
25 community colleges and state system institutions, the

1 Governor, in his budget address, announced that he expected  
2 to enroll 20 thousand more students in those two sectors  
3 next year.

4           This would make some sense if we needed  
5 additional capacity to serve more students, yet the  
6 Pennsylvania Department of Education predicts that we will  
7 have a declining number of high school graduates for every  
8 year in the next decade, an increasingly declining number  
9 of students. So we're in a state where there is existing  
10 capacity and smaller numbers of students who will be  
11 attending colleges and universities.

12           We don't need to waste that capacity. As a  
13 matter of fact, I'll tell you that I have heard from  
14 financial aid directors who have talked to state system  
15 admissions officers who are now calling students who have  
16 already been admitted to those state system institutions  
17 and telling them that they're going to have to send their  
18 deposits back and that they cannot enroll them because they  
19 are overcrowded.

20           The third reason, this proposal will result in  
21 additional cost to the state taxpayer in both the short and  
22 long term. Community colleges and state system  
23 universities will need to build additional classroom space  
24 and other facilities, and they will need to hire additional  
25 faculty in order to serve these students. State capital

1 funds, operating funds and pension contributions will be  
2 required.

3           It currently costs the state taxpayer \$21,691 to  
4 produce a degree at the state system university. It costs  
5 only \$3,602 to produce a degree at a Pennsylvania private  
6 college. And these numbers do not include capital  
7 expenses. By increasing enrollment in the more expensive  
8 sector to the state taxpayer and decreasing enrollment in  
9 the less expensive sector to the state taxpayer, this  
10 policy will erode the \$450 million in annual savings the  
11 Commonwealth currently receives from the more than 150  
12 thousand Pennsylvanians who attend private colleges and  
13 universities.

14           The fourth reason, by encouraging students to  
15 attend only the public university system, this proposal  
16 will also create economic hardship for many state related  
17 and private institutions in the communities in which they  
18 are located. We've already talked about the declining  
19 numbers of students. We will expect to see declining  
20 enrollments at the private institutions over the next  
21 decade if this proposal goes into effect.

22           That will have an impact on the communities in  
23 which those institutions are currently located. As a  
24 matter of fact, we enroll -- excuse me -- we employ 71  
25 thousand employees in the private college sector. That

1 number will decline if this proposal goes into effect, and  
2 that will have an impact on those communities where those  
3 private institutions currently exist. And the taxpayer  
4 will pick up most of the cost because we'll be shifting the  
5 employment from the private to the public sector.

6           The first reason is using state money to reduce  
7 choice will result in a reduction of academic quality as  
8 well. The competition between private and public  
9 universities makes all of our institutions better. When  
10 public universities and community colleges know that  
11 students have an overwhelming incentive to attend their  
12 institutions, they will be less conscious of quality  
13 because they will have a monopoly in the marketplace.

14           And I want to make it very clear that we are not  
15 opposed to the good work the state system institutions and  
16 community colleges do. They are partners with us. We  
17 share students, and so we are not saying we should not be  
18 supporting those institutions. It's just that this  
19 proposal creates too much of an overwhelming incentive for  
20 students to only attend those institutions.

21           All of the distribution problems with the  
22 Tuition Relief Act can be remedied with one simple  
23 amendment: Use all the new revenue to grow the PHEAA  
24 Student Grant program. If the Administration's revenue  
25 projections are accurate, the Student Grant program would

1 more than double from its current \$407 million amount.  
2 This would mean much larger grants for low- and  
3 moderate-income students, and it should allow many more  
4 middle income families to obtain PHEAA grants.

5           Increasing the PHEAA Grant program would reduce  
6 the current inequities in state funding support to  
7 students, distribute students to all sectors and use all of  
8 our current educational capacity, reduce cost to the state  
9 taxpayer and enhance competition and thereby quality in  
10 both public and private colleges and universities.

11           Pennsylvania's Student Grant program is one of  
12 the best in the nation. It is entirely need-based, and it  
13 provides access and choice to the vast array of public and  
14 private colleges and universities throughout Pennsylvania.  
15 Sending an infusion of additional dollars to this program  
16 would use a tuition relief program that is equitable,  
17 proven and effective.

18           Finally, I want to comment upon a few of the  
19 arguments Rendell Administration officials have been using  
20 to advocate their position because I think it's important  
21 that we get a few facts. There are -- unfortunately this  
22 is an emotional issue. There's a lot of anecdotes.  
23 There's a lot of folks that feel strongly about it that we  
24 need to get some facts out there.

25           The first argument is Pennsylvania's the sixth



1 most expensive state for higher education tuition. This  
2 may be true, but it ignores the amount of both state and  
3 institutional need-based aid delivered in the Commonwealth  
4 to make college affordable. In fact, just this February,  
5 Tom Mortenson's Postsecondary Education Opportunity  
6 released a report.

7           That report came out and he ranked all the  
8 states according to their service of low-income students  
9 that go on to college in their states, and Pennsylvania was  
10 number 1 in the nation. So if we're so expensive, how is  
11 it that we are number 1 in the nation for serving  
12 low-income students? Number two, student loan debt is too  
13 high. Newspaper writers usually report on the small  
14 percentage of students who assume too much undergraduate  
15 debt, and they do exist.

16           National data suggests that there is a group of  
17 students -- it's less than 10 percent -- who will take on  
18 \$40 thousand or more in undergraduate debt, and we need to  
19 do something to make sure that doesn't happen. That is a  
20 problem. However, the latest data available shows that  
21 Pennsylvania's private college graduates who have debt owe  
22 \$23,846, and the state system graduates owe \$19,589.

23           Now, we need to monitor this debt carefully and  
24 make sure that students don't come out with more debt. But  
25 I would argue this is about the price of a new sedan, and

1 these students won't hesitate to buy a new sedan. They'll  
2 have to. But they are going to earn at least a million  
3 dollars more over a lifetime than if they had not earned  
4 that college degree, and I think that amount of loan debt  
5 is well worth it. That's an investment well worth the  
6 earnings that you're going to get.

7           The third argument is the high cost of college  
8 is keeping students from attending. The Rendell  
9 Administration commissioned a report on college access in  
10 2006 entitled a Rising Tide, which carefully documented  
11 that less than 8 percent of young adults in Pennsylvania  
12 indicated that cost was a factor preventing them from  
13 attending a postsecondary institution.

14           These students largely either living in rural  
15 areas or urban minority students, they do need attention,  
16 but they need targeted attention, not this large-scale plan  
17 that's being proposed. We need to use -- we need to let  
18 families know that college is affordable. However, the  
19 state could advertise the benefits currently provided for  
20 low and moderate-income students through the combination of  
21 Pell Grants and PHEAA Student Grants for much less than the  
22 cost of this proposal.

23           We need to help middle-class families making up  
24 to 1 hundred thousand. Again, I agree. I even think we  
25 should try to help some families making more than 1 hundred

1 thousand with paying for college, and I think grants should  
2 be made available to them. And I believe that using this  
3 revenue through the PHEAA Grant program would more  
4 effectively accomplish that goal. And six, we are  
5 targeting only the community colleges and state  
6 universities with this aid because we can control their  
7 costs.

8           There is nothing to stop private colleges from  
9 raising their tuition to capture more grant aid if we give  
10 additional dollars to the PHEAA Student Grants. While it  
11 is true that the Governor has more control over the state  
12 system universities, it is not true that private colleges  
13 can raise their tuition to capture more PHEAA Grant aid.

14           The PHEAA formula has a cap on the total cost of  
15 education recognized. That cap this year is \$27 thousand,  
16 which is less than almost all of the total cost at all the  
17 private colleges. So in other words, a private college  
18 could raise their tuition as much as they wanted to.

19           It will not give them another dollar from the  
20 formula because the formula caps the costs recognize. So  
21 thank you for giving me this opportunity to share my  
22 concerns about this legislative proposal and my  
23 recommendation for an amendment, and I'd be happy to take  
24 any questions.

25           CHAIRMAN SANTONI: Thank you, gentlemen, for

1 your testimony.

2 First questions come from Chairman Schroder.

3 REPRESENTATIVE SCHRODER: Thank you,  
4 Mr. Chairman.

5 Thank you for your testimony.

6 Mr. Francis, I want to thank you, I think, for  
7 bringing some clarity into this issue of student debt.  
8 We've heard a lot of rhetoric and sometimes heated rhetoric  
9 to the point where there are those who, I think, would have  
10 us believe or want students to believe that there's a sense  
11 of entitlement to, you know, a quote/unquote debt-free  
12 education.

13 In an ideal world, there might be, but I've  
14 always seen programs like PHEAA, whether it's grants or  
15 student loans, as offering an opportunity, not a guarantee,  
16 but an opportunity through borrowing to make that  
17 investment in one's self as you so happily described. And  
18 while I certainly support the concept of providing  
19 additional aid to students, we all know that college costs  
20 are going up, and we know the difficulty that families are  
21 having in the economy at this moment.

22 But I think this issue of student debt has been,  
23 in essence, blown out of proportion. I think it's been  
24 used for purposes beyond the reality of the situation. And  
25 as I've said before, when I took out a lot of debt with

1 myself to go to undergraduate and postgraduate school, I  
2 viewed it as an investment of myself. I didn't sit around  
3 being resentful afterwards that I had this debt. I  
4 considered myself damn lucky to have that debt to tell you  
5 the truth.

6           And unfortunately, I think there is this  
7 expectation being voiced to all our young people that  
8 somehow that's bad, that somehow making an investment in  
9 yourself is something awful that the government is forcing  
10 you to do. With that said, the testimony from Dr. Pangborn  
11 with regards to funding for Penn State, your messages don't  
12 exclude Penn State students or private students from the  
13 benefits of this program should it go through is what I'm  
14 hearing.

15           And I certainly agree conceptually and  
16 philosophically with that as I've stated before. I think  
17 part of the problem with the way this part of the bill is  
18 set up is we are, in essence, saying to students, at least  
19 some students, sorry, you chose the wrong school;  
20 therefore, you do not qualify for this assistance.

21           However, I have to ask, if Penn State has seen a  
22 decline in the percentage, at least in the percentage of  
23 state revenue as per your expenditures and it's been during  
24 the course of this Administration, or however many  
25 administrations, you know, sort of a level funding

1 approach, I think is the way you described it, aren't we,  
2 in essence, just taking them from one pocket and putting it  
3 in another, taking away from direct money to the schools,  
4 putting it over here in the students' pocket? And what are  
5 we really accomplishing then on the affordability equation?

6 I see this just sort of right now as a bit of a  
7 shell game, you know, instead of putting the money over  
8 here, we're going to put it over here. We're going to end  
9 up really at probably the status quo and perhaps not doing  
10 a whole lot to affect the affordability of the education.

11 DR. PANGBORN: Well, I think, of course, we'd  
12 like to see our appropriation go up. I think that's a  
13 given. By putting money in the students' pockets, of  
14 course, you control which pocket it goes into. Hopefully  
15 this would be structured in a way addressing the needs of  
16 the students who have the most financial need, who come  
17 from those families where we could maybe provide that  
18 assistance.

19 We have about 31 thousand students at Penn State  
20 who would meet the criteria that the Governor has proposed  
21 for this program, being from families of incomes of 1  
22 hundred thousand or below, and that represents about 55  
23 percent of our Pennsylvania resident enrollment at Penn  
24 State, so it is a significant number.

25 I think, as Dr. Francis mentioned, we in

1 Pennsylvania do have many students from the lower-income  
2 bracket, and we need to help those students. So certainly,  
3 we'd like to see the money in a larger appropriation, but  
4 we would also like to be able to help those students who  
5 need to be able to afford our education.

6 DR. FRANCIS: Mr. Chairman, I think one point to  
7 add there is that under this proposal, it would not  
8 increase the amount of revenue that Penn State receives.  
9 What it would do is reduce the cost for those students who  
10 would meet the eligibility criteria, so that Penn State's  
11 total and funding for its operations would not increase; it  
12 would just reduce the cost to the students.

13 REPRESENTATIVE SCHRODER: Thank you. I  
14 understand that.

15 Okay. Thank you, Mr. Chairman.

16 Thank you all for your testimony.

17 CHAIRMAN SANTONI: Representative Wansacz.

18 REPRESENTATIVE WANSACZ: Thank you, Chairman  
19 Santoni.

20 I will not proceed to go on for 10 or 15  
21 minutes, just directly get to the point. I agree with many  
22 things that both of you have testified. I believe it  
23 should be up to the student to pick what college they do  
24 want to go to and let them look at the price of education  
25 at all these schools and determine what is best for them.

1           With that being said then, a couple ideas that I  
2 would have, and I appreciate your -- I believe actually, in  
3 my three meetings, you came to the table with an idea as  
4 far as an amendment, so I do appreciate that.

5           Would you support then -- I know Representative  
6 (inaudible) and a couple others and myself have been  
7 working on trying to do a Reach scholarship. Would you  
8 support having a student has some skin in the game as far  
9 as a GPA to receive this grant once they're in school?

10           DR. FRANCIS: I can't speak for my Board of  
11 Directors, so I can't just say today that we would support  
12 that. We do believe that students should have some skin in  
13 the game. We do believe that students should make some  
14 contribution. And the Governor, to his credit, even said  
15 that, that a thousand dollars should be --

16           REPRESENTATIVE WANSACZ: Well, I'm not  
17 talking -- I'm talking for them in terms of --

18           DR. FRANCIS: You mean in terms of the academic?

19           REPRESENTATIVE WANSACZ: Yes.

20           DR. FRANCIS: We have -- in the past, one of the  
21 problems with those kinds of scholarship -- there's two  
22 things that concern our Board of Directors; one is that you  
23 do, you worry about inflation in the high schools in  
24 particular and also at the colleges when you have a GPA  
25 requirement. There tends to be faculty members who don't



1 want students to lose scholarships, so that is a little bit  
2 of a concern.

3           It might even result in some students choosing  
4 majors that are easier. Science Technology majors, math  
5 majors can be daunting for students who need the financial  
6 support and are worried about keeping their GPA.

7           So we do have a concern about that, and we also  
8 know that there's a direct correlation between income  
9 levels and SAT scores and high achievers, which then means  
10 that some of the people you're most wanting to make sure  
11 get this opportunity to go on to college might be left out.  
12 So those are the two concerns, but we don't have an  
13 official position.

14           REPRESENTATIVE WANSACZ: Thank you on that. And  
15 then my other concern then would be, if we vote and say  
16 it's up to the student to choose a school, would you then  
17 be back in favor of changing the PHEAA formula that says to  
18 a student, whether you make \$40 thousand, your family does,  
19 and you want to choose to go to a state school or do you  
20 want to choose -- and you get the same grant amount because  
21 it's the same income, or do you want to choose to get more  
22 grant money and go to a private university such as  
23 University of Scranton or Penn State?

24           To me, that goes against the point that you're  
25 arguing. If you're saying it's up to the student, then

1 their parents' income hasn't changed; leave it up to the  
2 student to choose to go to the IUPs or the state schools  
3 instead of getting the same amount of funding no matter  
4 what college they choose. Would you support something like  
5 that?

6 DR. FRANCIS: Are you saying that you would put  
7 all the dollars into the PHEAA Grant program and --

8 REPRESENTATIVE WANSACZ: No. What I'm saying,  
9 currently right now with the PHEAA funding, as you know, a  
10 student with the same income will get more money because  
11 it's based off of the cost of tuition of the school. So if  
12 a student decides to go to IUP, they're going to get less  
13 money.

14 If a student decides to go to the University of  
15 Scranton, they're going to get more money. Would you  
16 support rolling that back down to leave the choice to the  
17 student with the same dollar amount because their income  
18 hasn't changed to choose which school they want to go to?

19 DR. FRANCIS: Well, because there's already a  
20 much larger -- keep in mind that 80 percent of the state  
21 dollars are devoted to institutions, so there's already a  
22 much larger subsidy going to IUP's student than there is to  
23 the University of Scranton student. So most of that  
24 subsidy's already being delivered through the institutions.  
25 The PHEAA Grant is a small piece of that. It's 18 to 20

1 percent of that.

2           The reason that formula recognizes the  
3 difference right now is that the student is going to need  
4 additional dollars in order to attend the institution that  
5 doesn't receive the state support, and that's why that's in  
6 there now. I would say that it's very small. It's about  
7 an \$8 hundred difference in the size of the grant, whereas  
8 the institutional support is about \$45 hundred.

9           REPRESENTATIVE WANSACZ: I understand that,  
10 but it should be up, I think it should be up to a student  
11 to choose what school they want to go to. My income hasn't  
12 changed, whether I want to be smart and go to a state  
13 school or I want to go to Penn State to get a fantastic  
14 engineering program, leave it up to the student.

15           And I think that's what you're arguing with trying to  
16 get into this Tuition Relief Act. My other concern that I  
17 would like to try to do here in this bill, and either one  
18 of you can answer it here, is I would like to see the  
19 income raised and I would like to see privates and the  
20 state relateds included in this bill.

21           Would you guys be willing to agree to a  
22 provision we put in there that as long as you do not raise  
23 your college tuition rates above the same percentage that  
24 the State System of Higher Education knows that your  
25 students would qualify?

1 DR. PANGBORN: Let me respond to that first.  
2 Getting back to your issue of choice, students' choices are  
3 limited if they cannot come to Penn State and pay for the  
4 cost of that institution which has programs which are a  
5 higher cost.

6 I think that's the point I was making, that when  
7 you're dealing with the degrees in engineering and the  
8 sciences, there's a higher cost for delivering those  
9 programs; and by limiting the amount of aid that's been  
10 written to that institution, you're, in effect, preventing  
11 them from attending those schools.

12 So I -- as far as the tuition goes, our tuition  
13 is very in line with the cost of our programs; so whatever  
14 aid students can bring to that equation, then it will make  
15 the economic feasibility of attending that institution.

16 DR. FRANCIS: I would say to your question about  
17 the cost, I certainly can't speak -- there's 87 private  
18 institutions. They're independent, and so I cannot speak  
19 for all of them. I would say this: You have to keep in  
20 mind, when you talk about keeping the tuition within the  
21 same increases of the state system, the state system is  
22 receiving half a billion dollars from the state to help  
23 keep their tuition increases much slower.

24 It's a different ball game when you're talking  
25 about an institution that doesn't receive those kinds of

1 funds to try to pay for the education and not increase  
2 their costs. And the other thing that I would say about  
3 that is that institutional aid is a very big part of how we  
4 make our colleges affordable to families from all income  
5 levels, and so the tuition is effected by institutional aid  
6 budget as well. So we have to keep that in mind. And the  
7 price, as I showed in the testimony, the price that the  
8 average student is paying is much less than the tuition  
9 sticker price.

10 REPRESENTATIVE WANSACZ: What I can say is I am  
11 going to respectfully disagree with you. The reason why  
12 we're here is because college has become unaffordable. You  
13 guys are not keeping college affordable. Just looking at  
14 it with having a young daughter looking at our Pennsylvania  
15 529, can you tell me what is the cost of education going to  
16 be at the current rate of inflation at Penn State  
17 University in 18 years if it keeps it up?

18 It's on the 529 website. It's about \$63  
19 thousand a year. How are we going to afford that? And I  
20 know what people, what you're saying about income now, but  
21 what you're also seeing and you're not taking into account  
22 the families that are supporting their children and  
23 refinancing their mortgages or doing something else to help  
24 make them affordable.

25 That's what the statistics don't point out in

1 your numbers. So what I'm saying here is we need to do  
2 something, and we also need to keep college under control  
3 with the costs. So I would have no problem with bringing  
4 you in because I think it is, I think it's important to  
5 have the state relateds and the privates, but I also think  
6 you need to just kind of come into the same guidelines that  
7 we would have to provide and give our students that choice  
8 whether they want to attend Penn State or attend the  
9 University of Scranton or an IUP. So thank you, gentlemen.

10 DR. JUNEAU: Representative, I just want to say  
11 that (inaudible) obviously and state appropriation go  
12 together almost in an inverse relationship. Along that  
13 same period of time, the appropriation increased, and the  
14 state system of higher education by a percentage has been  
15 much greater than it has at Penn State over that period of  
16 time, so our appropriation increased.

17 If your cost runs high, you're sort of in a box  
18 because you can only go so high with tuition, but then your  
19 costs are -- just for example, in operating our program, we  
20 have this nuclear engineering program. We have a nuclear  
21 research reactor on campus, one of the few universities in  
22 the nation that has it. We have the largest nuclear  
23 engineering education program in the nation.

24 I think the vice president can talk to that  
25 point. But just imagine, after 911 even, the insurance

1 costs in running a program like that and keeping those  
2 facilities available, things like that, these costs that we  
3 can't control; and yet, you have very flat state  
4 appropriations over that same period of time, so it really  
5 puts us in a box. So, yes, we do have high tuitions, but  
6 we're also in sort of a cause-and-effect as well.

7 REPRESENTATIVE WANSACZ: And so does the private  
8 industry. They're feeling the same type of burdens going  
9 up, but also at the same time trying to keep the costs  
10 under control to stay in the business. So I would just ask  
11 you guys to really look at ways that you can control the  
12 rising costs because if it continues, college is on the  
13 brink of being unaffordable now, and I really believe in so  
14 many years down the road, you're going to be facing this  
15 problem.

16 DR. JUNEAU: I appreciate your concern. We  
17 share that concern. As an example, President Spanier, as a  
18 response to the economic condition back in the fall,  
19 somewhere around September I believe it was, instituted a  
20 salary freeze for all Penn State employees that he had  
21 control over. That was all, every administrator including  
22 himself, every staff member, every faculty member.

23 There was a small bargaining unit obviously that  
24 had a contract that went into effect. So there is a clear  
25 recognition, especially in these particular times. And by

1 doing that, by virtue of doing that, he was able to balance  
2 the budget this year recognizing the severe restraints and  
3 recisions that we face.

4 REPRESENTATIVE WANSACZ: Thank you.

5 CHAIRMAN SANTONI: Representative Barbin.

6 REPRESENTATIVE BARBIN: Thank you, Chairman.

7 And, gentlemen, thank you for your testimony  
8 today. I've been at the other public hearings, and I have  
9 received additional information today that will be helpful.  
10 I intend then to add amendments to this bill on some of the  
11 topics that you discussed today.

12 But one thing that I believe that's been missing  
13 from the testimony today though is the fact that we really  
14 are in a recession, that we had written a \$5 hundred  
15 million check to cover unemployment compensation benefits,  
16 that there are really people out there who have families  
17 that make \$21 thousand to \$30 thousand that won't be  
18 sending their children to school next year.

19 And if there is a recession -- and I understand  
20 that you want everybody to be included in the allocation of  
21 money, but if we're trying to lower the cost to the state  
22 of what happens to this graduating high school class that  
23 can no longer attend college because their parents can't  
24 sign a loan to get them to college, doesn't it make sense,  
25 at least in the short term, maybe for the first two years



1 that this program would be in place, to have that money go  
2 to make sure that we keep a stable population going into  
3 college?

4           Your testimony is we're going to see the  
5 downturn of students in college, and we have prior  
6 testimony at a prior hearing that said we want to have what  
7 Europe has, 67 or 70 percent of our kids in college. Now,  
8 if we know that kids can't get summer jobs, they can't get  
9 jobs coming out of college and there's a whole new group of  
10 people trying to get into college and we don't get them in  
11 to a community college, haven't we failed, not only in the  
12 education portion of it, haven't we also failed in cutting  
13 down our expense portion?

14           Because we're going to have to pay more Medicaid  
15 healthcare benefits because they're not going to be  
16 covered. We're going to have to pay more unemployment  
17 benefits because they'll get a job and they'll get fired  
18 because that's what's happening in the real world.

19           Doesn't it make more sense to say, okay, we  
20 understand it's a recession; we've got to keep the lowest  
21 income children in school in the first two years, move some  
22 of this money into a fund, kind of like the State Volunteer  
23 Fire Fund and the Casino Act, that would be provided for  
24 additional PHEAA Grants, make it across-the-board equal; so  
25 that as long as you're going to a school that's accredited

1 in Pennsylvania, we're going to give you some portion from  
2 this additional fund?

3 I just can't -- I'm sitting here listening to  
4 this and thinking, yes, it'd be great to give Pitt a lot of  
5 money, give Penn State a lot of money and all the private  
6 colleges a lot of money; but if you don't have a lot of  
7 money and you want to keep it in a school, don't you have  
8 to give it to the place that has the lowest debt and the  
9 lowest cost to attend?

10 And would you be, I guess my question is, would  
11 you be amenable to taking out a portion of this hundred  
12 million dollars and putting it into a fund that was  
13 available to all of our universities and maybe up to 125  
14 thousand as opposed to the hundred thousand dollar limit we  
15 have now?

16 DR. FRANCIS: Well, I think I'm following your  
17 support for broadening it to all the institutions, and,  
18 yes, we would definitely be in favor of --

19 REPRESENTATIVE BARBIN: You've done a good job  
20 of holding down your costs. I am in favor of that. The  
21 question is, how do you make sure that these kids that are  
22 at the point where they're not going to school actually get  
23 to go? They're not going to Penn State. They're not going  
24 to Pitt.

25 DR. FRANCIS: Let me speak to that. We speak

1 for a number of the private colleges and universities. I  
2 know that just like Penn State had a freeze on their  
3 salaries, most of our institutions this year are freezing  
4 salaries. I have some institutions that are cutting their  
5 faculty salaries, and they're doing it in order to put more  
6 dollars into financial aid at the institutions to allow  
7 those students whose dad lost a job to still return or to  
8 come to that institution.

9           So we are making our own sacrifices in order to  
10 make that happen, and we really welcome the state support  
11 in helping to put that institutionally, or putting that aid  
12 package together.

13           REPRESENTATIVE BARBIN: But we've got 10 percent  
14 unemployment, and in Johnstown, people have an average  
15 salary of \$21 thousand to \$25 thousand a year. They can't  
16 tell their child, we can spend \$4 thousand. They can't do  
17 it. They can only spend a thousand dollars. Maybe they  
18 can spend \$15 hundred. Doesn't it make sense for the money  
19 to go to those people first, at least until the fund builds  
20 up some money that would make it available to other people?

21           DR. FRANCIS: And I think the PHEAA Grant  
22 program would focus on those folks first.

23           CHAIRMAN SANTONI: Representative Clymer.

24           REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

25           And welcome, Dr. Pangborn and Dr. Francis. It's

1 good to see you again. I'm just going to have one  
2 statement to move things forward here. But Dr. Pangborn,  
3 in your testimony, you said that, what is the message -- on  
4 page 5 -- what is the message being sent by this proposal  
5 to that talented high school student in your legislative  
6 district who may be from a low income family and wishes to  
7 aspire to a degree of professionalism.

8 Well, let's look at some of the things that I  
9 would say to this young man or woman, and let me begin by  
10 saying, first of all, where is this \$1.1 billion coming  
11 from that Governor Rendell wants? That's the amount of  
12 dollars that he's projecting from the video poker machines.

13 I've said before in the past, I'll say it again,  
14 that to get this money, you would have to gamble, and video  
15 poker machines are the crack/cocaine of gambling, one of  
16 the worst addictions that we can put out for our citizens;  
17 and who is going to be gambling, who are the people? Well,  
18 many, not all, but many are going to be the poor, the less  
19 educated, the disadvantaged in our society.

20 So is this how we want to have funding for  
21 higher education, from regressive taxation, from people  
22 that certainly can't afford to gamble, but they're out  
23 there? And it's more than just their income. It's money  
24 for the mortgage, for food, for the theater and other  
25 things. And that, to me, is not a good example of how we

1 should be funding this higher education. And secondly, as  
2 someone had mentioned, we're in this sliding economy.

3           We know that. So the last thing we want to do  
4 is take away money from people who still can't afford to  
5 gamble, and that's what they're going to be doing because  
6 they're going to see these video poker machines advertised  
7 in their neighborhood taverns and bars and the excitement  
8 of going in there and waste away their money.

9           So this is not a good idea from my perspective.  
10 So I would tell that student, look, if you agree that this  
11 is the way that you want this money to come in through the  
12 Governor's plan, do you think this is fine that you could  
13 accept this money that is coming in that's going to create  
14 a lot of problem gamblers, many more addictive gamblers?

15           It's going to increase our welfare program; it's  
16 going to cause people to become unemployed; it's going to  
17 create dysfunctional families. Do you think this is the  
18 way the state should go? Well, then let me know, and I'll  
19 certainly consider your recommendation. So that is my  
20 problem with this whole issue that we're looking at today.

21           Thank you, Mr. Chairman.

22           CHAIRMAN SANTONI: Representative Sainato.

23           REPRESENTATIVE SAINATO: Thank you, Mr.

24 Chairman.

25           Thank you, Dr. Pangborn and Dr. Francis. This

1 is the fourth hearing we've had on gaming, and you have put  
2 a new perspective into the mix. I think many of us up here  
3 have set out goals to making college affordable. The  
4 question is how do we get there and how do we allocate the  
5 dollars that are going to generate.

6           And, you know, the question is how many of  
7 those dollars are going to be generated, and a lot of that  
8 depends on how this bill is written as well because if it's  
9 not done properly, you're not going to generate the dollars  
10 that we're talking about. And it's funny. It reminds me  
11 of the Gaming Bill.

12           You know, everyone was cutting up the pie before  
13 one slot machine ever started to generate the dollars, and  
14 we've been fortunate from that standpoint. But, you know,  
15 I've tried to listen to your perspective. And we were back  
16 in Greensburg two weeks ago with the Department of  
17 Education, and I have a concern. You know, we say we want  
18 to make college affordable and it should cost a thousand  
19 dollars.

20           I frankly think that's too low. I mean, I  
21 didn't pay a thousand dollars 28 years ago. Why should a  
22 college cost a thousand dollars today? And, you know, with  
23 what you're saying -- and I think we should expand it as  
24 well so it includes privates, state universities, but there  
25 is a limited pool of money that we can deal with here. And

1 what is reasonable debt? I mean, that is the question.

2 I mean, I don't think people should be saddled  
3 with hundreds of thousands of dollars for a barber's  
4 degree. I mean, you need to work in the summertime like I  
5 did when I went to college. I took out student loans. I  
6 worked in the summer. I mean, college wasn't the cost that  
7 it is today, but also the wages weren't at that point. And  
8 I had some debt when I got out, paid it off in five years.

9 I'm saying, I don't see a big problem with that,  
10 and I think we need to expand the program to get them as  
11 far as we can go to include as many people as we can. Your  
12 concept, Dr. Francis, about the PHEAA program, I think it's  
13 something that needs to be thrown out there because that  
14 would affect students. What is the income limit on that  
15 right now? Do you know that?

16 DR. FRANCIS: I -- you'd have to talk to the  
17 PHEAA folks to get precise numbers, but I believe that a  
18 family, if they have multiple children in  
19 college -- because that's a formula that's part of their  
20 decision making -- if you have multiple children in  
21 college, you might be up to about \$1 hundred thousand  
22 currently.

23 REPRESENTATIVE SAINATO: I mean, when you look  
24 at numbers, I mean, we're supposed to be helping the  
25 middle-income people as well here. And I take to what

1 Chairman Clymer just said as well. We don't agree on many  
2 of the gaming issues, but I respect Chairman Clymer. He's  
3 always been very straightforward when he makes his points.  
4 You know, you look at these dollars, and there's going to  
5 be institutions of higher education that are opposed to  
6 accepting gaming dollars.

7           You're going to have families that don't want to  
8 fund their education through gaming dollars. There has to  
9 be a way out there for them not to accept this money. I've  
10 used that analogy with the property tax cuts that we use  
11 for the gaming fund, that, please, if you're opposed  
12 morally to the revenue, then you should not accept it. I  
13 mean, I think that is the -- I mean, the same thing should  
14 be afforded students who actually are opposed under moral  
15 grounds not to accept it.

16           We should never force people to take something  
17 they don't want. So, I mean, when we look at this -- and  
18 this is a work in progress. I commend Chairman Santoni for  
19 these hearings because this has really been -- you know,  
20 this is not a cut-and-dry issue, you know. It's like  
21 anything else, when you get into the details is when you  
22 have the problem.

23           If you say, hey, let's make college education  
24 more affordable, you're going to have a huge number of  
25 people saying that's wonderful; let's do it. Then you get



1 into the details, what you're saying, this one's left out,  
2 that family's left out. There's a problem with the system.  
3 So I think, you know, if this, when, if this proposal would  
4 come up, there would be a lot of amendments. I think you  
5 need to make your case today as many of the stakeholders  
6 have made.

7                   We're here to listen, and because this -- and  
8 this is an important issue. I know it's a priority for  
9 Governor Rendell. It's a priority for members of the  
10 Legislature, and I think no matter what side of the aisle  
11 you're on, everybody wants to have reasonable affordable  
12 college education, and we want to give people that  
13 opportunity.

14                   And in closing, we have to also keep in mind,  
15 not everyone can go to college or needs to go to a college  
16 such as yours. And we've had this with our workforce  
17 development. There are many opportunities out there, the  
18 trades, the building trades and places like that where they  
19 need skilled students that maybe don't fit into the college  
20 mold, but there has to be those education venues out there  
21 that need help to get these high school students into these  
22 roles because there are shortages in many parts of our  
23 country.

24                   And I think sometimes we always put this focus  
25 on, hey, we want 70 percent of our students to go to

1 college, and really I don't think that's a reasonable  
2 number because we need people to be out there who have  
3 those other skills that maybe just don't fit into the  
4 college mold. I guess I'm more expressing my views, and  
5 you can comment on that. But I do thank both of you, and  
6 like I said, your views are considered.

7 DR. PANGBORN: If I may respond just briefly, I  
8 want to emphasize that when we look at the unmet need of a  
9 student in terms of their student aid profile, what we're  
10 talking about is the unmet need after subtracting out  
11 grants and loans that are afforded through the federal  
12 guaranteed student loans.

13 So there is an expectation that the families  
14 will get in order to make that education possible. We're  
15 still looking for the lowest income families, and the  
16 current Penn State tuition for in-state students is roughly  
17 a \$5 to \$6 thousand shortfall; in other words, the unmet  
18 need after the grants that are available, federal and state  
19 grants are deducted as well as the expected loans.

20 So the only way that unmet need can be met is  
21 through further aid or if you're the family taking out  
22 additional private loans. That's the unmet need that we  
23 really need to address for students. As the income levels  
24 for the families increases, then the grants begin to cut  
25 out and the expectations for family contributions, the

1 expected family contribution increases. So the closer you  
2 get to \$1 hundred thousand, for instance, the more the  
3 family is expected to pay.

4           We're still calculating that unmet need by  
5 looking at how much the family is going to be contributing,  
6 what available grants and scholarships the student's  
7 receiving and then looking at the residual for that  
8 student. So our intent here is really to address the needs  
9 of those low-income students who have significant financial  
10 need which will eventually have them attending the  
11 university of their choice.

12           REPRESENTATIVE SAINATO: Thank you, Mr.  
13 Chairman.

14           Thank you because I understand what you're  
15 saying. And I think when you get into \$4 or \$5 thousand, I  
16 think that's more of a reasonable amount. I just, when you  
17 talk about a thousand dollars, it just, it's not a whole  
18 lot of money, and then you have those students who maybe  
19 don't qualify for all that spending \$20 thousand.

20           Thank you, Mr. Chairman.

21           CHAIRMAN SANTONI: You're welcome. Just  
22 quickly, we've been joined by two other members of the  
23 Committee, Representatives Swanger and Brennan have joined  
24 us. Next questioner is Representative Pashinski.

25           REPRESENTATIVE PASHINSKI: Thank you very much,

1 Mr. Chairman.

2 Thank you all for your great testimony. I'm  
3 going to approach this a little differently. You indicated  
4 that your costs are increasing. Could you identify what  
5 your most prominent cost drivers are?

6 DR. PANGBORN: Well, I think there are a number  
7 of those. Certainly, healthcare costs have increased  
8 dramatically in recent years; utilities, the cost of  
9 utilities is increasing; contributions to the state system  
10 are increasing. Rich may be able to add to that, but there  
11 certainly are some inherent costs that we don't control and  
12 that are pushing our overall costs up fairly significantly.

13 DR. JUNEAU: I think the other point of that is  
14 healthcare costs are increasing in every sector, but we're  
15 so labor intensive. The average manufacturing firm might  
16 have a 25 percent impact when something like that goes up,  
17 and their overall costs for higher education is closer to  
18 70 percent in terms of the impact because they're so labor  
19 intensive.

20 So any benefit like healthcare, when that goes  
21 up by double digit, that has a huge impact much more than  
22 it would if it were in a regular business because of the  
23 labor intensity of higher education. And then the other  
24 thing, we have a very expensive library of resources, the  
25 journals and the things that involve technology. Those

1 increases and the cost of inflation, that puts a lot of  
2 pressure, especially if you have highly technical programs  
3 and trying to keep up with those resources.

4 DR. FRANCIS: Ours is much the same. I would  
5 just add technology being another significant cost for many  
6 of our schools.

7 REPRESENTATIVE PASHINSKI: Okay. I have two  
8 great institutions in my district, Wilkes University and  
9 Kings College, and besides being a great academic  
10 institution, quite frankly, they contribute greatly to the  
11 economic structure of Wilkes-Barre. And so I'm of the  
12 opinion that I'd like to see a broad-based ability for all  
13 students to be able to acquire this most needed dollars.

14 What cost cutting measures -- and I heard one of  
15 you mention before that you went into a salary freeze.  
16 What other things have you done to try to deal with this  
17 extraordinary downturn?

18 DR. PANGBORN: I can speak mainly from the  
19 academic side. We've taken great gains to make sure that  
20 we're as efficient as possible in our instruction.  
21 Underenrolled sections are eliminated. The students are  
22 moved to sections involving larger classes and, therefore,  
23 greater efficiencies. Rich mentioned the cost of library  
24 resources and journals.

25 We've battled against that by increasing our

1 digital resources and going into collaboration with our  
2 peer institutions and the Big Ten, for instance, and  
3 sharing those kinds of resources. We're very vigilant in  
4 looking at all of our programs and making sure that those  
5 programs which are no longer meeting students' interests or  
6 the needs of the current industry and economy are phased  
7 out in preference for degree programs which are more  
8 valuable for students.

9           So there's a whole variety of ways certainly on  
10 the academic side where we're looking at ways to keep that  
11 instructional cost down, which is, of course, the largest  
12 cost that we have in academics.

13           REPRESENTATIVE PASHINSKI: And I commend you for  
14 that. Do you have any actual numbers or percentages on how  
15 you've lowered your costs?

16           DR. PANGBORN: I don't have them here, but  
17 there's certainly data available on the dollar cost savings  
18 from many of those measures.

19           REPRESENTATIVE PASHINSKI: Okay. But I think  
20 you're going to agree that you're going to reach a point  
21 where you can't cut any more and you're going to be faced  
22 with finding your dollars in the sense of raising your  
23 tuition. That's the only other place, endowment funds or  
24 whatever. Let me just ask you this question: Have you  
25 tried to engage in any renegotiation of your healthcare

1 contracts or your utility contracts?

2 DR. JUNEAU: Well, one thing with the utility  
3 contracts under the guise of no good deed goes unpunished,  
4 I guess a couple years ago, Penn State paid off its  
5 stranded cost under the utility bill, and because of that  
6 technicality, we came out from under the rate caps two  
7 years early.

8 So our utility increase for University Park  
9 Campus alone is \$9 million above last year's utility rates.  
10 So for the next two years, we're being hit with an  
11 additional \$9 million cost on our utility, for our  
12 electricity rates, I should specify. So I think that's  
13 been one area.

14 In terms on renegotiation, you may be able to  
15 comment better than I can on that. I know that we've  
16 changed healthcare carriers, and I think that was part of  
17 it.

18 REPRESENTATIVE PASHINSKI: I'm going to ask you  
19 a question. I wonder if you will join with me in asking  
20 for a voluntary temporary moratorium by all utilities with  
21 respect to their rate increases. I'm smiling, but I'm 100  
22 percent serious. That's what I just testified in front of  
23 the PUC. The point that I'm making is that if the other  
24 drivers, cost drivers continue to increase, we're going to  
25 be faced with this shortfall from now, and we're all

1 basically in this huge economic hole.

2           And this may seem a bit out of the box, but,  
3 again, the utilities are well positioned in the black, have  
4 been in the black and will continue to be in the black.  
5 And until we can recover slightly from this economic  
6 downturn, I've asked for a temporary voluntary moratorium  
7 through the PUC to help all of us be able to sustain some  
8 form of quality here.

9           Would you be willing to join with me in asking  
10 the PUC and UGI and PP and L to, as an American  
11 humanitarian effort for the good of Pennsylvania and for  
12 the good of this country, engage in this moratorium, this  
13 voluntary moratorium?

14           DR. FRANCIS: I can tell you that if they do it,  
15 I hope they do it soon because a lot of our colleges are  
16 right now negotiating new contracts in order to avoid those  
17 rate increases, and our association does provide help with  
18 institutions in doing that. So I know that we're engaged  
19 in that right now.

20           REPRESENTATIVE PASHINSKI: Well, I just  
21 testified last night, and now we have testimony today. All  
22 of you in the audience, if you would join with us in  
23 contacting UGI and PP and L and ask them for a temporary  
24 voluntary moratorium until we begin to recover.

25           And I mean this very sincerely because I really



1 don't see any way out. Government is in the same boat  
2 because everyone comes to us to try to subsidize your  
3 needs, and you know where we get our money from, so it's a  
4 vicious cycle. Thank you, gentlemen.

5 CHAIRMAN SANTONI: You're welcome,  
6 Representative Pashinski. Good luck, and ask for world  
7 peace while you're at it. I know we're way behind. I just  
8 have a couple quick questions.

9 Dr. Francis, in your testimony, page 2 -- we've  
10 heard from community college presidents in the last few  
11 years. We've heard from the state system presidents. I've  
12 never heard them say that they're full. Now, you indicated  
13 that they're full. Is that -- we just haven't heard that.

14 DR. FRANCIS: Yes, that actually I was with a  
15 president last week and that his admissions office had been  
16 telling him that he was getting calls from some of his  
17 colleagues at some of the state -- not all of the state  
18 system schools are full, but there were a couple of  
19 institutions where their colleagues, they were calling  
20 saying these are the toughest calls we've ever made because  
21 we're telling people that were already accepted that they  
22 can't come, that the yield was much greater than they  
23 anticipated.

24 CHAIRMAN SANTONI: Okay. And number 3, on page  
25 2, you talk about what it cost taxpayers to go to a state

1 system school and what it costs to go to a private college,  
2 \$21,691.

3 DR. FRANCIS: It's not to go; it's to produce a  
4 degree --

5 CHAIRMAN SANTONI: Okay.

6 DR. FRANCIS: -- at those two institutions.  
7 That's how much it costs the state taxpayer to get a degree  
8 out of those institutions.

9 CHAIRMAN SANTONI: We're not saying that the  
10 whole budget crisis, because of the budget crisis, don't go  
11 to a state system school, are we?

12 DR. FRANCIS: No. I'm just saying that it's  
13 going to worsen your budget crisis if -- right now, 41  
14 percent of the students go to private institutions. If,  
15 let's say, 5 years from now that number's 38 percent, it  
16 will probably mean that the state, to maintain the quality  
17 that they're doing now, will have to increase significantly  
18 their operating subsidy to the state system in order to  
19 maintain the number of degrees.

20 Otherwise, you will see fewer degrees or you'll  
21 have other kinds of problems, and it will cost the state  
22 taxpayer more.

23 CHAIRMAN SANTONI: A question for both of you,  
24 right now under the current system, what the tuition is for  
25 community colleges in the state system and what you guys

1 charge, how often do you hear from your students that I'm  
2 not coming to your school because it's cheaper to go  
3 elsewhere, I mean right now even before 1317 would become  
4 law if it would be?

5 DR. FRANCIS: Because I represent so many  
6 schools, that would vary tremendously. There's tremendous  
7 diversity, and that's one of the things that's  
8 misunderstood frequently. When people talk about private  
9 institutions, they think frequently the national  
10 institutions where that's not an issue as much because they  
11 have the resources to make it affordable for any student no  
12 matter what their economic situation.

13 But for most of our institutions, it is  
14 happening. I think that the current economic downturn is  
15 going to result in lower enrollments overall and increased  
16 enrollment at the state institutions, and that was to be  
17 expected. I think this proposal could just worsen the  
18 situation significantly.

19 DR. PANGBORN: Yeah, I think anything I could  
20 provide would be somewhat anecdotal because students  
21 generally don't tell us why they don't come. They tell us  
22 why they come, but not why they don't come.

23 I think what we've seen in terms of this vicious  
24 cycle is a little bit of a cascading kind of scenario where  
25 students who might have looked at private schools as an

1 option last year are coming to Penn State because it is  
2 somewhat a less expensive option and a high quality  
3 environment, and some of the students who might have  
4 ordinarily come to Penn State might look at the state  
5 system or community colleges as a viable option.

6           So we are seeing that. I think because we're in  
7 the middle, our enrollment picture for the coming year is  
8 very favorable. I think we hit our targets for admissions  
9 right where we wanted to, and I think it is because we're  
10 seeing kind of the action going on on both ends of the  
11 spectrum.

12           CHAIRMAN SANTONI: And, of course, the reason I  
13 ask is I've heard that if this bill would pass, it would  
14 push more students to the state system and the community  
15 colleges. And there's a differentiation now with tuition,  
16 so I was just wondering if that occurred. That's why I  
17 asked that question.

18           Okay. Well, I do appreciate your testimony. I  
19 do want to just make a brief comment about the introduction  
20 of this bill. House Bill 1317, was in no way, shape or  
21 form an attempt to hit one group of universities, state  
22 relateds and independents versus the state system and the  
23 community college. It was not an attempt to do that.

24           I hope you realize that. But, again, there's a  
25 finite amount of dollars that are out there, and this

1 General Assembly's going to have to make a decision at some  
2 point if we get the go on this bill on whether we want to  
3 make a substantial investment on the smaller group of kids  
4 or if we want to make a smaller investment to a larger  
5 group. And I think that ultimately that will be a policy  
6 decision that this General Assembly will make.

7           But I do, again, reiterate the fact that we are  
8 trying to look at additional dollars in the educational  
9 field. In another part of this building today, the House  
10 Appropriations Committee is having a public hearing on  
11 Senate Bill 850, the Senate Republican answer to the  
12 budget, which as you know, I'm sure, significantly cut  
13 funds for education.

14           And that seems to be going the wrong way than  
15 where we're trying to head, so that's why we introduced,  
16 again, House Bill 1317. I think we all agree that we want  
17 to help on the educational part, but controversy exists  
18 with the machines that we're going to get the money from.

19           Gentlemen, I do appreciate your time, and thank  
20 you for your testimony and your comments.

21           DR. FRANCIS: Thank you.

22           CHAIRMAN SANTONI: Just a brief announcement, I  
23 would just kindly and respectfully ask my friends and  
24 colleagues when we're addressing the questions to try to be  
25 on point. We are behind schedule, and we're falling

1 further behind. So I would, again, respectfully ask that  
2 we try to stay on point in our questioning. Our next  
3 testifier is a gaming industry expert. Her name is Susan  
4 Walker, and she's the former Executive Director of the  
5 South Dakota Lottery.

6 Ms. Walker, when you're ready.

7 MS. WALKER: I guess it's good afternoon,  
8 Chairman Santoni, Chairman Schroder and members of the  
9 House Gaming Oversight Committee. My name is Susan Walker,  
10 and I'm a lottery and gaming consultant with over 20 years  
11 of executive management experience in the gaming and  
12 lottery industry.

13 I have worked for publicly traded gaming  
14 companies and was the first appointed Executive Director of  
15 the South Dakota Lottery that pioneered the first video  
16 lottery program in the nation in 1989. In the past, I've  
17 advised the Pennsylvania Amusement and Music Machine  
18 Association, PAMMA, on proposed video lottery legislation  
19 in the Commonwealth of Pennsylvania.

20 PAMMA had asked, contacted me this year and  
21 asked that I provide them information on video lottery  
22 operations in the United States. I wish to thank the  
23 Committee for graciously allowing me the opportunity to  
24 testify on House Bill 1317, an act to provide tuition  
25 relief through the introduction of a video lottery program.

1           As way of background, on October 16th, 1989, the  
2 South Dakota Lottery pioneered the first state video  
3 lottery program controlled and monitored through a central  
4 computer system, which has been a model for many video  
5 gaming operations in several U.S. as well as international  
6 gaming jurisdictions. The period of time from the date of  
7 legislative enactment to start-up was slightly over six  
8 months.

9           Since its launch, video lottery has continued to  
10 be a highly successful product providing more than \$1  
11 billion in revenue to the State of South Dakota, with a  
12 population base of just under 800 thousand. Video lottery  
13 legislation was introduced as a means to eliminate gray  
14 area machines in the state and to generate tax revenue by  
15 regulating the activities to ensure the security and  
16 integrity of the operations.

17           While gray area games were legally designated  
18 for amusement only, meaning that any winning credits must  
19 be played off or lost, they were often used for illegal  
20 gambling with winning credits being paid off in cash. The  
21 ability to use them for amusement made it difficult and  
22 expensive for law enforcement personnel to prove their use  
23 as illegal gambling devices.

24           Video lottery legislation in South Dakota  
25 included a provision making it a felony for any person to

1 possess any device that awards credits and contains a  
2 circuit, meter or switch capable of removing and recording  
3 the removal of credits when the game is dependent upon  
4 chance. Before the authorization of video lottery, it was  
5 estimated that there were over 10 thousand gray area games  
6 in the state.

7           Waves of machines leaving the state were  
8 reported prior to the effective date of the video lottery  
9 legislation. To the best of my knowledge, there have been  
10 no reported cases of gray area games in the state since  
11 video lottery started. There are six lotteries that  
12 regulate the placement and operation of video lottery  
13 terminals, or VLTs, in their states.

14           The placement of VLTs is authorized on a  
15 statewide basis in establishments licensed for the on-sale  
16 consumption of alcoholic beverages in three states. Those  
17 are South Dakota, Oregon and West Virginia. The other VLT  
18 lottery operations in Delaware, New York and Rhode Island  
19 restrict the placement of VLTs to racetracks in the state,  
20 with the exception of West Virginia that authorizes VLTs on  
21 both a statewide level and racetrack locations.

22           There are three other states that regulate video  
23 gaming through other state agencies or gaming boards on a  
24 statewide level; Montana, Louisiana and New Mexico. The  
25 types of games, wagers, prize amounts and the number of



1 VLTs vary among those states as do the models for ownership  
2 and operations of state-authorized VLTs. A major question  
3 to be considered in legislation for a statewide video  
4 lottery program is what type of ownership and operation  
5 model should be adopted.

6           In general, there are three types of models for  
7 ownership and operation for state-authorized VLTs, one  
8 being the private-sector operator model, where the lottery  
9 licenses the operators who make the necessary capital  
10 investment to purchase the tested and approved VLTs and  
11 games from licensed manufacturers and are the operators who  
12 are responsible for maintaining and placing the VLTs in  
13 licensed establishments in the state.

14           South Dakota and West Virginia follow this  
15 model. Although not regulated by state lotteries, Montana,  
16 Louisiana and New Mexico also follow the private-sector  
17 operator model. Secondly, there is the hybrid  
18 state-operator model, where the state licenses the  
19 racetrack that is responsible for the daily operations at  
20 the licensed location.

21           The state provides the VLTs through a lease and  
22 maintenance agreement with a number of gaming  
23 manufacturers. This is commonly associated with a high  
24 concentration of VLTs at racetrack and is the model used by  
25 Delaware, New York and Rhode Island. Third, there is the

1 state-operator model, where the state is responsible for  
2 the purchase, placement and the maintenance of the VLTs and  
3 pays retailer commissions to contracted establishments  
4 where the VLTs are placed.

5           Oregon uses this model. Two models have emerged  
6 for a statewide video lottery, which is proposed in House  
7 Bill 1317, with the placement of VLTs in thousands of  
8 licensed liquor and bar establishments throughout the  
9 state, the private-sector operator model and the  
10 state-owned model. The difficulty legislators will face is  
11 that both models are operating successfully in other  
12 states.

13           Legislators need to consider a number of factors  
14 in each type of model, one being the cost. Under the  
15 state-owned model, there is a large associated state cost  
16 in operating the video lottery program, both in terms of  
17 capital outlay for the purchase of the VLTs, staffing and  
18 administrative operations.

19           In an early report issued by the Oregon State  
20 Lottery in 1992, it stated that 154 new staff positions  
21 were added in the first year of the state's video lottery  
22 program. These were state employees. There are a number  
23 of new positions required in a state-owned model to handle  
24 the responsibilities under a video lottery program in areas  
25 not otherwise handled by state lottery employees in the

1 operation of traditional lottery products, such as your  
2 instant scratch tickets and online lotto games.

3           These include VLT field maintenance technicians,  
4 VLT installations and removals, bench technicians for  
5 repairs, warehouse and inventory, training and support,  
6 product management, VLT acceptance testing and an increased  
7 hotline support staff to address service problems and to  
8 dispatch service technicians to the locations manned seven  
9 days a week during the business hours of the establishment  
10 operations.

11           In South Dakota, we added 11 new positions in  
12 the areas of the central computer operations, accounting,  
13 field inspectors and acceptance testing. I attempted to  
14 find the Oregon Lottery's video lottery program  
15 administrative expenses in the early years of operation.  
16 The Oregon Lottery Annual Audit Reports, however, are only  
17 available in the state's archive directory from 1997 under  
18 their Records Retention Act in that state.

19           I did find references to the administrative  
20 costs in legislative hearing testimony in searching the  
21 Internet and the estimated first year expenses from an  
22 earlier report I had on file compiled by the Indiana State  
23 Lottery in December 1992 who was conducting an overview of  
24 video lottery operations at that time.

25           The report stated that administrative costs for

1 the first year of video lottery operations in Oregon in  
2 1992 under the state-operated model will be approximately  
3 13.8 million compared to South Dakota's of 1.6 million.

4 Oregon's video lottery start-up costs of 13.8  
5 million would have represented associated costs over 17  
6 years ago with central computer lease and communication  
7 costs, the purchase of slightly over 4 thousand VLTs under  
8 5-year lease purchase agreements with manufacturers  
9 averaging at that time approximately \$8 thousand per VLT,  
10 warehouse rental space, fleet and vehicle leases and  
11 staffing.

12 Start-up costs for Pennsylvania would need to be  
13 adjusted for today's costs and the inherent increases based  
14 on a population of 12.45 million compared to Oregon's  
15 population at that time of 2.2 million. Capital outlay for  
16 initial VLT placement in Pennsylvania estimated at 28  
17 thousand alone would likely be over \$80 million based in  
18 the first year under a 5-year lease purchase arrangement  
19 with the manufacturers.

20 And that's estimated on the cost of a VLT being  
21 in the neighborhood of \$15 thousand each. South Dakota's  
22 first-year video lottery costs of 1.6 million were  
23 primarily represented by the cost of the central computer  
24 system that the South Dakota Lottery purchased and operates  
25 to monitor the video lottery financial and play

1 transactions. It does not pay an ongoing percentage of net  
2 machine income or lease payments for the operation of the  
3 central computer.

4 Another factor the Legislature should consider  
5 is what model would generate the most revenue for the  
6 state. It is tempting to include that the state-owned  
7 model where the state receives a higher percentage of net  
8 machine income, meaning the money put into video lottery  
9 machines minus the credits paid out in cash, will yield  
10 greater state revenue than the private-sector model.

11 In comparing the two models, however, the state  
12 costs in administering a state-owned model must be taken  
13 into account in determining the effective rate returned to  
14 the state as a percentage of net machine income. Reports  
15 that list the state's tax rate under the various video  
16 lottery programs can be misleading by lending the  
17 impression that the state is earning a much higher  
18 percentage when that percentage is not reduced by the costs  
19 in administering the video lottery programs.

20 As stated earlier, although I do not have  
21 audited financial statements in the earlier years of the  
22 Oregon video lottery program, based on my research, it  
23 appears that the effective rate of return to the state for  
24 funding the dedicated programs in the first three years of  
25 operations were between 45 to 48 percent of net machine

1 income. This amount increased to 52 percent in 1995 with a  
2 reduction of retailer commissions.

3           The state's effective rate continued to grow  
4 upwards over the years primarily by the further reduction  
5 in retailer commissions in its current level. And it is  
6 currently, in fiscal year 2008, at 64 percent, meaning the  
7 state's receiving 64 percent of the overall state, net  
8 medical income for the state.

9           Under the private-sector model, the state  
10 percentage is less, but what also needs to be factored in  
11 is the greater overall net machine income on a per capita  
12 basis through a larger participation by eligible on-sale  
13 alcohol beverage licenses and VLT placement. These types  
14 of establishments typically do not carry traditional  
15 lottery products.

16           On the other hand, coin operators have developed  
17 a long-standing business relationship with bars and taverns  
18 in providing and servicing equipment and will be more  
19 successful in gaining a greater market penetration for the  
20 placement of VLTs.

21           The percentage of video lottery establishments  
22 of the total eligible on-premises alcohol establishments in  
23 the three statewide video lottery operations is estimated  
24 at Oregon being 36 percent; South Dakota, 85 percent; and  
25 West Virginia, 78 percent. Based on the percentages of

1 eligible liquor licensees participating in video lottery,  
2 Oregon has a much lower level indicating a loss of  
3 potential revenue.

4           The private-sector model outpaces the  
5 state-owned model in terms of VLT placement and net machine  
6 income per capita. South Dakota, operating for nearly 20  
7 years, still exceeds Oregon, operating for 17 years, by \$43  
8 in net machine income per capital. Although South Dakota  
9 has a maximum of 10 machines, it averages approximately 6  
10 VLTs per location compared to Oregon, who now has a maximum  
11 of 6 machines; but on average, there are 5.5 machines per  
12 establishment.

13           House Bill 1317 is unique in that it appears the  
14 random number generator will not reside on the VLTs, but on  
15 the central computer. This is referred to as a central  
16 determinant system. Although it is not clear, the  
17 definition of the central computer system in House Bill  
18 1317 contains language that it must be capable of  
19 generating games, which suggests that it could be like the  
20 video lottery games offered under the New York video  
21 lottery program.

22           Under the New York video lottery, the central  
23 computer randomly selects what I would refer to as  
24 electronic tickets from a finite prize pool of winning and  
25 losing combinations with various prize amounts. Similar to

1 instant or scratch tickets, the vendor produces the winning  
2 and losing combinations for each of their electronic games  
3 played on its VLT. The central computer shuffles and  
4 randomly selects pools of 10 thousand to 100 thousand of  
5 the electronic tickets, which are downloaded to each  
6 racetrack for the play of that game offered on the VLTs at  
7 its location.

8           When the game is played, the winning or losing  
9 combination is displayed on the VLT through the use of  
10 spinning reels or playing card which correlate to the pay  
11 table of that game. The central computer automatically  
12 orders new pools of electronic tickets and downloads it to  
13 the racetrack when the current pool for that game nears  
14 completion of play.

15           Although this gives the appearance of playing a  
16 slot machine, it is different from a slot machine where the  
17 RNG and the game software reside on the VLT and the game  
18 outcome is totally random and not based on a finite or  
19 predetermined amount of winning and losing tickets. The  
20 New York Lottery is the only U.S. video lottery operating  
21 under a central determinant system.

22           There are currently around 13 thousand VLTs  
23 operating at eight racetrack locations in the state. In  
24 terms of per capita net machine income, the New York video  
25 lottery ranks last out of the nine states offering video



1 lottery or gaming. For comparison purposes in fiscal year  
2 2008, the Delaware Lottery's per capita net machine income  
3 that operates only at racetrack locations was \$718, and the  
4 two statewide video lottery operations in South Dakota was  
5 \$282; Oregon was \$239 per capita compared to New York's of  
6 \$45.

7           Although it is not clear in House Bill 1317, it  
8 would appear based on the initial appropriation of \$20  
9 million that the VLTs would be leased and maintained  
10 through manufacturers for a percentage share of the state's  
11 net machine income.

12           As mentioned earlier, this hybrid state-operator  
13 model has only been used in video lottery operations at  
14 racetrack locations with a high concentration of VLTs in a  
15 few racetrack locations and not on a statewide video  
16 lottery operation with thousands of VLTs in thousands of  
17 establishments throughout the state.

18           Since the central determinant system is rather  
19 unique, another factor that needs to be taken into  
20 consideration is the ability of manufacturers to develop  
21 the necessary software to communicate with the selected  
22 vendor's central computer system.

23           Since 1995, South Dakota state percentage of net  
24 machine income has been at 49.5 percent with the South  
25 Dakota Lottery receiving one-half of 1 percent of the

1 state's share and the license fees for the video lottery  
2 administrative costs. West Virginia's state rate for its  
3 statewide limited video lottery is based on a sliding scale  
4 between 30 and 50 percent depending on a statewide average  
5 of revenue generated by the VLTs the previous quarter.

6           It is currently at 50 percent. The West  
7 Virginia Lottery receives 2 percent of the total statewide  
8 net machine income and license fees for administrative  
9 costs. Oregon has been more successful in its ability to  
10 make continuing necessary investment through retained  
11 earnings to keep the video lottery market fresh with new  
12 games and machines.

13           Under a private-sector model, the state rate  
14 must account for the ability of operators to maintain  
15 reserves, to replace VLTs, offer new games and keep pace  
16 with advances in new technology. It is apparent that the  
17 state can have an effective rate of 50 percent of net  
18 machine income under the private-sector models, the same  
19 percentage to the state as proposed in House Bill 1317.

20           The legislation should consider, however,  
21 allowing for graduating increases to that percentage rate,  
22 recognizing that in the first couple of years, there will  
23 be major capital outlays by operators. The state-owned  
24 model was adopted as a means to gain greater control over  
25 video lottery operations and shielding the state from

1 possible participation by unsavory individuals and  
2 entities.

3           A state can address and ensure that security and  
4 integrity of video lottery operations in a private-sector  
5 model by a thorough background investigation conducted by  
6 state law enforcement agencies of the state, strict  
7 licensing standards and VLT game testing requirements.

8           It is also important from the start that  
9 legislation require licensed on-sale alcohol establishments  
10 with general access areas to restrict the placement of VLTs  
11 in age-controlled locations separated from the general  
12 access area. With sound legislation and regulation, video  
13 lottery has proven highly successful in generating  
14 additional tax dollars for beneficial state programs.  
15 Thank you.

16           CHAIRMAN SANTONI: Thank you, Mrs. Walker, for  
17 your testimony. I note Mrs. Walker has a flight to catch,  
18 so if the members could just keep that in mind as they're  
19 asking their questions. First questioner, Representative  
20 Vereb.

21           REPRESENTATIVE VEREB: Thank you, Mr. Chairman.

22           Thank you, Ms. Walker. Don't worry about it;  
23 we're about to legalize speeding while we're doing this,  
24 and you'll be able to make it to the airport without a  
25 problem. In your experience -- and I realize you have both

1 lottery and gaming experience -- do you know of any  
2 restrictions of political contributions by vendors or  
3 establishments to elected officials of that state, any  
4 criteria that you've seen over the years?

5 MS. WALKER: No. I mean, Pennsylvania, I mean,  
6 they have that in their gaming legislation. I think at one  
7 time Louisiana did, but I believe that was overturned.  
8 There was none since prohibition in South Dakota that I can  
9 attest to.

10 REPRESENTATIVE VEREB: Yes, we did have one  
11 about a month ago. What suggestion would you offer this  
12 body to stop pay-and-play-type activity, especially when it  
13 comes to vendors and political intrusion? You used the  
14 word unsavory individuals. I'm not going to ask you to  
15 define that. I certainly know what you mean, and unsavory  
16 individuals exist, not just in these bars.

17 But do you have any recommendations of how we  
18 could sanitize the process here if we were to go with the  
19 state, you know, occupying the space for these machines to  
20 be deployed as opposed to using the entrepreneurs out there  
21 in the vendor business?

22 MS. WALKER: Okay. Where the state would  
23 operate the model, but it would not involve the  
24 private-sector operators only with respect to the  
25 establishment locations, is that what you're asking?

1                   REPRESENTATIVE VEREB: Yes.

2                   MS. WALKER: Well, I think, as was testified,  
3 there would be a great self-policing with respect to  
4 entities and individuals that may offer these gray area  
5 amusement devices. I think as the testimony has been  
6 stated, it is not a top priority for law enforcement in the  
7 years. Primarily, as we found in South Dakota, it was so  
8 difficult.

9                   It was so difficult because these were -- and as  
10 long as the credits were not being paid off in cash, they  
11 were designated as amusement devices. So, you know, to  
12 answer your question -- it's probably not directly  
13 answering it, but, you know, unless you would say that any  
14 type of game of chance, per se, is a felony, I suppose that  
15 might be another way of addressing it as well.

16                   REPRESENTATIVE VEREB: I can certainly follow up  
17 with respect to that question, but I would be looking more  
18 towards how all of a sudden we have a miraculous vendor  
19 appear in the facility that would be the number one  
20 recommended individual and distribute those machines or  
21 sell those machines, but I can follow up with you on that.

22                   Are these machines, in your mind -- you use the  
23 word in your testimony on two pages illegal gambling,  
24 illegal gambling device, gaming devices. In your mind, is  
25 this gaming?

1 MS. WALKER: It is gaming.

2 REPRESENTATIVE VEREB: It is gaming?

3 MS. WALKER: Yes.

4 REPRESENTATIVE VEREB: Okay. And you're an  
5 expert, right, unlike some of the other people up here who  
6 has said it is not gaming? It is gaming, in your mind as  
7 an expert?

8 MS. WALKER: Are you talking about your proposed  
9 video lottery legislation and the like?

10 REPRESENTATIVE VEREB: Yes.

11 MS. WALKER: Yes, that's a form, it's a form of  
12 gaming.

13 REPRESENTATIVE VEREB: Okay. Thank you. In  
14 other states that you have direct experience in, do any of  
15 these states have casinos? And I know a few locally do,  
16 but in your direct experience, do any of them have casinos  
17 like here in Pennsylvania or just casinos at all?

18 MS. WALKER: Oh, most certainly. In South  
19 Dakota, you have the City of Deadwood that has casinos.  
20 Also, there are tribal casinos throughout South Dakota, I  
21 believe eight. In Oregon, there's likewise tribal casinos  
22 located in the state.

23 In the State of Louisiana, they have a wide  
24 array of various forms of gaming, not only in riverboat  
25 gaming, land-based casinos, racetrack gaming and the

1 limited video lottery operating throughout the state.

2 REPRESENTATIVE VEREB: Okay. Thank you. So you  
3 consider this to be a -- would you consider this to be any  
4 type of competition to our local casinos when the local  
5 bars and restaurants would potentially put these machines  
6 in right down the street?

7 MS. WALKER: Well, I can answer it this way, and  
8 it's just based on some of the research that I have  
9 conducted: Probably the best state to look at would be the  
10 State of West Virginia. They had the VLT operations in the  
11 racetrack locations, you know, a number of years before  
12 West Virginia also authorized a statewide video lottery.

13 In the three years after the introduction of a  
14 statewide video lottery, racetracks continued to generate  
15 and increase double digits over the previous year. You  
16 then did see some single digit increases. It wasn't until  
17 last year that you saw a decrease at the racetracks in West  
18 Virginia, but that has to do with Pennsylvania opening its  
19 racetrack, in the racetrack locations.

20 So I did not see that, and again, this is just  
21 based on the net machine revenue generated in the  
22 racetracks versus statewide and how that compared over  
23 those years of operation.

24 REPRESENTATIVE VEREB: Okay. I'm sorry I don't  
25 have it and I'll be glad to forward it to you, but Spectrum

1 Gaming -- I'm not sure if you're aware of them -- prepared  
2 a report, in which I talked at the Gaming Congress, showed  
3 severe revenue drops of gaming establishments, casinos and  
4 other states, including West Virginia. And the number of  
5 states showed -- I'm not disputing your testimony.

6 I'm just, I would like to get that to you and  
7 have you take a look and maybe offer an opinion to the  
8 Committee based on that because it does appear to have a  
9 significant impact on casinos in other states where video  
10 poker, whatever the name, become legal. Do you see this  
11 having a revenue impact on our local lottery proceeds  
12 which supports senior citizen programs in Pennsylvania?

13 MS. WALKER: You know, again, there -- the  
14 states' experience vary with the introduction of video  
15 lottery. Unfortunately, you really don't -- I mean, as far  
16 as statewide video lotteries, South Dakota, Oregon and West  
17 Virginia, and looking at what impact it had on traditional  
18 lottery games with the introduction of video lottery, South  
19 Dakota was the first state.

20 And we had only been in operation for a little  
21 under two years when video lottery started. In fact, we  
22 didn't even have authorization for online lotto games.  
23 Video lottery was implemented prior to online lotto. In  
24 looking at West Virginia, when their video -- I'm talking  
25 about statewide now -- when their statewide video lottery



1 started in 2002, instant ticket games in that same year  
2 increased by double digits, and it continued to increase  
3 for periods after the introduction of statewide video  
4 lottery.

5           Now, in Oregon, it fluctuated with some  
6 increases and decreases. It may have the potential in  
7 limiting potential or future growth in scratch tickets,  
8 but, again, there were some mixed results. I wouldn't want  
9 to base it on South Dakota where we did experience a  
10 precipitous drop in instant ticket sales.

11           Again, we did not have a long operating history  
12 of instant tickets, and the law was written in such a way  
13 that we really were handicapped by the fact we could not  
14 increase the payout percentage on those instant tickets.

15           REPRESENTATIVE VEREB: Okay. Just one or two  
16 final. What is the difference between myself walking into  
17 a bar, when these are potentially legalized, what the  
18 difference between that type of a transaction and one in  
19 one of our casinos in terms of the machines? The video  
20 poker that exists in our casinos versus what this would be,  
21 is there a difference?

22           MS. WALKER: Well, as I stated, House Bill 1317  
23 is kind of vague in some areas as to what are the, what  
24 type of system and how the games will be delivered. Okay?  
25 As I stated in my testimony, if it's a -- it appears that

1 they're looking at a central determinant game, where the  
2 random number generator and the game software do not reside  
3 on the gaming machine. And that's what you have, you know,  
4 at your Pennsylvania racetracks.

5           And, again, those machines are linked to a  
6 central computer for the monitoring of those play  
7 transactions. So if it's a central determinant system,  
8 then it may not appear to the playing public that there's a  
9 difference, but in essence, there is if it's a central  
10 determinant system because it's based on finite winning  
11 combinations rather than a machine where you have the  
12 random number generator and the game software loaded, where  
13 the game outcome is totally random versus a central  
14 determinant system --

15           CHAIRMAN SANTONI: Mrs. Walker, you need to talk  
16 into the microphone.

17           MS. WALKER: Oh, sorry -- versus a central  
18 determinant system, which if that's what's being proposed,  
19 as I stated before, if it's like the New York  
20 Lottery -- and, again, that's unclear -- those games would  
21 be presented in predetermined electronic scratch tickets  
22 that would be displayed on the video lottery machine.

23           REPRESENTATIVE VEREB: Okay. Just one more,  
24 Mr. Chairman.

25           Going back to unsavory individuals and putting

1 the fox in the hen house here, is there not some type of  
2 identifier that we could just make these machines illegal  
3 instead of a financial transaction that is currently  
4 needed? Is there not something that police can just watch  
5 a machine do or do it -- you know, when you buy drugs, you  
6 buy drugs and you test them later, and potentially if you  
7 get the right judge, a person goes to jail.

8           Is there not just -- I mean, we're concerned  
9 about how overwhelming it is to enforce this law with these  
10 machines because you need a financial transaction and you  
11 need a payoff. Can we just not -- is there a difference  
12 between this and other gaming machines at these bars that  
13 you can play games on?

14           Is there not something mechanical; is there not  
15 something that physically happens that law enforcement can  
16 simply just go to the machine, put a \$5 bill or a dollar  
17 bill in with marked money, like they do with drug  
18 investigations, and then seize the machine; or do we really  
19 need a human being to pay off cash as a result of what that  
20 machine did?

21           And I ask that because in your testimony, you're  
22 very specific about wheels -- and I'm certainly far from an  
23 expert in this area -- but is there something that a  
24 machine can possess or exist that would maybe just make  
25 them illegal instead of taxing unsavory-like activity?

1 MS. WALKER: You know, again, I don't know what  
2 these may look like that are in the state. There could be  
3 a number of different types, and so without that knowledge,  
4 I wouldn't want to be making a recommendation. I think  
5 probably one of the better people you could ask would be  
6 law enforcement as to what would assist them the most in  
7 being able to address this question.

8 REPRESENTATIVE VEREB: And that's -- I did, and  
9 the fact of the matter is they need a financial  
10 transaction, meaning a payoff. There's nothing currently  
11 in our law that allows the machines to simply exist there.

12 From an industry perspective -- if you could  
13 follow up with me at some point, I would appreciate  
14 it -- can we just change the law to make them illegal  
15 versus their existence on what's inside of them as opposed  
16 to having the transaction that law enforcement currently  
17 uses as a legitimate excuse? Thank you.

18 CHAIRMAN SANTONI: Chairman Schroder has a  
19 question.

20 REPRESENTATIVE SCHRODER: I was a bit  
21 distracted. I must admit I didn't hear the last part of  
22 the question and answer there from Representative Vereb. But  
23 following up on the line of questioning he was going  
24 down -- and I don't know if he asked this specifically, and  
25 I apologize -- but the difference in these machines, isn't

1 one of the differences between a legal gaming machine,  
2 video machine right now, and an illegal one is the  
3 existence or nonexistence of a kill switch?

4 MS. WALKER: In the South Dakota video lottery  
5 legislation, as I testified, they did prohibit any  
6 knock-off switches, which is --

7 REPRESENTATIVE SCHRODER: Knock-off switches,  
8 yeah. You know, I guess this is a question better posed to  
9 the State Police. I only wish I would have remembered to  
10 ask that when Commissioner Pawlowski was here. But I had  
11 thought the existence of a knock-off switch or kill switch  
12 was evidence of illegal activity, evidence that jackpots  
13 were running up on the machines and, therefore, payouts  
14 were going on. You're saying that that was not the case in  
15 South Dakota, or they did not have those?

16 MS. WALKER: I don't have the information,  
17 Chairman Schroder, as to how they operated or how they did  
18 it. All I know is that they were just saying that even  
19 though they were designated for amusement purposes, because  
20 of the ability to payoff in cash, that it posed problems.

21 REPRESENTATIVE SCHRODER: You were with the  
22 South Dakota video lottery up until 1994, I believe?

23 MS. WALKER: Um-hum.

24 REPRESENTATIVE SCHRODER: Okay. According to  
25 a -- are you aware of a study from a 1996 issue of the

1 South Dakota Journal of Medicine, which I believe will be  
2 referenced by someone who's still on the agenda for later  
3 to testify, was done by four medical folks, Drs. Carr (ph),  
4 Pakowski (ph), Kofed (ph) -- I probably didn't say that  
5 right -- and Morgan (ph)?

6           It indicates that in June of '94, the South  
7 Dakota Supreme Court shut down video lottery. It was later  
8 revived by referendum in the state and started back up  
9 again in November of 1994. Was that after you left that  
10 those events occurred?

11           MS. WALKER: No. This was during the period of  
12 time that I was the Executive Director.

13           REPRESENTATIVE SCHRODER: Okay. So you --

14           MS. WALKER: There was a constitutional, a legal  
15 challenge of the constitutionality of video lottery.

16           REPRESENTATIVE SCHRODER: Okay. So you were  
17 there and on the scene during this time. The report by  
18 these professionals indicates that during the time period  
19 where the video lottery terminals were shut down in South  
20 Dakota, that other forms of legally-sanctioned gambling  
21 remained; yet what they saw was when the video lottery  
22 machines were turned off, inquiries about gambling and the  
23 number of individuals receiving treatment for problem  
24 gambling diminished abruptly.

25           When the machines were turned back on, there was

1 a prompt increase in both of those categories and that  
2 clinicians indicated that 143 of 146 patients receiving  
3 treatment for pathological gambling during this time were  
4 principally involved in video lottery gambling and that  
5 there was little evidence of substitution of other  
6 problematic gambling behaviors during the three-month video  
7 lottery hiatus.

8 I raise these issues because this was in the  
9 '96, January '96 issue of the South Dakota Journal of  
10 Medicine, which I have to take by just a title as a  
11 respected publication. I didn't hear anything in your  
12 testimony about the, what appears to be from this study,  
13 the highly-addictive nature and pathological gaming  
14 problems of video lottery gambling. Do you have any reason  
15 to dispute the figures in this study?

16 MS. WALKER: Chairman Schroder, I would have to  
17 review that study. My response to that would be, yes,  
18 there is a recognition that video lottery as well as other  
19 forms of gaming can pose problems for some individuals. In  
20 South Dakota, there were two baseline studies conducted to  
21 determine the prevalence rate of problem gamblers in the  
22 State of South Dakota.

23 What that study showed is that there was less  
24 than 1 percent of the population that had a pathological or  
25 serious gambling problem. I don't mean to make light of

1 the fact that 1 percent is not great, but I will say that  
2 it is important for any state that's looking at adopting  
3 gaming lottery legislation as well as use it with the  
4 racetrack and racetrack legislation is that there are  
5 revenues that are available to fund and to assist those  
6 that could be affected by problem gambling.

7 REPRESENTATIVE SCHRODER: Is 1 percent the -- I  
8 don't know -- the accepted figure in the industry for  
9 allowance of problem pathological addiction?

10 MS. WALKER: Actually, if I recall  
11 correctly -- and, again, I'll need to double-check this  
12 because this is going back in the cobwebs of my mind -- but  
13 when the South Dakota baseline was conducted, there had  
14 been other studies where South Dakota's rate was lower than  
15 the other national averages in states that did have  
16 legalized gaming.

17 REPRESENTATIVE SCHRODER: So it can be greater  
18 than 1 percent --

19 MS. WALKER: Yes.

20 REPRESENTATIVE SCHRODER: -- based upon the  
21 experience of other states? Let me just ask, I think your  
22 resume said up until last year, 2008, you were the Legal  
23 and Compliance Director for Cyberview Technology until the  
24 company's purchase in 2008. Could I just ask, what is your  
25 role right now? What is your employment, profession right



1 now today?

2 MS. WALKER: Right now I'm working as a  
3 consultant, gaming consultant.

4 REPRESENTATIVE SCHRODER: Are you an independent  
5 consultant?

6 MS. WALKER: Yes.

7 REPRESENTATIVE SCHRODER: Okay. To the gaming  
8 industry?

9 MS. WALKER: That I will consult with respect to  
10 questions on gaming and lottery matters. I represent a  
11 gaming company.

12 REPRESENTATIVE SCHRODER: Are you still out of  
13 South Dakota, or are you located --

14 MS. WALKER: No. I currently reside in  
15 Henderson, Nevada --

16 REPRESENTATIVE SCHRODER: Okay.

17 MS. WALKER: -- close to Las Vegas.

18 REPRESENTATIVE SCHRODER: What I'm getting at,  
19 I'm wondering who paid the freight for you to come to  
20 Pennsylvania today to provide your testimony, an individual  
21 organization?

22 MS. WALKER: As I mentioned in my opening  
23 remarks, PAMMA had asked that I appear to testify today,  
24 so, yes, they did pay my expenses.

25 REPRESENTATIVE SCHRODER: Okay. And I believe

1 that's all the questions I have.

2 Thank you, Mr. Chairman.

3 CHAIRMAN SANTONI: Representative Sainato.

4 REPRESENTATIVE SAINATO: Thank you,

5 Mr. Chairman.

6 Thank you, Ms. Walker. I think your testimony  
7 was very enlightening. I just have a brief question. You  
8 referenced Oregon.

9 MS. WALKER: Yes.

10 REPRESENTATIVE SAINATO: And Oregon's numbers  
11 seem to be very low, and I remember the last hearing that I  
12 was at in Greensburg, their numbers were low. And to my  
13 knowledge, we're trying to pattern this after Oregon, and I  
14 have some concern with that. In the hearings we've had,  
15 Oregon maybe shouldn't be our model. Why is Oregon's  
16 numbers so low? Why aren't they participating in Oregon?

17 MS. WALKER: I believe the answer to that  
18 question would be, as I mentioned in my testimony, the  
19 lottery, in their delivery of your instant tickets, in your  
20 online, your traditional lottery products, generally those  
21 are in retail establishments, or I should say they're in  
22 non-on-sale alcohol or beer and wine licenses.

23 When the Oregon Lottery started out, they really  
24 didn't have any business, they didn't have a great business  
25 relationship with those entities in which the VLTs were

1 restricted in, meaning the on-sale alcohol and beverage  
2 establishments. I, you know, I can't answer that. I'm not  
3 going to be here to demean state employees. For heaven's  
4 sake, for 15, 16 years, I was a state employee. But the  
5 fact that there isn't as large a penetration rate, I guess,  
6 would be an observation on my part that they aren't  
7 actively trying to gain more establishments.

8           What's interesting that I saw in Oregon is that  
9 they did increase the number of their machines. It used to  
10 be that they could only have a maximum of five machines in  
11 the retail establishments. They increased that number in  
12 2003 to six. So what's happened is that there's really  
13 been an additional VLT placed in existing retailers, you  
14 know, through that.

15           So they don't have the experience like the  
16 private sector has in working with bars, tavern owners.  
17 And, frankly, it could also be the retailer commission.  
18 Oregon has lowered the retailer commission. Initially, it  
19 was set at 35 percent of net machine income. This has been  
20 lowered over the years where it's now based on a tier  
21 structure.

22           And I cannot figure it out because there's,  
23 like, four, or three or four different revenue benches.  
24 From what I can tell, it looks like maybe they average  
25 around 23 percent now, but I think that that's also had an

1 impact in the ability to get more retailers.

2 REPRESENTATIVE SAINATO: Yeah, I mean, that's a  
3 concern because -- you were here for the previous  
4 testimony -- everyone wants to cut up this pie in dollars  
5 that are going to be generated for education for colleges,  
6 but if you don't get participation amongst those in the  
7 industry, we could have a serious problem.

8 That's why I brought up Oregon because that's  
9 been brought up many times in the hearings which we've had,  
10 and I think the Committee really needs to look at that;  
11 when the final product does come out, what was the positive  
12 and what was the negative in Oregon as this process moves  
13 forward. Thank you for your testimony.

14 Thank you, Mr. Chairman.

15 CHAIRMAN SANTONI: Representative Vulakovich.

16 REPRESENTATIVE VULAKOVICH: I'll be very brief  
17 because I have another hearing I have to attend in about  
18 five minutes. But, Ms. Walker, I wanted to ask you, you  
19 said the State of Oregon, 154 state employees, I believe  
20 you referred to?

21 MS. WALKER: Yes.

22 REPRESENTATIVE VULAKOVICH: Okay. And about 13  
23 million that the state had to put out to buy about 4  
24 thousand machines, and if I'm incorrect -- I didn't have  
25 your testimony in front of me, so I'm just doing this from

1 memory.

2 MS. WALKER: What I would say on the 13.8, that  
3 wouldn't have purchased outright 4 thousand VLTs. They  
4 entered into five-year lease purchase agreements, so the  
5 first year would have represented the first year payment  
6 over a five-year period of time.

7 REPRESENTATIVE VULAKOVICH: Okay. Did  
8 you -- were you asked by PAMMA to do any estimates on what  
9 you think the output would be in dollars to purchase the  
10 machines based on the projections that 1317 estimates for  
11 VLTs?

12 MS. WALKER: No, I have not.

13 REPRESENTATIVE VULAKOVICH: Would you --

14 MS. WALKER: I have not made revenue estimates.

15 REPRESENTATIVE VULAKOVICH: Okay. What would  
16 be -- do you happen to know the average cost of one of  
17 those machines?

18 MS. WALKER: Well, the average cost is  
19 approximately 15 thousand, I would say on average, 15  
20 thousand.

21 REPRESENTATIVE VULAKOVICH: Okay. I'm concerned  
22 about -- and by the way, I thought your testimony was  
23 excellent. I want the state -- because of the nature of  
24 gambling oversight and regulation's okay, but I personally  
25 don't want the state to get in the business of operation of

1 gaming. Oversight and regulation is where we should be.

2           And the other question I would have for you,  
3 based on your knowledge of other places where they did the  
4 VLTs -- we have a unique situation here in Pennsylvania  
5 maybe relative to some other states, where there's a clause  
6 in there that there could be a lawsuit by casinos saying  
7 that we have crossed a line, whereby they could try to get  
8 back their \$50 million that they initially paid for their  
9 license.

10           I believe that the VLTs, because -- I guess the  
11 major difference between them is the makeup inside and how  
12 the game's played and the process by which a wager or  
13 gaming person could win or lose on that machine.

14           Do you think that the VLTs, basically the way  
15 they're made up in the way they payoff and their the  
16 winning and losing process, would that be a defense for  
17 someone to come back and sue and say that you have  
18 increased gaming and crossed that line with the agreement  
19 they have between the casinos and the state getting into  
20 some other increase in gaming?

21           MS. WALKER: Well, I'm really not in a position  
22 to offer a legal opinion as to whether --

23           REPRESENTATIVE VULAKOVICH: No, and I  
24 don't -- but based on other places in similar circumstances  
25 that they exist, do you know where they have lost that

1 argument, the state? Do you know of any place?

2 MS. WALKER: No. I'm not aware of a similar  
3 situation to Pennsylvania that you alluded to. You know,  
4 what I will say is that over the years, the definition  
5 between a video lottery terminal and slot machine is  
6 another word. It used to be a very easy distinction. In  
7 the 1989, in the early days, what distinguished a VLT from  
8 a slot machine is it did not directly dispense coins or  
9 tokens like a slot machine.

10 With the advances in technology and your  
11 ticket-in/ticket-out, you see a number of machines  
12 everywhere where they do not dispense tickets -- I mean,  
13 excuse me -- they do not dispense coins or tokens. In  
14 other words, they do dispense the tickets, so that was the  
15 very early distinguishing factor between a VLT and any slot  
16 machine.

17 I mean, as far as the random number generators  
18 and the like, their program is totally random. You know,  
19 differences basically would be in the legislation where you  
20 would limit the top award because generally video lottery  
21 is viewed as a lighter form of entertainment for smaller  
22 wagers, for a smaller prize versus your casinos where they,  
23 in fact, they can provide progressive jackpot games.

24 This certainly would not be authorized under  
25 this legislation. They can award much larger prizes and

1 much larger wagers with respect to the slot machine gaming.  
2 The other factor that's very important is that you're  
3 looking at these only being, only a maximum of five VLTs in  
4 locations, unlike the racetrack casinos and the licensed  
5 facilities which have thousands and thousands of machines  
6 in one area. These are limited to only five per  
7 establishment.

8           So it's a different type of environment and more  
9 of a social interaction for that. So, I mean, there are  
10 distinctions. If we're going to get to the fact that the  
11 RNG cannot reside on the VLT game software, because that's  
12 defined as a slot machine under the other Pennsylvania act,  
13 I think is something that needs to be addressed and looked  
14 at.

15           REPRESENTATIVE VULAKOVICH: Okay. That was my  
16 question, the last sentence that you said, that there  
17 really has to be more specific language in the bill to  
18 address that situation?

19           MS. WALKER: Yes.

20           REPRESENTATIVE VULAKOVICH: Thank you.

21           CHAIRMAN SANTONI: Representative Clymer.

22           REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

23           And welcome, Ms. Walker, to our meeting here  
24 this morning. Picking up where Representative Schroder was  
25 directing, is there, was there any noticeable increase in



1     addictive gambling when the video lottery program came into  
2     South Dakota? Now, I know you already had the casinos, but  
3     when this particular type of gambling came in, did you --  
4     was there a visible notice of complaints of problems by the  
5     people in South Dakota?

6                     MS. WALKER: If we looked at 1989, that was  
7     really the time in which there was the initiation of gaming  
8     in the State of South Dakota, so video lottery really came  
9     in at the same time as the Deadwood casinos under the  
10    Indian Regulatory Act. There were, yes, there were  
11    newspaper reports and the like with respect to individuals  
12    that did have problems with video lottery.

13                    I think the fact that video lottery was more  
14    localized, that really became kind of the forefront where  
15    people were looking at. I would also say this: In the  
16    beginning of video lottery, the fact that for the first  
17    time this type of activity became legalized, there were a  
18    number of people using those gray area machines prior to  
19    the legalization of video lottery.

20                    I truly believe that by legalizing this, it  
21    allowed people to come forward who may have had a problem  
22    with the gray area machines, that now that this was illegal  
23    activity, this needs to be addressed. And, you know, and  
24    as I said, that absolutely, we do need to address and  
25    provide whatever the state feels is sufficient funding to

1 assist people that could have, a small percentage of the  
2 population that could have a problem with this form of  
3 gaming.

4           REPRESENTATIVE CLYMER: I wanted, in my final  
5 comment -- at a prior meeting of this Committee, I had  
6 mentioned an Associated Press story where the father-in-law  
7 had a son-in-law who had manipulated \$4 million from his  
8 company for gambling habits, and because of that, he was  
9 starting an organization to repeal the video lottery  
10 program. And this was around the late 1990's. Were you  
11 aware of any organization, grassroots organization that  
12 attempted to repeal the video lottery machines?

13           MS. WALKER: Most certainly.

14           REPRESENTATIVE CLYMER: So --

15           MS. WALKER: In fact, South Dakota survived  
16 three statewide votes on this. South Dakota is a -- there  
17 are a number of states in the union that have what they  
18 call the initiative (inaudible), meaning if you get a  
19 sufficient number of signatures by the public, they can  
20 put -- they can either initiate a law that they feel that  
21 the Legislature has not passed, or they can also do what  
22 they call a referendum, that they can work to defeat a law  
23 that the Legislature has passed.

24           So, yes, there was a group that, you know, a  
25 concerted effort on their part to repeal video lottery. In

1 1991 and then in 1994, it was placed on the ballot, and  
2 that was to amend the State Constitution to allow for a  
3 state-operated lottery. And then the last one was in 2000,  
4 so there has been three. But there has not been any for an  
5 extended period of time.

6 REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

7 CHAIRMAN SANTONI: Mrs. Walker, thank you so  
8 much for your testimony and for insight. I'm sorry. One  
9 more member of the panel has a question. I apologize.

10 Representative Costa.

11 REPRESENTATIVE COSTA: Thank you, Mr. Chairman.

12 It's really just a comment, and not to keep you,  
13 but I want to thank you for your expert testimony. It  
14 really enlightened me and reaffirmed my belief and shows  
15 facts that this should be a vendor-based type of system  
16 because I can see with the other states what has been  
17 accomplished, and we need that type. If we're going to  
18 legalize, it's going to have to be that way in  
19 Pennsylvania. Thank you very much, and have a safe flight.

20 Thank you, Mr. Chairman.

21 CHAIRMAN SANTONI: I apologize, Representative  
22 Costa.

23 Again, thank you for your testimony and for your  
24 insight.

25 Just an announcement, we are very behind

1 schedule. We have to make a couple of adjustments, one  
2 being we're going to take a five-minute break, a quick  
3 five-minute break that I think we all need. And then  
4 Secretary Stetler will be the next testifier, and everyone  
5 else will just fall behind there. For scheduling reasons,  
6 he has to testify next, so five minutes and we'll be back.

7 (A brief recess was taken.)

8 CHAIRMAN SANTONI: Our next testifier is the  
9 Secretary of the Pennsylvania Department of Revenue,  
10 Mr. Stephen Stetler.

11 Secretary Stetler, when you're ready, you may  
12 proceed.

13 MR. STETLER: Thank you, Mr. Chairman.

14 I have submitted testimony for review by the  
15 members of the Committee. I don't think I need to read it  
16 this morning, but I would like to make one or two comments  
17 about my testimony and the process itself. First of all,  
18 I'd like to thank you for allowing the Department to come  
19 back and testify about this important piece of legislation.

20 I also want to thank you, Mr. Chairman, for  
21 introducing the legislation. I think it's an extremely  
22 important piece of legislation that requires immediate  
23 attention on the part of the Legislature because the sooner  
24 the Legislature acts on this legislation, the sooner our  
25 kids and those in college will be receiving the benefit of

1 this legislation.

2           The other point I just want to make perfectly  
3 clear to people is that the legislation as drafted really  
4 follows the lottery model, and I believe wholeheartedly  
5 that the lottery model should ensure, for people who are  
6 overseeing this type of video lottery terminals, should  
7 give them comfort knowing that the operation will be very  
8 efficient and very effective and that the Department  
9 utilizing the language in this bill as drafted will be able  
10 to ensure the integrity of this program.

11           And I think that's very important as this  
12 process goes forward. With that, I'll be more than happy  
13 to take any questions.

14           CHAIRMAN SANTONI: Chairman Schroder.

15           REPRESENTATIVE SCHRODER: Thank you, Secretary  
16 Stetler. Nice to see you again. You were talking about  
17 the different models as I came in a bit tardy, and I do  
18 apologize for that. I wanted to explore that issue with  
19 you a little bit.

20           As you know, we've heard from other concerned  
21 stakeholders, interested groups in the outcome of this,  
22 that they have not approved the so-called Oregon model that  
23 this seems to be based on. Could you give me a brief  
24 summary of the reasons why the Department of Revenue  
25 supports this sort of single-source model?

1           MR. STETLER: Yeah. And thank you. I  
2 appreciate you asking that question because I think it's  
3 very important so that people understand this issue. There  
4 are two primary reasons why, you know, at first pass that I  
5 would say causes us to favor the lottery model as this  
6 legislation's drafted after.

7           The first of those is the integrity of the  
8 system, the fact that there would be a single place, I'm  
9 assuming in Harrisburg, run by the Department of Revenue  
10 that would control entirely the machines that are located  
11 in what could be 85 hundred different venues, maybe more  
12 venues, the fact that those machines will be under the  
13 auspices and control of the Department of Revenue.

14           We'd be able to monitor whether or not there's  
15 any tampering going on with machines, things of that  
16 nature. It's very important, and that's one of the key  
17 elements as this legislation is drafted. The other is the  
18 administrative costs. Once you go to other forms of  
19 managing this type of a program, the administrative costs  
20 that the Department of Revenue will encounter will escalate  
21 dramatically.

22           You know, all of a sudden, we'll be doing  
23 running testing labs; we will be doing -- we will have to  
24 have more people out in the field visiting all the taverns,  
25 the clubs, things of that nature. I mean, the

1 administrative burden on the Department will escalate  
2 dramatically. And I think that you have to keep that in  
3 mind and that it all focuses back on the integrity of the  
4 program and the fact that, I think, the tighter controls  
5 the Department of Revenue has over the program, what their  
6 integrity would be.

7 REPRESENTATIVE SCHRODER: What subdivision or  
8 bureau in the Department would this be directly overseen?

9 MR. STETLER: We would establish a new  
10 department to do that.

11 REPRESENTATIVE SCHRODER: Okay. Is there an  
12 individual in the Department right now who would be slated  
13 to oversee that?

14 MR. STETLER: We have not targeted a specific  
15 person. We are looking at the organization of the  
16 Department to see how we would do this. It would not be  
17 part of the lottery. It would be an independent bureau in  
18 the Department.

19 REPRESENTATIVE SCHRODER: Is there -- if I might  
20 ask, is the Department being advised by anyone, either  
21 internally or externally, on the proper methods for  
22 integrity purposes how this should be structured?

23 MR. STETLER: Well, we draw upon the leadership  
24 of the lottery. Ed Trees and his staff have run a very  
25 effective lottery here in Pennsylvania, and their

1 experiences are very important to these discussions.

2 REPRESENTATIVE SCHRODER: On another matter, as  
3 the Department of Revenue, either while since the time  
4 you've been Secretary or if you know prior to that, have  
5 they ever prosecuted any cases or gone after any vendors of  
6 the video poker machines for tax avoidance and tax fraud in  
7 the State of Pennsylvania, what has been described by the  
8 State Police as a criminal enterprise that operates in the  
9 state making millions in profits?

10 MR. STETLER: The answer to that would be no.

11 REPRESENTATIVE SCHRODER: No since you've been  
12 Secretary, or no, never?

13 MR. STETLER: Let me say, I can only speak about  
14 the time since I've been Secretary. You know, when you use  
15 the term criminally --

16 REPRESENTATIVE SCHRODER: That was the State  
17 Police's term, not mine.

18 MR. STETLER: Okay. I don't want to force  
19 words. But we have a relationship with the Attorney  
20 General's office, and if there would be something like  
21 that, we would work with them. But to my knowledge, we  
22 have none.

23 REPRESENTATIVE SCHRODER: To your knowledge, no  
24 cases of tax fraud or tax avoidance have come before the  
25 Department --



1 MR. STETLER: Not to my knowledge.

2 REPRESENTATIVE SCHRODER: -- for these vendors?

3 MR. STETLER: Not to my knowledge.

4 REPRESENTATIVE SCHRODER: All right. I believe  
5 that's all I have.

6 Thank you, Mr. Chairman.

7 CHAIRMAN SANTONI: Representative Costa.

8 REPRESENTATIVE COSTA: Thank you, Mr. Chairman.

9 Basically in your testimony, you said that the  
10 administrative costs are a major factor, but you're talking  
11 about adding a new department. How many more state  
12 employees do you need to have to manage a system like that,  
13 and what kind of a cost would it be?

14 MR. STETLER: Mr. Chairman, I forgot to  
15 introduce -- and I apologize -- Stacy Ambler (ph) to my  
16 right, who is the Budget, now the Director for the  
17 Department; and Julie Sheraton (ph) to my left, who is  
18 counsel. And I'll ask Stacy to answer those questions for  
19 you.

20 MS. AMBLER: At full operation, about 157  
21 individuals; and we can remain, with the cost of the extra  
22 people and the operating cost associated with that, we can  
23 live within the license fees that are going to be  
24 collected.

25 REPRESENTATIVE COSTA: So we're talking about

1 adding another 157 state employees with benefits and things  
2 like that?

3 MS. AMBLER: Yes.

4 REPRESENTATIVE COSTA: All right. Okay. Let's  
5 go to the integrity issue. You said that -- I can  
6 understand your viewpoint, but have you checked with other  
7 states that already have those systems in place? Are they  
8 having any problems, any problems with their integrity?

9 I mean, I visited the gaming lab, and I commend  
10 you. It's excellent. It's really very impressive. But if  
11 the machine's plugged in, it's plugged in; and if I'm a  
12 private vendor and I know if one chance of trying to  
13 violate the integrity of the establishment actually would  
14 give me jail time and actually cause me my license for  
15 vending, there's no way in heck that I would do it.

16 Have we checked with any other states to see if  
17 there were any reported incidents of someone trying to  
18 tamper or break into the system with the private vending  
19 systems in place there, or are we just assuming that  
20 there's corruption out there and we're just going to let it  
21 go?

22 MR. STETLER: A couple of answers to that; one  
23 is that we have been in communication with a lot of other  
24 states who are engaged in these types of programs so that  
25 we are benefitting from their experiences. I cannot

1 specifically say to you that we have asked directly whether  
2 or not their systems have been violated.

3 REPRESENTATIVE COSTA: But we're using it as one  
4 of your stances for supporting the single base versus the  
5 vendor base, and I think that we should have evidence to  
6 show if, indeed, there is a problem with that evidence.

7 I'd like to see anything you have documented so  
8 that we can make our decision because if there's no  
9 incidents of integrity violations and things like that, I  
10 personally favor the stimulus of giving people jobs in  
11 private industry. We have enough businesses in the state.  
12 I don't think we need to start doing businesses. If you  
13 can get that information together --

14 MR. STETLER: I'll be glad to provide that to  
15 you.

16 REPRESENTATIVE COSTA: All right. Thank  
17 you.

18 Thank you, Mr. Chairman.

19 CHAIRMAN SANTONI: Mr. Secretary, I just have  
20 one question. And it was asked of other testifiers, and I  
21 want to get your perspective. There's been some criticism  
22 about whether this is going to have an effect on the  
23 lottery system.

24 I would just like to know if you've done any  
25 research or your personal opinion or what you feel about

1 that particular criticism, the fact that if the  
2 introduction of these VLTs would negatively affect the  
3 state lottery system.

4 MR. STETLER: Thank you. And I guess I have a  
5 couple of answers to that, Mr. Chairman. First of all, the  
6 Legislative Budget and Finance Committee just issued a  
7 report which they do every year that tracks the impact of  
8 the casinos on the lottery system, and, once again, this  
9 year, they issued a report saying that they could not  
10 determine any negative impact of the casinos on the  
11 lottery.

12 So within that context, I think that there's a  
13 clear message being sent that there is no impact. The  
14 other answer to your question is the fact that we look at  
15 different venues. We look at different venues, and we feel  
16 that the venues involved with the lottery, those involved  
17 with the casinos and those involved with taverns and clubs  
18 are entirely different venues offering different  
19 opportunities for these activities.

20 We do not feel that they will interfere or  
21 conflict with each other. But we truly feel that based  
22 upon our experiences looking at other states and the way  
23 Pennsylvania's lottery is run, I mean, you're seeing, even  
24 in the down economy this year, you know, we are seeing an  
25 increase in growth in the Pennsylvania Lottery.

1           So it's an extremely well-run operation. It is  
2 always reviewing its games. It's always making sure that  
3 it's changing things keeping the interest. I feel very  
4 confident that the lottery will continue to thrive in  
5 Pennsylvania and that there will be no adverse effect.

6           CHAIRMAN SANTONI: Thank you. And Chairman  
7 Schroder has a follow-up question.

8           REPRESENTATIVE SCHRODER: Thank you.

9           Secretary Stetler, I don't have the figures  
10 before me, but what I recall from a recent inquiry I made  
11 to our House Appropriations folks -- it was for a talk I  
12 was giving to seniors recently. That's why I recall it.

13           I was informed that the recent history of  
14 lottery sales show that while overall they've been fairly  
15 level, they've gone up in many areas of the state by a few  
16 percent; but in counties that host existing slot  
17 facilities, there has been a drop in sales in the counties.

18           So instead of having an overall increase in  
19 revenues for the lottery, we've had this more or less  
20 leveling, which as I understand it, can perhaps be  
21 attributed to the reductions in those counties that have  
22 the slots casinos.

23           So I guess my question is this: One, do you  
24 dispute that -- we would like to know that -- but, two, if  
25 that is the case and we, in the future, have video lottery

1 terminals, video poker in every county, could we then not,  
2 based upon that experience, isn't it reasonable we could  
3 expect to see some downturn in folks buying lottery  
4 tickets?

5 MR. STETLER: Thank you for that question.  
6 There, once again, there's several answers to that  
7 question. First, we track sales by counties, and we have  
8 seen that in a couple of counties, a lot of border  
9 counties, counties that border states that aren't involved  
10 in the Powerball, but in the Mega Millions, there is  
11 trading-off of people buying tickets.

12 And during this last calendar year, the Mega  
13 Millions, their gains had a couple of higher jackpots than  
14 we did, so we saw a migration of some of our ticket buyers  
15 going over into other states to buy tickets. That's one  
16 answer to your question. Secondly, we have, in all of the  
17 open casinos today, there are lottery ticket machines in  
18 every one of those venues.

19 And some of those venues are our best venues for  
20 lottery sales. So, I mean, while people are in playing the  
21 machines in the casinos, they're also buying lottery  
22 tickets. And, third, in a very unscientific way, Chairman  
23 Schroder, just so you understand, we've been looking and  
24 tracking unemployment in counties.

25 And what we've seen is that in some counties

1 where there are no casinos, we have seen the largest drop  
2 in lotto sales, and some of that we tie into unemployment  
3 more than we do -- if you look at the entire map of the  
4 Commonwealth and the lottery sales, you'll see that there  
5 are some counties that have had a huge drop in lottery  
6 sales.

7           One reason we've lost some lottery dealers this  
8 year -- and in some counties, there aren't that many  
9 lottery dealers. I mean, you could lose two in a county  
10 and lose 25 percent of your lottery dealers, and we've  
11 experienced that in one or two counties, just because of  
12 the economy. So there's a lot of factors involved here,  
13 but we cannot, at this point in time, track directly to  
14 casinos the drop in lottery sales.

15           REPRESENTATIVE SCHRODER: I would just be  
16 interested to know -- and if you have the figures, and I'll  
17 double-check from our sources as well. But if you have  
18 figures on the lottery sales in those counties that have  
19 opened slots casino facilities, we just would appreciate  
20 providing that information in some sort of historical  
21 tracking, you know, since they were open and the history  
22 since they've been open as to the sale of lottery in those  
23 counties.

24           If you have that information, I would appreciate  
25 that because my concern is that if we enact this, we're

1 going to rev up that groundhog for a few more commercials  
2 or something.

3 MR. STETLER: He's always up to a challenge,  
4 Mr. Chairman.

5 REPRESENTATIVE SCHRODER: I believe that. He  
6 seems to be. All right. Thank you.

7 CHAIRMAN SANTONI: Mr. Secretary, thank you so  
8 much, not just -- oh, I'm sorry. Chairman Caltagirone has  
9 a question.

10 REPRESENTATIVE CALTAGIRONE: I'm not going to  
11 let you off that easy.

12 MR. STETLER: Just remember, I gave blood this  
13 morning.

14 REPRESENTATIVE CALTAGIRONE: Conversations that  
15 we've had about the integrity of the lottery system -- it's  
16 always kind of interesting -- everybody's wants their fair  
17 share whether they're for or against gambling. And I'm not  
18 saying you're right and I'm wrong, but we know how much  
19 money is generated each year. Is it substantial amounts  
20 from the lottery to help our senior citizens and those that  
21 are disabled?

22 MR. STETLER: Yes.

23 REPRESENTATIVE CALTAGIRONE: Do you have any  
24 figures on what we might anticipate by the end of June this  
25 year roughly, either you or the ladies beside you?



1           MR. STETLER: I'm going to say above 900 million  
2 would be the net profit from the lottery.

3           REPRESENTATIVE CALTAGIRONE: That will go to  
4 help property tax rebates and --

5           MR. STETLER: Absolutely.

6           REPRESENTATIVE CALTAGIRONE: -- all the other  
7 things associated there? So it's a substantial amount of  
8 income that comes in?

9           MR. STETLER: Yes, sir.

10          REPRESENTATIVE CALTAGIRONE: The integrity of  
11 the system, the lottery system, has there ever been a  
12 situation where a lottery machine was tampered with that  
13 you would know, or is there any history that any of these  
14 machines -- you know, the balls were rigged by weighing  
15 down the others, but not the machines as far as I know,  
16 correct?

17          MR. STETLER: Right. Correct.

18          REPRESENTATIVE CALTAGIRONE: So machines  
19 themselves are fairly secure and safe, hard wired?

20          MR. STETLER: Yes. I mean, you're talking about  
21 the Daily Number machines?

22          REPRESENTATIVE CALTAGIRONE: Yes.

23          MR. STETLER: Yes, sir.

24          REPRESENTATIVE CALTAGIRONE: So that proves that  
25 the system is safe?

1 MR. STETLER: Yes.

2 REPRESENTATIVE CALTAGIRONE: And whether or not  
3 we've had one vendor or numerous vendors, they would have  
4 to comply with the same standards that you've had with the  
5 lottery since almost its inception as far as the --

6 MR. STETLER: Now, you're shifting back and  
7 forth here.

8 REPRESENTATIVE CALTAGIRONE: Well, the hard  
9 wiring that you have with the lottery right now --

10 MR. STETLER: Right.

11 REPRESENTATIVE CALTAGIRONE: -- in the systems  
12 that we will eventually hopefully have with these machines,  
13 VLT, hard wired, central location in Harrisburg, everything  
14 is being put in in any location; everything is being paid  
15 out, all recorded?

16 MR. STETLER: Yes, sir.

17 REPRESENTATIVE CALTAGIRONE: Kind of similar to  
18 what we have now with the lottery machines? I mean, you  
19 can tell up here in Harrisburg from a central location  
20 exactly how much money is being played at a machine in any  
21 location in the state, correct?

22 MR. STETLER: Yes.

23 REPRESENTATIVE CALTAGIRONE: And you would  
24 anticipate that that would be the same with whatever system  
25 we finally evolve to?

1 MR. STETLER: Yes.

2 REPRESENTATIVE CALTAGIRONE: Okay. I just  
3 wanted to get that on the record. Thank you. Thank you,  
4 Mr. Secretary.

5 Thank you, Mr. Chairman.

6 CHAIRMAN SANTONI: Chairman Clymer with a  
7 question.

8 REPRESENTATIVE CLYMER: Welcome, Mr. Secretary.  
9 Good to see you again --

10 MR. STETLER: Good to be seen.

11 REPRESENTATIVE CLYMER: -- as always. In your  
12 testimony, you said that the video lottery terminals in  
13 Pennsylvania is not an expansion of gambling and gaming.  
14 Well, I believe it is. It's a serious expansion of  
15 gambling in Pennsylvania when you're going to move forward  
16 with some possible 45 to 50 thousand video poker machines.

17 I mean, I know that's the expression, and that's  
18 the way people have to spin it. And I'm not faulting you,  
19 but just so that the people of Pennsylvania know -- they  
20 know better. They know that this is just smoke and mirrors  
21 when you say this is not an expansion of gaming. This is a  
22 major expansion of gaming, and I just want to set the  
23 record straight from my perspective. And thank you very  
24 much.

25 Thank you, Mr. Chairman.

1                   CHAIRMAN SANTONI: Again, Mr. Secretary, we  
2 thank you, not just for today, but for past hearings and  
3 for your willingness to come and testify and provide some  
4 insight. And we thank you all, and enjoy the rest of your  
5 day. We look forward to working with you.

6                   MR. STETLER: I was going to say, Mr. Chairman,  
7 we look forward to working with you and any amendments.

8                   CHAIRMAN SANTONI: Thank you very much. I  
9 appreciate it.

10                   Our next set of testifiers, John P. Milliron,  
11 Esquire, Legislative Counsel, Pennsylvania Tavern  
12 Association and Pennsylvania Amusement and Music Machine  
13 Association; and Amy Christie, Executive Director of the  
14 Pennsylvania Tavern Association.

15                   When you're ready, you may begin.

16                   MS. CHRISTIE: Good afternoon. I would like to  
17 thank you, Chairman Santoni, and the Oversight Gaming  
18 Committee members for allowing the Pennsylvania Tavern  
19 Association to voice our thoughts and concerns again on  
20 House Bill 1317 in front of you today. My name is Amy  
21 Christie, and I am the Executive Director of the  
22 Association.

23                   I delivered testimony to you on April 7th at  
24 Westmoreland College on House Bill 1317 known as the  
25 Tuition Relief Act. The Tuition Relief Act is a worthy and

1 noble cause. In a time of economic crisis, the drive the  
2 Chairman has taken in conjunction with the Governor will  
3 not only help ensure that our Commonwealth youth be able to  
4 receive a higher education, but the Tuition Relief Act will  
5 also ensure that our Commonwealth will be able to retain  
6 educated people, which will result in better job  
7 opportunities, more expendable income and more consumer  
8 spending in the Commonwealth.

9           The Pennsylvania Tavern Association is proud to  
10 be a part of this venture. The Pennsylvania Tavern  
11 Association has also researched the possibility of  
12 acquiring some type of gaming in our establishments for  
13 many years. Private clubs have been gaming since 1988; the  
14 off-track wagering sites have been running in the  
15 Commonwealth since the early '90's, and most recently, the  
16 casinos were open in Pennsylvania.

17           We would like to express our sincere  
18 appreciation to Chairman Santoni for recognizing the small  
19 taxpaying businesses that have been in operation since  
20 prohibition ended in the early 1930's and our need to be  
21 able to fairly compete with our industry counterparts.

22           As much as we want this opportunity, we also  
23 want the Tuition Relief Act to be a successful program that  
24 continues to educate Commonwealth children for years to  
25 come. The state model of House Bill 1317 is most similar

1 to in comparison of the Oregon model that places video  
2 terminals in licensed establishments.

3           Their program is also run solely through a  
4 state-run lottery. The state's model also has produced a  
5 small percentage of licensees that are willing to  
6 participate in the program. Some language in House Bill  
7 1317 concerning implementation of the program that we  
8 believe would likewise discourage Commonwealth licensees to  
9 participate and hinder the state from maximizing its  
10 potential revenue and to truly aid the future generation of  
11 Pennsylvania citizens are as follows: There are many key  
12 items in the bill that are left undefined that the  
13 Pennsylvania Tavern Association would request to be  
14 considered by the Committee.

15           House Bill 1317 gives full run of the program to  
16 the Department of Revenue. The bill states that a licensee  
17 must apply to be in the program and the Secretary of  
18 Revenue may refuse to issue a license for the machines.  
19 The Secretary will be the person determining items of a  
20 licensed establishment, such as if the establishment is in  
21 good standing with the PLCB, but that term good standing is  
22 not defined in the bill.

23           Other language in the bill left to the complete  
24 discretion of the Department Secretary is the language that  
25 states that the Secretary shall determine the financial

1 fitness, responsibility and security of the applicant and  
2 the applicant's business. Another item left undefined that  
3 would be crucial to a licensee's decision to participate in  
4 and return the state's ability to ensure the program's  
5 longevity in the Commonwealth is the language describing  
6 licensees' fees to join the program.

7           This is quickly followed by the statement that  
8 in addition to the nonrefundable applicant fee of \$500 or  
9 the annual license renewal fee of \$100, that licensees' fee  
10 to get started on the program, the licensee is also  
11 required to pay an annual fee of \$500 per machine. And the  
12 Secretary has the ability to increase those costs to  
13 another amount as determined by the Secretary.

14           This is a potential open-ended and unregulated  
15 cost increase for the licensee to incur. Further hindering  
16 entering into this program is a clause in the bill that  
17 will probably prohibit most private clubs and some  
18 licensees from even participating is a statement that  
19 applications will be denied by the Secretary if the  
20 applicant has been convicted of illegal gambling.

21           You can be found guilty of gambling in  
22 Pennsylvania for events including everything from 50/50s or  
23 raffles for charity groups like Easter Seals, fundraisers  
24 in the community facing hardship to football pools. We  
25 feel that clarification on previous gaming activities

1 should be in statute.

2           Finally, also undefined in the bill is a  
3 statement that the Secretary accountant shall consider the  
4 buying of expected number of plays on a video lottery  
5 terminal at the licensed establishments. In order to  
6 determine how many machines should be placed in this  
7 establishment, there is absolutely no basis or definitions  
8 in the bill that would allow anyone but the Department of  
9 Revenue to know exactly how that determination is made.

10           Our members would be the best to determine if  
11 their establishments would be able to carry one to five  
12 machines based on their clientele and the cost that they  
13 would have to incur to be able to host the machines at all.  
14 In addition to those points in the bill that the PTA would  
15 like reviewed by the Committee are the following items that  
16 a licensee is also going to be faced with in making the  
17 decision whether to participate in the program or not: The  
18 licensees hosting these machines are allotted 25 percent of  
19 the revenue generated.

20           On top of the above-mentioned fees driving down  
21 that percentage, the licensees will also not be protected  
22 from their local municipalities from taxing the 25 percent  
23 even further. The cost to hold entertainment permits are  
24 already a thousand dollars yearly in Pittsburgh for  
25 licensees that have pool tables, jukeboxes, pinballs and



1 etcetera.

2           A glaring problem in the language is that the  
3 owner of a licensed establishment agrees under this bill to  
4 have sufficient funds available at the licensed  
5 establishment to pay out anticipated prizes. This would be  
6 a hardship for many licensees as we are in an economic  
7 crisis while suffering from a recently-passed smoking ban.  
8 If a licensee has three of these machines and each machine  
9 pays out the stated top prize of \$6 hundred two times in  
10 one weekend, the licensee would have to have \$36 hundred on  
11 hand in their licensed establishments.

12           To complicate matters, the bill makes no mention  
13 of when the licensee will be reimbursed by the Department  
14 of Revenue or how often. Additionally a con of  
15 participating in the program for our members of small  
16 businesses include the cost of them installing security  
17 systems and the dramatic increase in health and liability  
18 insurance and workers' compensation.

19           These expenses and other expenses in this bill  
20 would create for licensees to eat up the majority of their  
21 25 percent share leaving the licensee to decide for himself  
22 if the aggravation and the process is worth it to  
23 participate. As I stated earlier, the Pennsylvania Tavern  
24 Association fully supports the concept behind the Tuition  
25 Relief Act.

1           We want to be able to recommend that most  
2 licensees participate in House Bill 1317, a legendary piece  
3 of legislation. We strongly feel that the issues we have  
4 discussed in this testimony need to be addressed so that we  
5 can all move forward to successfully provide affordable  
6 higher education the Commonwealth gives. The people of the  
7 Commonwealth are also very supportive of this venture  
8 according to the recent statewide poll showing a whopping  
9 68 percent approval for video gaming machine revenue to aid  
10 the Tuition Relief Act.

11           We will be happy to work with the Committee and  
12 offer any input that will help you to perfect this  
13 legislation, as the true beneficiaries of this bill will be  
14 the countless numbers of Commonwealth children that will be  
15 given the opportunity to further their education.

16           Personally, my family applauds the Chairman's  
17 whole initiative. My brother gained a scholarship through  
18 a program in another state that uses video terminal revenue  
19 for higher education for his premed studies. He went on to  
20 complete his medical degree and has remained in the state  
21 that aided him in reaching his educational goals.

22           Results like that will only help to solidify the  
23 future of Pennsylvania's economy by producing many more  
24 educated people that will attract higher paying jobs and  
25 produce more expendable income for consumer spending.

1 Thank you for your time and attention.

2 MR. MILLIRON: Good afternoon, Mr. Chairman, and  
3 members of the House Gaming Oversight Committee. My name  
4 is John Milliron, and I am Legislative Counsel to the  
5 Pennsylvania Tavern Association and the Pennsylvania  
6 Amusement and Music Machine Association. I began working  
7 on video poker legislation in 1987 with Representative  
8 Freddie Trello.

9 A bill legalizing pokers passed both the House  
10 and Senate in 1990, but was vetoed by Governor Casey.  
11 Similar legislation passed the House in the late '90's and  
12 again in early 2000, but neither passed the Senate.  
13 Representatives Paul Costa and Frank Dermody have also  
14 introduced bills in the last four or five years that would  
15 legalize video gaming in Pennsylvania's taverns and clubs.

16 Every one of these bills that I just mentioned  
17 was a joint effort of all parties; taverns, clubs, vendors,  
18 distributors and, of course, the Legislature. Both the  
19 Tavern Association and PAMMA fully supported these measures  
20 because everybody was involved in the drafting. You've  
21 just heard how the current proposal, House Bill 1317, would  
22 impact the typical tavern.

23 A little bit on the side, Chairman Santoni,  
24 perhaps we can give the breakdown of those given out in  
25 Greensburg by the owner of McGrath's Tavern here in

1 Harrisburg, Tommy Scott. He broke down how much would  
2 actually be left after his 25 percent of the projected  
3 revenue. You just heard from the Tavern Association.

4 I want to explain how it would impact amusement  
5 machine vendors. All of the earlier bills were vendor  
6 based; that is, a private company would own, install,  
7 repair and maintain the games, collect the funds from the  
8 machines and be responsible with providing the taverns and  
9 clubs with sufficient funds to pay out all anticipated  
10 prizes.

11 A rigorous background check was required in all  
12 of these bills before the vendor could ever be licensed to  
13 do business in Pennsylvania. Currently, five states have  
14 video gaming in their bars and clubs; South Dakota,  
15 Montana, Louisiana, West Virginia and Oregon. The first  
16 four are vendor based. Only Oregon is not. It is what's  
17 known as sole source run by the state as you've heard  
18 before.

19 The first four states have between 78 and 85  
20 percent of their eligible liquor licensees participating.  
21 Oregon has only 36 percent. In the first full year of  
22 operation, South Dakota generated 107 million, West  
23 Virginia generated 172 million and Oregon generated 178  
24 million. The thing is, Oregon is twice the size of West  
25 Virginia and only generated the same amount, and it's five

1 times the size of South Dakota and only generated twice the  
2 amount.

3           These statistics are important for you to know  
4 and understand because if video gaming does pass the  
5 Legislature, you want it to be successful so parents can  
6 send their children to college. It would be a very cruel  
7 hoax on working parents for this to pass and then to never  
8 live up to its expectations and promises.

9           I'd like to specifically address the issue of  
10 vendors since this has created probably the most  
11 discussions about House Bill 1317. This legislation is not  
12 about whether companies that are currently putting pokers  
13 on the street if they stay in business.

14           This is about whether decent, honest people who  
15 today place only legal machines, such as pinball, dart,  
16 pool, jukeboxes and trivia games in Pennsylvania's taverns  
17 and clubs, it's whether they will be in existence in three  
18 years from now. This is about Smith Amusements in Camp  
19 Hill. This is about Guerrini Vending in Lewistown. This  
20 is about Shay's Vending Service in Lebanon.

21           Every one of these people are second-generation  
22 owners running legitimate businesses started by their  
23 fathers and who don't operate a single poker machine. It's  
24 about whether those people will be put out of business by  
25 this Commonwealth and their 14 to 15 employees who will be

1 put on the unemployment rolls. People have a limited  
2 amount of discretionary money. Let's face it.

3 In this recession, it's even less; but even in  
4 good times, there's a limited amount of amusement dollars.  
5 In many of today's bars and clubs, patrons spend some of  
6 those dollars in jukeboxes, pool, darts, trivia games and  
7 the like, as I had said. But when a poker machine is  
8 legalized, the income for all of the other amusement  
9 devices drops in half.

10 Video poker siphons approximately 50 percent of  
11 all of the dollars that are normally spent in these other  
12 coin-operated amusement devices. So if, in fact, it would  
13 be vendor based and you own the poker machines, then you  
14 can absorb the drop in revenue from your other games; but  
15 if you don't own the poker machines, you can't stay in  
16 business.

17 A pinball machine right now is \$10 to \$12  
18 thousand dollars, even though they're not as popular as  
19 they were when we were kids growing up, \$10 to \$12  
20 thousand. If the revenue is normally, say, a hundred bucks  
21 a week split between the tavern and the vendor, if it drops  
22 down to \$50 a week, you can't pay that machine off with  
23 your half of \$25. You just can't do it. The equipment is  
24 too expensive, and it can't be maintained.

25 There were not any further statistics from

1 Oregon when video gaming was first legalized in there in  
2 1992, but I can tell you these numbers: There were 100  
3 members of the Oregon Amusement Machine Association in  
4 1992, and in 1995, there were only 40. That's a 60 percent  
5 failure rate. In Pennsylvania, we estimate that there are  
6 between 350 and 400 small coin-operated amusement machine  
7 companies and that they probably, there probably could be  
8 as many as 240 that would be forced out of business if  
9 there is legalized poker machines that's owned sole source  
10 and not vendor based.

11           These people would employ close to 2 thousand  
12 people, an extra 2 thousand people we're going to have out  
13 on the unemployment rolls. If you legalize video gaming  
14 and have the state choose one statewide vendor, you will  
15 not only shut down illegal poker machines, but you're going  
16 to shut down the hundreds of honest people who don't have  
17 them out there who depend on other amusement devices.

18           If I could, Mr. Chairman, there's just a comment  
19 to the Secretary, who, again, a great friend of ours. But  
20 Steve had said that there were two main reasons why the  
21 state went sole source; number one, the integrity of the  
22 system. The reason you want a central computer with hard  
23 wiring to every single terminal is so that computer at the  
24 Department of Revenue, whoever happens to be running it  
25 over there, they know every single nuance of every single

1 machine in the state.

2           They know every dime that went in, every dime  
3 that went out; every time it was opened; every time a  
4 dollar was taken out of it. The absolute total integrity  
5 of the machine is guaranteed by the central computer. So  
6 the central computer integrity is not just if it's sole  
7 source; it's also if it's vendor based. His second thing  
8 was administrative costs.

9           There is no way -- and I don't want to get into  
10 fighting with Bill George and Wendell Young (ph) from the  
11 state union employees, but there is no way the state can  
12 economically run a gambling industry better than private  
13 enterprise, just like they can no sooner run the liquor  
14 business cheaper -- I'm not saying whether we should have  
15 the system or not -- they can't run it cheaper than what  
16 private enterprise can.

17           The integrity of this game is critical. The  
18 background checks, that is the kind of things that should  
19 be in the legislation to guarantee both the integrity of  
20 the vendor and the integrity of the machine.

21           Thank you, Mr. Chairman.

22           CHAIRMAN SANTONI: Thank you, Amy and John, for  
23 your testimony. We'll start questioning from Chairman  
24 Schroder.

25           REPRESENTATIVE SCHRODER: Thank you. John, I



1 want to ask you a question or a couple questions. Now,  
2 you've been to a couple of these hearings and have heard  
3 the testimony of the State Police, which have described  
4 vendors of video poker machines as engaged in a criminal  
5 enterprise; and they use that term every time they come out  
6 and testify, yet I think you're saying that you dispute  
7 that, that there are no --

8 MR. MILLIRON: Absolutely not, Mr. Chairman.  
9 What I'm disputing is that everybody in this business is  
10 some kind of hoodlum or mobster or involved in criminal  
11 endeavors. It would be an estimate after representing this  
12 client for 27 years, that it is a handful of those who join  
13 our association. The legitimate vendor will be crippled by  
14 this, and that vendor should not pay the price because some  
15 other idiots out there with illegal pokers.

16 And that is not widespread. I guarantee you you  
17 won't find a poker machine in Chester County. You won't  
18 find a poker machine here in Dauphin. You won't find one  
19 in Erie. You won't find one in my hometown of Altoona,  
20 Blair County.

21 The video poker machines that the State Police  
22 describe -- I'm not doubting anything of what they  
23 describe -- it is in two, yes, highly-populated areas,  
24 Pittsburgh, Allegheny and Philadelphia County. I don't  
25 know how many vendors there are there, but there are

1 hundreds and hundreds outside of those areas that run  
2 legitimate businesses.

3 Fred Wood runs Midstate Vending in State College  
4 in Clearfield County. Fred's got four or five employees.  
5 He doesn't run poker machines. There are no poker machines  
6 in those counties. He would be put out of business if  
7 someone else though come in, meaning the state, and had  
8 poker machines because the legitimate amusement machines  
9 that he has there now would just drop in revenue.

10 So I'm not disputing, Chairman Schroder,  
11 anything that the State Police said. What I want to  
12 emphasize is it's an extremely small geographical area;  
13 and, again, not populationwise, but an extremely small  
14 geographical area where this is occurring, and it should  
15 not be penalizing.

16 Just like any industry or any profession or any  
17 trade, there are some bad characters; and thank God, mostly  
18 good, and that's the same thing in this particular case.

19 REPRESENTATIVE SCHRODER: How many machine  
20 vendors are in the organization?

21 MR. MILLIRON: 102.

22 REPRESENTATIVE SCHRODER: 102. Yet the State  
23 Police describe -- they haven't given us a number, but they  
24 said hundreds a couple times of outfits, vendors, whatever  
25 they are, that supposedly supply these video poker

1 machines, take the cut, don't pay taxes. You heard the  
2 testimony. So are these companies that are illegitimate in  
3 their entirety flying under the radar, or are they  
4 companies that have legitimate functions and that also do  
5 this?

6 MR. MILLIRON: I would guess, Chairman Schroder,  
7 both, but the only -- I had said I'm not going to dispute  
8 any of the State Police numbers. First of all, I have no  
9 idea how many illegal machines are out there, but the  
10 bottom line is I --

11 REPRESENTATIVE SCHRODER: I believe 17 thousand.

12 MR. MILLIRON: Well, what I'm saying is it's  
13 very possible. I'm not disputing that. I guess the one  
14 number thing I would dispute with them is the description  
15 that hundreds of vendors are out there with poker machines.  
16 I think there are vendors out there with poker machines in  
17 Allegheny, southwestern Philadelphia County.

18 There aren't hundreds of vendors in that -- in  
19 the entire western and eastern part of the state, there  
20 aren't hundreds of vendors. There's only about 350 in the  
21 entire state, so the number hundreds of vendors is a  
22 misrepresentation -- I'm sure not intentionally -- but that  
23 is not true.

24 REPRESENTATIVE SCHRODER: So from what you know,  
25 there is a total in the state of 300-some you said?

1 MR. MILLIRON: Because we have 102 members.

2 REPRESENTATIVE SCHRODER: Right.

3 MR. MILLIRON: We're estimating we represent  
4 about 25 percent, so I'm extrapolating that number. Other  
5 states, there's a national group called the AMOA. The  
6 bottom line is that they tell you if you've got 25 percent,  
7 you're doing pretty good and that's average. So I'm not  
8 extrapolating it because I know the other 300 out there.  
9 I'm saying with 102 numbers, there's probably another 75  
10 percent that don't join.

11 REPRESENTATIVE SCHRODER: I understand. Well,  
12 that's interesting and enlightening testimony. Of course,  
13 the State Police use that hundreds of, that hundreds figure  
14 to justify the fact -- they say it's the fact that they  
15 can't go after all of them, too many out there, etcetera,  
16 etcetera. So what you seem to be suggesting is that those  
17 numbers might need to be scrutinized a little more closely?

18 MR. MILLIRON: Yes, sir.

19 REPRESENTATIVE SCHRODER: Interesting.

20 MR. MILLIRON: One thing for the record -- and I  
21 mentioned this in Greensburg, and I don't want to drag this  
22 on for obvious purposes. You've got other witnesses. But  
23 PAMMA, the Pennsylvania Amusement and Music Machine  
24 Association, was the organization that approached this  
25 Legislature and its leaders in the initial slot machine,

1 racetrack/casino legislation -- I don't want to give  
2 particular names, but the people who were driving that  
3 movement.

4           We went to them and asked them to put \$15  
5 million in for enforcement against illegals. The good  
6 Senator from Philadelphia who's no longer in the Senate  
7 decided that 5 million was more than enough. The point  
8 was, why would an organization go and ask for \$15 million  
9 to combat illegal pokers if, in fact, they were running  
10 them?

11           It doesn't make any sense. So the whole  
12 industry should not be penalized because of a statement by  
13 the Governor or a statement by the State Police that is an  
14 overexaggeration of what's going on.

15           REPRESENTATIVE SCHRODER: Well, I appreciate  
16 your testimony. If you do have any facts and figures that  
17 you come upon that give harder numbers as to what we're  
18 talking about there, I appreciate you sending them our way.  
19 Thank you.

20           CHAIRMAN SANTONI: Representative Sainato.

21           REPRESENTATIVE SAINATO: Thank you,  
22 Mr. Chairman.

23           Thank you, Mr. Milliron.

24           Thank you, Amy. Amy, a question for you, and  
25 I've heard this at previous hearings. You have in your

1 testimony the top payoff is \$600. Is that in the  
2 legislation?

3 MS. CHRISTIE: Yes, sir.

4 REPRESENTATIVE SAINATO: How are we coming up  
5 with that \$600 figure? I mean, video poker machines --

6 MS. CHRISTIE: I believe it's because of tax  
7 reporting purposes.

8 MR. MILLIRON: It happens to be the amount also  
9 that Oregon has. Most other states have a thousand.  
10 Oregon has 600. I don't know where that number  
11 specifically came from.

12 REPRESENTATIVE SAINATO: Well, I'm just saying  
13 here, that figure of \$600, when a video poker machine at a  
14 casino pays a thousand dollars, there's a major discrepancy  
15 here in the legislation.

16 MS. CHRISTIE: Yes, I agree.

17 MR. MILLION: But the whole purpose -- and,  
18 again, I'm not trying to do the psychology of all of our  
19 patrons, but when I go to a casino -- and I'm sorry, Mr.  
20 Clymer, my former roommate, I go to casinos. He was also  
21 the roommate of the speaker's father. The average person  
22 that goes to a casino is going to put 3, 4, 500 bucks in  
23 their pocket because they're going there to gamble.

24 And we go there to try to win big  
25 prizes -- never do, at least I never do -- but the big

1 prizes are at the casinos. When you're going to a bar,  
2 you're going to put 10 or 20 bucks in. You're not going to  
3 a bar to win big prizes. So the earlier expert that we had  
4 asked to come in had said in the old days, the difference  
5 between the bar poker and the casino slot was one dispensed  
6 coins and the other doesn't.

7           The current sort of separation is small prize  
8 amounts versus big ones, and the neighborhood tavern is not  
9 where you're going to go if you think you're going to hit  
10 it big. If you think you can hit it big, then you're going  
11 to have to go to the casinos or the racetracks because  
12 traditionally the prizes are -- I think most of our other  
13 bills, Amy, that we worked on had a \$2 maximum bet and a  
14 thousand dollars maximum prize. But I don't think we want  
15 it large because, again, we're not trying to attract the  
16 big better.

17           REPRESENTATIVE SAINATO: So what you're saying  
18 is that the coins put in would be a lot less than at a  
19 casino then?

20           MR. MILLIRON: Absolutely.

21           REPRESENTATIVE SAINATO: So your statistics  
22 would be the same. So the player would not be -- I don't  
23 want to say being cheated at a neighborhood facility versus  
24 a casino, so they would be on an equal footing?

25           MR. MILLIRON: Under our proposal, they would.

1 We don't -- honestly, 1317 is just -- again, the Secretary  
2 tried to explain it at different times. But we've been  
3 saying it looks like Oregon because of the sole vendor, and  
4 yet this device that he's describing now as far as the  
5 random number generator being at the mainframe, at the  
6 central computer, that's only in New York. I'm not quite  
7 sure what all to tell you about what all's being proposed  
8 by the Administration.

9 REPRESENTATIVE SAINATO: I appreciate your  
10 insight because I know you've studied this issue for many  
11 years. And my concern is -- and I said this at another  
12 hearing -- when you have these illegal machines which could  
13 be set for 20 percent payoffs and customer based, they're  
14 being cheated theoretically.

15 MR. MILLIRON: You're correct.

16 REPRESENTATIVE SAINATO: Now, the state wants to  
17 get into this business, and I think those who want to play  
18 those machines should be treated fairly and equitably, and  
19 the state shouldn't be out there trying to rip people off  
20 either.

21 MS. CHRISTIE: Well, actually in House Bill  
22 1317, it says that the machines are regulated at an 80  
23 percent payoff, when the casinos are actually run at an 86  
24 percent payoff. And I found out today that, right now,  
25 they're running at 91.2 percent payoff.



1                   MR. MILLIRON: So they're already -- the  
2 legislation would already put our customers at a  
3 disadvantage over the casinos. The lower the percentage,  
4 actually the less play. I mean, better, gamblers, players  
5 sense when the payout is lower.

6                   REPRESENTATIVE SAINATO: All that I'm saying,  
7 the player, they go to casinos; they go to those types of  
8 places. If they're putting five coins into the machine and  
9 you win a thousand at the casino, and you're putting five  
10 coins and win \$600 at the neighborhood tavern or pub, I  
11 think you're going to have a very serious problem.

12                   And I think, from what the state's perspective  
13 is, is all this money that we're supposed to be generating  
14 to pay for education isn't going to materialize. I mean,  
15 the players are more sophisticated, I think, than people  
16 give them credit for, especially our seniors, who know the  
17 percentages; they know the payoffs. When they get on their  
18 bus, they know where they're going.

19                   And I just bring that up because it caught me  
20 when you said that in Greensburg, and then it hit me again  
21 today. That number -- we'll look at that through the  
22 legislation as the process moves forward. Mr. Million, I  
23 do want to comment on one thing you said, and I've been  
24 through these hearings. And I think your point is well  
25 taken.

1           You have a lot of honest legitimate business  
2 people and as far as the tavern industry as well. And I've  
3 sat many times, and I always hear about all the  
4 unscrupulous people and all the people that are breaking  
5 the law and all these things. But what about that 90  
6 percent that are honest, taxpaying people, good people in  
7 the state? I think you're given a bad rap.

8           MS. CHRISTIE: I believe so as well.

9           REPRESENTATIVE SAINATO: Yeah. And I did want  
10 to point that out because a lot of times we hear, you know,  
11 they keep using those words unscrupulous. The laws are  
12 there. If they're unscrupulous, you don't want them in  
13 your business just like we don't want them here in the  
14 Legislature.

15           And unfortunately you have a few that are there  
16 or were there, and I think that's unfortunate that the  
17 businesses that both of you are representing sometimes get  
18 labeled in that category. And I think that's very  
19 unfortunate because the ones I've dealt with have families,  
20 they're business people, they're the ones who are out there  
21 in the community, helping the local organizations and the  
22 charities that happen. So I think that point needs to be  
23 made for the record here as well.

24           MS. CHRISTIE: Thank you.

25           REPRESENTATIVE SAINATO: All right. I thank

1 both of you.

2 Thank you, Mr. Chairman.

3 CHAIRMAN SANTONI: Chairman Clymer.

4 REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

5 And welcome, John, listening to the meeting this  
6 afternoon.

7 Amy, I'm going to let you off the hook here.

8 I'm going to direct my questions to John.

9 John, you're supporting the central computer,  
10 right, that that is something --

11 MR. MILLIRON: Absolutely. I think that's  
12 something that's critical. No matter how many vendors you  
13 have, you have to have that central hard wired, that  
14 central computer with all the games hard wired to it.

15 REPRESENTATIVE CLYMER: And that should be  
16 properly bid so that --

17 MR. MILLIRON: Absolutely.

18 REPRESENTATIVE CLYMER: -- we don't go out and  
19 say we have a connection here; we're going to bring this  
20 person in, but there should be a bidding process put out so  
21 that we get the very best computer and at the very best  
22 price. That makes sense. So we can agree there?

23 MR. MILLIRON: Absolutely. One of the  
24 difficulties though that you have if you're talking sole  
25 source, there are very, very few companies that can provide

1 that. And several of them we've been in discussions with  
2 have already said they don't want to bid on it because they  
3 don't want to alienate the racetracks because they do  
4 business with the tracks. So you're talking a very, very  
5 limited number of companies that could even be eligible to  
6 bid. We're talking about a contract that would be worth  
7 hundreds of millions of dollars.

8 REPRESENTATIVE CLYMER: Well, that's my point.  
9 So we agree there?

10 MR. MILLIRON: Yes, sir.

11 REPRESENTATIVE CLYMER: And that's why --

12 MR. MILLIRON: We agree on most things,  
13 Mr. Clymer.

14 REPRESENTATIVE CLYMER: And, yes, that's a  
15 little distraction here. But one of the other issues is  
16 that you are for the -- you would not want to have one  
17 vendor in the Commonwealth of Pennsylvania. And I think  
18 that's something that makes sense. Why would you just want  
19 to have one vendor when you should open it up to everyone  
20 else?

21 You know, that is the same issue we had when the  
22 casino gambling was legalized, the fight over where the  
23 vendor should come from. I think that was the issue, where  
24 they wanted to have some from the east coast, from the east  
25 part of the state and some from the western part of the

1 state. I think that was the debate that took place there.

2 MR. MILLIRON: It's a little different for  
3 the -- the casino law, there was a section that mandated  
4 that the tracks buy their machines from a licensed  
5 distributor, and then the various distributors who were  
6 theorized would have the franchises for, for instance, IGT,  
7 the biggest manufacturer of games in the world, Bally,  
8 several of the others, WMS.

9 And for whatever reason, that was deemed  
10 unnecessary because you were only talking a maximum of 13  
11 locations -- I mean, obviously they're not even open -- and  
12 that that quote/unquote middle person was unnecessary. I'm  
13 not saying I agree with it, but that was the theory. A  
14 middle man though between the state and 12, 13 thousand  
15 taverns is almost mandatory because one person, one company  
16 can't be the middle person. I mean, it's just too much.

17 REPRESENTATIVE CLYMER: So I can understand and  
18 certainly appreciate that we need to open that up so we  
19 just don't have one vendor. And it has been given in prior  
20 testimony that these machines could be worth anywhere from  
21 \$10 thousand to \$15 thousand. Is that not correct?

22 MR. MILLIRON: That's true.

23 REPRESENTATIVE CLYMER: And if you have some 45  
24 thousand to 50 thousand machines, that could be anywhere  
25 from \$500 million to \$750 million, so now we're talking a

1 lot of money. And the last thing we want to do is to  
2 play -- is what you said, is to cloud up the issue of  
3 honesty and integrity as though these deals are being cut,  
4 and we don't want that. We want it open.

5           We want transparency so that the public knows  
6 that if this should pass, that at least they're getting a  
7 fair shake on how the central computer is being bid and how  
8 the video poker machines are going to be distributed among  
9 the many licensees, liquor licensees that would request  
10 them. Those are very important issues, and we have to make  
11 certain that we have that kind of transparency and openness  
12 in this law.

13           So I think that makes sense. Yeah, why should  
14 we penalize the small businesses and just go to one vendor?  
15 Let's provide it for everyone. Let them have a fair share  
16 in the bidding process and see how they can do in the  
17 competitive market.

18           Thank you, Mr. Chairman.

19           CHAIRMAN SANTONI: I thought that we had a shot  
20 at getting that vote with that comment. We'll have to see  
21 if that works.

22           Representative Costa.

23           REPRESENTATIVE COSTA: Thank you, Mr. Chairman.

24           John, you had stated in your own testimony about  
25 private jobs that would be lost would be almost 2 thousand.

1 Is that within your organization, or is that statewide?

2 MR. MILLIRON: No, again, I'm extrapolating the  
3 numbers based on our membership, meaning if we represent 25  
4 percent of the vending companies. We're estimating there  
5 might be 400 out there. If you use the Oregon statistics,  
6 250 of them are going to be out of business within three  
7 years. There was something in the Post Gazette out your  
8 way. I don't know the gentleman, but the reporter called  
9 the President of the Oregon Amusement and Machine  
10 Association and asked him for a background.

11 And I forget his name, but his quote was that  
12 there's only a handful left and that more than 60 percent  
13 were put out of business back in the '90's. So we're using  
14 the 60 percent, and, again, that's legitimate people going  
15 out of business.

16 I'm not saying none of the illegal companies  
17 wouldn't go out also, but we're talking about the impact it  
18 would have on a legal entity that today puts that jukebox  
19 and pinball in the local tavern. He's the one, he or she  
20 are the ones we're worried about.

21 REPRESENTATIVE COSTA: Well, even if you're half  
22 right, even if a thousand jobs generated by this industry  
23 which would be taxpaying, Pennsylvania versus us paying 157  
24 people money is good. And as far as, going back to my  
25 area, 29 years in law enforcement in the City of

1 Pittsburgh, five of those I worked vice and narcotics  
2 undercover.

3           And in that whole five years that I was there,  
4 we never arrested anyone that owned a legitimate vending  
5 company anywhere. They had too much to lose for that. And  
6 when I say never arrested, I mean, when we arrest a  
7 criminal, then we go through the background to see where  
8 they come from.

9           And at no time in that five years that I was in  
10 vice and narcotics did we do anything. So you do bring out  
11 your point very well that these are credible people, good  
12 hard working Americans and good Pennsylvania taxpayers, and  
13 they should be supported in this. Thank you.

14           Thank you, Mr. Chairman.

15           CHAIRMAN SANTONI: Okay. Amy and John, we thank  
16 you for your input and for traveling around the state with  
17 us, and we look forward to working with you.

18           MR. MILLIRON: Thank you very much,  
19 Mr. Chairman.

20           MS. CHRISTIE: Mr. Chairman, I would like to add  
21 that we had previously said in our testimony in  
22 Westmoreland that we would be meeting with the  
23 Administration on some of the issues that are in the  
24 testimony that affect the licensee fees and whatnot, and I  
25 just wanted to pass on that we currently had a meeting and



1 negotiated some of the issues. And we're hoping that some  
2 of those issues will be able to be addressed.

3 CHAIRMAN SANTONI: Thank you.

4 Our next testifier is Dianne Berlin from  
5 CasinoFreePA.

6 MS. BERLIN: Chairman Santoni and Chairman  
7 Schroder, who isn't here, and members of the House Gaming  
8 Oversight Committee, thank you for the opportunity to  
9 testify on House Bill 1317. My name is Dianne Berlin, and  
10 I serve as the volunteer coordinator of CasinoFreePA, which  
11 is a coalition of groups and individuals opposed to casino  
12 gambling in Pennsylvania.

13 Before getting into the reasons we have for our  
14 opposition, I must point out that we evidently have some  
15 very serious problems at our community colleges related to  
16 gambling which need to be addressed. An article from the  
17 Morning Call on May 5 -- and I give you the web  
18 address -- about the Sands casino and Northampton Community  
19 College showed a very cozy partnership with the casino.

20 A very alarming part of that article states,  
21 quote, the Sands, along with representatives from Mount  
22 Airy and Mohegan Sun casinos, were part of a task force  
23 that developed the casino curriculum. According to this  
24 article, 11 of our 14 community colleges have some sort of  
25 casino-related courses. This could be compared with

1 partnering with the tobacco interests.

2 I would hope that all members of our Legislature  
3 see this as totally inappropriate and rectify this  
4 egregious situation. We should not be subsidizing gambling  
5 interests at all, let alone subsidizing them through our  
6 taxpayer funded educational institutions. If they want to  
7 educate their workforce, let them have their own schools.  
8 Thank you for letting me make that point.

9 I'm not here to debate the merits of tuition  
10 relief which we can all appreciate, but rather to present  
11 opposition to the proposal for funding it. This statement  
12 confirms our opposition to casinos no matter whether they  
13 are maxi or mini-casinos. The National Gambling Impact  
14 Study Commission made recommendations, and one is clearly  
15 related to House Bill 1317.

16 Recommendation 3-6 states, the Commission  
17 received testimony that convenience gambling, such as  
18 electronic devices in neighborhood outlets, provides fewer  
19 economic benefits and creates potentially greater social  
20 costs by making gambling more available and accessible.  
21 Therefore, the Commission recommends that states should not  
22 authorize any further convenience gambling operations and  
23 should cease and roll back existing operations.

24 The following confirms the fact that proximity  
25 does matter: The presence of a casino within 10 miles of

1 the respondent's home was positively related to problem,  
2 slash, pathological gambling. The permissiveness of  
3 gambling laws was positively related to any gambling in the  
4 past year as well as frequent gambling. These results were  
5 interpreted to mean that the ecology of disadvantaged  
6 neighborhoods promotes gambling pathology and that  
7 availability of gambling opportunities promotes gambling  
8 participation and pathology.

9           That's from Relationship of Ecological and  
10 Geographic Factors to Gambling Behavior and Pathology, and  
11 the authors are listed there. West Virginia, like us, had  
12 bar, club and tavern owners with illegal machines making a  
13 mockery of their law. Instead of enforcing their laws  
14 against the illegal video gambling machines which they  
15 called gray machines, West Virginia legalized mini-casinos  
16 in early 2002.

17           As you can see on the included chart, the number  
18 of calls to their gambling helpline escalated as the number  
19 of mini-casinos grew. In 2002, 127 people called the  
20 helpline. In the following years as more and more  
21 mini-casinos opened, the numbers were 425, 778, 916; and in  
22 2006, there were 923 who called due to gambling at the  
23 mini-casinos.

24           Note that the calls to the West Virginia  
25 helpline from people who gambled at the mini-casino

1 surpassed the calls from people who said that they gambled  
2 at the slots at the tracks. Our population is more than  
3 six times that of West Virginia, so our numbers would be at  
4 least six times higher. Only about 10 percent of gambling  
5 addicts call helplines. Twenty percent of gambling addicts  
6 attempt suicide.

7           A Canadian study showed an even higher suicide  
8 rate of 26.8 percent for pathological gamblers compared  
9 with 7.2 percent for those without gambling problems.  
10 Several years ago, Professor Earl Grinols, who is currently  
11 at Baylor, presented testimony here in the Capitol  
12 regarding casino gambling.

13           I have included that testimony as it lists many  
14 of the social costs associated with gambling; crime,  
15 business and employment costs, bankruptcies, suicide,  
16 illness, social service costs, direct regulatory costs,  
17 family costs such as divorce, separation, child abuse,  
18 child neglect, domestic violence, abused dollars, etcetera.

19           As you can see, the costs are \$3 to the \$1 of  
20 benefits. It doesn't take a mathematician to see that  
21 gambling is a losing proposition for all except the  
22 gambling interests. In New Hampshire, which like  
23 Pennsylvania has been under pressure to approve slots,  
24 every New Hampshire Attorney General over the past 30 years  
25 has opposed slots casinos.

1           The New Hampshire Association of Chiefs of  
2 Police, after hearing detailed pro and con presentations  
3 from advocates on either side, recently voted 54-0 to  
4 continue its long-standing opposition to slots  
5 legalization. It is very difficult for most of us to  
6 understand the reluctance of our own law enforcement to  
7 crack down on the illegal machines. These venues have no  
8 respect for the law.

9           The illegal machines should be confiscated and  
10 destroyed, recycling materials in a way that they could not  
11 be remade into electronic gambling machines. There should  
12 be fines levied equal to the income from those machines,  
13 and the alcohol license should be permanently suspended.  
14 The money from recycling and the fines should more than  
15 cover any enforcement expenses and would send a strong  
16 message.

17           And now, Representative, you'll find out what I  
18 have here. This is a copy of the three-volume  
19 recently-released REDD Report, U.S. International Gambling  
20 Report, Research Editors Doctoral Directorate, which should  
21 be required reading for all elected officials, not just  
22 those of you on this committee. On page 328 of the first  
23 volume is a statement which needs to be seriously  
24 considered before one more slot machine is put into our  
25 state.

1           This is the quote: 1 net job is lost each year  
2 for each operating electronic gambling device EGD/slot  
3 machine. 61 thousand slots were allowed under Act 71. If  
4 House Bill 1317 would be enacted, that would be an  
5 additional 70 thousand machines for a yearly loss of 131  
6 thousand jobs. Can we really afford to lose that many jobs  
7 each year? The first \$500 slot machine was placed at the  
8 Pittsburgh casino, which seems like a lot of money for one  
9 spin. However, most people have no clue that \$27 hundred  
10 per hour can be cycled through a penny slot machine.

11           This is not chump change. Moses Maimonides,  
12 Jewish medieval authority, defined gambling as stealing as  
13 the winner takes another's money for free. To my  
14 knowledge, we have not ever looked at gambling in this way  
15 when discussing gambling or gambling expansion. It may be  
16 time to look at gambling in this light, especially with the  
17 enormous amount of money being flushed through slot  
18 machines.

19           A lesson can be learned from South Dakota where  
20 they had a hundred-day shutdown of their mini-casinos.  
21 I've included the study which shows the number of gamblers  
22 treated per month dropped by 93.5 percent. If House Bill  
23 1317 were to be enacted, we could expect that decrease to  
24 be an increase for us. Every business ledger has both an  
25 income and expense column.

1           In Pennsylvania, whenever gambling expansion is  
2 mentioned, it seems as though our state's ledger only has  
3 an income side. Education is very important, but it should  
4 never be funded through gambling as it is the opposite of  
5 the work ethic that we teach children. No matter how good  
6 the cause, the government's role is still to make decisions  
7 which are in the best interest of the health, safety and  
8 well-being of its citizens.

9           To only consider revenue sources without  
10 calculating the costs is a costly disservice to the  
11 citizens. Although none of us like to pay more taxes than  
12 necessary; however, taxes are the legitimate way to pay for  
13 necessary government expenses. However, those taxes should  
14 be transparent and fair.

15           This allows for easier tracking of government  
16 spending. Gambling revenues are not only hidden, but also  
17 exploitive, and there are definitely costs that come with  
18 legalized gambling. No matter how good any cause is, there  
19 is not justification for this taxation by exploitation.  
20 Thank you very much for allowing me to testify.

21           CHAIRMAN SANTONI: Chairman Clymer has a  
22 question.

23           REPRESENTATIVE CLYMER: Dianne, good afternoon,  
24 and thanks for your testimony here today. Can you give us  
25 a little bit more of a background on the gaming impact

1 study commission that did that work? Just --

2 MS. BERLIN: Yes.

3 REPRESENTATIVE CLYMER: -- briefly --

4 MS. BERLIN: Very briefly --

5 REPRESENTATIVE CLYMER: -- tell us what it's  
6 about so the members know.

7 MS. BERLIN: Okay. There was a federal  
8 commission formed given a very minuscule amount of money.  
9 It was \$5 million. There were members of the commission  
10 who were pro and con gambling, and there were also some who  
11 were neutral. And despite all of that, they came up with  
12 recommendations. I, in fact, was the second person to  
13 testify before the National Gambling Impact Study  
14 Commission.

15 This commission has a report, and I do have a  
16 link to that on [casinofreepa.org](http://casinofreepa.org) if you'd like to look at  
17 the recommendations and some, a little bit more. But  
18 really there was a caution that before any state would  
19 expand gambling, that there should be a moratorium, a cause  
20 or a moratorium so that we could really study gambling, not  
21 just how much income can we get, but what is the full  
22 impact; how much does it cost; what will this do to our  
23 citizens.

24 And that hasn't been done here in Pennsylvania.  
25 In fact, we have never done a baseline study to my



1 knowledge, you know, what the gambling situation is  
2 regarding the number of gamblers, the amount of compulsive  
3 gambling prior to our debacle, which was Act 71. Did I  
4 answer your question?

5 REPRESENTATIVE CLYMER: You did. Thank you.  
6 Thank you, Mr. Chairman.

7 CHAIRMAN SANTONI: Just a couple questions on  
8 your testimony. I know that you referenced Professor  
9 Grinols.

10 MS. BERLIN: Yes.

11 CHAIRMAN SANTONI: And he was invited to  
12 testify, and because of his schedule, he wasn't able to  
13 attend. But he did -- I just found out during this  
14 hearing -- submit comments.

15 MS. BERLIN: Oh, wonderful.

16 CHAIRMAN SANTONI: And we're going to take a  
17 look at those. I was just wondering, you said that the  
18 cost of benefits is \$3 to \$1. Are you -- how did -- was  
19 jobs included in that economic development of the  
20 surrounding area? How did you --

21 MS. BERLIN: Well, I think those are questions  
22 that he would appropriately be the correct one to answer,  
23 but I would like to point down on that sheet. And this is,  
24 as you can see, this is from 2003. And he testified when,  
25 at that time, the tracks were really wanting to have slot

1 machines.

2           But even -- now, he says that gambling fails a  
3 cost benefits test, and that's the part of it that we  
4 don't, we do not do enough of that here in Pennsylvania  
5 where gambling is concerned. We really only look at, well,  
6 how much revenue's coming in. I heard that repeatedly  
7 today. But if you look at the costs and if you look above  
8 there, there are costs. And I do have more studies from  
9 him, and I would be very glad to e-mail each of you a copy  
10 of those studies because I'm not the research expert on  
11 this particular material; he is.

12           But please notice -- and I had a chart at one  
13 time that showed the cost for each of these particular  
14 items that he listed. He has it in one of the studies, and  
15 I'll be sure to send that to you. But in that, he had  
16 calculated figures without including the cost of suicide,  
17 and that can be a tremendous cost depending who the person  
18 is who committed suicide and how many people are left  
19 behind.

20           But without including that, he had that the  
21 benefits, without including any pathological or problem  
22 gamblers and nonlocal people -- now, we're talking about  
23 the real locals when we talk about these VLTs in the bars  
24 and taverns, but he calculated that to be, the costs -- or  
25 the benefits to be \$34 per capita and the cost to be 190.

1           I mean, we're in the hole 154 bucks, or 156, so  
2 it was really unbelievable to me. And I think when you  
3 stop and think about it, gambling really is only recycled  
4 money. If you and I would wager, just the two of us, each  
5 one would want to go home with money that we didn't buy,  
6 earn, trade for and I certainly didn't want to give it to  
7 you and you didn't want to give it to me; and yet, that's  
8 what we're basing this on.

9           And a number of years ago, Dr. Ray Gangarosa  
10 (ph), who happened to be, along with two legal colleagues,  
11 happened to be the person whose work was the basis for the  
12 Medicaid lawsuit on tobacco, coined a term which I think is  
13 really very appropriate. And he said, when you build an  
14 economy on harm -- and that's what this is when you talk  
15 about suicide, when you talk about bankruptcies, when you  
16 talk about all of these other things -- he called that an  
17 autonomy.

18           I thought how appropriate that is. At a time  
19 when we are in an economic crisis, we need to be building  
20 up our families, and we need to be building up our economy  
21 and not just shuffling money between two people or three  
22 people or whatever the pool is. With the VLTs, granted  
23 there are other people putting that money in, but I don't  
24 know if that answers your question.

25           CHAIRMAN SANTONI: Sort of.

1 MS. BERLIN: It probably makes you  
2 uncomfortable.

3 CHAIRMAN SANTONI: No, it doesn't. I'll get to  
4 that in a second.

5 MS. BERLIN: Okay.

6 CHAIRMAN SANTONI: I just have another quick  
7 question on your testimony. You talked about the books  
8 there on page 328. I didn't understand one net job for  
9 each gambling device.

10 MS. BERLIN: Okay. And this comes from --

11 CHAIRMAN SANTONI: What science is behind that?

12 MS. BERLIN: Okay. And you may photocopy this  
13 if you have the ability to did it. You may do that.  
14 Excuse me here. In 2007, economists reported that net job  
15 losses occurred from government sanctioned gambling because  
16 the gambling transferred consumer dollars into gambling  
17 facilities resulting in a net increase in jobs in the  
18 overall economy.

19 The 2007 average net income per year for each  
20 electronic gambling device was \$100 thousand, which was  
21 \$300 thousand in lost consumer spending when the average  
22 loss consumer economic multiplier of 3 was appropriately,  
23 or properly included. A net lost job per year resulted  
24 from each electronic gambling device slot machine. And  
25 then it goes on to say, in Australia, they had that for

1 every three machines, two jobs were lost.

2                   And that is because the money is not going to  
3 buy refrigerators, going to buy cars, going to be put into  
4 part of the economy which really generates more revenues,  
5 sales taxes and so on. As I said, it really was an  
6 exchange. But I have that here, and I will be very glad to  
7 let you -- for \$300.

8                   CHAIRMAN SANTONI: Okay. Well, I appreciate  
9 your testimony. I have just a couple comments.

10                   MS. BERLIN: Sure.

11                   CHAIRMAN SANTONI: I always reference back to  
12 our first hearing and a gentleman by the name of Jim Papas  
13 (ph), who was with the Counsel on Compulsive Gambling of  
14 Pennsylvania, and this was a testifier from the opponents'  
15 side of the equation. And I'll just read from his  
16 testimony: Though we maintain a neutral neither for or  
17 against gambling, our mission is to support the creation of  
18 prevention, treatment, research and public awareness  
19 programs to assist those with gambling problems in their  
20 lives.

21                   I can say that there are no, capital N-O,  
22 research indicating the direct increase in problem gambling  
23 as a result of the addition of the new form of gaming as  
24 proposed in the Tuition Relief Act. Of course, you've  
25 heard the polls and how much --

1 MS. BERLIN: Well --

2 CHAIRMAN SANTONI: Hold on, please. I'll let  
3 you speak then -- the polls and the overwhelming support  
4 across the state for this issue. And the May 16th Easton  
5 Express Times -- and I'll just read the first paragraph or  
6 so -- when Mount Airy Casino Resort opened in October 2007,  
7 Paradise Township Area District Judge John Weitzel (ph)  
8 feared a burdening case load, but the casino has had little  
9 to no effect to crime in the area, he said, the judge.

10 There have been only two to three filings a  
11 month from State Police patrolling the casino floor, and  
12 those crimes are minor thefts, he said. Quote, I get more  
13 from the local high school for God sake, Weitzel said with  
14 a laugh, seriously. Weitzel isn't alone in his assessment.  
15 The casino has largely been a positive for the community.  
16 County Commissioners and State Police called any negatives  
17 negligible.

18 Monroe County Commission Chairwoman Susanne  
19 McCool (ph) summed it up succinctly. Did Mount Airy hurt  
20 our area; no, McCool said. Did Mount Airy hurt our area;  
21 yes. And I know that there's always horrible stories, and  
22 you've spoken about suicides directly related to gambling.  
23 And it's a horrible thing, and I do appreciate your  
24 comments.

25 But I think that the person that we look at

1 directly, who we're looking at helping with the issue of  
2 gaming is someone like my dad, a 77-year-old retired guy  
3 goes up to the casino every once in a while, drives up to  
4 Penn National from Reading, brings my mom once in a while,  
5 brings his buddies another time, gambles a little bit,  
6 plays the slots, might play the poker machines, eats  
7 something and has a heck of a good time and comes on home.

8           So I think that that's more indicative of the  
9 person we're trying to provide help for as far as things to  
10 do, tourism and provide a fun atmosphere because it does  
11 create -- there's a lot of good things that came out of Act  
12 71; the economic development, the property tax relief, the  
13 help of the horse racing industry, the help of agriculture,  
14 lots and lots of things. So I appreciate your opposition.  
15 I just respectfully disagree with you.

16           MS. BERLIN: May I respond? I happen to have  
17 been the International Director for the National Coalition  
18 of Gambling Expansion and have been the Vice Chair of the  
19 National Coalition Against Legalized Gambling since 2001.  
20 I have met many of these people, and I understand. I mean,  
21 for some people -- and you ask about figures. The highest  
22 figure that I've heard for addiction is 6-and-a-half  
23 percent.

24           I mean, that's a huge public health number when  
25 you think about public health problems, but when you talked

1 about Mr. Papas, part of what most people don't know is how  
2 firmly entrenched the gambling interests are in research.  
3 And I will send you documentation so you know I'm not  
4 making this up. This isn't my spiel to make false  
5 accusations, but the National Council on Problem Gambling  
6 has taken a stand to the so-called, supposedly gambling  
7 neutral, which they are not because they promote  
8 responsible gaming.

9           So when you take a stand doing one thing for one  
10 side and not for the other, you are misrepresenting your  
11 position. But the National Gaming Association has a huge  
12 stake in any of the major research that's been done. They  
13 just now created another center at Yale University as well  
14 as the University of Minnesota, and I would ask you to be  
15 very, very diligent about finding out where these figures  
16 come from.

17           I didn't know all of this stuff when I got  
18 involved. You know, I did not know any of these things,  
19 and I just had a feeling that, you know, gambling wasn't my  
20 thing, but I also feel that we don't want to dupe the  
21 public. And they need to know who's behind this, and  
22 they're behind this big time.

23           They're behind research; they're behind the  
24 treatment; they're behind the so-called prevention. Dr.  
25 Howard Shaffer (ph) from Harvard has a prevention program.



1 But thank you very much. I appreciate your willingness to  
2 listen.

3 CHAIRMAN SANTONI: Absolutely. And we  
4 appreciate your testimony. Our next testifier is a  
5 student, a senior from Reading High School, Janette Nunez.  
6 Welcome. I'm not a Reading High grad, but my wife is. So  
7 I have some relationship to Reading High School, so we  
8 welcome you.

9 MS. NUNEZ: Thank you. Good afternoon. My name  
10 is Janette Nunez, and I am a college-bound senior at  
11 Reading Senior High School. I would like to take the  
12 opportunity to thank you for allowing me to be here to  
13 share the way I feel about the Tuition Relief Act.

14 I would like to begin by saying that I want to  
15 go to college, and even more importantly, I would like to  
16 go to college just knowing two things; that I can afford  
17 college and that my state legislators have done everything  
18 in their power to help me pay for college and that just  
19 means the other people in my predicament as well.

20 As a daughter of a single mother who has worked  
21 as many as three jobs at a time to make ends meet, I  
22 learned early that if I worked hard, excelled academically  
23 and gave back to my community, that the chances were that I  
24 would succeed. And by most people's standards, I have. I  
25 have maintained a GPA of 3.2 and higher during my high

1 school career, made honor roll and have been accepted to  
2 West Chester University of Pennsylvania for the upcoming  
3 fall semester.

4           Yet these accomplishments seem minuscule  
5 compared to the many accomplishments that I know are  
6 obtainable in my future, but it all begins with a quality  
7 and affordable college education. Even though I have  
8 received my acceptance letter to West Chester many months  
9 ago, I now find myself up faced with a challenge that I may  
10 not know how to solve and no one knows the answer to.

11           I'm not sure how I'm going to be able to afford  
12 college this year or any year thereafter. You see, I have  
13 this burning desire to obtain a degree in law and fulfill  
14 my dream of becoming a lawyer. But the cruel reality is  
15 that if I attend college this fall with the financial aid  
16 package that has been offered to me, I will graduate in  
17 four years with at least \$52 thousand in student loan debt  
18 and no savings to help me pay for law school.

19           According to my financial aid letter which I  
20 have with me today and I'd be happy to share it with you  
21 guys, including room and board, tuition, books and related  
22 fees, the approximate cost is about \$22,490 a year. I  
23 filled out a federal student aid application and was told  
24 that my expected family contribution is 0, meaning that  
25 neither my mother nor I made enough money to be able to

1 contribute to my college education.

2           And it's not in my notes, but I'd like to let  
3 you know that my mom's gross income a year is \$18 thousand  
4 approximately. Her net income is about \$15,900 a year. So  
5 you can see where my difficulty here is. And I only  
6 qualify for \$9,606 in federal and state aid, which means  
7 that there's about a \$12,884 gap in my financial aid. I  
8 must find a way between now and the middle of July, which  
9 is when I expect to receive my fall tuition bill, to come  
10 up with \$12,884.

11           If I worked 40 hours a week making a minimum  
12 wage between now and the start of the fall semester, I  
13 would still only have less than one-third of what I need to  
14 pay for college. I'm not asking for a handout, as I heard  
15 some representative before speaking about just giving kids  
16 money and not having them invest in their education. And  
17 with all due respect, you said 28 years ago you had to work  
18 for your education, but that was 28 years ago.

19           You can't compare what America was 28 years ago  
20 with what America is now. And I agree with you with having  
21 to work and invest in education, and I'm willing to do  
22 everything in my power to achieve my goals and attend law  
23 school and graduate successfully, but I can't do it alone.  
24 So there is just a stark reality that despite going to an  
25 institution that is one of the most affordable in the

1 state, I will still graduate with over \$52 thousand worth  
2 of loans.

3           So what does tuition relief mean to me? It  
4 means I won't have to take out \$12,884 in student loans  
5 next year. It means I can enter West Chester prepared to  
6 concentrate on my studies and not worrying if I can afford  
7 a textbook or eating in the dining hall. It means that I  
8 can work one job this summer instead of three. It means I  
9 really can think about law school and not have to consider  
10 another major or profession because I can't afford it.

11           It means that my mother no longer has to regret  
12 using all of her income to pay bills or worry that she  
13 can't co-sign for my student loans. If my mother could  
14 afford to help me, she would; but unfortunately, she can't.  
15 But you guys can. You have the ability to make my college  
16 education a reality. As I sit here today as one student  
17 telling my personal story, I represent a growing population  
18 of the students who are considered, quote/unquote, low  
19 income or low class.

20           These are the same low income students who find  
21 themselves in a difficult predicament, such as I am, bright  
22 and motivated, but not able to attend college because of  
23 the lack of financial resources. And, for example -- this  
24 is also not in the script that I have. This is actually  
25 last minute. I was introduced to another student who will

1 also be attending West Chester in the fall through another  
2 friend of mine, and I was discussing what I would be doing  
3 here today with them.

4           And the next thing I know, I got an e-mail from  
5 him pretty much describing why he feels this should be  
6 passed, and I would like to share that with you. His name  
7 is Tajey Cooper (ph), and he's a high school senior in  
8 Philadelphia. And he said, growing up in the urban setting  
9 has been tough enough. Drugs, abuse and crime is what I  
10 see every day. There are a handful of us that deserve to  
11 go to college at a low cost.

12           Many parents in my community work labor jobs and  
13 aren't bringing much in wages. I strongly believe the  
14 Tuition Relief Act should be passed because our education  
15 should be invested in. There are many of us who are  
16 intelligent, but cannot afford college. This will affect  
17 me not only financially, but emotionally. I would like to  
18 go to bed at night knowing that someone cares about my  
19 education and my future.

20           And I'm sorry. I'm getting emotional. Although  
21 many of you might think that there are plenty of grants and  
22 scholarships to help pay for education, financial aid  
23 packages like mine speak for themselves. Whether you are  
24 considered middle class or in the lowest income group, when  
25 it comes to paying for college, the current financial aid

1 help is simply not enough.

2           That is why I ask you today, please don't ignore  
3 our plea. Help us go to college. Help us go to college  
4 this fall. And more importantly, help this generation of  
5 creative, talented, intelligent and determined young  
6 individuals go to college this fall knowing that you have  
7 exhausted every avenue possible to make sure that students  
8 like me don't graduate under a burden of financial debt  
9 that does not allow us to move forward in the future.  
10 Thank you.

11           CHAIRMAN SANTONI: Thank you for your testimony.  
12 You have made Reading High School proud.

13           MS. NUNEZ: Thank you, sir.

14           CHAIRMAN SANTONI: There's no questions. I just  
15 want to just say that this, I mean, with all the testimony  
16 that we've heard over the last four hearings, this is what  
17 it's all about. This is why the Governor has proposed  
18 this. This is why I introduced it. We can debate about  
19 how we're going to get the money and we can talk about all  
20 that, but this is really what it's about, that young people  
21 like Janette can live her dream and be a productive member  
22 of society.

23           And in these tough budget times when we're just  
24 not appropriating enough money for education, which we have  
25 that problem, that we're looking sort of outside the box as

1 I've said in the past, to try to find more help to help  
2 young people like you. So thank you so much for your  
3 testimony. You did a terrific job, and I know you're going  
4 to be successful in whatever you do.

5 MS. NUNEZ: Thank you.

6 CHAIRMAN SANTONI: Thanks.

7 Okay. We have education policy advocates, Joni  
8 Finney, Ph.D, Vice President for the National Center for  
9 Public Policy and Higher Education and Practice Professor  
10 of Education at the University of Pennsylvania.

11 And we are going to bring up Susan Gobreski,  
12 Executive Director for Education Voters of Pennsylvania.  
13 Why don't we just offer testimony separately, and then  
14 maybe we'll open it up if there's any questions for either  
15 or both of you?

16 So, Dr. Finney, you may start.

17 DR. FINNEY: Thank you, Chairman Santoni, and  
18 good afternoon to members of the Committee. My name is  
19 Joni Finney. I am Vice President of the National Center  
20 for Public Policy and Higher Education, and the purpose of  
21 the National Center is to improve performance by all  
22 states. We focus on issues of access, student preparation  
23 and affordability as well as student success in higher  
24 education.

25 A signature project that we have is to evaluate

1 all states on their performance in higher education, and  
2 that's called Measuring Up. In the last issue of Measuring  
3 Up 2008 released in December of last year provides a report  
4 actually for each state on their performance in higher  
5 education, and I'd be happy to present you with a copy of  
6 that in addition to my written testimony.

7           But what I'm here to tell you today is there are  
8 many Janettes and many Janettes in Pennsylvania and many  
9 Janettes around the country. And what we are hoping is  
10 that state legislators will step to the table and enact  
11 courageous legislation to provide students low-income and  
12 middle-income families affordable higher education.

13           Before I -- let me just present some key facts  
14 about Pennsylvania from our work comparing Pennsylvania to  
15 the rest of the nation. Pennsylvania high school students  
16 are increasingly better prepared for college-level work  
17 than they were ten years ago. In other words, students  
18 like Janette are playing by the rules, taking the hard  
19 courses that we have asked them to take and performing at  
20 higher levels than they ever have been in the past.

21           Now, this is not to say that we can declare  
22 success on school reform, but we know that more  
23 Pennsylvania students are taking upper-level math classes  
24 and upper-level science classes. And we know that more 8th  
25 grade Pennsylvanians are scoring proficient and/or above in



1 national assessments of reading and math.

2 Overall, Pennsylvania scores a B-minus in  
3 preparing students for college, so Pennsylvania has many  
4 students who are interested in enrolling in higher  
5 education. But while high school students are better  
6 prepared for college, relatively few enroll in Pennsylvania  
7 compared to top states. Only 49 percent of 9th graders  
8 enroll in college by age 19. That is 40 percent of young  
9 people who enroll the fall; they graduate from high school.

10 This is compared to 57 percent for the top  
11 states in the nation, and only 4 percent of working-age  
12 adults enroll in any type of postsecondary education. This  
13 is a decline over the last ten years compared to 9 percent  
14 for top states, so states that are performing better than  
15 Pennsylvania have doubled the enrollment of adults in  
16 higher education.

17 Overall, Pennsylvania receives a C-minus in  
18 sending young and working-age adults to higher education.  
19 So we have to ask the question: Why are qualified students  
20 not enrolling in higher education in Pennsylvania? Part of  
21 the reason is that higher education in Pennsylvania is not  
22 affordable for many families. 41 percent of family income  
23 is needed to pay for college expenses -- this is after all  
24 forms of financial aid; institutional, state and  
25 federal -- for public four-year institutions for

1 Pennsylvania families.

2           29 percent of family income is required to pay  
3 after college expenses, after all financial aid for  
4 community college. The equivalent number for private  
5 colleges and universities is 87 percent. According to our  
6 work, Pennsylvania requires students to borrow much more to  
7 attend higher education than top performing states. This  
8 hits especially hard on middle-income and low-income  
9 families.

10           For the bottom 40 percent of Pennsylvania  
11 families earning in the bottom 40 percent of wage  
12 earners -- in fact, those making \$26 thousand a year or  
13 less -- 44 percent of their income is required to pay for  
14 college costs at the lowest priced institutions in the  
15 state. We have made college all but out of reach for most  
16 Pennsylvania families.

17           This is why Pennsylvania scores an F in  
18 affordability. It does not bode well for Pennsylvania's  
19 future. What does Pennsylvania's future require? We've  
20 done some analyses to show that for the United States to  
21 reach educational standards of the top nations worldwide,  
22 we would have to educate about 16 million more Americans.

23           Now, 20 years ago, the United States was at the  
24 top of all the lists of education for both young adults and  
25 working-age adults. The United States has now slipped to

1 position number 9. In order to get back up to the top of  
2 that list, to be competitive globally, we would need 16  
3 million more Americans between now and 2025 with college  
4 degrees.

5           This gives you a sense of the magnitude of the  
6 problem. We have currently 15 million undergraduates  
7 enrolled, so it's simply doubling the numbers. So what is  
8 Pennsylvania's share of that? About 14 thousand more  
9 college degrees per year between now and 2025 if  
10 Pennsylvania wants to become among the top states in terms  
11 of attracting knowledge-based industries and jobs.

12           How can that happen? Our work with other states  
13 shows that limiting tuition increases to growth in family  
14 income and providing low-cost public education alternatives  
15 is one solution. Targeting those institutions that serve  
16 underserved populations is smart public policy. The  
17 Tuition Relief Act in Pennsylvania targets state colleges,  
18 regional colleges and community colleges.

19           It attracts those students that are making, per  
20 families making \$26 thousand a year and less in annual  
21 income. And we think that that is one alternative. In  
22 fact, our National Center has highlighted the Pennsylvania  
23 proposal in our discussions with legislators from other  
24 states.

25           We believe that the Tuition Relief proposal is

1 the only chance the state has at making a substantial dent  
2 in developing the needed educational capital for its  
3 future, those 14 thousand more Pennsylvanians that need  
4 some postsecondary education if Pennsylvania is to rise  
5 among all states and attract competitive jobs needed for  
6 the knowledge-intensive global economy. I'd be happy to  
7 take any questions regarding my testimony.

8                   CHAIRMAN SANTONI: Thank you. I think we'll  
9 hear from Susan Gobreski first, and then we'll begin to ask  
10 you questions.

11                   MS. GOBRESKI: Thank you very much. My name is  
12 Susan Gobreski. Thank you, Mr. Chairman, and members of  
13 the Committee for having me to testify today. I'm the  
14 Executive Director of Education Voters Pennsylvania, which  
15 is a nonprofit organization that does advocacy around the  
16 critical importance of a high-quality education from pre-K  
17 through higher education posed to individuals and  
18 communities.

19                   I'm also the mother of three children in  
20 Philadelphia. In schools, education is what makes us  
21 strong. I thought Janette's story was very powerful. An  
22 education for a child is why so many parents move to  
23 communities and pay higher taxes willingly. They know that  
24 taxes are only bad if you don't get something of value for  
25 them. They will pay for a good education. People

1 sometimes pay for a bad one.

2           An education is why parents get a second job or  
3 why someone who is 18 years old goes into extraordinary  
4 debt because they know that an education has the power to  
5 build a future for them and for all the generations that  
6 will succeed them. An education though is not just  
7 valuable to the people who are educated. This is not a  
8 handout. People take that education and become pillars of  
9 their communities. They start businesses; they provide  
10 services; they pay taxes; they make higher wages, which  
11 means better strong services and stronger community  
12 systems.

13           They also earn enough then to start coaching  
14 soccer and volunteering in schools. In short, they're  
15 important to everyone in the community. It's a ripple  
16 effect, and having an educated population increasing the  
17 number of people who have a college degree benefits an  
18 entire community. Employers look for communities with an  
19 educated population and good schools so education is vital  
20 to our economy.

21           With our economy -- I think the technical term  
22 is in the tank -- a college education becomes increasingly  
23 important to the economic well being of families and to the  
24 Commonwealth itself, so I urge you to pass the Tuition  
25 Relief Act. It's been intensely debated, but I think it's

1 really important and I think Janette brought us back to the  
2 fact that what this is about is about what our public  
3 policy is in terms of whether or not we're investing in  
4 something that we value and how we're spending money to  
5 make sure that we're benefitting all of us.

6           So it often seems that the major point of the  
7 bill to facilitate a college education for people who  
8 actually belong in college is not at the center of the  
9 discussion, so I'd like to emphasize that we should not  
10 lose sight of the fact that if passed, the Tuition Relief  
11 Act will become, permanently transform the possibilities of  
12 the future for qualified students and transform  
13 Pennsylvania itself shooting us to emerge much stronger  
14 from this recession.

15           As my organization also works to promote quality  
16 pre-K through 12, I see an obvious link between the  
17 extraordinary progress we've made in public education and  
18 that sector and the goals of the Tuition Relief Act. One  
19 of the most important roles of this State Legislature  
20 should be to increase the quality of K to 12 education,  
21 pre-K to 12 education so that more students graduate from  
22 high school and do so ready for college, again, because we  
23 know it's valuable.

24           Education is a currency in adult life.  
25 Therefore, if we facilitate a college education for

1 qualified students whose only obstacle is the ability to  
2 put together the financial resources, then we compete. If  
3 students know that a good performance in grade school will  
4 pay off with access to an affordable college education,  
5 they are also more likely to work harder, and parents will  
6 get engaged.

7           All over the Commonwealth, there is growing  
8 support for the Tuition Relief Act. Many people see it as  
9 a bridge to opportunity. I'm just going to edit down. We  
10 talked about how important it is to an individual, and I  
11 think Janette made that case better than I can. But this  
12 is also a plan to empower people who need to find a new  
13 career across the state, to take control of their  
14 unemployment future and to strengthen the community in  
15 which they live.

16           You heard the polling data, but I'd like to  
17 enter it again. The public supports the Tuition Relief Act  
18 by a margin of close to 2 to 1. 62 percent of  
19 Pennsylvania's voting public supports the Tuition Relief  
20 Act and their support for the act across the political  
21 spectrum. In addition to the polling data, grassroots  
22 support is strong and growing.

23           Over 1,120 people have signed petitions for the  
24 Tuition Relief Act, and I'd actually like to present to the  
25 Chair a copy of these petitions and names with personal

1 comments by numerous people. Close to 11 thousand people  
2 have visited PA Tuition Relief Act or a website sponsored  
3 to promote this that our organization has sponsored,  
4 Facebook, for those of you who know what Facebook is.

5           People are also getting growing grassroots  
6 support. People are starting to join tuition relief, and I  
7 was actually recently at a national conference in D.C.  
8 where somebody mentioned, oh, I heard you have a tuition  
9 relief proposal for families making under 100 thousand;  
10 that's the leading edge for the nation.

11           And that is what Pennsylvania should be striving  
12 for, to be on the leading edge of what we do to rebuild our  
13 future. More than a thousand people have attended  
14 conferences across the Commonwealth, and it is supported by  
15 numerous organizations and education associations,  
16 including Education Voters PA.

17           We actually are relatively new, but we will be  
18 talking to, on average, about 50 thousand people a year in  
19 our communications with members of the public about the  
20 importance of public education issues over the years, so  
21 people are hearing more and more about this; the  
22 Pennsylvania PTA Association with over 85 thousand members,  
23 the Pennsylvania Association of Adult and Continuing  
24 Education with a thousand members, Pennsylvania State  
25 System of Higher Education, Pennsylvania Future Business



1 Leaders of America with 13,588 members, Pennsylvania  
2 Student Council Association with 7 thousand members,  
3 Pennsylvania Commission for Community Colleges and the  
4 National Center for Public Policy and Higher Education.

5           As compelling as this show of support is, it  
6 does not fully capture what Tuition Relief Act means to so  
7 many Pennsylvanians. I actually, in my testimony -- I  
8 won't read it here, but there are some personal stories as  
9 well that I'd like to ask you to take a moment to read  
10 because I think that when you hear what it means to a  
11 person and what those people are thinking about -- they're  
12 not just thinking about themselves.

13           They're thinking about what they give to the  
14 community, what they give to the next generation. What it  
15 is that an education means, I'm sure most of the people  
16 that have been in this room today have had an education and  
17 know how critically important it is. So as evident as it  
18 is from these personal testimonies, this legislation has  
19 the potential to be life changing; it is widely supported,  
20 and the state itself, the Commonwealth stands to benefit.

21           Up until now, attending college has not been a  
22 reality for many Pennsylvanians, and they have not been  
23 able to accomplish their goals. We've been doing things  
24 sort of one way, and we are now all seeing the effects of  
25 what underinvesting an education means. And we have an

1 opportunity to do things differently. The public would  
2 like tuition relief, and I'd ask you to join us in  
3 supporting this critically important act.

4           And then actually, if I may, Janette, I just  
5 want to take a second and think about what we would all,  
6 how much better off we would all be if Janette is sitting  
7 in a room with us helping, maybe joining your rank some  
8 day, when a college can actually change somebody whose  
9 mother made \$18 thousand a year and she actually is talking  
10 about going to law school.

11           I mean, this is somebody who will do it if we  
12 give her the chance. And it is not -- I think we'll get  
13 more benefit than she will, and we're all going to draw on  
14 people like that. Those are the people that are going to  
15 make our economy stronger for the next generation. Thank  
16 you.

17           CHAIRMAN SANTONI: Thank you for your testimony.  
18 First question from Chairman Clymer.

19           REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.

20           And thank you, Dr. Finney and Susan Gobreski,  
21 for being with us today.

22           Susan, I'd like to ask you just a few questions.  
23 Education Voters Pennsylvania, when were they founded?  
24 What year did you go --

25           MS. GOBRESKI: 2007.

1                   REPRESENTATIVE CLYMER:  And how many employees  
2 do you have?

3                   MS. GOBRESKI:  Two.

4                   REPRESENTATIVE CLYMER:  Two.

5                   MS. GOBRESKI:  We're nonprofit.

6                   REPRESENTATIVE CLYMER:  And if I had to locate  
7 you or write to you, where would I write to?  How would I  
8 get in touch with you?

9                   MS. GOBRESKI:  You would write to 1351 Walnut  
10 Street.  Our address, I think our address is on our  
11 testimony.  It's 1351 Walnut Street.  Would you like me to  
12 read it into the record or provide you --

13                   REPRESENTATIVE CLYMER:  Staff is taking the  
14 information, so that's fine.

15                   REPRESENTATIVE CLYMER:  What other types of  
16 topics have you contacted the Legislature with other than  
17 the Tuition Relief bill?  Have you been involved with other  
18 issues?

19                   MS. GOBRESKI:  Our big focus is the funding  
20 formula and the opportunity that we have to transform how  
21 we handle basic education funding in Pennsylvania as well.

22                   REPRESENTATIVE CLYMER:  You mean on the  
23 legislation that's just come out?

24                   MS. GOBRESKI:  Yeah, last year.  As a result of  
25 the costing out study, we came into being in 2007, and then

1 have been working to be a public contact on the education  
2 funding formula. We think that's also a critical issue, if  
3 I can just weigh in there for a second.

4 REPRESENTATIVE CLYMER: And where does your  
5 funding come from?

6 MS. GOBRESKI: We have grants. We have  
7 individual donors. We're a pretty typical nonprofit  
8 organization.

9 REPRESENTATIVE CLYMER: And if we want to give  
10 you a call, you can give us a phone number?

11 MS. GOBRESKI: Sure, contributions too;  
12 215-564-2299. I'd be happy to meet with you.

13 REPRESENTATIVE CLYMER: Okay. Very good.

14 MS. GOBRESKI: And the checks go to Education  
15 Voters PA.

16 REPRESENTATIVE CLYMER: Thank you, Mr. Chairman.  
17 That completes my questioning.

18 CHAIRMAN SANTONI: Okay. Thank you for your  
19 testimony. I know that you're not profiting from being  
20 here. I know that your only motive, I think for both of  
21 you, is to increase education awareness and increase  
22 education opportunities for our kids and for our  
23 communities.

24 So thank you so much for your testimony. Thank  
25 you for coming to Harrisburg today, and we look forward to

1 hearing more from you in the future. Thanks so much.

2 I'd like to make another slight adjustment in  
3 our schedule for personal reasons, and I understand them  
4 fully.

5 And we appreciate your willingness to do this,  
6 Ted.

7 The Pennsylvania Department of Education, Deputy  
8 Secretary, Dr. Kathleen M. Shaw, Office of Postsecondary  
9 and Higher Education.

10 Dr. Shaw?

11 DR. SHAW: Hello.

12 CHAIRMAN SANTONI: Hi.

13 DR. SHAW: I'm not going to read my testimony  
14 because I'm sure you guys have it memorized by now. I do  
15 want to just enter a few comments onto the record to  
16 clarify some comments that were made earlier with regard to  
17 some of the issues that are on the table. The first thing  
18 that I would like to make very clear is that we have not  
19 manufactured the student loan crisis. We are not  
20 exaggerating the student loan crisis.

21 We know, and I think Dr. Finney just provided  
22 national data in this regard, that the cost of going to  
23 college has become a crisis across the country, and it is a  
24 crisis in the State of Pennsylvania. We know that 529  
25 schools are tanking. We know that people are out of work.

1 We know that income is going down and the cost of college  
2 is going up.

3           We also know from the project on student debt  
4 that when you take into account both the federal and state  
5 loans that are available to folks, plus private loans and  
6 loans from other sources, the average debt load of a family  
7 to send their kid to college is close to \$50 thousand a  
8 year. That's irrefutable. That's not propaganda. That's  
9 the truth. So I just want to be really clear that this is  
10 a real issue for students, and as Janette Nunez just  
11 pointed out, many of our families have incomes of under \$20  
12 thousand a year.

13           The fact that Janette's mother has to work three  
14 jobs just to put food on the table, I think is really a  
15 clear indication about what kind of issues our families are  
16 up against. So I don't want us to minimize this or -- and  
17 I don't want anybody to suggest we are just making this up  
18 to get video poker legalized because that's simply not  
19 true.

20           The second thing I would like to point out is  
21 that there was a statement made that the PASSHE  
22 institutions are overenrolled and that there's no more room  
23 for students at PASSHE. That is patently false. The fact  
24 of the matter is that there are at least 10 thousand  
25 additional seats that will go unfilled in the PASSHE system

1 this year. And I received that information directly from  
2 the PASSHE Central Office as I was sitting at this  
3 testimony today.

4           So I want to make it very clear that it is not  
5 true that there is no room for additional students at  
6 PASSHE or at community colleges. Both sectors have made  
7 public commitments to do everything that they can to  
8 accommodate new students who would enter into our colleges  
9 and universities should the tuition relief be passed. The  
10 third thing that I want to point out is that there is a  
11 report that was referenced here earlier called the Rising  
12 Tide report that suggested that there are very few students  
13 who perceive costs as a barrier to going to college.

14           There's a fatal flaw in the Rising Tide report.  
15 The only students that were surveyed were students that are  
16 already in college. So in other words, people who didn't  
17 go to college because they couldn't afford to go to college  
18 were never included in this study. So I just want to point  
19 that out, that when people cite the Rising Tide report as  
20 evidence that college cost is not a problem in  
21 Pennsylvania, the study is fatally flawed.

22           It only talked to students who found a way to go  
23 to college. The last thing that I want to point out is  
24 that somebody suggested that we simply don't need that many  
25 students to get a college education in the State of

1 Pennsylvania, suggesting that there are enough jobs out  
2 there for plenty of folks who don't end up going to  
3 college. Again, all of our national and international data  
4 point to the same facts.

5           In the coming years, at least three-quarters of  
6 people in the State of Pennsylvania and, indeed, in the  
7 country, will need to obtain some postsecondary education.  
8 That does not mean that everybody needs a bachelor's  
9 degree. It does mean that they will need a credential, be  
10 that a one-year credential, a two-year associate's degree  
11 or a four-year bachelor's degree.

12           I want to remind people that the Tuition Relief  
13 Act provides an avenue to all of those credentials, not  
14 just to a four-year degree, but anybody who wants to come  
15 back to college or go to college for the first time and get  
16 a one-year certificate, a two-year associate's degree or a  
17 four-year bachelor's degree.

18           And if they qualify in terms of their income,  
19 they would be able to do this with the Tuition Relief Act,  
20 so it is written exclusively in such a way to accommodate  
21 the educational needs of, postsecondary educational needs  
22 of a wide range of folks, not just traditional-age  
23 students, not just students interested in going to college  
24 full time for four years. So I just wanted to remind the  
25 Committee of that. That's all I have to say, but I'll be



1 happy to take questions.

2 CHAIRMAN SANTONI: I just have a couple. We've  
3 heard throughout about the help that we're hopefully going  
4 to be able to provide and that it's important for kids to  
5 understand the importance of a dollar and not expect to get  
6 things for free. Could you just talk a little bit about  
7 the bill and that that's not the case?

8 DR. SHAW: Sure. The way that the bill works is  
9 really simple. The first thing that I want to say is that  
10 nobody goes to college for free under the Tuition Relief  
11 Act. Everybody has skin in the game. Everybody has to pay  
12 something. The difference between the Tuition Relief Act  
13 and what we have right now is that the Tuition Relief Act  
14 would allow families to pay only what they can afford.

15 Right now, many families pay much, much more  
16 than what they can afford. So it's very simple the way  
17 that the Tuition Relief Act would work. People would apply  
18 for financial aid, as Janette Nunez did, and what you get  
19 back when you apply for financial aid is something called  
20 an estimated family contribution. That is what you would  
21 be expected to pay, except if you get back a 0 estimated  
22 family contribution, which is what Janette's family  
23 received back.

24 Janette would have to pay a thousand dollars a  
25 year to go to college, even though we know that she would

1 probably have to take out a small loan to do that. Why do  
2 we make that decision? Because the Governor feels very  
3 strongly that everybody should make a financial  
4 contribution to their college education because if they do  
5 that, it's going to help ensure that they take their  
6 college education very seriously and they do everything  
7 they can do to stay in college and to graduate.

8           So when you get your financial aid form back,  
9 you get an estimated family contribution. You also are  
10 asked to apply for all available state and federal grants  
11 and to get those grants, and if there's any difference  
12 between your estimated family contribution and the amount  
13 of grants that are available to you and the total cost of  
14 attending college, the Tuition Relief Act would pick up  
15 that money.

16           So it is not a free ride at all, and as Janette  
17 pointed out and also as Susan pointed out, students are  
18 more than willing to take out loans and to work three jobs  
19 to go to college. Students understand the value of  
20 college.

21           What we want to avoid is having students  
22 graduate from college so deeply in debt that they can never  
23 afford to buy a house; they can never afford to support a  
24 family; they can never afford to send their own kids to  
25 college. That's not good economic sense, and that's going

1 to provide us with the environment that we need to emerge  
2 strong out of this current recession.

3 CHAIRMAN SANTONI: Thank you. And I think it's  
4 also important to point out this budget crisis that we're  
5 in and all the cuts that we're hearing about. As I  
6 mentioned earlier, there was a hearing -- I don't know if  
7 it's concluded yet -- with regards to --

8 DR. SHAW: I doubt it.

9 CHAIRMAN SANTONI: But there is that, of course,  
10 as you know. I don't know -- I know you've been focused on  
11 this issue. I don't know how much you've been involved in  
12 that, but that, as I said earlier, is going the other way,  
13 and we're going trying fill the gap.

14 DR. SHAW: Yeah, and I appreciate that.

15 CHAIRMAN SANTONI: Dr. Shaw, thank you so much.  
16 You've traveled with the Committee for the last month  
17 across the state. Thank you so much for all the time that  
18 you've spent in helping with this issue. We look forward  
19 to working with you further.

20 Our last, and certainly not least, testifier  
21 from the Pennsylvania Federation of Fraternal and Social  
22 Organizations, Mr. Ted Mowatt, CAE, Senior Associate from  
23 Warner Associates. Thank you for you allowing for others  
24 to jump in front. I do appreciate it. Your testimony is  
25 very important, and I look forward to it.

1           MR. MOWATT: It's my pleasure. And I haven't  
2 had the honor of spending the entire four sessions with you  
3 all, but I appreciate getting the last word on this. I'll  
4 try not to keep anybody any longer than necessary, but I  
5 would like to read my brief statement. Chairmen Santoni  
6 and Schroder and the rest of the members of the Committee,  
7 I am Ted Mowatt, Executive Director of the Pennsylvania  
8 Federation of Fraternal and Social Organizations. I very  
9 much appreciate this opportunity to comment on House Bill  
10 1317.

11           The Pennsylvania Federation of Fraternal and  
12 Social Organizations is a statewide association of nearly  
13 500 social clubs, veterans clubs, fire companies and other  
14 nonprofit service organizations. Our clubs provide  
15 numerous charitable works in the local communities, funded  
16 largely, by law, by small games of chance, in some cases,  
17 Bingo.

18           Particularly in these times of budgetary  
19 constraints on the state and local governments, our  
20 organizations are counted on increasingly to help, but  
21 sources of revenue have not kept up with the need.  
22 Further, as our members age, the clubs are constantly  
23 struggling to find ways to attract younger members who will  
24 take over the essential community activities of the clubs  
25 and the fire companies.

1           Our members have for years supported the concept  
2 of legalizing video poker machines as a way of supporting  
3 club activities. As your committee is well aware, there  
4 have been no substantive changes in the Bingo law since  
5 1981 or in Small Games of Chance law since 1989. We very  
6 much appreciate the fact that this committee has already  
7 reported out bills, House Bill 169 and House Bill 1284,  
8 which essentially accomplish the purpose of updating those  
9 laws, but thus far, final action has not been yet achieved.

10           Small Games of Chance legislation remains the  
11 primary goal of PFFSO. PFFSO has worked with other  
12 interested groups, such as the Allied Charities of  
13 Pennsylvania and the Pennsylvania Association of Nationally  
14 Chartered Organizations, PANCO; the PA Taverns Association  
15 and PAMMA on video poker legislation for years in the past.

16           PFFSO believes the Bingo and Small Games of  
17 Chance laws should remain separate from the video poker  
18 issue and be dealt with separately, and we appreciate that  
19 this is being kept separate in House Bill 1317. We share  
20 some of the logistical expressed by some of these groups,  
21 particularly in the cash flow area and security, but in  
22 general would like to see this bill pass.

23           As you may be aware, the Senate is concurrently  
24 considering similar bills, Senate Bill 211 and 212, to the  
25 Small Games of Chance and Bingo laws, which deal with those

1 issues in a slightly narrower fashion. Primarily, at this  
2 point, the use of proceeds language contained in House Bill  
3 169 and passed in previous sessions in the House is not  
4 included in Senate Bill 211.

5           House Bill 1317 provides a potential alternative  
6 solution for many clubs, as the share of the revenues that  
7 the club keeps could be used for maintenance and  
8 improvements and other expenses not currently allowed under  
9 the Small Games of Chance law; although, we think it should  
10 be part of that law as well. For many clubs, dues revenues  
11 have not been able to keep pace with the structural and  
12 other overhead needs, and clubs have been forced to find  
13 out other ways to survive.

14           Much has been made of the purported existence of  
15 paying video poker machines in clubs and taverns across the  
16 state operating illegally and that this legislation would  
17 simply capitalize on their currently untapped profits. We  
18 have not done any formal surveys of our member clubs on  
19 this issue for reasons that should be apparent, but we have  
20 polled our members on whether they want the machines  
21 legalized, taxed and have the revenue benefit become a  
22 budget through various programs.

23           And it is our unscientific finding that, by and  
24 large, that the opinions vary on a regional basis for a  
25 number of reasons. There are clubs clearly who do have

1 machines on their premises and are using that money to fill  
2 in holes left by the outdated small games limits. Some of  
3 these clubs would rather keep things the way they are and  
4 take their chances with law enforcement.

5 Others in this category would be relieved of the  
6 threat of losing their liquor license, which amounts to a  
7 death penalty for most clubs, and so they support the  
8 legislation. Clubs who currently have machines are  
9 concerned about how the process of transition to the  
10 state-operated machines would be handled and would like to  
11 see some sort of amnesty provision if possible, so that  
12 they are not at risk simply by applying for a license and  
13 trying to participate.

14 There are many other clubs in other regions, as  
15 you know, Mr. Chairman, who either because of philosophical  
16 opposition to the machines or because there's increased  
17 enforcement by local and state authorities, they choose not  
18 to have them. Some of these clubs are in real trouble, but  
19 they try to do their best to play by the rules until better  
20 rules exist.

21 Our organization as a whole has resolved this  
22 issue by generally supporting the concept of House Bill  
23 1317 with the possible suggestion that the Committee and  
24 the Administration consider making it too a local option  
25 and let communities decide whether they want to allow it in

1 their area.

2           On the issue of funding college students through  
3 this mechanism, we have no strong opinion, though our prior  
4 discussions on similar legislation had centered around  
5 finding additional funds for local governments to reduce  
6 local taxes. As a parent of a recent college graduate and  
7 three more to follow, I can attest to the cost of attending  
8 college in Pennsylvania, and I applaud the Rendell  
9 Administration and the General Assembly for attempting to  
10 find ways to reduce those costs without raising taxes.

11           Many of our club members attended college  
12 through GI bills and other government programs, so we're  
13 not opposed to aid in that manner as a rule. We would  
14 hope, and I as a parent of an entering Penn State  
15 student -- I surely hope -- that this program, should it be  
16 implemented, would be successful enough to be expanded to  
17 benefit all of Pennsylvania students regardless of where in  
18 Pennsylvania they choose to attend college.

19           Let me close by reiterating that, whereas our  
20 primary objective is to remove outdated restriction on the  
21 Small Games of Chance and Bingo laws, the Federation of  
22 Fraternal and Social Organization stands ready to work with  
23 the Committee and the Rendell Administration to craft a  
24 workable bill to add video poker terminals to our available  
25 revenue sources so that we can continue to be a viable,



1 essential member of our local communities. Thank you again  
2 for this opportunity, and I would welcome any questions.

3 CHAIRMAN SANTONI: Ted, thank you so much for  
4 your patience and presenting your testimony. I can assure  
5 you, as you know, that Small Games of Chance bill and the  
6 Bingo bill has passed the Committee and we're very  
7 supportive of it. And we will do everything we can to try  
8 to get that bill signed into law, so we look forward to  
9 working with you on that. Question from Representative  
10 Sainato.

11 REPRESENTATIVE SAINATO: Thank you, Ted. Thank  
12 you for your testimony. I just have one question. Where  
13 you state here clubs that currently have machines are  
14 concerned about the process of transition and they're  
15 looking for some sort of amnesty provision, what do you  
16 mean by amnesty provision?

17 MR. MOWATT: Well, I guess what we're looking  
18 for maybe is in the transition period, we would get some  
19 time to clean our rooms, I guess would be the case, so that  
20 we wouldn't have all the enforcement agents swooping down  
21 on those people who want to have machines in there and then  
22 checking out to see what their situation is.

23 We're not obviously -- we don't condone illegal  
24 machines at this point, and I can't tell you any -- I can't  
25 name any clubs of my members that actually have them, but I

1 am aware that in certain areas, that they are fairly  
2 prevalent.

3 REPRESENTATIVE SAINATO: Right. I understand.  
4 But I'm just saying, once, if this bill becomes law, they  
5 would have an opportunity to do that?

6 MR. MOWATT: Yeah. I want to avoid the  
7 situation where some clubs that would want to participate  
8 in this and would be reluctant to sign up for a license  
9 because they'd be afraid of identifying themselves as a  
10 violator.

11 REPRESENTATIVE SAINATO: Sure. I understand  
12 what you're saying, but if it does become law and they have  
13 illegal machines in their place, then there's going to be  
14 very serious consequences for any --

15 MR. MOWATT: Absolutely, and it should be. I'm  
16 just looking for a little period of time that they can  
17 clean up.

18 REPRESENTATIVE SAINATO: Sure. All right.

19 Thank you, Mr. Speaker.

20 CHAIRMAN SANTONI: Representative Vulakovich.

21 REPRESENTATIVE VULAKOVICH: When you talked  
22 about amnesty, one of the things I was thinking about,  
23 because we have to show concern for people who have made  
24 certain violations in the past, and there are those  
25 organizations that have, where the Liquor Control Board

1 enforcement has come in there, removed machines and things  
2 like that.

3                   And I'm sure there's quite a few of those, and  
4 so I think that's probably where your organization is  
5 coming from as far as the amnesty goes.

6                   MR. MOWATT: Yeah.

7                   REPRESENTATIVE VULAKOVICH: And I certainly can  
8 understand that because it is a cultural thing, especially  
9 in -- I can't speak for southeast Pennsylvania, but I can  
10 certainly speak for southwestern Pennsylvania. But just  
11 about everybody is responsible. I know some people want to  
12 throw some stones maybe at the State Police, but everybody  
13 is responsible for the condition we're in right now, every  
14 state rep, state senator. I was a former policeman. Now  
15 I'm a state representative.

16                   We have all turned our eyes from this subject  
17 for a long time, so one of the things that can come out, at  
18 least by this legislation, is somehow we either have to  
19 legalize these machines or get them out, one way or  
20 another. We have to remove the machines or legalize them.  
21 And so a lot of that -- I think an effort has been put on  
22 there, so there's good things that can come out of this.

23                   Now we need to set this bill up so that -- after  
24 we've listened to all the different players here. I  
25 certainly commend the Chairman for having so many hearings.

1 And myself, I don't mind sometimes to keep listening to  
2 people testify again because each time I pick something up  
3 because there is an attention span, especially when you  
4 have a meeting for five hours. So I commend you for that.  
5 And now we just have to put a good bill together that takes  
6 all the concerns in, and I think that can be done. So  
7 we'll see how well we do.

8 MR. MOWATT: We agree, and, again, we'll be part  
9 of that process.

10 CHAIRMAN SANTONI: Thank you, Ted, for your  
11 testimony. Just a couple things before we conclude. There  
12 was some testimony provided by Dr. Earl Grinols. His name  
13 has been mentioned, and also Representative Tony Paten from  
14 Philadelphia has submitted some testimony. All the  
15 testimony will be posted on our website. Today's -- the  
16 other hearings are already up, but today's, give us a few  
17 days.

18 And that website is [www.pahouse/santoni](http://www.pahouse/santoni), and  
19 there's a gaming link on that website that people can look  
20 to. I want to thank everyone that was involved. We've  
21 gathered a lot of information during our four hearings from  
22 Harrisburg to Westmoreland County to Berks County back  
23 here, and we are going to put all that information  
24 together. We are going to look at the bill, and we are  
25 going make it better where appropriate.

1           And hopefully, at some point, we can get a vote  
2 on the Committee hopefully soon and onto the floor. I do  
3 want to thank all the testifiers. Everybody that testified  
4 was very important, whether we agreed with them or not. We  
5 wanted to hear both sides and we have, and I think we're  
6 all better for it. I also want to thank the members that  
7 came to the hearings, that lived through the four hearings  
8 with me.

9           I specifically want to point out Chairman  
10 Schroder. Maybe Chairman Schroder and I don't agree on  
11 this issue, but we have a lot of respect, mutual respect  
12 for each other and I appreciate him and this staff. And I  
13 also want to point out that my staff did an awful lot of  
14 work in putting these together, and I didn't recognize them  
15 at the other hearings, so I'll do it today.

16           Thanks to Jenn Tyler and Mike Hillman and  
17 Michelle (inaudible) for all of their hard work in putting  
18 all these hearings together. So with that, I want to thank  
19 everybody again, and this final hearing of the House Gaming  
20 Oversight Committee on House Bill 1317 is concluded.

21           (The hearing was concluded at 3:30 p.m.)

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1                   I hereby certify that the proceedings and  
2 evidence are contained fully and accurately to the best of  
3 my ability in the notes taken by me on the within  
4 proceedings, and that this copy is a correct transcript of  
5 the same.

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Jennifer L. Sirois, Court Reporter,  
Notary Public

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