

HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

* * * *

House Bill 21 and Senate Bill 1033

* * * *

House Gaming Oversight Committee

Capitol Building
60 East Wing
Harrisburg, Pennsylvania

Wednesday, August 12, 2009 - 9:00 a.m.

--oOo--

BEFORE:

Honorable Dante Santoni, Majority Chairman
Honorable Florindo Fabrizio
Honorable Bryan Barbin
Honorable Joseph Brennan
Honorable Thomas Caltagirone
Honorable William Keller
Honorable Michael O'Brien
Honorable Chris Sainato
Honorable Thomas Curtis
Honorable James Wansacz
Honorable Curt Schroder, Minority Chairman
Honorable Michael Peifer
Honorable Paul Clymer
Honorable Rob Kauffman
Honorable RoseMarie Swanger
Honorable Mike Vereb
Honorable Randy Vulakovich

IN ATTENDANCE:

Honorable Robert Tomlinson
Honorable William DeWeese
Honorable Todd Eachus
Honorable Nick Kotik
Honorable John Siptroth
Honorable Gene DiGirolamo

1 ALSO PRESENT:

2

Michelle Chufe Leslie, Esquire
3 Majority Executive Director

4

Jennifer Tyler
5 Majority Research Analyst

6

Jennifer Weeter
7 Minority Executive Director

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 C O N T E N T S

2 SPEAKERS PAGE

3 Opening remarks

4 Honorable Dante Santoni, Jr..... 6

4 Honorable Curt Schroder..... 7

5 Honorable Robert Tomlinson..... 9

5 Honorable William DeWeese..... 17

6 Robert DeSalvio, President..... 27

7 Sands Bethworks Gaming, LLC

7 Bobby Soper, President and CEO..... 33

8 Mohegan Sun at Pocono Downs

9 Dave Jonas, President..... 42

10 Philadelphia Park

10 Ron Davis, Dir. Of Diversity/Community.... 47

11 Phila. Park Racetrack and Casino

12 Richard Thalheimer, Ph.D..... 145

13 Thalheimer Research Associates

13 Joseph Santanna, President..... 159

14 PA Horsemen's Benevolent and

15 Protective Association

15 John Oliver, President of Visit Erie..... 200

16 Chairman of PA Visitor's Bureau

17 Barry Wickes, President..... 200

18 PA Tourism and Lodging Association

18 Paul Girvan, Managing Director..... 209

19 Innovation Group

20

21 (Written testimony submitted by Bill Paulos,

22 Principal, Cannery Casino Resorts; Marlene

23 Murray, President & Co-founder, R.A.C.E.

24 Fund, Inc.)

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

SUPPORT INDEX

REQUEST FOR PRODUCTION OF DOCUMENTS

Page	Line	Page	Line	Page	Line
102	23-25	135	16-18	139	6-13
141	19-24	142	5-10	186	14-17
192	4-10	194	3-7	195	11-17

1 CHAIRMAN SANTONI: Good morning.
2 I would like to call the House Gaming
3 Oversight Committee public hearing to order.
4 What I would like to do first is to go around
5 the room and have the members of the committee
6 and other members interested in the issue
7 identify themselves.

8 I am Representative Dante Santoni.
9 I am from Berks County.

10 REPRESENTATIVE FABRIZIO: Flo
11 Fabrizio, Erie County.

12 REPRESENTATIVE WANSACZ: Jim
13 Wansacz, Lackawanna, Luzerne, Wyoming and
14 Susquehanna counties.

15 REPRESENTATIVE BARBIN: Bryan
16 Barbin, Cambria County.

17 REPRESENTATIVE CALTAGIRONE: Tom
18 Caltagirone, Berks County.

19 REPRESENTATIVE KOTIK: Nick Kotik,
20 Allegheny County.

21 REPRESENTATIVE SAINATO:
22 Representative Chris Sainato, I represent the
23 9th District of Lawrence and a small section
24 of Beaver counties.

25 REPRESENTATIVE O'BRIEN: Mike

1 O'Brien, Philadelphia.

2 REPRESENTATIVE DEWEESE: Bill

3 DeWeese, Greene, Fayette, and Washington.

4 SENATOR TOMLINSON: Tommy

5 Tomlinson, Bucks County.

6 REPRESENTATIVE VULAKOVICH: Randy

7 Vulakovich, Allegheny County.

8 REPRESENTATIVE PEIFER: Mike

9 Peifer, Wayne, Pike, and Monroe counties.

10 REPRESENTATIVE VEREB: Mike Vereb,

11 Montgomery County.

12 REPRESENTATIVE SCHRODER:

13 Representative Curt Schroder, Chester County.

14 CHAIRMAN SANTONI: Thank you all,

15 and I am sure there will be other members

16 attending throughout the morning.

17 Just some brief remarks from the

18 Chairmen and then we are going to turn it over

19 to the sponsors of the legislation.

20 There are two bills that have been

21 introduced. Senate Bill 1033 by Senator

22 Tomlinson, we will be hearing from shortly,

23 and House Bill 21 introduced by Representative

24 Bill DeWeese. And, again, he is going to make

25 some brief remarks in a moment.

1 But we are here really just to get
2 testimony on not just those pieces of
3 legislation but the issue of table games in
4 general. We need to find out the economic
5 impact of what table games would do, the money
6 generated, the effect that it has on current
7 casinos and other issues related to the
8 legislation that we passed back in 2004.

9 So we all know we are in a serious
10 budget impasse. So we are looking for
11 additional revenues to try to fill that, not
12 necessarily this year but also in the future,
13 the next year, as I am sure we will be facing
14 additional challenges then.

15 So we look forward to the testimony
16 today. And, at this time, I would like to
17 turn the microphone over to the Republican
18 Chairman of the committee, Curt Schroder.

19 REPRESENTATIVE SCHRODER: Thank
20 you, Chairman Santoni.

21 Good morning, members of the
22 committee and ladies and gentlemen. At this
23 point, I can probably just say I incorporate,
24 by reference, my opening remarks from prior
25 committee meetings and hearings and everyone

1 would pretty much know what I was about to
2 say.

3 But just in case it is lost on
4 anyone, I will begin by saying that: While
5 once again we are here entertaining in yet
6 another capacity expansion of gambling in the
7 Commonwealth of Pennsylvania, I truly hope
8 that at some point the committee can see its
9 way to addressing the important oversight
10 issues that have been raised by various
11 members of the General Assembly; particularly
12 the piece of Senate legislation that was sent
13 over, I don't know, a month or two ago now,
14 which I think represents some important steps
15 that need to be taken, as well as some of the
16 ideas that are right here in this committee
17 and in the House with regards to reforming the
18 gaming oversight function of the Pennsylvania
19 Gaming Commission.

20 So it is just my plea, once again,
21 that we begin to address those matters as
22 well. So, Mr. Chairman, thank you for the
23 opportunity to make a brief comment.

24 CHAIRMAN SANTONI: Thank you,
25 Chairman Schroder.

1 We will hear from the prime sponsor
2 of Senate Bill 1033, Senator Tomlinson,
3 please.

4 SENATOR TOMLINSON: Thank you,
5 Chairman. And thank you, Chairman Schroder.

6 I would agree with Chairman
7 Schroder. We just finished recently working
8 on that bill and sent it over here. I think
9 it is a very good piece of legislation.

10 I also stated that while we have
11 revised it a little bit and worked hard on it
12 together--I worked with Senator Earll and
13 Senator Orie--this gaming is a process. I
14 think that we'll be back again and again
15 looking at it. Every time we look at
16 something, we find a better way to do it.

17 Gambling is a very, very large haul
18 for us in the legislature, very complicated, a
19 lot of intricacies, a very complicated piece
20 of legislation.

21 So while I think that is a good
22 piece of legislation, I don't think it is the
23 end all of legislation that we will be doing
24 as we look at gaming oversight.

25 With that being said, I think it

1 would be very important for us to move that
2 piece of legislation; that it would show a
3 good sign to many of my colleagues on my side
4 of the aisle who might be in favor of table
5 games but want to make sure that we get the
6 oversight work done, too.

7 So, thank you, Chairman Schroder,
8 for bringing up our Senate Bill on reforms.

9 When we did bring that bill up--
10 maybe before I start my remarks on this--I
11 pointed out that: As much as we go over and
12 try to reform gaming and as many critiques
13 there might be for that--some of them very
14 justifiable--in the 34, 35 months that gaming
15 has been enacted, in Pennsylvania \$47 billion
16 has been wagered and every penny has been
17 accounted for.

18 Forty-three billion has been paid
19 back to the better, so the better hasn't done
20 too bad.

21 And if you are a Pennsylvania
22 resident and taxpayer, you got \$2 billion
23 back.

24 And everybody said we would never
25 reach those kinds of numbers. But in just 30

1 some months, \$2 billion has been given back to
2 the Pennsylvania taxpayers in the slots bill.

3 The horse racing industry has
4 gotten \$445 million back from their purses.

5 The economic development, which is
6 their convention centers and Allegheny Airport
7 and some other -- and others to come, 189
8 million. And that the \$75 million goes,
9 obviously, to the fire company.

10 My little town of Bensalem--we have
11 got 60,000 people--to this date has received
12 \$25 million, and my county has received
13 \$17 million for local share.

14 Basically, if you added up all the
15 rest, you are around two hundred and some
16 million dollars that would be -- that has been
17 paid out to local share.

18 So I think what we have done here
19 is we have distributed the money pretty evenly
20 around the commonwealth to different interests
21 and, of course, particularly to the horse
22 racing industry.

23 And I say that because while I
24 believe the reform bill is very important--we
25 didn't do a real bad job when we wrote the

1 original one--we had to redo some things. But
2 every penny of that has been accounted for and
3 run through a central computer and I expect no
4 less when we do table games.

5 I have to give credit to
6 Representative DeWeese, for being really out
7 there first, on trying to go into table games.
8 I agree with him but I now doubly agree with
9 him that in these economic times, in these
10 critical times for our budget, now is the time
11 to do table games for the State of
12 Pennsylvania.

13 And I have read off all of those
14 interests that have already received money and
15 if you noticed the State of Pennsylvania
16 didn't receive a dime. Those of us in the
17 state here, who worked hard to produce all of
18 this revenue, now we don't account for any of
19 it in our budgetary process.

20 So, in my bill, I put 100 percent
21 of it to the state.

22 And I have set my rate at 12
23 percent. And I set the rate low at 12
24 percent, because at 12 percent, as you heard
25 in your last study, that creates about 16,000

1 jobs.

2 Now, if you raise that rate above
3 12 percent, you can -- every point you raise
4 that, you will lose so many jobs.

5 Now, I happen to believe that it is
6 important for us to receive somewhere around
7 106 to \$180 million in revenue from that, but
8 I also think it is very important to create
9 16,000 jobs. 10,000 jobs direct, but 16,000
10 jobs overall.

11 Now, all of those people will be
12 paying income tax, will be buying cars, will
13 be buying flat screen TVs. They will be
14 paying for things. They will be increasing
15 our sales tax revenues. So we get a double
16 dip there. The more people you employ,
17 particularly from this industry, they will be
18 local and they will be spending more money.

19 So I have emphasized keeping the
20 tax rate low. Because when you look at the
21 gaming bill, overall, the effective tax rate
22 is somewhere up around 61 to 62 percent, for
23 some of these casinos, because the local share
24 far exceeds the 2 percent. The local share
25 far exceeds that because they get a guaranteed

1 \$10 million.

2 And because all of the casinos
3 aren't up and running, many of the casinos are
4 paying 18 percent, instead of 12 percent, into
5 their horsemen's fund, so many of these
6 casinos now are really being overburdened in
7 the tax revenue.

8 And the less--this is good
9 Republican policy--the less you tax, the more
10 people go to work. The more you tax, the less
11 people you can hire, unless you work for the
12 Gaming Commission, of course.

13 But I think it is an important part
14 that we keep that tax low. And it is very
15 important because it's now -- we are all
16 standing around here working on this budget
17 and we are all looking for reliable,
18 reoccurring money, and this is reliable,
19 reoccurring money that will come back into
20 this state budget.

21 And, although we know these are
22 very difficult times now, they are going to be
23 just as difficult next year. And by charging
24 a \$10 million fee up front, we can get about
25 100 to \$110 million into the coffers

1 immediately. Then when the tax kicks in and
2 the operations are up and running and we hear
3 -- And you have industry people here who can
4 talk better to it. But when they are up and
5 running in about 4 to 6 months, then they will
6 start generating that revenue which will kick
7 in next year under next year's budget.

8 So I think it might not be the
9 total panacea for our budgetary problem, but
10 it certainly could be a very key, important
11 piece to solving this year's budget. So
12 that's why I sit here, with Representative
13 DeWeese, to ask for this bill to move forward
14 so that it can help us in our budgetary
15 problems.

16 With that, I want to congratulate
17 Representative DeWeese again. Because coming
18 from the east, coming from Pennsylvania, and
19 Bill DeWeese coming from the southwest, he
20 recognizes the competition that he is getting
21 from West Virginia. Table games are going
22 into West Virginia.

23 In the east, we have recognized
24 that Atlantic City has been there and their
25 table games are certainly still a strong

1 attraction for them and puts our casino at
2 some disadvantage.

3 We now have the added competition
4 of Delaware and Delaware is one hour from
5 Philadelphia Park. And from our -- If you
6 draw, you know, a circle around Philadelphia
7 Park, Delaware is right on the outside of that
8 as far as a competitive area.

9 And they not only will have table
10 games now, they are going to have sports
11 betting. So there is going to be a lot of
12 interest in that, at first, and we think that
13 that's going to probably drain some of
14 Philadelphia Park's customers. We also are
15 facing opening up casinos in Philadelphia.

16 So we believe that adding table
17 games here not only helps us with our outside
18 competition but helps us facing competition
19 right down the road from us.

20 When you look around the country, I
21 think Ohio is looking at doing something. I
22 think that's pretty imminent.

23 So I believe that table games added
24 to the current venue we have is a natural fit
25 and I think would go well to boost that

1 business and boost employment.

2 And I think you will find, there
3 was a poll done and 61 percent of the people
4 thought it was a good idea to put table games
5 in and casinos and racetracks, and when you
6 said that it would create jobs, 71 percent
7 voted it was a good idea.

8 So, with that, Mr. Chairman, thank
9 you very much for giving me the opportunity to
10 testify here today, and I will be happy to
11 turn it over to Representative DeWeese.

12 CHAIRMAN SANTONI: You are welcome.
13 Thank you, Senator. We look forward to
14 working with you on the issue.

15 Next up, Representative DeWeese.

16 REPRESENTATIVE DeWEESE: Chairman
17 Santoni, Congressman Schroder, my esteemed
18 colleague Tommy Tomlinson, members of the
19 committee, ladies and gentlemen, just a three-
20 or four-minute overview and then we will kick
21 it into gear under Chairman Santoni's aegis.

22 I think it was either Mike Peifer
23 or Tom Caltagirone, once, who taught me the
24 definition of a Kabuki dance, a pantomime of
25 stilted and false formality. And since the

1 Riverboat dialogue was launched in the late
2 '80s, early '90s, this has been a Kabuki
3 dance.

4 We, in the House, were able to
5 generate--neither formally nor informally--
6 probably 85, 90 votes in favor of a Riverboat
7 option. I think young Chris Sainato and
8 Chairman Santoni were around in those golden
9 years.

10 But we realized that Governor Casey
11 was antagonistic and standoffish on the issue.
12 Notwithstanding the fact that he was a strong
13 and successful chief magistrate of
14 Pennsylvania and one of my favorite
15 participants in the public realm, he was
16 certainly not -- he had the Curt Schroder
17 perspective on gaming, I think.

18 And then the handsome swashbuckler
19 from Erie--not Flo Fabrizio, the one that came
20 before him, Governor Ridge--Governor Ridge has
21 told the world -- And he was nice to me, he
22 took me to Mexico on an official trip,
23 hunting.

24 But Governor Ridge was for
25 Riverboat. He was for gaming in Pennsylvania.

1 And then, within 43 days of his inaugural, he
2 changed his mind and said, well, I think we
3 should have a statewide referendum.

4 This is after he had been the happy
5 beneficiary of several hundred thousand
6 dollars of campaign contributions from the
7 gaming industry, which were all above board
8 and appropriate and helpful to his momentum.
9 But, again, for another eight years, we were
10 stymied.

11 Then at the advent of the Rendell
12 administration, we felt we had some momentum.
13 The rest is history, I won't belabor the
14 committee with the definitive commentary on
15 the past. But there was no doubt, when we
16 were discussing the Riverboat in the '90s, the
17 table games were inherently and
18 incontrovertibly a part of that commentary.

19 And although his excellency,
20 Governor Rendell, has always been standoffish
21 on table games, we always believed it was
22 because he wanted to get established with
23 slots. And now that slots have been
24 established, as has been so well delineated by
25 Senator Tomlinson, and the successes are

1 unalloyed and the money is coming into the
2 state coffers, and the fact is, as we all
3 know, there is a urgent need for additional
4 revenue.

5 And although my proposals, relative
6 to gaming, have always been centered around
7 property tax reduction--and mine still would
8 be centered around property tax reduction--I
9 certainly think that it is up to the
10 committee, of course, and then up to the
11 membership of the House and the Senate, but I
12 would advocate on behalf of an idea, where
13 after three years of the table games money
14 going into the General Fund, then all of those
15 dollars be put to property tax relief.

16 I think when I regard the
17 perspectives of either Tim Sipe or Tim Solobay
18 or many of my other colleagues from rural or
19 semi-rural areas, let alone suburban areas or
20 urban areas, the idea of property tax relief
21 is dominant and it won't go away.

22 So, notwithstanding the fact that
23 we have an urgent financial crisis in the
24 Keystone State right now and I think that
25 these dollars should be put toward General

1 Fund revenue relief, the perspective I have is
2 that table games and gaming should be in the
3 future, as they were designed in the past, to
4 be for property tax relief.

5 I don't want to be duplicative.
6 And, again, most of what I wanted to say was
7 specified by Senator Tomlinson. He didn't,
8 though -- There were only two or three points
9 that I wanted to make that he did not make.

10 The clientele, the upwardly mobile
11 24- to 44-year-old men and women who would be
12 a table games player are probably not playing
13 the slots with the great regularity that they
14 are now.

15 Number two, to re-emphasize what he
16 said, the agricultural and horse breeding and
17 horse racing industry were on their last
18 proverbial legs, it seemed. And to those of
19 us who grew up reading Earnest Hemingway's
20 novels and thinking about the great horse
21 racing and bull fighting--mostly horse racing
22 for this hearing--those of us who romanticized
23 about it are happy to have horse racing back
24 in a very, very viable part of Pennsylvania
25 life.

1 So the neighboring states, he did
2 mention. I have a figure here from a group
3 that did a survey recently, where 81 percent
4 believe that gaming is acceptable for
5 themselves.

6 So, as Audrey Powell, my
7 wonderfully dexterous and capable helper,
8 helped and led the way in drafting this
9 legislation, we felt the same way that Senator
10 Tomlinson felt.

11 I certainly don't have any
12 disagreement in the general sense with
13 Chairman Schroder, my Republican colleagues in
14 the Senate or the House, relative to some
15 impetus to make some changes or reforms, but I
16 will leave that under the very capable hands
17 of Chairman Santoni and the committee.

18 I look forward to working with the
19 committee in some tangential way. But as a
20 senior member of the Assembly, I respect the
21 working group here. MCOs run the military and
22 committee chairmen and committees run the
23 House and the Senate, under the best of
24 circumstances, the most ideal circumstances.

25 So whatever work product you folks

1 come up with, I am sure it will alter -- or be
2 altered from what Senator Tomlinson and I have
3 proposed, but it will still be in the right
4 direction.

5 I think we would be very, very
6 myopic to not embrace some sort of effort that
7 81 percent of the body politic thinks is
8 appropriate, especially if we could have some
9 reforms incorporated into it, where we could
10 generate a hundred million or a hundred plus
11 million--even more if the cost of the licenses
12 initially were higher--to inject into the
13 General Fund, and that money could be injected
14 within this fiscal year.

15 And then, between 165 and \$205
16 million per annum, this, even in a \$3 billion
17 problem, we are still talking about a very,
18 very modest and appropriate element of relief.

19 So I think we need to have this
20 part of the discussion. I laud the Chairman
21 and his team, both chairmen and their teams,
22 for bringing this event together. Thank you
23 very much.

24 And I think this gentleman has to
25 leave for a 10:00 Session. I am going to

1 linger a little longer.

2 CHAIRMAN SANTONI: Thank you,
3 Representative DeWeese. We understand the
4 Senator has other commitments and could
5 possibly be back, but you are more than
6 welcome to stay and listen to the testimony.

7 We do thank both of you for your
8 leadership, for your seriousness and vigor
9 toward moving this issue forward, and we look
10 forward to working with you as we move forward
11 fairly quickly and potentially on the issue of
12 table gaming.

13 Senator Tomlinson, thank you.
14 Representative DeWeese, thank you.

15 SENATOR TOMLINSON: Thank you. Mr.
16 Chairman, just one more point. This same
17 dynam -- And I have a few minutes for
18 questions, I do.

19 But just one more point, the
20 dynamic. I have to describe to some of you
21 who are not aware, but Philadelphia Park is
22 less than an hour from Atlantic City and an
23 hour from Delaware Park so the people --

24 And there has been a great success
25 story in us capturing a tremendous amount of

1 New Jersey business. I mean we are literally
2 bringing New Jersians over to gaming in
3 Pennsylvania because it's more convenient.

4 But we are not the Atlantic City
5 model, we don't have 10 casinos in a row; but
6 the people love the, I guess the ease of which
7 they can get in and out of and the
8 accessibility of this casino. And most of
9 these people that still live in my area love
10 table games. And they're -- they're --

11 Just like the argument on slot
12 machines, it -- I am following my
13 constituents. I started the slot machine bill
14 because when I would go get a cup of coffee in
15 the morning at Dunkin' Donuts, there were five
16 buses a day leaving that little Dunkin'
17 Donuts, going to Atlantic City. And church
18 groups and all kinds of groups were just going
19 to Atlantic City for fundraisers. They would
20 sell the bus out, so.

21 So the same argument exists here,
22 is that these people decide what they are
23 doing, they're doing it. I just want to
24 capture that money and keep that money here.

25 And as the statistics I have read

1 to you earlier, we have been pretty successful
2 with the table games. I think we'll be
3 equally as successful with -- Or successful
4 with the slot machines, I think we will be
5 equally as successful with the table games.
6 Thank you.

7 CHAIRMAN SANTONI: Thank you,
8 Senator. You are excused.

9 SENATOR TOMLINSON: Thank you.

10 CHAIRMAN SANTONI: We are going to
11 bring our first panel of testifiers up, a
12 group of operators.

13 Gentlemen, you can just come up and
14 sit in front, and what we will do is we'll
15 allow each of you to make remarks and then
16 have questions at the end of that.

17 Bobby Soper, President and CEO,
18 Mohegan Sun at Pocono Downs. Dave Jonas,
19 President of Philadelphia Park. Ron Davis,
20 Director of Diversity/Community for
21 Philadelphia Park Racetrack and Casino. And
22 Robert DeSalvio, President of Sands Bethworks
23 Gaming, LLC.

24 I don't know if there is an order
25 that you guys are planning this, but we can

1 start on my right. Mr. DeSalvio, just
2 identify yourself as you go through, for the
3 stenographer, and then you may begin.

4 Before you start, I want to
5 recognize a couple of members that came in
6 during the remarks of Representative DeWeese
7 and Senator Tomlinson: Representative Rob
8 Kauffman and Representative and Chairman Paul
9 Clymer.

10 Mr. DeSalvio, you may begin.

11 MR. DeSALVIO: Thank you and good
12 morning to everyone. Again, my name is Bob
13 DeSalvio. I am President of the Sands Casino
14 and Resort in Bethlehem.

15 I would like to take this
16 opportunity to thank Chairman Santoni and the
17 members of the committee for the opportunity
18 to testify on the subject of expanding gaming
19 in Pennsylvania to include table games and to
20 express the Sand's strong support for
21 approving table games now.

22 By way of background, prior to
23 joining Las Vegas Sands Corp. two-and-a-half
24 years ago as president of the Pennsylvania
25 project, I spent the previous 28 years in the

1 gaming industry in Atlantic City and
2 Connecticut.

3 Approving table games at an
4 appropriate tax rate in the near future is
5 very important to Pennsylvania's future
6 because it will create tens of thousands of
7 new jobs, lead to hundreds of millions in new
8 investment in Pennsylvania, and allow
9 Pennsylvania's growing gaming industry to
10 remain competitive in the regional
11 marketplace.

12 On May 22nd, the Sands Casino
13 Resort Bethlehem opened for business. The
14 opening was a culmination of a four-year
15 process and a \$743 million investment by the
16 Las Vegas Sands Corp. Our corporate
17 leadership has invested so much time and
18 capital in this project because Pennsylvania
19 is in the middle of one of the greatest gaming
20 marketplaces in the United States.

21 In addition to the \$743 million
22 that Las Vegas Sands Corp. has invested in
23 building the Sands Casino Resort Bethlehem, in
24 the last year we have hired almost a thousand
25 people. Think about that. In the midst of

1 serious and deep economic downturn, where
2 other companies are slashing jobs, reducing
3 payrolls or going out of business, we were
4 hiring. I can't think of one other employer
5 in the Lehigh Valley who was expanding
6 employment over the last year, let alone
7 adding about a thousand new jobs.

8 The Innovation Group, who testified
9 before this committee on June 24th regarding a
10 report they authored about the economic impact
11 of table games in Pennsylvania, predicted that
12 approving table games in Pennsylvania at a
13 rate of 12 percent would create directly
14 10,000 new jobs, good-paying jobs, and lead to
15 the creation of an additional 6,000 jobs.

16 No other economic development
17 program that the commonwealth could start
18 would generate hundreds of millions of dollars
19 in new tax revenues and create 16,000 new
20 jobs, all while costing no money to the state.
21 In fact, with the new taxes and fees, our
22 casinos will pay to create those jobs.

23 At the June 9th grand opening
24 ceremony of the Sands, Las Vegas Sands
25 Chairman and CEO, Sheldon Adelson, stated that

1 if Pennsylvania approved table games this
2 year, Las Vegas Sands would move ahead
3 immediately with completing the hotel and the
4 mall that has been stopped on our site and
5 begin building new event and meeting space.

6 These construction projects will
7 greatly help contractors and laborers who are
8 looking for a new construction project in this
9 difficult economic time and pump new money
10 into the Lehigh Valley economy.

11 New jobs and expanded investment
12 will only reach their full potential if
13 Pennsylvania properly sets the table games tax
14 rate and limits the licensing fees. High
15 table game taxes and large licensing fees may
16 seem like an easy way for the state to make
17 money, but they are a recipe for fewer casino
18 jobs, smaller new construction investments,
19 and minimized economic impact.

20 The Sands strongly supports Senate
21 Bill 1033. It properly sets the Pennsylvania
22 table game tax rate at 12 percent and requires
23 licensees to pay a \$10 million licensing fee.

24 This tax rate and licensing fee
25 will allow the state to generate significant

1 revenues while providing an economic incentive
2 for owners and operators to hire new workers
3 and invest in new facilities.

4 If tax rates and licensing fees
5 rise above those figures, each operator will
6 be forced to reconsider hiring and investment
7 decisions and they will probably reduce those
8 numbers, thus hurting Pennsylvania's future
9 economic growth.

10 Approving table games at this time
11 is not only important to create new jobs in
12 Pennsylvania, but it is essential if our
13 casinos are to stay competitive with
14 neighboring states who are rushing to approve
15 new gaming options to stay ahead of
16 Pennsylvania.

17 Last May, I had the chance to
18 present testimony to the House Gaming
19 Oversight Committee on the issue of table
20 games in Pennsylvania and to express my strong
21 support for approving table games at an
22 appropriate tax rate. At that time, I urged
23 the committee to take prompt action to approve
24 table games because the gaming marketplace in
25 this region and across the country is

1 constantly changing. Waiting to approve table
2 games gives other states the chance to respond
3 to Pennsylvania's gaming success.

4 Since my previous testimony, 15
5 months ago, the regional gaming marketplace
6 has changed dramatically. Our neighboring
7 states have considered and approved new gaming
8 options that threaten the vitality of
9 Pennsylvania's economy.

10 The State of Delaware has approved
11 sports betting and table games at their three
12 racetracks. In New York, the Catskills are
13 expecting to have a full casino. Charles
14 Town, West Virginia, in the near future, will
15 be holding a referendum on table games and it
16 is expected to pass. Maryland has approved
17 slots at the tracks, and Ohio will be holding
18 a gaming referendum this fall.

19 Pennsylvania must remain
20 competitive in this environment or we risk
21 losing needed tax revenue to support property
22 tax relief and economic activity. Remaining
23 competitive in this marketplace means
24 approving table games, at an appropriate tax
25 rate, very soon.

1 More jobs, greater investment and
2 improved competitiveness in this marketplace
3 makes approving table games in the near future
4 at an appropriate tax rate a real winner for
5 the State of Pennsylvania.

6 And I want to again thank the
7 committee for giving me this opportunity to
8 testify today.

9 MR. SOPER: Thank you.

10 THE REPORTER: And your name, sir?

11 MR. SOPER: My name is Robert
12 Soper, S-O-P-E-R. I am the President of
13 Mohegan Sun at Pocono Downs.

14 Good morning, Mr. Chairman, members
15 of the Gaming Oversight Committee. On behalf
16 of the Mohegan Tribal Gaming Authority and the
17 Mohegan Sun at Pocono Downs, I want to thank
18 you for allowing us to provide testimony
19 concerning table games.

20 In November of 2006, we opened the
21 first casino in Pennsylvania. And in July of
22 last year, we opened our permanent facility
23 which includes approximately 2500 slot
24 machines, 11 dining establishments, retail
25 shops, upgraded racing amenities as well as

1 topnotch, live entertaining.

2 We have invested over \$550 million
3 in northeast Pennsylvania. We have created
4 over a thousand new full-time jobs. We have
5 paid over \$430 million in taxes to the state,
6 local government and horse racing industry
7 since our opening almost three years ago.

8 On average, over 9,000 individuals
9 per day have enjoyed our facility, many of
10 which would otherwise go to Atlantic City, New
11 York, or some other gaming jurisdiction.
12 Notwithstanding the amenities we offer and the
13 patron volumes we have experienced, a
14 significant number of people from our area and
15 other parts of Pennsylvania still make visits
16 to other gaming jurisdictions simply because
17 we do not offer table games as an option.

18 As I have noted in my previous
19 testimony to this committee, both in September
20 of 2007 and May of last year, on a daily basis
21 we continue to be barraged with inquiries by
22 the residents in northeast Pennsylvania asking
23 if and when table games will become a reality
24 in the commonwealth. Our response that the
25 answer remains uncertain, elicits a reaction

1 of bafflement and dissatisfaction.

2 Of course, the reaction by these
3 constituents is logical and unsurprising, as
4 not only do they see the entertainment value
5 associated with table games, but most
6 importantly they see the potential economic
7 value of table games to our region and the
8 commonwealth in the form of capital
9 investment, job creation, and revenue
10 generation.

11 As reflected in the Innovation
12 report, which Bob mentioned and you have seen,
13 table games will generate approximately a
14 billion dollars annually in economic benefits,
15 along with the creation of 16,000 new jobs.
16 These economic benefits will come at a time
17 where the state is looking for more
18 opportunities to generate revenue and
19 unemployment is approaching double digits.

20 At Mohegan Sun at Pocono Downs
21 alone, table games will likely create about
22 600 to 700 additional jobs, almost all of
23 which are hired from the local community and
24 pay very well.

25 Table games will also bring in a

1 new patron demographic, one which historically
2 has a higher disposable income and on average
3 reside from further geographic distances.

4 This presents even greater
5 opportunities to generate revenues and
6 economic benefits from those that do not
7 reside in the commonwealth as well as
8 recapturing dollars from those Pennsylvania
9 residents that travel and spend discretionary
10 dollars outside of Pennsylvania.

11 With greater volumes, a new
12 demographic customer base and an expanded
13 geographic market, the natural result will be
14 greater capital reinvestment whether it's a
15 new casino space, lodging amenities, or
16 additional retail, restaurant and
17 entertainment venues.

18 The economic benefits of table
19 games are clear: Whether you look at the
20 history of its impact on other jurisdictions
21 or the potential benefits empirically
22 illustrated in the Innovation report, the
23 evidence is overwhelming.

24 Because these benefits have been
25 clearly enumerated in the report and further

1 expounded by my colleagues today, rather than
2 spending any more time on describing what
3 those benefits are, I wanted to focus a little
4 more on one specific point, which, again, was
5 noted in my previous testimony but should be
6 repeated and elaborated, as I believe it
7 cannot be understated. That is, contrary to
8 what some say, the addition of table games is
9 simply not an expansion of gaming in the
10 commonwealth.

11 The fact is blackjack, craps and
12 roulette are merely additional choices among
13 many choices in the same locations where
14 gaming is currently permitted, where the
15 offerings include many variations of video and
16 reel slot machines, video poker, electronic
17 blackjack, and electronic roulette.

18 These are locations which have
19 undergone a significant licensing process and
20 are highly regulated.

21 These are controlled environments
22 which prohibit minors from participating and
23 implement comprehensive compulsive gambling
24 programs with training for all employees in
25 the facility.

1 These are safe, secure places with
2 the most sophisticated surveillance technology
3 and simply adding additional choices for our
4 guests at our properties does not change any
5 of this.

6 If, in fact, this is the case--that
7 is, we are merely providing additional game
8 choices in existing locations and that
9 distinguishing slots and table games is merely
10 a superficial distinction--it begs the
11 question of why have states even distinguished
12 the two to begin with?

13 The answer lies in the history and
14 evolution of slots. Its origins and
15 evolutions suggest that this distinction
16 between the two was not based on economic,
17 socio-economic or public policy reasons;
18 rather it was a product created as a result of
19 legal necessity.

20 Some of the original jurisdictions
21 that introduced slot machines subsequent to
22 Nevada and New Jersey did not include other
23 games which incorporate a component of skill
24 such as table games simply because their
25 constitutions precluded legalization of such

1 games.

2 On the other hand, slot machines,
3 while not specifically authorized in their
4 constitutional framework, could be interpreted
5 to fall within the fairly generic authorizing
6 language of their respective lottery
7 provisions and therefore could be legally
8 authorized, notwithstanding the fact that they
9 are gaming devices for all functional
10 purposes, especially if such games were
11 "operated" by the state.

12 Based on the success of these slots
13 casinos in generating revenues for the states
14 and creating jobs, other states--including the
15 commonwealth--have followed suit.

16 I am not aware of any history or
17 evidence in any jurisdiction with both slot
18 machines and table games that provides a
19 compelling reason that these two types of
20 games should be distinguished, including those
21 jurisdictions that were once slots only and
22 now have implemented table games.

23 In fact, the recent positive
24 experience of these jurisdictions merely
25 reinforces that this distinction is, in fact,

1 superficial.

2 While it may require a new set of
3 regulations and some changes and additions to
4 regulatory policy and procedures, table games
5 have not resulted in the generation of any
6 unique or unmanageable problems or concerns;
7 quite the contrary, they have generated
8 substantial jobs, revenues, and economic
9 benefits.

10 In fact, because of the specific
11 benefits of table games, there are examples
12 where gaming jurisdictions have actually
13 encouraged the introduction of table games as
14 a more favorable option relative to other
15 gaming options, including slots. For example,
16 at one point, New Jersey imposed limitations
17 on the number of slots machines, as a
18 percentage, that could occupy the gaming floor
19 with the intent of spurring a greater supply
20 of tables on the casino floors at Atlantic
21 City.

22 The likely motives, of course, were
23 to both generate a larger number of higher
24 paying jobs, recognizing the labor-intensive
25 nature of table games, as well as to capture a

1 higher caliber of customer and higher level of
2 spending resulting in direct economic benefit
3 to the state.

4 Whether this is sound policy is
5 debatable, but, at minimum, it is clear
6 anecdotal evidence that those jurisdictions
7 with experience in gaming understand the true
8 value of table games.

9 The commonwealth has successfully
10 launched 10 casinos, all of which are
11 producing substantial tax revenues and
12 economic benefits for Pennsylvania. The
13 experience of having 10 operators up and
14 running has allowed us to dispel the myths and
15 concerns associated with casinos when the
16 legislation was passed in 2004.

17 There is now a great opportunity
18 for the commonwealth to capture substantial
19 economic benefit by simply permitting
20 operators to provide additional choices in
21 their facilities to the people of the
22 commonwealth who continue to ask for them.

23 Once again, thank you for allowing
24 our organization to participate in this
25 process.

1 MR. JONAS: Good morning, Chairman
2 Santoni, Chairman Schroder. Thank you very
3 much for allowing us to speak this morning.
4 You have heard from my two colleagues. My
5 name is Dave Jonas. I am the President of the
6 Philadelphia Park Casino.

7 I am going to try not to be
8 redundant and talk about all of the jobs and
9 all of the great things that I also agree that
10 table games -- the table games bill
11 represents, but what I would like to do is try
12 to give you a flavor from my experiences of
13 how I see table games enhancing not only our
14 gaming experience but how I see it relevant to
15 moving customers from New Jersey and other
16 jurisdictions who don't come here today.

17 For over 20 years, I worked in
18 Atlantic City. I ran the Harrah's properties
19 in Atlantic City, which included Bally's,
20 Caesars, Showboat, and Harrah's Atlantic City.
21 And my job was to move customers from
22 Pennsylvania to New Jersey and I was very
23 successful at that.

24 We moved customers from
25 Philadelphia, Delaware County, the Lehigh

1 Valley. I flew planes in, every day, from
2 Erie, from Pittsburgh, all across the state.
3 Junket buses that we brought in from western
4 Pennsylvania.

5 REPRESENTATIVE DeWEESE: Don't use
6 that word.

7 MR. JONAS: So we were very
8 successful in moving business to New Jersey.

9 And when I had the opportunity to
10 come up here, and Bob Green, our Chairman,
11 approached me to come up and help build a
12 business at Philadelphia Park, a casino
13 business, one of the most attractive things
14 was to try to move those customers back.

15 And I am happy to report that in
16 three years -- And we will be open in three
17 years. It is two and a half now. But when we
18 open our permanent facility, we will be open
19 three years in December. We have moved
20 400,000 customers that reside in our database,
21 and the vast majority of those customers went
22 to Atlantic City.

23 We have a program that basically
24 says, show us their's and we will give you
25 ours, meaning our player's card, and that is

1 how we get the lion's share of our business.

2 And I know that Tommy Tomlinson
3 talked about the competitive nature of where
4 Philadelphia Park sits. I will say that it is
5 a blessing. While we have competition and
6 while that presents issues, it's also a
7 blessing because we have a number of gaming
8 customers who, as Tommy said, were used to
9 going to Atlantic City.

10 And most of our new customers show
11 me Harrah's cards and they show me Regatta
12 cards and they show us Trump cards and we make
13 them Philadelphia Park loyal customers and we
14 have done that to the tune of 400,000
15 customers.

16 But, as Bobby said, one thing that
17 we hear every day is: When is live tables
18 coming to Philadelphia Park? And there are
19 still a number of customers who are not coming
20 to us because of that.

21 You have heard my colleagues talk,
22 and I think there's four key things that are
23 going to happen that table games bring. One
24 is jobs. I mean jobs is key. Table games is
25 very labor intensive. And we will double the

1 number of employees at Philadelphia Park when
2 we add table games. We will double from seven
3 -- Six to seven hundred employees now will go
4 to 1500 employees immediately.

5 Capital investment, we are building
6 a new facility as we speak. It's a beautiful,
7 brand new \$250 million facility, and we have
8 30,000 square feet of gaming space in that
9 facility that is not allocated right now.
10 That space will become table game space when,
11 and if, the bill is passed.

12 So 30,000 square feet of un -- of
13 space that is completely not fit out now will
14 become fit out immediately, which will --
15 which it will not only increase economic
16 development in Bensalem, but we have to put
17 those construction workers to work immediately
18 on fitting out that space.

19 We also have in our master plan a
20 hotel, which will more than likely happen when
21 we get table games.

22 One of the things -- One of the
23 benefits of table games is you can attract a
24 customer from further away, we'll become a
25 full-service casino.

1 And it is only an hour from
2 Manhattan to Philadelphia Park up the
3 Turnpike, about an hour and 15 minutes right
4 from -- at -- right up the Turnpike to Exit 6,
5 right onto the Pennsylvania Turnpike, and we
6 have an exit right off the Pennsylvania
7 Turnpike.

8 North Jersey and central Jersey are
9 less than an hour. Right now, you get on the
10 Parkway and try to go to Atlantic City on a
11 Saturday, it takes you two-and-a-half hours.

12 One of the other things I just
13 wanted to emphasize that Tommy spoke about was
14 the promises made in slots in 2004 and what
15 has transpired.

16 In the two-and-a-half years since
17 slot machines were first introduced in
18 Philadelphia Park, we have paid \$336 million
19 to the state for property tax relief and other
20 economic development; \$43 million to our local
21 municipality; 103 million in additional purses
22 to the racing industry.

23 And I want to just emphasize what
24 this has meant to the racing industry. We
25 race over 200 days a year at Philadelphia

1 Park. Since slots have come, we have
2 renegotiated our deal with the horsemen, which
3 now runs through 2018. So we have a new deal
4 with our horsemen that's good until 2018,
5 which gives not only security to the horsemen
6 but it gives security to our industry.

7 And our purses have gone from
8 124,000 a day, before gaming, to \$292,000 in
9 July, almost three times now what the purses
10 were before gaming.

11 We feel that we have fulfilled our
12 commitment made to the legislature and the
13 bill, and we believe that table games will
14 deliver the last piece of the puzzle in
15 creating a full-service gaming experience in
16 this commonwealth.

17 Thank you very much for letting me
18 testify.

19 MR. DAVIS: Good morning, Mr.
20 Chairman and members of the committee. My
21 name is Ron Davis and I have the honor, the
22 great honor of being the Chief Diversity
23 Officer and Director of Community Development
24 for Philadelphia Park Casino.

25 I report to our president and have

1 been doing so for four years, and my role is
2 to manage the diversity inclusion in community
3 development plan for Philadelphia Park Casino.
4 It is certainly a key part of our strategy, as
5 diversity is a requirement in the Gaming Act
6 and the diversity plan. And I work closely
7 also with the PA Gaming Board Director of
8 Diversity or the Chief Diversity Officer
9 Mozelle Daniels.

10 Today, I am going to just give you
11 a few facts on our diversity program and
12 outreach program that I think are exciting and
13 certainly examples of what we have done in our
14 community.

15 I am going to look at, just for a
16 second, workforce, outreach and partnerships,
17 construction, vendor purchasing, and building
18 relationships, and we have a very, very
19 serious mindset in building those
20 relationships.

21 First of all, workforce. Of 541
22 total employees, 86 percent of them are
23 Pennsylvania residents. As far as our
24 outreach and examination of those employees,
25 our under-represented group category, reported

1 numbers, our Black employees of 17 percent;
2 Hispanics, 7 percent; Asian, 5 percent; with
3 women, 41 percent.

4 How do we get those numbers? Those
5 are, I believe, exciting numbers. Well, we do
6 it with a variety of techniques from HR and
7 interviews.

8 But, just as an example, we had
9 4300 online applications since January of
10 2009. Just recently, in May, we had the --
11 our host-facility convention center, 800
12 applicants applied for a job, that wrapped
13 around the center, in anticipation of our next
14 phase of this Park's casino. We also had 60
15 new hires processed in the last quarter.

16 But, again, we used traditional and
17 non-traditional techniques in reaching out to
18 our community. We not only reach out to
19 Temple University and to Drexel, but we also
20 attend job fairs, with NAACP, and Chester
21 County job fair, Bucks County Community
22 College, and other kinds of techniques to
23 build relationships.

24 We also are members of the Minority
25 Supplier Development Council, the African

1 American Chamber of Commerce, the Philadelphia
2 Chamber of Commerce, the Hispanic Chamber of
3 Commerce, the Asian Chamber of Commerce, and
4 Women's Business Enterprise Council.

5 We also are -- We get monthly
6 updates through the Bensalem Gaming
7 Environment (phonetic) Board, a group of
8 citizens who are helping us build our business
9 within the community.

10 Construction. In our new
11 construction, women-owned businesses, WBE, out
12 of \$94 million spent on our new construction,
13 about \$14 million, that's 15.6 percent; MBE,
14 \$11 million, that's 12.52 percent; for a total
15 of \$26 million which is 28.19 percent.

16 We also had other construction
17 projects. Women-owned businesses have
18 received in excess of \$2 million and minority
19 businesses in excess of \$1 million.

20 Vendor purchasing. Over the last
21 two years, we have reached out to over 267
22 groups and organizations and businesses. And
23 of that outreach, we have given, in the last
24 two years, \$4.5 million in our vendor outreach
25 program.

1 Community giving. And this is
2 entirely exciting for me because there are so
3 many community needs that we know are out
4 there that we connect with that community.

5 First of all, in 2006, 1.3 million;
6 and in 2007, 3.9 million; and 2008, 1.5
7 million; thus far this year, it is over
8 \$200,000; for a total of 6.9 million. It's a
9 very, very significant outreach to those who
10 need assistance in the health care, seniors,
11 and education categories. So we have defined
12 our outreach that way.

13 We have also given scholarships to
14 Bucks County Technical High School, the
15 Bensalem High School, local high schools who
16 need help with students going to college.
17 Thirty-five scholarships to date.

18 We have done creative things beyond
19 expectations in some cases. Giving to food
20 banks when we have excess food. We actually
21 reach out to those in the community who have
22 food banks to give our excess food through
23 those programs.

24 Underage gaming prevention. One of
25 the things that we want to do is demonstrate

1 our strict attitude of having non -- having
2 underage gaming prevention as a key part of
3 our program. And what we did is give a -- We
4 gave a curriculum to the local schools, the
5 middle schools, for underage gaming
6 prevention. So it is certainly part of it.

7 But over 140 groups over the last
8 three years have benefited from our outreach.
9 And so, our outreach is very aggressive, not
10 unusual, but unusual for our community.

11 But I would like to say, there are
12 four things that we try to do. We try to
13 create awareness, fairness, inclusion, which
14 is very important in our program, and we use
15 that inclusion for leverage.

16 And I thank you for allowing me to
17 testify.

18 CHAIRMAN SANTONI: Thank you,
19 gentlemen. I appreciate your input and your
20 testimony.

21 Now, before we get to questions,
22 there are a couple of members that I want to
23 recognize that came in during your testimony:
24 Representative RoseMarie Swanger and also
25 Representative Joe Brennan.

1 Okay. We will go to the questions
2 and we will start with Chairman Schroder.

3 REPRESENTATIVE SCHRODER: Thank
4 you, Chairman Santoni. Thank you to all the
5 members of the panel who just testified, your
6 testimony.

7 Prior to questions, I do want to
8 make one comment. And with all due respect to
9 Mr. Soper, there are some statements that he
10 made that I would like to particularly take
11 issue with in the testimony.

12 I think both factually and that
13 legally tables games are, in fact, an
14 expansion of gambling in Pennsylvania.

15 I disagree strongly with any
16 assertion or suggestion that when we passed
17 table games -- when we passed slots in Act 71
18 that this was the logical extension or it was
19 somehow, you know, no difference any more and
20 we should just allow tables to go through.

21 Our law previously prohibited
22 slots. It was changed to only allow slots,
23 with absolutely no understanding that table
24 games would follow.

25 Now, we are not naive. We all knew

1 this was coming, this push. We all knew this
2 push would be here. Frankly, some of us
3 thought it would come a little later than
4 sooner, perhaps events have coalesced to, you
5 know, make the push earlier than many thought.

6 But I just wanted to clear the
7 record. I remember nothing in the debate of
8 Act 71, and I--you know, without checking the
9 legal -- or the official record of the debate
10 on Act 71--I think I stand in pretty good
11 stead by stating that there was nothing that
12 would assume the legalization of table games
13 in the near future.

14 And, indeed, even the Governor, if
15 it is still his position, has made the
16 distinction that table games should not come
17 along, in his mind, at least, until all of the
18 slots facilities are up and running.

19 So I just wanted to make that
20 statement and just put it out there, from my
21 perspective, you know, another point of view
22 on that.

23 But I do have some questions for
24 you about your current virtual table games. I
25 am trying to figure out a way to ask this so

1 it does not get bogged down by going to, you
2 know, all three different companies, yet you
3 probably have all slightly different answers,
4 I would imagine. So I am going to try this.
5 And I'm hoping, you know, you don't get -- I
6 don't want to get too bogged down in it.

7 But I guess the question I would
8 like to ask you first is: What percentage of
9 the total slot machines on your floor are
10 virtual table games right now and what
11 percentage of your total slots revenues come
12 from the virtual table games as it now stands?

13 And whoever would like to attempt
14 that first, or, you know, you are welcome to.

15 MR. SOPER: Just one clarification
16 point. I apologize if I came across as
17 indicating that Act 71 somehow permitted or
18 authorized live table games, that certainly
19 was not my intent. I just wanted to put in
20 context the history of both slots and tables
21 in other jurisdictions.

22 In regards to your question,
23 approximately 4 percent of our existing floor
24 is comprised of electronic table games, which
25 is both the -- really I consider three, three

1 types of games: Shuffle Master Blackjack, the
2 Shuffle Master Three-Card Poker, and the new
3 Vegas Star Roulette, and that is approximately
4 a little over 4 percent of the floor.

5 REPRESENTATIVE SCHRODER: Could I
6 just ask: When you say, 4 percent of the
7 floor, is that 4 percent of the machines?

8 MR. SOPER: Correct, correct.

9 REPRESENTATIVE SCHRODER: Okay. So
10 there is no distinction or no difference
11 there?

12 MR. SOPER: No, that is correct.

13 REPRESENTATIVE SCHRODER: I know we
14 were talking about floor space? You know,
15 what it took up?

16 MR. SOPER: Yeah.

17 REPRESENTATIVE SCHRODER: Okay.

18 MR. SOPER: And these aren't exact
19 numbers either, it is just in knowing about
20 how many units we have and doing the math in
21 my head.

22 In regards to revenue, I am not a
23 hundred percent sure without having it in
24 front of me, but I would approximate that
25 probably a little more of that makes up, as a

1 percentage of our total slot handle, in slot
2 winning, probably somewhere around 7 percent,
3 6 to 7 percent on the electronic table games.

4 And I would like to make one
5 comment on that, and I know we talked about
6 this before so I think it is relevant and
7 important. While the product is different
8 than your traditional reel or video slot
9 machine, it is still not a table game and
10 clearly doesn't have the impact that a live
11 table game would have.

12 REPRESENTATIVE SCHRODER: My
13 purpose is not to get into the distinction.

14 MR. SOPER: Yeah.

15 REPRESENTATIVE SCHRODER: Although,
16 I think it is more of a distinction of style
17 than substance that has been made to allow
18 these in. Be that as it may, my point is not
19 to get into that debate.

20 All right. The percentages, are
21 they similar in the other two facilities? Or
22 do you have different experiences from those?

23 MR. DeSALVIO: For on behalf of the
24 Sands, I just want to say that our electronic
25 table games are 100 units of our 3,000 total

1 slots, and I don't have the revenue numbers
2 off the top of my head. I will tell you the
3 games are extremely popular. But we're,
4 again, we are a hundred units out of 3,000.

5 REPRESENTATIVE SCHRODER: Okay.

6 MR. JONAS: We have a similar
7 experience. It is a little more than 5
8 percent of our floor there.

9 We have marketed them very
10 aggressively because there is a void of live
11 tables.

12 And I would say that our revenue is
13 probably double of what the number of units
14 are, which again speaks to the, I think, the
15 -- Our market is just very, very primed for
16 people who want to play cards, want to play
17 tables, and they have used this as an
18 alternative while waiting for live table
19 games.

20 REPRESENTATIVE SCHRODER: I
21 appreciate that information.

22 Now, if the table games -- or the
23 virtual table games we are talking about here
24 are taxed at the same rate as, you know, the
25 pull-the-handle or push-the-button slot, so

1 the total tax, whenever everything is added
2 on, it comes to over 50 percent, currently.

3 Isn't it -- And I also believe that
4 there is the guaranteed minimum win of 89
5 percent. So isn't it, doesn't it stand to
6 reason that should table games come in, that
7 you will replace those machines with a much
8 lower tax--and not getting into what that rate
9 would be--but with a much lower taxed table,
10 table games?

11 MR. SOPER: Yeah, I will take a
12 quick response there. The answer is no, and
13 there are two points I will make to that.

14 Number one, it is a different
15 product and I think that was where I was going
16 with the distinction. For example, in our
17 Connecticut property where we have, you know,
18 6200 slot machines, you know, 300 plus table
19 games, we have this same product here.

20 I don't know what the percentages
21 are so I can't go to it. But I definitely
22 know that we have electronic table game
23 products there, even though we have over 300
24 table games. So I think there is still an
25 opportunity to have that product.

1 My second point is we will likely
2 take out some of those games, but our intent
3 is to replace them with other slot machines.
4 You know, it is our firm belief that, you
5 know, obviously, when you introduce other
6 product, you create more volumes. For the
7 same reason, we are going to create more
8 non-gaming amenities, that are referenced,
9 there's what we believe an opportunity to grow
10 the slot product.

11 So, as of right now, obviously, the
12 market would dictate. We would intend to
13 replace those same units with slot machines at
14 the same tax rate. So I think we would keep
15 some and for those that we would remove, you
16 know, our intent--again, it is market
17 dictated--but our intent would be to replace
18 them with the slot units.

19 MR. JONAS: I want to just add one
20 point to that. I agree, wholeheartedly, with
21 Bobby: We will keep a lot of these in.

22 I was just in Las Vegas, and it is
23 interesting, while Pennsylvania has been on
24 the forefront of the electronic table games,
25 now Atlantic City is adding this product and

1 Las Vegas is adding the product.

2 So I think there is going to be a
3 place for this product, but I think it would
4 be remiss for us to say that we wouldn't take
5 some of these out. I mean, I -- You know,
6 that would be less than honest.

7 If we have table games, I think
8 some of the electronic table game market would
9 move to live tables. I think you're -- you're
10 spot on, on that. I agree with Bobby: We
11 will replace that with other slot product.

12 And the Innovation's report is
13 pretty clear, but my experience is, is that
14 slots will definitely grow because of tables.
15 We used to track something at Harrah's called
16 crossover play.

17 And crossover play is significant.
18 Table customers don't just come in and play
19 tables, they play tables and the slots. They
20 also have a partner, usually, who is more of a
21 slot player. If a table customer is playing
22 tables, the partner is playing slots. And,
23 right now, that partner--we used to call it
24 share-and-share with, or share--that partner
25 is playing in Atlantic City slots while the

1 husband may be playing tables, or the wife may
2 be playing tables and the husband may be
3 playing slots.

4 Also, it was very common for table
5 customers to also play slots. We used to
6 track their overall gaming budget and 60
7 percent may be tables, 40 percent slots. So
8 we are going to see, I believe, a significant
9 growth in slots because of adding the table,
10 probably.

11 REPRESENTATIVE SCHRODER: So it
12 sounds then -- From what I am hearing then,
13 you are saying, we will keep some of the
14 virtual table games, some will be replaced by
15 slots, perhaps, some might be replaced by
16 other table games, some combination of that?

17 MR. JONAS: (Nods affirmatively.)

18 REPRESENTATIVE SCHRODER: I guess
19 to wrap up my questioning or reasoning for
20 that there, my concern is this: Those virtual
21 table games, which by one estimate produces
22 double revenue, the amount of space they take
23 up compared to the other slots, or some
24 increased amount, and also are taxed at a much
25 higher rate than the table games probably will

1 be, it seems to me we have a chance, a good
2 chance at a reduction in revenue to the state
3 and also to the Board of Race Horse
4 Development Fund, which is only funded right
5 now through the slots revenue.

6 So those are, you know, just a
7 couple of concerns that I have, you know,
8 based upon the answers just given.

9 MR. JONAS: Just to clarify things.
10 The table game is worth two slot machines so
11 it doesn't -- it -- if the machines are not
12 producing more purse per/for, so it's a wash.

13 REPRESENTATIVE SCHRODER: You mean
14 the virtual tables?

15 MR. JONAS: The virtual tables.

16 REPRESENTATIVE SCHRODER: All
17 right.

18 MR. JONAS: And it's a very small
19 percentage of our overall revenue right now,
20 so I really -- I think the net effect is going
21 to be a fairly substantial net positive.

22 MR. DeSALVIO: And also, the
23 replacement issue is important that, if, in
24 fact, we remove games, as the other gentlemen
25 have said, we are going to put in slots in

1 replacement of those units so that net net
2 slot units will most likely remain the same.

3 And so, really, I --

4 And plus, with all of the research
5 that's been done to show that there's an
6 increase (phonetic) of slot play, we believe
7 the exact opposite will occur.

8 You'll have an increase--and I
9 believe the Innovation study pegged it at
10 about three-and-a-half percent increase in
11 slot revenue--so therefore there will be more
12 money going into the host communities, the
13 Horse Fund, and every other piece of it,
14 including the local share.

15 MR. SOPER: And I will also add
16 that, really, when it is all said and done,
17 the market is going to dictate.

18 You know, we happen to believe, and
19 I know there is, you know, different academic
20 opinions on this, but we happen to believe
21 both on our experience and academic research
22 that the reality is table games brings more
23 people, a different demographic that wouldn't
24 otherwise be there, and they bring people that
25 want those slots as well.

1 So it just grows to the facility,
2 it creates greater capital, you don't know
3 until it happens, but it is our experience and
4 our firm belief that that is exactly what is
5 going to happen.

6 REPRESENTATIVE SCHRODER: Just one
7 follow-up question. When you talk about fewer
8 jobs being created, if the rate of taxation at
9 the table games goes up to 12 percent --

10 MR. SOPER: Um-hum.

11 REPRESENTATIVE SCHRODER: -- just
12 so I am clear, you are talking about putting
13 fewer table games in?

14 MR. SOPER: That's exactly correct.

15 REPRESENTATIVE SCHRODER: So that's
16 however many jobs are associated with each
17 table game, then presumably there will be
18 fewer table games, fewer jobs; is that
19 correct?

20 MR. DeSALVIO: That's correct.

21 MR. SOPER: That's correct, and I
22 can give you a real good --

23 REPRESENTATIVE SCHRODER: Are we
24 talking about any other side jobs --

25 MR. SOPER: Well --

1 MR. DeSALVIO: Hold on.

2 REPRESENTATIVE SCHRODER: Or any
3 other things like that?

4 MR. SOPER: Well, the more tables
5 you have, the more ancillary jobs you are
6 going to have as well; so, it is not only
7 table game positions but also other positions.

8 And here's a great example for
9 those that have played blackjack. Sometimes
10 you go into a casino that has a \$5 game or a
11 \$10 game, those games are only profitable at a
12 very low tax rate. You would never offer a \$5
13 or a \$10 game because there is not enough
14 volume on that game to justify the labor at
15 the game.

16 Here is a very simple example. You
17 know, at a 12-percent tax rate, there is
18 probably a good chance that we can still have
19 those type of low Keno offer (phonetic) games.
20 I mean, obviously, we would have to analyze
21 it. And that's what -- You see them in
22 Atlantic City.

23 There's a point where, as the tax
24 rate increases, it is just not profitable to
25 put those games on the floor. And the higher

1 the rate goes, the smaller that table game
2 shrinks, the table games supply shrinks, and
3 then, obviously, this smaller number of jobs
4 that would be created.

5 REPRESENTATIVE SCHRODER: Thank
6 you, Chairman Santoni.

7 CHAIRMAN SANTONI: Representative
8 Barbin.

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

11 I have a question concerning some
12 of the previous testimony about moving people
13 from Atlantic City to Philadelphia. I guess,
14 Mr. Jonas, this question would be directed to
15 you.

16 If table games are established in
17 Pennsylvania, do you, are your casinos--and
18 just in general, if you know where the other
19 casinos are located--are they conducive to
20 allowing people to come in from municipal
21 airports?

22 Not in Pittsburgh or Philadelphia,
23 but the -- In Johnstown, we have, you know, a
24 local airport.

25 MR. JONAS: Right.

1 REPRESENTATIVE BARBIN: And one of
2 the issues at the local airport level is that
3 the flights have been dropping off. And if
4 you go below 10,000 flights per year, you go
5 from getting a million dollar allocation from
6 the federal government down to a hundred and
7 fifty thousand.

8 Has your industry looked at, you
9 know, working with local municipal airports to
10 maybe create a service that would allow people
11 that want to go to the casinos for table games
12 or slots, to maybe help -- to work in concert
13 with the municipal authorities?

14 MR. JONAS: It's a great question,
15 and I didn't want to get into too much detail
16 here unless the questions were asked.

17 I ran a hundred million dollar
18 plane program at Harrah's when I was there,
19 and I actually have hired two of the folks,
20 who ran those plane programs, work for me now
21 at Philadelphia Park. They work at other
22 marketing jobs and other operations jobs.

23 But one of the reasons that I
24 brought these folks in is because we have two
25 airports right at our fingertips--one is

1 Philadelphia International Airport and one is
2 Northeast Airport--and I think they both play
3 a big role in growing the table game business.

4 First off, we ran something called
5 the Seat Block program at Harrah's where we
6 would actually buy seats off of U.S. Air and
7 AirTran, and they fly out of markets like
8 Atlanta and Florida, West Palm, and
9 Jacksonville, and Cleveland.

10 And we flew -- And we would bring
11 people in, we would actually buy seats to fill
12 those planes, and we would fly them into
13 Philadelphia. And then we would actually limo
14 them into Atlantic City, which it was a fairly
15 expensive proposition, but it was obviously
16 profitable to us, and we would do that at
17 Philadelphia Park.

18 The other thing which would open up
19 business, even further away than New Jersey,
20 the other thing that we did is we ran planes
21 that we actually subsidized, into the local
22 Atlantic City airport. And we had a program
23 where we actually filled planes and we would
24 drop them in Northeast Philadelphia Airport
25 and then we would bring those customers in as

1 well.

2 Now, I can't tell you that right
3 now, today, we have worked all of those
4 details out, but I can -- That is some of the
5 ways that you economically grow not only the
6 business but the capital investment. We would
7 have to put a hotel in, if we are flying
8 people in from Atlanta and we are flying
9 people in from Cleveland, so rooms become
10 almost a critical piece. You need to feed
11 those folks, you have to build more
12 restaurants.

13 You need -- There are shuttle
14 services back and forth to the airport, so it
15 is either by limo or by bus, but local
16 companies, this is how local companies grow.
17 We had limo companies that just grew up. You
18 know, they were local folks that created
19 companies for us to patronize.

20 So that would be the vision of --
21 And I hope that answers your question, but
22 that would be our vision at Philadelphia Park.

23 REPRESENTATIVE BARBIN: Well, my
24 question was limited to the second part. And
25 really what I am interested in is getting

1 numbers that would tell me: How many people
2 do you have that come into Philadelphia Park,
3 you know, in a year? Do you have a million
4 people? Do you have 500,000?

5 What I am talking about is a small
6 percentage of those people could be coming
7 from parts of the state that don't -- that
8 have municipal airports but don't currently
9 have a casino close by. So, with the event of
10 table games, assuming table games become part
11 of Pennsylvania's gaming laws, what is the
12 percentage of people necessary to move towards
13 subsidized planes? I mean --

14 MR. JONAS: Well, I think the only
15 thing that I can tell you is my experience,
16 and I am not as -- I am not up-to-speed on the
17 municipal airports and things like that.

18 What I will tell you is that in the
19 hey day of our plane program at Harrah's, we
20 were flying well over 200 charter planes a
21 month into the casino. There were days where
22 10 planes, to come in on a Saturday, was not
23 unreasonable.

24 And they weren't all coming from
25 Jacksonville, Florida. They were coming from

1 Long Island, New York. They were coming from
2 upstate Pennsylvania. They were coming
3 from -- We had a lot of regional flights where
4 people would rather fly than drive the two,
5 two-and-a-half hours.

6 You know, with -- It's a little bit
7 different situation here because of gaming
8 throughout the state. I am not going to tell
9 you that we are going to fly planes from
10 Pittsburgh when there is a beautiful, new
11 casino in Pittsburgh. What I will tell you is
12 that to fly a plane in from Baltimore is not
13 unreasonable and probably will happen.

14 REPRESENTATIVE BARBIN: So it would
15 make sense that a plane might be able to go
16 regionally from western Pennsylvania to
17 Pittsburgh or central Pennsylvania to
18 Philadelphia?

19 MR. JONAS: I mean that's
20 reasonable.

21 REPRESENTATIVE BARBIN: I just
22 needed that. That's it. Thank you. I
23 appreciate it.

24 CHAIRMAN SANTONI: I would like to
25 recognize a couple of members that came in.

1 Representative Curtis Thomas is here, a member
2 of the committee. And also, I saw in the
3 background, Representative Gene DiGirolamo. I
4 don't know if Gene stepped out or not, but.

5 Okay, you can go ahead.

6 MR. DeSALVIO: I just wanted to
7 make one more follow-up on that. In my
8 particular area, in the Sands, we have Lehigh
9 Valley International Airport, which is a
10 wonderful regional airport, a good service
11 going in and out.

12 And, quite honestly, it's a great
13 opportunity for us to market from outside the
14 region. There's already flights into Detroit,
15 in Milwaukee, I think Chicago, and a number of
16 different cities. There's flights to and from
17 Florida. And so, we would absolutely take
18 advantage of that.

19 Myself, I spent 18 years in
20 Atlantic City, many at the Sands and some at
21 Caesar's and Bally, where we were involved
22 heavily, also, in these plane programs, and I
23 think it really does represent a great
24 opportunity to work with the local
25 municipalities, the airport authority, to try

1 to increase traffic so they can help save
2 their funding and bring in out-of-state
3 dollars to the commonwealth.

4 CHAIRMAN SANTONI: The next
5 questioner, Representative Vereb.

6 REPRESENTATIVE VEREB: Thank you,
7 Mr. Chairman. Thank you for your testimony
8 again.

9 Mr. Soper, you brought up video
10 poker and its operations currently on the
11 floor. Could you just explain to me, any of
12 you, but specifically you brought up video
13 poker, can you explain to me the -- If we
14 legalize table games, what happens to virtual
15 video poker, both financially? And what is
16 the impact on you cost-wise?

17 I am assuming it is cheaper to run
18 a machine than it is to have humans at the
19 table. Could you explain that to me?

20 MR. SOPER: Well, there are two
21 things here. One is video poker in the
22 traditional sense where you have one unit and,
23 you know, you are playing, you know, jacks or
24 better --

25 REPRESENTATIVE VEREB: Right.

1 MR. SOPER: -- and then the games
2 that Representative Schroder was talking
3 about, the electronic table games. Two
4 completely different animals.

5 You know, video poker, you know, is
6 just another game that, you know, it is much
7 different than a live table game, even though,
8 you know, the same -- technically the same
9 rules may apply, depending on the game you are
10 playing.

11 But, you know, our history and
12 experience is that based on the percentage of
13 units that we have on the floor of video
14 poker, in the traditional sense of video
15 poker, is pretty common.

16 Our percentage of the total gaming
17 floor, the total slots, means the floor is
18 pretty common. Hence, I am led to believe
19 that, you know, when we introduce live table
20 games that mix is not going to change much.
21 The nature of the game is such that it is so
22 different than live tables that it is not
23 going to change much so it really -- there
24 really will not be much adjustment at all.

25 I think the real adjustment that

1 will occur will be with the electronic table
2 games, again that Representative Schroder was
3 talking about, and that's -- and I think that
4 is a little closer than video poker to live
5 tables.

6 But, again, I think it, you know,
7 those will probably be replaced more by slot
8 machines so that I think when it is all said
9 and done, there is not going to be much
10 adjustment from, you know, a labor operation
11 standpoint, you know, on the slot floor.

12 REPRESENTATIVE VEREB: Okay. Would
13 you, either/any of you, briefly explain the
14 difference to me between video poker that's in
15 your casinos currently and the video table
16 games?

17 MR. SOPER: Yeah. Well, video
18 poker is in the shape of a slot machine, the
19 unit in itself. So, you know, often, they
20 have multi-games on it where you go up and,
21 you know, you push a button.

22 And it's almost like being on a
23 computer. You know, if you have ever played
24 21 on a computer, that's exactly what it is.
25 You have the monitor in front of you and you

1 can play, you know, 21 on it. There are some
2 Keno type games on it, you know, various, you
3 know, multi-media games on it, and you play
4 like you would play on any computer game.

5 Now, obviously, you are wagering
6 money like a slot machine. There's credits
7 that go in and you can bet, you know, one bet
8 or up to five credits, usually, on the
9 machine, and they have different denominations
10 from 25 -- or even pennies, I think, but 25
11 cents to \$5.

12 So it works just like a slot
13 machine, but, you know, you are making
14 decisions. You know, that's the only
15 difference from a slot machine. It has a
16 random number generator like a slot machine.

17 And, you know, um -- You know, and
18 it operates more like a slot machine versus an
19 electronic table game you are around the table
20 with other individuals. And even though you
21 are not playing against them, or their hands
22 don't impact you, you know, the process is
23 more -- the minimum bet is a \$5 bet.

24 And it's not a slot machine type of
25 bet, and there's actually, you know,

1 interaction, social interaction with people,
2 typically.

3 And then you have a video or
4 virtual dealer in front of you who is
5 pretending to deal cards.

6 But the cards come up on a table,
7 and the format is more of a table, an actual
8 table in front of you versus just having a
9 single unit, you know, slot machine or video
10 poker machine in front of you. I don't -- You
11 know.

12 MR. JONAS: Yeah. I mean just to
13 give you an example. In Atlantic City, video
14 poker has been a stable part of the slot mix
15 since opening. And, at Harrah's, 20 percent
16 of my business was video poker, even with a
17 large table game operation.

18 The video blackjack or video
19 roulette is a totally different product that
20 absolutely is meant to compete with table
21 games, and to grow that and to be much more
22 interactive and play much more like a table
23 game. So video poker is basically a slot
24 machine.

25 REPRESENTATIVE VEREB: Okay. In

1 terms of the tax rate, a number of you
2 expressed the opinion that a lower tax rate is
3 needed to offset higher costs associated with
4 build out, associated with table games, and it
5 also provides the incentive to expand your
6 facility, as you said, put up a hotel or other
7 expansion, and I guess based on us giving you
8 this incentive of the lower tax rate, what is
9 our guarantee that these build outs are going
10 to occur?

11 And I just say, obviously, with
12 this incentive, you are also guaranteed
13 competitive regions, the landscape is not
14 supposed to grow, in terms of a competitor's
15 bid and geographical region you currently
16 operate in.

17 MR. JONAS: You know, the first
18 thing I think we have to look at is the
19 competitive nature of any business and right
20 now the tax rate in New Jersey is about
21 eight-and-a-half percent, and then you throw
22 on some economic development and it brings it
23 to about nine-and-a-half percent, ten percent;
24 so, we would still be higher than New Jersey.

25 What I will tell you is even with

1 that low tax rate in New Jersey, by the time
2 you -- the table games, by the time you add
3 the labor, it is a much more high-touch
4 environment with a customer. There is, you
5 know, there's costs associated with bringing
6 customers in via air and some other things.

7 The margins on table games, even
8 with the very low tax rate, are nowhere near
9 the margins on slots. So if you -- You know,
10 we typically run about a 50 percent margin on
11 slots in New Jersey when I was there. It's
12 probably fairly similar, even with the high
13 tax rate in Pennsylvania, with some of the
14 adjustments we have made in the way that we
15 service the games.

16 Tables is a much lower margin. You
17 are probably talking maybe 20, 25 percent
18 margin even with a low tax rate. So if you
19 get much lower than that with capital
20 investment and everything else that goes into
21 it, it is very hard to run those games
22 profitably.

23 And I think Bobby nailed it, what
24 will end up happening is, is you put less
25 games on the floor. Why do you put less games

1 on the floor? Because you push up the minimum
2 bet.

3 So there is nothing more annoying
4 if you are a table customer and you are a
5 retail table customer walking into a casino on
6 a Saturday -- on any night and having the
7 minimum bet \$25.

8 It really prices out most of the
9 folks who we are looking to bring in: The guy
10 who lives down the street in Bensalem, or the
11 guy down in northeast Philadelphia who wants
12 to come over, place a bet, eat a meal, his
13 wife wants to play, or him wanting to play
14 some slots, and at the end of night, they go
15 to our sports bar to have a nightcap before
16 they leave. Those customers will not come in
17 if your average bet is \$25.

18 So what our commitment would be
19 is -- You know, the market drives what you put
20 in, but I think in the market we are in, 5 and
21 \$10 games are going to be the norm, not 25 and
22 \$50 games.

23 And the capital investment is going
24 to come. We can't do anything we talked about
25 here without capital investment. You know,

1 table customers are not going to come from two
2 hours away if you don't have a hotel, if you
3 don't have a place for them to eat, if you
4 don't have certain amenities. So that comes
5 with capital, that comes with table games.

6 But I think, look at the
7 jurisdictions that have tables right now--Las
8 Vegas, Atlantic City--and look at the capital
9 investment that has happened over the years in
10 these jurisdictions, it's quite staggering.
11 And even in the Midwest now, in Illinois, you
12 know, at Harrah's, we've built hotels with the
13 barges and riverboats in Illinois and in
14 Indiana. We added to those hotels as demand
15 increased.

16 So, I mean, I think the history and
17 the Innovation reports talk about that a
18 little, but yet big hotels in Iowa and Iowa is
19 not nearly the market that Pennsylvania is.

20 REPRESENTATIVE VEREB: What is the
21 approximate salary for a blackjack or a poker
22 dealer?

23 MR. SOPER: Yeah, I can tell you
24 from our experience. Number one, I am going
25 to give you a general figure which includes

1 tips. It is a tip-driven position or toke
2 rake. Usually, the base salary, it's fairly
3 small. You know, it meets regulatory
4 standards, but the tip rate is so high. For
5 example, in Connecticut, the average hourly
6 wage is a little over \$20 an hour.

7 And these are positions that,
8 number one, we train. Number two, we pay to
9 train them. We pay them while they are
10 training. And, number three, there are, you
11 know, very lucrative opportunities for people
12 in the local community.

13 REPRESENTATIVE VEREB: Besides
14 training, where are your other costs of
15 operating table games, besides training and
16 employee salaries?

17 MR. DeSALVIO: In the table games
18 discussion, you can't forget the costs of
19 marketing. It's, as all of these gentlemen
20 have mentioned, it's a different type of
21 customer. A table game player would expect
22 more in terms of complementaries and give
23 backs. So you have the issue of promoting a
24 wider range of audience from out-of-state that
25 causes additional marketing dollars as well as

1 what we have to reinvest back in the customer,
2 so marketing does play a large role in that.

3 MR. JONAS: Which creates other
4 jobs. I mean your host staff, your host staff
5 becomes larger. Those are people who actually
6 interact with the customer. Those jobs could
7 be anywhere from seventy to a hundred thousand
8 dollars a piece.

9 So there's a lot of ancillary jobs
10 that are created that are just outside of the
11 table games. There are marketing jobs, you
12 have to keep the place clean, you need more
13 cocktail servers for the table games; so,
14 there are going to be a lot of jobs created
15 that are not just dealer-related jobs.

16 REPRESENTATIVE VEREB: Okay. I
17 will ask this question, and I know it is going
18 to be a silver bullet question, so out of
19 respect for you being here in front of this
20 committee, if you don't wish to comment in
21 front of the committee, if you could at least
22 put your opinions to me at some other time
23 after this hearing.

24 REPRESENTATIVE THOMAS: Silver
25 bullet.

1 REPRESENTATIVE VEREB: But we have
2 heard a lot of comparisons, a lot of industry,
3 you know, type of terminology, and for someone
4 like me who, before I go to a casino, from
5 time to time, it's a lot to digest.

6 And there seems to be a problem
7 understanding. We talked about the lower tax
8 rates, we talked about their competitive
9 advantage and competitive regions. And the
10 big challenge I have is the video poker bill
11 coming through the House of Representatives.
12 And I am curious, there has been commentary
13 made about the competitive disadvantage and
14 the impact of your licensing fee that the
15 passage of video poker would have in
16 Pennsylvania.

17 Now, I am not sure how many of you
18 are lawyers--but I am sure you have been
19 advised how to answer this question--but I am
20 going to ask it, anyway. Does the
21 legalization of video poker in our corner tap
22 rooms and bars impact what you believe to be
23 your competitive protection in the regions in
24 which you operate?

25 And there is a reason I ask is

1 because if no one from the industry has made a
2 significant definition that separates what's
3 going to be in a corner bar versus what
4 actually happens under your roofs.

5 And I think that you had been given
6 the promise, from what I have heard, that
7 these competitive regions will be intact.

8 And I have heard from several
9 lobbying firms that represent a different
10 interest in licensees in this commonwealth
11 that you said that this may, in fact, be a
12 conflict.

13 I have also heard that the
14 possibility even exists some other offices
15 from within this building may have suggested
16 that they will run table games in lieu of
17 allowing us to run video poker.

18 So, at some point, the industry is
19 going to have to speak up, and I would hope
20 that you can answer some of it partially today
21 and not later on after the potential bill will
22 finally become law and then we would have to
23 deal with what is and what is not a conflict
24 in terms of competitiveness in the industry.

25 So I guess the 10 second question

1 is: Does our video poker law, as written, and
2 passed barely out of this committee, conflict
3 with your application fees?

4 MR. DeSALVIO: Well, I want to
5 answer this question maybe not directly but
6 indirectly, so at least we'll -- I will be
7 happy to provide some answer for the committee
8 and not send it to you privately.

9 And I am not an attorney and don't
10 profess to be one, but there is a basic
11 concept that I want to get on the table and
12 that is that our company spent \$50 million for
13 a license and that license was granted under
14 the basis of a geographic exclusivity and
15 that, to me, is the most important thing.

16 And I think that it starts to get
17 in this issue about--and, again, this is not a
18 legal term, but I will call it--breach of
19 trust. And that, you know, we put up the
20 money for the licensing fee, expecting to have
21 a geographic exclusivity for the product, and
22 we think that that is a two-way street, and
23 that's really the simple answer to the
24 question.

25 MR. SOPER: Yeah, I'm going to be a

1 little indirect as well, and not to evade the
2 question but more of I simply just do not have
3 authority to answer that question. You know,
4 any type of legal challenge or appropriation
5 of funds or whatever the case may be, I
6 unilaterally cannot do that.

7 Though, I will say, obviously, when
8 you spend, you know, 50 million for a license
9 fee, a half a billion dollars in bricks and
10 mortar, you know, and a tax rate where you are
11 paying almost 60 percent, which we pay, you
12 know, clearly, we have an obligation to
13 investors, the banks, and in our case the
14 owners who, you know, made investments on
15 certain assumptions.

16 And I suspect that there is going
17 to be, you know, a strong interest in, you
18 know, protecting the deal that they thought
19 was cut from the very beginning, in protecting
20 the large investment that they have made. You
21 know, what ultimately that means, I am not
22 sure yet, but I know that's our general
23 philosophy.

24 MR. JONAS: Yeah, I mean just to
25 add one thought on. I think we are partners

1 here. The state is our biggest shareholder at
2 about 60 percent. And, you know, I think it
3 just downright scares us that 50,000 slots
4 could hit -- video poker machines could hit
5 this state, which is more than all the slot
6 machines in the 10 casinos that are currently
7 open right now.

8 And if the regulation is not the
9 same, it could create not only issues
10 economically for the casinos, but it could
11 create issues of, um -- you know, put a cloud
12 over the industry in the way that it's
13 regulated and the way that the corner bar
14 conducts their business.

15 So I think, right now, there is
16 just a lot of information that we don't have
17 that kind of scares us, as operators, in what
18 this could do not only economically to our
19 businesses but what it could do to the overall
20 health of the industry.

21 REPRESENTATIVE VEREB: Okay. Just
22 one-and-a-half more questions. Is it all of
23 your belief that each licensed casino,
24 regardless of category -- I am not sure of all
25 of your different categories. I am not -- I

1 mean I am hoping that we all agree that each
2 licensed facility is able to participate in
3 table games that have passed into law.

4 MR. DeSALVIO: Well, the -- I can
5 tell you that the Innovation study was based
6 on category one and category two licenses
7 having table games, and certainly that's --
8 and I believe that's what Senate Bill 1033
9 covers and we are in support of that bill.

10 MR. SOPER: Yeah, obviously, we
11 can't speak for every operator, but, you know,
12 clearly, I would have to believe, with the
13 reasonable tax rate, you know, all of the
14 category one's, category two's that are
15 operating and authorized to operate would
16 participate.

17 REPRESENTATIVE VEREB: Are any of
18 you against category three's? Or you are just
19 speaking on behalf of what you prefer, right?

20 MR. SOPER: Correct.

21 REPRESENTATIVE VEREB: Okay. So.
22 Well, I just, I thank you for answering the
23 question on video poker. I wanted to make
24 sure that I hadn't -- I was on a conference
25 committee when it got asked yesterday and I

1 wanted to make sure the way I am thinking on
2 the line here is somewhat accurate. It's a
3 debate that needs to happen. And I thank you
4 for being here.

5 Thank you, Mr. Chairman.

6 CHAIRMAN SANTONI: You are welcome,
7 Representative Vereb. I would just politely
8 and respectfully ask the members -- I am not
9 accusing anybody of anything, please. We are
10 behind already, and I know there is no such
11 thing as a short and sweet Gaming Oversight
12 Committee meeting, I understand that, but I
13 would just ask the members who are questioning
14 to be respectful and cognizant and let other
15 members also have their time.

16 And I would ask the panel: If a
17 question is given to you and you all have the
18 same answer, maybe we could just shorten it up
19 that way.

20 MR. DeSALVIO: Okay.

21 MR. SOPER: Sure.

22 CHAIRMAN SANTONI: Representative
23 O'Brien.

24 REPRESENTATIVE O'BRIEN: Thank you,
25 Mr. Chairman. You will have to pardon the

1 pun, but it seems to me that we are putting
2 the cart before the horse. And, certainly, as
3 we move forward to amend the Racehorse
4 Development Gaming Act, it seems to me that we
5 need to put a nod towards the horsemen.

6 Now, in my initial reading of these
7 bills, I see the dearth of benefit to the
8 horsemen. Actually, I see none.

9 So, if you could, you made
10 contributions to the Horsemen's Fund from the
11 gross terminal revenue, correct?

12 MR. JONAS: Yes.

13 MR. SOPER: Yes.

14 REPRESENTATIVE O'BRIEN: Now, by
15 the addition of table games, there will be no
16 contributions to the Horsemen's Fund from
17 that; is that correct?

18 MR. JONAS: The way that we have
19 kind of looked, with the way we are looking at
20 it, is that the increase in slot revenue would
21 continue to go toward the Horsemen's Fund and
22 that's the way that the Horsemen's Fund would
23 continue to grow.

24 REPRESENTATIVE O'BRIEN: I believe
25 that, as this day plays out, there will be

1 conflicting testimony on whether there will be
2 an increase or decrease in slot playing. So I
3 guess, in the interest of time, we will let
4 that testimony play out as it is.

5 So, in short, we find ourselves in
6 a position that, as currently written, the
7 horse is put behind the cart. Just a comment.
8 Just a thought. Thank you, Mr. Chairman.

9 MR. SOPER: Can I make one comment
10 on that real quick?

11 CHAIRMAN SANTONI: Sure.

12 MR. SOPER: Because I think it's
13 very important. I know we are trying to --

14 I don't necessarily agree with that
15 a hundred percent, and I know there are two
16 academic thoughts regarding whether slot
17 increases and that will contribute; but, aside
18 from that, what is very important is that,
19 clearly, table games are going to bring more
20 people to the property and that is going to
21 help horse racing.

22 And, you know, what's interesting
23 is we strategically put our electronic table
24 games closer to the track because it's a very
25 popular product for, you know, those that

1 wager on horses.

2 We believe table games will also,
3 live tables, will be a product. So I think it
4 is going to increase volumes. It is going to
5 create greater demand, which is probably the
6 biggest issue with horse racing today, is
7 generating demand. So we view that as a plus,
8 aside from the economics and what school of
9 thought you believe, whether slots are going
10 to increase or decrease.

11 CHAIRMAN SANTONI: I want to
12 recognize a couple of members that came in.
13 They are Representative John Siptroth and
14 Representative Bill Keller.

15 Representative Keller said he has a
16 very quick question and I am going to let him
17 ask it very quickly. Thank you, Bill.

18 REPRESENTATIVE KELLER: Since
19 Representative O'Brien -- I am sorry, I came
20 in late. I don't know if this was asked. But
21 I had a tour of the Penn National track and I
22 was talking to the horsemen, and they are
23 saying not only worried about putting more
24 money into the fund when it comes to table
25 games, they are worried about getting the

1 money out of the fund that's in there now.

2 You know, we did this because we
3 were saving the race industry -- the horse
4 racing industry in Pennsylvania.

5 What I am hearing, the horsemen,
6 the one side of it is that the money isn't
7 even spent in the back track where new barns
8 are supposed to be built, and for new pens,
9 new quarters for the grooms.

10 MR. JONAS: I mean all I can say is
11 that at Philadelphia Park, we are redoing all
12 of the back barns. We are actually spending
13 more money that's in the fund to do that. And
14 we have no -- You know, the anticipation is to
15 continue that work and to continue to fund not
16 only all of the back track activities but to
17 continue to fund purses and continue to
18 create.

19 You know, we are trying to make --
20 We are trying to create a great one race in
21 Pennsylvania, either our Philadelphia, either
22 our Pennsylvania Derby, or actually create
23 another race that would actually compete with
24 the big three right now.

25 So the thought here is that racing

1 is a huge piece of our business in
2 Philadelphia Park, and we have no intention of
3 going out of the racing business or to stop
4 any of the activities that we are currently
5 doing.

6 REPRESENTATIVE KELLER: And do you
7 have a finish date for the back track?

8 MR. JONAS: Yeah. I mean there is
9 a finish date. It was laid out with a
10 schedule with our horsemen when we -- when we
11 signed our new agreement.

12 And we are right on schedule of all
13 of that work being completed. I think it's --
14 You know, we have a number of barns back
15 there, and we are redoing about four of them a
16 year.

17 MR. SOPER: And I will just quickly
18 add: We just opened up a brand new,
19 state-of-the-art pad at \$6 million, which is a
20 million more than our \$5 million obligation,
21 which does not include significant other
22 improvements we have made. So we are ahead of
23 schedule, spent more than what -- the money we
24 have had.

25 I can't speak for our horsemen, but

1 our relationship with the horsemen and the
2 executive director, Ron Battoni, is excellent.
3 They are a very happy crowd. We have received
4 a lot of positive feedback from them. And,
5 you know, from our standpoint, it's certainly
6 not the perspective that we see at Mohegan Sun
7 and Pocono Downs.

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

10 CHAIRMAN SANTONI: Four other
11 members are mad at you right now because I let
12 you cut in front of them. Representative
13 Clymer is next.

14 REPRESENTATIVE CLYMER: Thank you,
15 Mr. Chairman.

16 I would like to pick up where we
17 were talking about the State of New Jersey,
18 those of you who were mentioning how you were
19 trying to bring people from the State of New
20 Jersey into Pennsylvania, and that's to
21 increase the revenues, of course, for the
22 casinos.

23 When casino gambling was first
24 legalized in the State of New Jersey, that was
25 their silver lining. I mean we heard how

1 wonderful the money was being used for the
2 economy, for the limousine people who now had
3 jobs, for the local people whose businesses
4 were flourishing. And now we read in the
5 paper that revenues are dropping all the time,
6 10 percent, 13 percent per month. And we have
7 also heard that they are, some of these
8 casinos, are in bankruptcy. I think four of
9 them.

10 So isn't the gaming revenue for the
11 State of New Jersey, isn't that an unreliable
12 source of revenue now?

13 MR. JONAS: Yeah, I think that
14 helps the exact point I was trying to make.
15 New Jersey was a flourishing gaming business
16 until something happened: Pennsylvania
17 approved slots. And then New Jersey has not
18 been the same since the day that Pennsylvania
19 approved slots.

20 For that reason, we have talked
21 about competition from other states. Delaware
22 now having sports betting and table games. I
23 think that's the exact -- West Virginia, the
24 table games. I think Cleveland. Now Ohio is
25 talking about gaming.

1 I think, in my opinion, and in my
2 view, is that that's the exact reason we want
3 to consider, very strongly, table games right
4 now because I think we are now the health of
5 the industry, and because the commonwealth is
6 so intertwined with the tax revenue and the
7 relief that comes from property taxes, we have
8 to protect this industry at all costs.

9 And I think Atlantic City is a case
10 study on what can happen if you don't continue
11 to grow the industry, if you don't continue to
12 be mindful of competition. We don't want that
13 money going elsewhere and I think that's
14 exactly what happened in New Jersey.

15 REPRESENTATIVE CLYMER: And that's
16 part of the problem and many of us saw that in
17 2004.

18 And once we get on the slippery
19 slope, there is no stopping. You know, the
20 casinos want this type of legalized gambling,
21 they are going to get it and then it is going
22 to proceed forward because they can say, well,
23 if you don't give us this type of gambling, we
24 are going to have a shortage in our revenues
25 for the commonwealth; so, we are looking at

1 the New Jersey experience and saying that
2 could possibly happen here.

3 Now, you have mentioned sports
4 betting in the State of Delaware. To me, now
5 that's a sorry sight. I am distressed that
6 the State of Delaware, despite the strong
7 opposition from the NCAA and all of the
8 professional teams, sports teams, said: Don't
9 do it because it is going to hurt our image.
10 It is going to create more problems.

11 And young people will probably be
12 looking at players from professional sports
13 teams and college teams, not as heroes and
14 idols, but can they throw the pass to score
15 the touchdown so I can make money? And I
16 think that's horrendous, what the State of
17 Delaware has done.

18 Certainly--and I heard about the
19 emphasis on families and how important it is
20 to establish a good family--we don't want
21 sports betting in the State of Pennsylvania.
22 I mean that is something that the three of you
23 would not push, just for the reasons I have
24 said, correct?

25 MR. JONAS: Yeah. I don't think

1 there is any discussion amongst any of the
2 operators to talk about sports betting in
3 Pennsylvania right now.

4 REPRESENTATIVE CLYMER: Okay.
5 Well, let me go on to another issue. I did
6 want to raise it and put it on the record.
7 One of the issues again, as I have just
8 mentioned, is how important it is that we
9 maintain our family structure and to do the
10 right things for Pennsylvania families.

11 But we know that as the gambler
12 goes into the casino--and now with the
13 expansion of, I agree with Chairman Schroder
14 that the table games is an expansion of
15 gambling--some of these individuals are going
16 to be, because they are high rollers, they are
17 going to receive perks from the casinos.

18 You are already doing that now.
19 You are sending them perks to bring them back
20 in. These little favors and items that you
21 give them to let them know how important their
22 return to the casino is.

23 Over the last couple of years, I
24 have sponsored a bill that would allow, that
25 would -- not allow, but it would mandate that

1 the casinos send to those individuals who are
2 receiving the perks to also send them a
3 monthly statement. And in that monthly
4 statement, it would demonstrate how much money
5 that individual has lost or won at the casino,
6 be it for the table games or for the slot
7 machines.

8 Certainly, that is something that
9 you would not oppose because it's good for
10 Pennsylvania, it's good for our families. So
11 you would support that, would you not?

12 I mean you already sent out the --
13 You do it when you send out the perks, don't
14 you?

15 MR. DeSALVIO: Actually,
16 Representative Clymer, I would respectfully
17 disagree with you. I think that there is a
18 thing called the Law of Unintended
19 Consequences. And I think if you send out a
20 statement on a monthly basis to a player, I
21 believe it could actually have possibly a
22 worse effect.

23 There have been some studies done
24 on that. I can't cite them off the top of my
25 head, but I certainly could research it. But

1 I think there is a real serious issue that if
2 you actually do that.

3 You also have issues of privacy.
4 If you send a statement in the mail, you are
5 not sure who opens mail and I think that would
6 be of a real serious concern.

7 So, quite honestly, it is not
8 something we, as an industry, would support
9 and I think that the Law of Unintended
10 Consequences could have a real negative effect
11 if that approach were to be taken.

12 REPRESENTATIVE CLYMER: Well, it is
13 something maybe that we can research. I mean
14 people receive notices on their credit cards.
15 I mean, I don't see it, where this would be
16 any different, the unintended consequences.

17 I mean we are trying to help
18 families, especially where the dollars are
19 being spent in the casino and the family has
20 no idea how much that individual, how much
21 that gamer, is putting into the slot machines;
22 and so, we really need to make them aware of
23 it.

24 But you have answered the questions
25 and I respect that and time will tell if it

1 continues.

2 MR. DeSALVIO: Thank you.

3 REPRESENTATIVE CLYMER: Now, with
4 the -- As we know, that the product that you
5 service is an addictive product because that's
6 why people will keep returning, and in the
7 legislation of 2004, we set aside \$1.1 million
8 to help those on addiction.

9 Now, since we are expanding
10 gambling by the table games, you would not
11 have a problem in us asking for another
12 \$1.5 million to help those people who are at
13 the tables or at the slots.

14 You know, we know that the
15 addiction is going to reoccur and to expand,
16 so, if we put, in the bill, information -- not
17 information, but a set amount, maybe
18 1.5 million, maybe \$2 million, to help those
19 with addiction, that would not be a problem,
20 correct?

21 MR. DeSALVIO: I just think when it
22 gets to the issue of where money goes to, I
23 think, quite honestly, you are out of our
24 league. We typically don't get in the
25 business of determining what share or what

1 percentage goes. That is really up to the
2 legislature to decide.

3 Our main goal is to present a
4 concept whereby the lower the tax rate, the
5 higher the investment and more jobs. And,
6 quite honestly, once that rate is determined,
7 where it goes is truly in the purview of the
8 legislature. And we, as operators, would stay
9 out of that, so that's not a debate that we
10 would get into.

11 As far as the issue of -- I do want
12 to bring up the issue of--and I know this,
13 Representative, has been a concern of yours,
14 right along, and we have the same concern you
15 do--the issue of problem gambling.

16 We take it very seriously. I know
17 our company does. I know everyone sitting at
18 this table does. Our corporate program, as a
19 matter of fact, we just recently were
20 recognized by the National Council because of
21 the programs that we did pre-opening in
22 Bethlehem. We trained hundreds of social
23 workers, health care professionals about the
24 issues of problem gambling, and it is
25 something that we take a look at very

1 seriously.

2 I also think that the issue about
3 table games is that on a table game, there is
4 a human interaction with a guest. Our staff
5 is probably more likely to be able to spot
6 somebody who might have a potential for
7 problem gaming because they would actually see
8 them face to face.

9 There is actually no research,
10 whatsoever, that points to the fact that there
11 would be the increase in the problem gambling
12 with the introduction of table games, but it
13 is something that we take very seriously.

14 And we will continue those
15 programs. Our staff has to be trained, every
16 single employee, every year, on that issue.
17 And we do take that seriously and we
18 understand and respect your concern for that
19 issue.

20 REPRESENTATIVE CLYMER: Well, in
21 talking with the people who run the gambling
22 hot line, there has been a surge of people who
23 are seeking assistance. So can you tell me
24 how many people, either one or all three, how
25 many individuals your trained employees have

1 come up and said to them, you have a problem
2 with addiction and gambling, you need to stop?

3 Or, I mean --

4 MR. JONAS: I know.

5 REPRESENTATIVE CLYMER: -- however
6 that system flows through the procedure that
7 you have developed, how many people have been
8 warned of their addiction in the casino?

9 MR. DeSALVIO: We don't keep the
10 individual stats of that. That's all compiled
11 through the Pennsylvania Council and through
12 the hot line services and I believe they
13 publish a quarterly report. So we don't
14 individually tabulate it, so I couldn't give
15 you that number. I don't know if any of the
16 other gentlemen could.

17 MR. JONAS: One thing I will tell
18 you is I think we all agree that addictive --
19 everyone has addictive -- There are a number
20 of addictive personalities and some people are
21 addicted to shopping. I know a couple of
22 those.

23 But what I will tell you is that
24 addictive gaming is probably one of the
25 biggest problems that the gaming industry

1 faces and that it has been that way for a long
2 time.

3 And I know, personally, we have
4 stopped people from playing in our casino, big
5 customers, and told them that we don't want
6 them to come back. And that's with trained
7 folks understanding that, you know, a
8 behavioral pattern that changed, maybe
9 understanding or noticing a change in
10 behavior. And we have also helped those
11 people seek help, if they require it.

12 I will tell you, I don't know what
13 the number is, but I would, I would support --
14 You know, we support money being spent on
15 counseling and programs, too, that affect
16 addictive gaming.

17 And we do it well outside of what
18 our requirements are. You know, we work with
19 our community. We work with the schools. We
20 work with a lot of different -- We create a
21 curriculum to try to help educate people on
22 that issue.

23 But I want it to be clear that just
24 like any other behavior, the vast majority of
25 the folks that come into our casino spend

1 relatively very little money on -- You know,
2 it's 30, \$40 at a time. They use it as
3 entertainment.

4 It's not necessarily an addictive
5 entertainment, it is just this is how they
6 pass an hour a week or two hours a week of
7 their time and it's budgeted.

8 And we know for a fact that people,
9 for the most part, are bankroll constraint.
10 When they are done with their \$40, they leave.
11 It's not, you know, they hit the ATM and come
12 back after I go back and withdraw money from
13 the bank.

14 We know how much everyone plays,
15 it's clear how much they play, and if they go
16 out of their pattern for any reason, it's very
17 easy to pick that up.

18 REPRESENTATIVE CLYMER: Well, I am
19 encouraged to hear that. But I would suggest
20 that you keep a record, as to how many people
21 your trained employees are helping, so they
22 don't become addicted and continue to keep
23 playing.

24 And I don't quite understand the
25 logic then of your statement where you say the

1 people come in and they only spend like 30 or
2 \$40 and yet your testimony that we have before
3 us, we are hearing about these millions and
4 millions of dollars that are being made by
5 these casinos and all of the tax dollars
6 depend. I mean --

7 MR. JONAS: And our average, well,
8 it --

9 REPRESENTATIVE CLYMER: -- if you
10 are including that on 30 or \$40, there has to
11 be a big hole in there or you wouldn't have
12 that -- the purses. I mean you wouldn't
13 encourage these people to come back. I think
14 there is a conflict in your statement there.

15 MR. SOPER: I think there are two
16 things. One is our industry is based on
17 volumes, volumes of people, and so, you know,
18 the amount the average person spends is low
19 but we have a lot of people.

20 In our market, which is a smaller
21 market than both of these gentlemen's market,
22 we have 9,000 people that show up every day.
23 So in order -- You know, you can see how, in
24 each area of those slots.

25 I think the most important point is

1 that, you know, most or all mainstream
2 research says that 2 to 3 percent of people
3 that gamble, it's an issue for, it's a problem
4 for. And we, as an industry, don't deny that
5 and we do everything we can to get those 2 to
6 3 percent out.

7 You know, Dave makes a good point.
8 That's 6 percent less than people who are
9 addicted to alcohol and to other things. And
10 it doesn't make it right, it just means that
11 we have to address the issue.

12 But I think that's the most
13 important point. You know, we have a pretty
14 good understanding of the issue and we do
15 everything in our power to address it.

16 REPRESENTATIVE CLYMER: With the
17 advent of table games, you now serve -- some
18 of the casinos serve free alcohol within the
19 casinos. That's correct? I don't know if it
20 was all of them.

21 But in the event of table games,
22 will alcohol, free alcohol be served there in
23 the section where there are table games?

24 MR. JONAS: Yes.

25 REPRESENTATIVE CLYMER: And Bobby?

1 MR. JONAS: I'm taking it. Because
2 it's a requirement of the customer. I mean
3 the only reason we serve free alcohol is the
4 customer requires it. Atlantic City does it.
5 And it's something that a customer expects.

6 We have very strict control over
7 the alcohol we serve. We only serve a
8 customer -- And we track, believe it or not,
9 we actually track the number of drinks we
10 serve, too.

11 You have to be actively playing to
12 get a drink. We only serve two drinks to any
13 customer while they are in our casino.

14 And our shot, the way that we mix
15 the drinks, they are actually, the shot, is
16 actually a third of a shot so the alcohol is
17 watered down. So it's not --

18 MR. SOPER: Not at Mohegan Sun.

19 MR. JONAS: Yeah. It's not --
20 We're not -- This is free, remember? We are
21 not charging. But our whole intent is not to
22 get people intoxicated, our whole intent is to
23 make it part of the experience.

24 REPRESENTATIVE CLYMER: Well, from
25 the testimony that has been given before the

1 Pennsylvania -- before the United States
2 Gaming Control Commission, that that is not
3 the case. That was--I have mentioned this to
4 you before--that was undertaken by Bill
5 Clinton back in 1996, and there were real
6 problems with alcohol and gambling, and that
7 was part of that commission's report.

8 So maybe one or two of you have
9 changed, but I would seriously doubt if that's
10 the rule of thumb throughout the casino
11 amusement.

12 You mentioned also about the jobs
13 that you are creating, and, of course, the
14 Innovation Group, which was paid by the
15 casinos, which is projecting these jobs. Are
16 you aware that the bankruptcies are soaring to
17 new heights?

18 And you can say to us this morning,
19 this morning, that, well, that's because of
20 the recession. But, you know, bankruptcies
21 are also part of the gambling trade as well
22 because people have overextended and they have
23 gambled beyond their means and they have taken
24 out loans and they have to declare bankruptcy.

25 So while, on the one hand, you can

1 make a statement and say that you are creating
2 these new jobs, you are also responsible, to
3 some degree, for closing -- for companies
4 closing and for people going -- or losing
5 their jobs as well.

6 So I think we need to balance that,
7 this morning. You just can't say that you are
8 creating all of these new jobs and you are not
9 part and parcel of that responsibility for
10 people losing their jobs as well. You can't
11 suck all of these hundreds of millions of
12 dollars out of the economy, and especially
13 during the recession, and expect people to be
14 able to thrive when no one comes into their
15 shop to buy their products for their services.

16 So I want to make that statement,
17 and you can certainly comment on that, any one
18 of you, if you would like.

19 MR. DeSALVIO: There is still no
20 doubt that the creation of table games will
21 add to the job base in the commonwealth:
22 construction jobs, permanent jobs. And it
23 will help solve the problem, it will help
24 diversify our base, by getting it to other
25 amenities besides gaming.

1 So, clearly, we understand there's
2 economic issues out there. But, again, all of
3 the research will tell you that the problem,
4 that the issue, as you mentioned, about
5 problem gambling, is a very small percent of
6 the population, as much as it's a serious
7 issue. But, certainly, all of the economic
8 woes of the world cannot be blamed on that
9 particular issue.

10 REPRESENTATIVE CLYMER: I will
11 close. Thank you, Mr. Chairman, for your
12 tolerance and your forbearance.

13 And I want to just address this
14 issue, and that is our greatest problem here
15 in Pennsylvania and probably throughout the
16 United States is the dysfunctional families.
17 That is the problem today. If we could solve
18 that, we could probably save the commonwealth
19 millions and millions of dollars.

20 And our job here, as legislators,
21 is to strengthen families, is to make them
22 functional, is to help them as they grow their
23 children and not do those things that would
24 create problems for them.

25 And I just mention that to you

1 because, as you pursue your industry and you
2 develop expanding gambling or all of the
3 things you do within the casino, remember that
4 the family structure is critical to the
5 survival of our economy, of our culture here
6 in the commonwealth in Pennsylvania and across
7 this state, and we are seeing families under
8 attack as never before.

9 So I just share those thoughts with
10 you, and I thank you for your testimony this
11 morning.

12 MR. SOPER: Thank you.

13 MR. DeSALVIO: Thank you.

14 REPRESENTATIVE CLYMER: Thank you,
15 Mr. Chairman.

16 CHAIRMAN SANTONI: You are welcome.

17 Just a quick clarification. You
18 mentioned sports betting, and federal law was
19 passed back in, I believe it was 1992, that
20 forbid any other state, except four that were
21 contemplating. And they were grandfathered in
22 and Delaware was one of them and that's why
23 Delaware can do it. So, unless federal law
24 has changed, we cannot do that here in
25 Pennsylvania.

1 So, if you want to make a lot of
2 money, bet the Eagles to win the Super Bowl,
3 you can go down to Delaware and do it. I
4 think they are listed at twelve to one right
5 now.

6 REPRESENTATIVE CLYMER: I think
7 that they have a chance, but I am not going to
8 take a wager on it.

9 CHAIRMAN SANTONI: Representative
10 Wansacz.

11 REPRESENTATIVE WANSACZ: Thank you,
12 Chairman Santoni.

13 I would just argue that if you're
14 really going to play the odds, you would
15 probably look at the Pittsburgh Steelers to
16 repeat. They are really the champions.

17 Gentlemen, I would like to thank
18 you guys for your patience and coming before
19 us today. As you can see, there are many
20 different opinions on our Gaming Committee.
21 It's a well-intending committee that asks a
22 lot of important questions.

23 In my previous life, I ran a small
24 business, so I appreciate that you guys, you
25 know, really come and invest a lot of money in

1 Pennsylvania. And I can tell you, as a
2 businessman, every businessman looks at the
3 market before making an investment.

4 I am not sure how many of my
5 colleagues actually had a business or ran a
6 business or put up their own money to start a
7 business, but I can tell you it's never an
8 easy decision.

9 So, you know, a lot of these
10 questions here -- You know, obviously, you
11 guys know what you are doing. You are not
12 investing this type of money without looking
13 at everything and going forward.

14 And just for clarification, and I
15 know some of these answers. But, you know, my
16 daughter turned two yesterday and so I have a
17 different perspective on things. I have
18 learned how to ask questions in a simple
19 manner and try to get, you know, simple
20 results back. And I think sometimes that's
21 important that we do that in the General
22 Assembly, we take a step back. And sometimes
23 we get ahead of ourselves.

24 So, again, you guys paid how much
25 -- And anyone can answer this. How much did

1 you pay for those, a licensing fee?

2 MR. SOPER: Fifty million.

3 REPRESENTATIVE WANSACZ: Fifty
4 million. Your tax rate is roughly how much
5 percent?

6 MR. DeSALVIO: Fifty-five plus.

7 MR. SOPER: Yeah. Ours, it ranges
8 from 55 to 60. We are closer to 60.

9 REPRESENTATIVE WANSACZ: Okay. So
10 about 60 percent. And how much have each of
11 you invested in your property?

12 MR. DeSALVIO: We are 743 million.

13 MR. SOPER: We are 550 million.

14 MR. JONAS: Four hundred million.

15 REPRESENTATIVE WANSACZ: Four
16 hundred. So, right there, you have all of
17 this investment. I am sure you guys know what
18 you are doing. I am sure that -- I mean you
19 are confident or you didn't come to
20 Pennsylvania.

21 I remember being here when we
22 passed the Gambling Act. And the studies that
23 we looked at, when it came to Atlantic City,
24 it was about 50 percent of the revenues came
25 from Pennsylvania.

1 Well, I think we are wrong. I
2 think it is now closer to 60 percent, as we
3 are looking at Atlantic City taking a beating
4 because of Pennsylvania.

5 But we do need to move forward.

6 I don't view passage of table games
7 as an expansion of gaming. I don't do that.
8 We had gaming here in Pennsylvania. We had
9 gaming in Pennsylvania when we passed the
10 Lottery, long before I was here.

11 This is just an additional choice.
12 And that's what, in northeastern Pennsylvania,
13 and I hear this not only in northeastern
14 Pennsylvania in my areas, I hear this
15 throughout the state, when are we going to
16 have table games?

17 Table games is going to create
18 16,000 jobs in Pennsylvania. And you guys are
19 telling me--and I know you have mentioned it
20 roughly--about 10,000 direct casino jobs, I
21 believe, is going to be created by this. What
22 is the average salary?

23 MR. DeSALVIO: Forty thousand?
24 Thirty-eight to forty thousand dollars for a
25 starting dealer.

1 REPRESENTATIVE WANSACZ:

2 Thirty-eight to forty thousand dollars for a
3 starting dealer. Now, in a recession, I am
4 not sure how many companies are investing
5 during a recession at a 60 percent tax rate
6 and going to create \$40,000 paying jobs.

7 I ask my colleagues that we look at
8 this, we seriously consider this, because this
9 is 10,000 jobs coming. We are talking 60
10 percent tax rates.

11 Plus, can you guys tell me, are you
12 guys going to be expanding your business,
13 creating more construction jobs, maybe?

14 MR. DeSALVIO: As I mentioned in
15 the testimony, we are prepared to start right
16 away with our hotel, our event center, and our
17 mall. And that project will be north of
18 \$100 million additional investment on top of
19 the 743 million.

20 MR. SOPER: We have a master plan
21 for development and, you know, clearly, there
22 will be something. And, you know, if and when
23 the legislation passes, and I suspect
24 depending on the results of that, that there
25 will be subsequent development as well.

1 MR. JONAS: And we, too, have
2 incremental space ready to go for tables.
3 This will not be take slots off and add
4 tables. This is incremental space ready to
5 go. And along with that, we have a master
6 plan for a hotel.

7 REPRESENTATIVE WANSACZ: So as you
8 can see, we are talking another probably 300
9 million, at least, at just these three casinos
10 here before us that have additional
11 investments. So that's high-paying
12 construction jobs, that's our people in our
13 areas going to work, and I think that's very
14 important for this committee.

15 Again, it is not an expansion.
16 Gaming is here. It is additional choice. I
17 myself do not like to go into the Mohegan Sun
18 and play slots, that does nothing for me.

19 But I would like an opportunity,
20 with my discretionary money, if I so choose,
21 to play table games or throw the dice or, you
22 know, put the ball in the wheel on a roulette
23 table. I think that would be my choice.

24 Just as my mom likes to go into a
25 casino and push that button, she gets great

1 enjoyment out of it, or my aunt goes in, too,
2 and buys Lottery tickets every day, that's
3 their choice. And I think that's what we are
4 arguing with table games, is it adding a
5 choice?

6 And so, I know you gentlemen are
7 investing this type of money because you are
8 confident that it can create these jobs and
9 can create additional investment into
10 Pennsylvania.

11 So I want to thank you for that
12 because, you know, so many times, people beat
13 up on the industry, which I think has done a
14 great job. In three years, the little
15 problems that we have, have been tiny when we
16 look at all the borrowed dollars that we have.

17 We have invested, if you look at
18 other economic development programs in the
19 state, we have invested a heck of a lot more
20 and got a lot less out of it. So I look at
21 this as a positive growth. I look at this as
22 something that needs to happen in the market
23 because of Delaware, because of West Virginia,
24 because of the Catskills, because of New York.
25 If we are going to move ahead and we are going

1 to be a leader, we must do this.

2 So I just ask you all to think
3 about the jobs, think about the lives that are
4 going to be impacted by this, think about the
5 property tax reduction. Because those school
6 bills and property taxes are coming up right
7 now and I am sure you are getting a call from
8 your local constituents: Where's the money?
9 Where's my money?

10 We are not handing out, like
11 Governor Ridge did a few years ago, \$100
12 checks, where it cost, I think it was
13 4 million or 40 million or something like
14 that. We are putting it, right on a school,
15 property tax bill, this is what your tax would
16 have been if not for the Gaming Fund.

17 And they are doing better than what
18 we believe. So this is having a positive
19 influence in our area of gaming and a lot of
20 people are very happy about it and I wish that
21 we could move it ahead before us.

22 Thank you, Mr. Chairman.

23 CHAIRMAN SANTONI: Before we get to
24 the next questioner, I want to recognize the
25 House Majority Leader, from both ends in

1 Hazleton, Todd Eachus.

2 REPRESENTATIVE EACHUS: Thank you,
3 Mr. Chairman.

4 CHAIRMAN SANTONI: Thank you, Mr.
5 Leader, for being here. Our next questioner
6 is Representative Kauffman.

7 REPRESENTATIVE KAUFFMAN: Thank
8 you, Mr. Chairman. Thank you, gentlemen, for
9 being here.

10 Earlier, you were speaking of the
11 tax rate in New Jersey. And I know you have
12 the Innovation Group study here. And I don't
13 know if you are familiar -- Where your casinos
14 are, you may not worry too much about the
15 south and western parts of the border states,
16 but can you address, are you familiar with the
17 tax rates?

18 I am down towards the West Virginia
19 area in Charleston and that area. And I know
20 the western part of the state is probably also
21 concerned about the future in Ohio. Can you
22 address those circumstances, as far as the tax
23 rate on table games in West Virginia and what
24 is proposed in Ohio? Can any of you address
25 that? Or is that absolutely out of your

1 realm?

2 MR. SOPER: I am not exactly sure
3 of the exact tax rate. It is at a very high
4 tax rate, table games. I think in the 30 plus
5 range.

6 And there are a couple of points.
7 That, number one, they have a limited number
8 of games, again, so the economic benefits are
9 far more limited than what we believe are
10 potential for Pennsylvania, and for, you know,
11 revenue generation, and, of course, job
12 creation and capital investment.

13 Number two, and I think this is
14 probably the most important point, is that:
15 In Pennsylvania, 70 percent, almost 70 percent
16 of the revenue that would be generated from
17 gaming, slots, and will ultimately be
18 tables--if it comes to fruition--is on the
19 eastern part of the state which competes with
20 Atlantic City.

21 So our competitor, our number one
22 competitor, is at a tax rate, you know,
23 approaching 9 percent, which the state --
24 which West Virginia doesn't have to deal with.

25 We also have, you know, other

1 competitors as well. But the bulk of the
2 revenue are from operators that compete with a
3 jurisdiction that has far more gaming, number
4 one; and two, are at tax rates below 9
5 percent.

6 So it really comes down to: Do we
7 want to see the jobs that we are talking
8 about? Do we want to see the revenue
9 generation we are talking about and the
10 capital investment? And West Virginia has
11 made that decision that that's not as
12 important to them.

13 But I think the one point that
14 needs to be, and certainly not overlooked and
15 cannot be understated, is the fact that, you
16 know, we, in Pennsylvania, and the bulk of the
17 operators, are competing with a much larger
18 jurisdiction with a much lower tax rate.

19 REPRESENTATIVE KAUFFMAN: So you
20 are stating that the tax rate in West Virginia
21 is cost prohibitive in many ways for economic
22 development and growth of your industry?

23 MR. SOPER: Yes.

24 REPRESENTATIVE KAUFFMAN: Okay.

25 And are you familiar, at all, with what is

1 being proposed in Ohio?

2 MR. DeSALVIO: We haven't heard the
3 rate in Ohio yet. I am not familiar with
4 that.

5 REPRESENTATIVE KAUFFMAN: All
6 right. Thank you, gentlemen. I guess that if
7 that's good information to know as we work
8 through this process.

9 I recognized earlier today, you
10 know, you, in your testimony, you had
11 mentioned, you know, the promise of, you know,
12 what gaming brought to Pennsylvania as far as
13 revenue.

14 And I would remind folks in this
15 room and out in PCN land that I think the
16 promise of gaming in Pennsylvania was property
17 tax relief.

18 And as I hear from many of my
19 constituents, that promise is wholly
20 unrealized and has been rather pitiful.

21 And the only folks who have --
22 Well, the folks who have gained greatly out of
23 this are, you know, obviously, your industry;
24 and the Gaming Control Board, they are doing
25 very well for themselves as well.

1 So I see there are a lot of
2 problems that need to be dealt with before we
3 do expand gambling in Pennsylvania to include
4 table games.

5 But I do applaud the gentleman, Mr.
6 Davis, who, you know, talked about some of the
7 community initiatives and things that are done
8 in your community as far as funding -- or
9 helping, you know, food banks and areas like
10 that.

11 You may want to step up that
12 effort, as many of our local food banks and
13 folks closed because of the Governor's line
14 item veto of many of their services that they
15 provide. So it would be a great time to step
16 up that effort.

17 Thank you.

18 CHAIRMAN SANTONI: Representative
19 Thomas.

20 REPRESENTATIVE THOMAS: Thank you,
21 Mr. Chairman. And let me thank you for
22 calling this hearing and very extensive
23 agenda.

24 So my first question is: Are there
25 any women operators?

1 MR. DeSALVIO: Are there any women
2 operators?

3 REPRESENTATIVE THOMAS: Right. All
4 of the representatives here are males. Are
5 there any women involved in this business?

6 MR. DeSALVIO: Sure.

7 MR. JONAS: All I can say is in the
8 hey day of Atlantic City, there were 12
9 casinos and half of those casinos were run by
10 women; so, women have done very, very well in
11 this industry.

12 REPRESENTATIVE THOMAS: And so, can
13 we count on half of the ones in Pennsylvania
14 that are run by women? Just to put that out
15 there.

16 MR. DeSALVIO: Okay.

17 REPRESENTATIVE THOMAS: My second
18 question runs to impact and just getting some
19 information on current history, current
20 performance.

21 I noticed in one of the testimonies
22 there were kind of like four benchmarks:
23 jobs, capital investment, overall economic
24 impact, new found revenue for the
25 commonwealth. I'm pretty satisfied that there

1 is new found revenue.

2 But let me ask about the
3 neighborhoods in which you are operating.
4 Have you tracked employment, entrepreneurial
5 opportunities? Have you tracked the impacts
6 on surrounding property? And have you tracked
7 capital investment in those neighborhoods?

8 And the reason I say that is
9 because the jury is now in that with respect
10 to Atlantic City, it did not happen. The
11 people who ultimately benefited from Atlantic
12 City were people who came in from the outside,
13 not those who were inside. And so, to that
14 end, I would like to know what have your
15 results demonstrated as it relates to the
16 immediate communities in which you are
17 operating?

18 MR. DAVIS: Thank you,
19 Representative Thomas. And, yes, we are very
20 aggressive in our outreach and in tracking
21 local impact in several ways, as I have talked
22 about.

23 Number one, we know that 86 percent
24 of the people that work for us come from
25 Pennsylvania. That's one.

1 Number two, we work directly with
2 -- And I am in most of the meetings with
3 construction, and making sure that we're--at
4 our construction meetings--knowing that our
5 outreach must be aggressive.

6 And I reported on, in my testimony,
7 that the kinds of impact in our areas with WBE
8 and MBE's impact, that \$94 million that we
9 spend on construction, 28 percent of that is
10 spent with WBE and MBE businesses, or
11 26 million, which is significant.

12 REPRESENTATIVE THOMAS: Can I do
13 this? And, Ron, I know you. I have a lot of
14 respect for you.

15 MR. DAVIS: Sure, sure.

16 REPRESENTATIVE THOMAS: And I think
17 sometimes that people think that when Curt
18 Thomas speaks, all he is talking about is
19 African Americans. This is not a Black issue,
20 a White issue, this is a people's issue.

21 MR. DeSALVIO: Um-hum.

22 REPRESENTATIVE THOMAS: And I would
23 like to have the information as it relates to
24 each of these operators. Because there are
25 poor people, poor White people in the

1 northeast, poor Black people in the north.

2 It's not color, it's about economics.

3 MR. DeSALVIO: Um-hum.

4 REPRESENTATIVE THOMAS: And it's

5 about helping people cross that bridge to a

6 better life.

7 MR. DeSALVIO: Um-hum.

8 REPRESENTATIVE THOMAS: So. And,

9 whatever. Not to cut you off, Ron, because I
10 have a lot of respect for you.

11 MR. DAVIS: Sure.

12 REPRESENTATIVE THOMAS: And I see
13 you are the diversity officer for Philadelphia
14 Park. And so, if you're going to continue,
15 that's good. I would just like to know
16 whether there is a diversity officer for the
17 other four casinos.

18 MR. DAVIS: Let me see if I can
19 complete my remarks real quick. We do look at
20 all, the whole realm of diversity.

21 Plus the veterans, the veterans
22 come in, I believe, mostly northward, in my
23 opinion, in our business, as businessmen in
24 the area of Philadelphia. So we have outreach
25 for veterans and we do a lot of funding with

1 veterans' programs and we are planning to do
2 more. So there is a whole realm of diversity
3 that is not just MBE, WBE. So we do do that
4 aggressively.

5 MR. DeSALVIO: Representative
6 Thomas, I would like to just comment on behalf
7 of the Sands in Bethlehem. As far as your
8 question about a diversity officer, Napoleon
9 McCallum handles that all for us out of our
10 Las Vegas office. As a matter of fact, he was
11 in town yesterday.

12 He makes frequent visits to the
13 Bethlehem area and works with us on making
14 sure that our outreach programs extend all
15 throughout the community, regardless of color
16 for any group. We just recently distributed
17 the checks from our test nights, \$118,000 went
18 to 15 local groups, all very much in need.
19 Each group got about almost \$8,000. They were
20 very appreciative of that.

21 We spend hundreds of thousands of
22 dollars in sponsorships and other type
23 programs for community groups that we work
24 with, including Arts Quest and the Hispanic
25 American Organization in Allentown, just to

1 name a couple of them.

2 We track our diversity stats for
3 employment as well as our purchases. We have
4 done -- Ninety percent of the employees of the
5 Sands came from the Lehigh Valley. And we
6 focused on the south side of Bethlehem, which
7 was the area of greatest need.

8 And we are very, very
9 over-represented with our Hispanic population
10 of our employee base because that's where the
11 greatest need was in our community. We made a
12 commitment to Bethlehem that we would hire the
13 locals, train the locals, and get them on
14 board. And we did. I really feel very
15 comfortable that we did just that.

16 I will be happy to provide any of
17 the stats to not only you but the entire
18 committee. But it was a great question.
19 Thank you.

20 REPRESENTATIVE THOMAS: Thank you.

21 MR. SOPER: I will quickly comment.
22 We do have a diversity officer. He is the
23 vice president.

24 Most importantly, though, because
25 of the importance, in my view, of the issue, I

1 personally get involved in the community. You
2 know, it is a community with a relatively
3 smaller minority population relative to other
4 areas. But, nevertheless, you know, on
5 average, we have twice the average -- Our
6 employee base has a percentage that's twice
7 what the average is in northeast Pennsylvania.

8 I have partnered up with and
9 actually become good friends with the
10 president of the NAACP Chapter, to the point
11 where he has asked me to chair this year's
12 100th Anniversary NAACP dinner. And, you
13 know, it's been a great relationship.

14 And we do everything to advocate
15 diversity, not only in our workforce but
16 within the community and the community
17 workforce.

18 Real quick. On the question, do we
19 track economic development generally in the
20 neighborhoods? It is very hard from a very
21 objective and metric standpoint to do so.

22 Anecdotally, we certainly see it.
23 We see capital investment. On the main road
24 where our casino is located, our real estate
25 values have increased, restaurants have popped

1 up.

2 Most of the feedback from local
3 hotels has been very positive. We have teamed
4 up with them to drive traffic. And their
5 hotel occupancy has actually increased during
6 these poor economic conditions, a lot of it is
7 attributed to us.

8 And, certainly, from a pure
9 economic standpoint, you know, most studies
10 indicate there is a multiplier effect of one
11 and a half, which means that for every dollar
12 generated in salaries, in vendors and in
13 vendor payments, and so forth, you know,
14 another 50 percent of that gets recirculated
15 in the local economy.

16 I happen to believe that's the
17 case. I have no statistics to reinforce that,
18 but just, anecdotally, I think that that is
19 the case.

20 REPRESENTATIVE THOMAS: Okay. I am
21 ready to close up. I just want to make a
22 couple of comments.

23 Number one, you know, given the
24 economic times and given some of the issues
25 that we have to deal with, when we talk about

1 -- or at least when I talk about investment,
2 if you go into a community that was blighted
3 or where there was a decline in investments in
4 that community, you can track whether your
5 investments are stabilized, housing has
6 stabilized, commercial development, or it has
7 improved or increased commercial development.
8 You can track whether your investments, when
9 you came in, if there were only 20
10 entrepreneurs and there are now 50, you have
11 created some new entrepreneurs.

12 MR. DeSALVIO: Um-hum.

13 REPRESENTATIVE THOMAS: And
14 especially recognizing that 60, 65 percent of
15 the jobs in Pennsylvania come from small
16 businesses, not major corporations.

17 MR. DeSALVIO: Um-hum.

18 REPRESENTATIVE THOMAS: Also, if
19 you come into a community, and we know from
20 this, from the data, that obesity is a
21 problem.

22 MR. DeSALVIO: Um-hum.

23 REPRESENTATIVE THOMAS: Or that
24 some other area, I understand it, you know,
25 in this health care plan, that 1.2 trillion

1 might just run through how we do business; and
2 then, so, to that end, there is a local
3 hospital or a local effort to deal with some
4 of these issues, investing in that becomes
5 real good.

6 So, in the information that you
7 submit to the Chairman, which I hope that we
8 will get copies of, if you can kind of focus
9 on --

10 MR. DeSALVIO: Sure.

11 REPRESENTATIVE THOMAS: -- how your
12 investments have impacted the local
13 communities.

14 MR. DeSALVIO: Yes, I can.

15 REPRESENTATIVE THOMAS: The second
16 thing is, one of the things that I recommended
17 to the Chair early on, even when I thought I
18 was Vice Chair, and that is: I think that the
19 committee can do the larger community a big
20 favor by providing some progressive
21 information as to how these industries are
22 impacting the overall community.

23 Because we hear the bad stories,
24 but I think that there is also another side
25 that has improved the quality of life in parts

1 of Pennsylvania. And so, I would like to
2 again recommend that we do a quarterly report
3 or that we do some information delivery system
4 that speaks to how these industries have
5 improved the quality of life in various parts
6 of Pennsylvania.

7 Keeping in mind that we know that
8 if the industry was not in Pennsylvania, that
9 that money will be going some place else.
10 That we can point to a large pot of
11 Pennsylvanian money going to other states that
12 makes life better for folks in other states.
13 And so, we have a real interest in sustaining
14 and improving the quality of life in
15 Pennsylvania.

16 So maybe through some joint
17 arrangement -- I started to say venture. But,
18 no, you can't do no joint venture with the
19 committee. But maybe something mutual. You
20 can provide the committee with the information
21 and then the committee can design how that
22 information is going to get to the larger
23 community. But I think that is real
24 important, probably now more than ever.

25 MR. DeSALVIO: Sure.

1 REPRESENTATIVE THOMAS: And on this
2 issue of table games, I think we have to talk
3 about how this addition is going to complement
4 what is already in place.

5 You know, I hear people say that
6 they like table games. And I think that there
7 is a market out there for table games. But I
8 think as we talk about these building blocks
9 to the industry, people need to know, in very
10 clear terms, how is this building block going
11 to add to the good things that have already
12 taken place with the industry.

13 So those are my two
14 recommendations. And, again, thank you, Mr.
15 Chairman.

16 CHAIRMAN SANTONI: Thank you.

17 MR. DeSALVIO: Thank you.

18 CHAIRMAN SANTONI: Gentlemen. I
19 will just mention to Mr. Davis: During your
20 testimony, you did give us quite a few
21 statistics and if you could provide that
22 information to the Chair, we will make sure
23 that that information gets disseminated
24 amongst the members.

25 I just have a couple of quick

1 questions.

2 REPRESENTATIVE THOMAS: Pardon me.

3 Mr. Chairman, if I can? It is good that Mr.

4 Davis is going to provide that, but Mr. Davis

5 is really tied to Philadelphia Park and I

6 would like to see that kind of information --

7 MR. DeSALVIO: We will send you it

8 as well.

9 REPRESENTATIVE THOMAS: -- from all

10 of the other ones.

11 CHAIRMAN SANTONI: Good point.

12 Thank you.

13 Just a couple of quick questions.

14 If we passed this bill, if this bill was

15 signed by the Governor today, when will the

16 first card be dealt, the first roll of the

17 dice be? How long do you think it will be?

18 MR. SOPER: See that big hand up

19 there?

20 REPRESENTATIVE O'BRIEN: I have got

21 the cards in my pocket.

22 MR. SOPER: Yeah. Does somebody

23 have some chips?

24 CHAIRMAN SANTONI: Understanding

25 that, of course, the Pennsylvania Gaming

1 Control Board has to get some oversight into
2 the stipulation.

3 MR. SOPER: With that assumption,
4 you know, taking that aside, we believe--and
5 we are in a fortunate position because of our
6 previous experience--we believe, you know,
7 probably the quickest would be four months.

8 You know, six months, you know, is
9 a number that, you know, in an ideal world, we
10 would have.

11 But, you know, we would do it as
12 quickly as we can, in probably four to six
13 months.

14 MR. JONAS: The only thing I will
15 add to that is I think we want to take the
16 time to hire and properly train the people in
17 Pennsylvania. And that would take a little
18 bit longer than if we just decided, well,
19 let's go to Atlantic City and hire a bunch of
20 dealers. And we are committed to hiring from
21 Pennsylvania.

22 So the only caveat I will add is,
23 is that we want to make sure that we hire and
24 train the staff properly, and that that would
25 probably be the longest lead item that I can

1 think of, as far as getting these things open.

2 CHAIRMAN SANTONI: Thank you. I
3 appreciate that. And, gentlemen, I just want
4 to thank you for your testimony.

5 As I said in my opening remarks,
6 this is an important gaming issue. But as we
7 are in this serious budget impasse, we are in,
8 with the absence of any appetite for passing
9 any broad-based taxes, we are open and trying
10 to fill the huge budget gap.

11 And we believe--the majority, I
12 think--believe that gaming dollars, the sooner
13 the better, can help alleviate some of the
14 issues that we have, and we can close that
15 budget gap without raising the broad-based
16 taxes and also be able to provide a lot of
17 other resources that we all enjoy and all want
18 to provide to our constituents.

19 So we thank you for your time. We
20 look forward to working with you on this very
21 important issue. And we wish you the best.

22 MR. SOPER: Thank you.

23 MR. JONAS: Thank you very much.

24 MR. DeSALVIO: Thank you, sir.

25 (Off-the-record discussion occurred

1 amongst committee members.)

2 CHAIRMAN SANTONI: Our next panel,
3 if they will come forward, is representatives
4 from the equine industry. Joseph Santanna,
5 President of the Pennsylvania Horsemen's
6 Benevolent and Protective Association will be
7 joined by Doctor Richard Thalheimer.

8 Gentlemen, when you are ready, you
9 may proceed.

10 After this panel has testified, we
11 will be taking a short break, if that's okay.
12 The stenographer is signing down there at the
13 end of the table. Is that okay?

14 THE REPORTER: Yes.

15 CHAIRMAN SANTONI: You may begin
16 when you are ready.

17 MR. THALHEIMER: Thank you, Mr.
18 Chairman. My name is Richard Thalheimer, and
19 I am the president of Thalheimer Research
20 Associates in Lexington, Kentucky. And I want
21 to thank you for allowing me to make some
22 remarks today about a study that my firm just
23 completed for the Pennsylvania Equine
24 Coalition on the issues of slot machines and
25 potential table games in Pennsylvania, and

1 especially with their impact on the race horse
2 industry, which was the intent of the Act 71.

3 Just to review for you--and I know
4 you know this, but at the expense of being
5 repetitive--the Act 71, the Pennsylvania Race
6 Horse Gaming and Development Act, permitted
7 seven category one, we will call them,
8 racinos, with 5,000 slot machines; five
9 category two, stand-alone casinos, slot
10 machine casinos, with 5,000 slots; and two
11 smaller category three resort casinos with up
12 to 500 slot machines.

13 The legislation provided for
14 distribution of slot revenue to the state in
15 terms of the slot machine tax, local share
16 assessment, the Pennsylvania Economic
17 Development and Tourism Fund, Pennsylvania
18 Race Horse Development Fund; and when all of
19 that monies is paid out, the residual goes to
20 the gaming licensee.

21 The intent of the legislation as
22 spelled out in the legislation was to provide
23 property tax relief, to promote economic
24 development, and to enhance horse racing and
25 breeding in the state.

1 The recent report by the
2 Pennsylvania Gaming Control Board found that:
3 Comparing 2006, '07 and '08 numbers, that
4 there was an increase in the number of live
5 races, which was the intent of the Act;

6 An increase in purses to horsemen,
7 which was a -- you know, again, included as an
8 intent;

9 A decrease in on-track parimutuel
10 wagering, which was not a surprise from other
11 studies that had been done at other locations
12 around the country;

13 An increase in betting on
14 Pennsylvania races at out-of-state sites,
15 which has been found at other racino locations
16 around the country;

17 An increase in slot revenue, which
18 is important on live race days. That is, when
19 there is live racing being conducted at one of
20 these category one racinos, the betting on
21 slot machines actually goes up and it goes up
22 significantly. That was found in this report,
23 in Pennsylvania, and in other reports that
24 have been done as well.

25 And the upshot of all of this is

1 that the intent of Act 71, especially with
2 respect to the race horse industry, has been
3 very successful in Pennsylvania.

4 Now, looking at table games, these,
5 I will give you here the results of several
6 studies that have been -- that I have done.
7 One was published in an academic journal, and
8 the other was a study that was done for
9 Prairie Meadows, which is one of the two when
10 you include West Virginia, Mountaineer Park,
11 that are all of the West Virginia racinos that
12 permit table gaming currently.

13 And what we found in those two
14 studies was that the impact of slot -- of
15 table games, the introduction of table games
16 and growth of table games at various locations
17 resulted in a decline in slot machine wagering
18 of -- on the order of 8 to 13 percent. That
19 impact varies up and down with the number of
20 table games. But this was on average, that
21 was the finding.

22 But in this case, you know, there
23 is no doubt that introducing table games
24 attracts more customers, but the question then
25 is: What is the net impact when the current

1 slot machine players, which there are quite a
2 few, also play the table games and decrease
3 their play on slot machines?

4 So this is a net impact. It
5 doesn't say that people don't come to play
6 table games. It just says, on net, slot
7 machine revenue goes down.

8 Also, I might mention that we have
9 also found, the total revenue, when you add
10 tables, goes up. When you add table games,
11 even if there is a loss in slot revenue, the
12 total revenue goes up.

13 And looking at the Mountaineer
14 gaming, 10-K, the report, annual report to the
15 SEC in 2008, they state that--and I think that
16 this would be agreed by most--that when they
17 introduced table games at Mountaineer Park,
18 non-gaming revenues went up significantly.
19 That is from food, beverage, and lodging. So
20 there is a number of sources of revenue that
21 cause increase in total revenue when tables
22 are added.

23 Looking at this next slide--again,
24 I just mentioned it--Iowa was the first state
25 to have table games. And it started at

1 Prairie Meadows, the thoroughbred racetrack
2 there, in 2004. Then West Virginia came along
3 in 2007. And all the racinos in West
4 Virginia--with the exception of Charles Town,
5 currently--have table games.

6 And Charles Town has just announced
7 their intent to have a local referendum,
8 another local referendum, to try to permit
9 table games there.

10 Competition. The competition that
11 you, in Pennsylvania, are going to face here
12 is greatly ramping up. Just recently, their
13 slot machine gaming has been permitted in
14 Maryland and Ohio. New York is going to
15 have--sometime, we think--a racino at
16 Aqueduct. And Delaware, that has been
17 mentioned before, has tables and sports
18 betting now. And West Virginia, as I just
19 mentioned, has potential of tables in Charles
20 Town.

21 So if you look at this next map,
22 you see in the middle, Pennsylvania. And you
23 see surrounding it, the six surrounding
24 states, all of which now will have gaming of
25 some sort. So competition is going to ramp

1 up. And, of course, what we have found when
2 there is competition is that existing revenue
3 from slots and/or tables will go down.

4 This next slide, I did a study --
5 not a study but just looked at before and
6 after at Mountaineer Park to give an example
7 of what actually happened to them after they
8 had introduced table games.

9 If you look at this first slide,
10 you will see that the share of revenue to
11 government, to purses for horsemen, went down
12 dramatically -- Not went down, that was in the
13 legislation.

14 And that residual drop, the revenue
15 from that, the share from that to the table
16 games, which was reduced for government and
17 purses, accrued to the licensee, the licensed
18 operator, who got, in this case, about a 50
19 percent increase in revenue from tables versus
20 slots.

21 Now, what I next did was I took
22 2006 as a base year comparison. In 2006,
23 there was no competition from Pennsylvania
24 racinos at Mountaineer Park. There was also
25 no table gaming in 2006. So I used that as a

1 base and adjusted for inflation up to 2008 and
2 compared the two years.

3 In the middle of 2007, it was a
4 hard year; a hard year table games, a hard
5 year competition, hard to compare. So if you
6 take 2008 versus 2006, you will see that
7 between that -- in that time period, as a
8 result of competition, table games, possibly
9 even the economy, the total gross revenue from
10 both -- for the slot machines, I am sorry,
11 decreased 25 percent, adjusted for inflation.

12 So, and everyone took about the
13 same hit. Everyone took about the same hit.

14 Then when you look at the revenue
15 when table games are added, you will see that
16 the tables games really softened that decline
17 to 8 percent, overall. So if everyone had the
18 same share of revenue from tables as slots,
19 everyone would have -- the revenue for
20 everyone would have decreased 8 percent
21 exactly the same.

22 But because you have this
23 tremendous drop in revenue shares to the
24 government and to purses, with the resulting
25 tremendous increase in the revenue share to

1 the racino operator, what actually happened is
2 the state lost money, the purses and breeders
3 awards lost money, the race horse industry.
4 And the racino operator actually made money,
5 even with the 25 percent loss in slot revenue.
6 And that is simply because the rate that --
7 the tax rate on the racino operators is far
8 less for table games than it is for slot
9 machines.

10 So, again, this slide just shows
11 the potential consequences, reiterating what I
12 just said. With Mountaineer, the experience
13 shows that when you change the shares of
14 revenue to the recipients, to the government,
15 to the race horse industry, let's say, and to
16 the -- with the result, resulting increase to
17 the racino operator, you can have basically
18 unintended winners and losers. Unintended in
19 the sense that that was not intended in the
20 original slot machine enabling legislation in
21 West Virginia.

22 Then if you look at, well, what
23 about effective rates between the states? And
24 what we found was when you include all the
25 racino states with which Pennsylvania

1 competes, Pennsylvania ranks about sixth in
2 that order. Sixth in terms of tax rights.
3 And that includes the border states with which
4 it competes: Delaware, New York, and West
5 Virginia. Other racino states with high tax
6 rates are Florida and Rhode Island.

7 Again, West Virginia currently is
8 the only state in the country that has
9 differing rates for tables and slot machines.

10 Now, let's look briefly at the Act
11 71, which was the slot machine legislation,
12 and the rates proposed in HB 21 and SB 1033
13 for tables. And if you look at this slide,
14 you will see that the state tax, under both
15 bills, HB 21 and SB 1033, has dramatically
16 decreased. It's about a third, under SB 1033,
17 under what it is under the slots legislation.

18 Local share assessment, the
19 revenues to the local governments is decreased
20 50 percent under HB 21 and it's eliminated
21 under SB 1033.

22 And then if you look down the line,
23 the Economic Development and Tourism Fund and
24 purses for horsemen in this state,
25 Pennsylvania, are eliminated under both of

1 these acts. The result, of course, is that
2 the share to the operator goes from 45 percent
3 to 79 percent under HB 21 and 88 percent under
4 SB 1033.

5 As a result of this differences --
6 differing rates between tables and slots, what
7 we can say is based on, let's say -- Well,
8 even without using the West Virginia example.

9 But using that as an example, if
10 there is a downturn in the economy, for
11 whatever reason, it doesn't have to be from
12 table games. It could be from the economy
13 itself. It could be from competition or a
14 combination of all three. The purses in
15 government, though, can and very will -- will
16 experience a loss, even with the increase in
17 table games, increased revenue in table games.

18 And, again, I would say no casino,
19 no casino state, no state in the country--
20 Iowa, Illinois, New Jersey, you name it--
21 distinguishes between slots and table games
22 revenues to recipients. It's all the same.
23 Yet they all have table games as well as slot
24 machines, so. And you are talking about, in
25 the case, let's say, of Illinois, about a 36

1 percent government tax. So, you know, having
2 -- The problem here is caused by these
3 differences in the rates.

4 Now, we were asked to look at the
5 Innovation Group study that we were provided,
6 and just a few comments. Well, I didn't look
7 at employment and revenue and those sorts of
8 things, but just some -- a few things that I
9 thought was important to point out.

10 The Innovation Group's
11 report--that's the IG report, as I refer to
12 it--really offered no statistical evidence
13 that when you put in table games, slot machine
14 revenue goes down.

15 There was no evidence introduced;
16 although, there is sufficient data, let's say,
17 in Iowa, which has had the table games since
18 2004, to do such a study. And, in fact, we
19 did such a study and found that when you put
20 in table games that revenue goes down 8
21 percent--or it went down at Prairie Meadows--
22 and we used quite a few years' worth of
23 information, monthly.

24 So they offer--and you can read in
25 the report, our critique--that there is really

1 no substantial evidence supporting the fact
2 that when you put in table games, slot revenue
3 goes down.

4 The IG report, the Innovation Group
5 report, assumes a 12 percent government tax
6 and no shares to any other entity, and this is
7 exactly what is reported in SB 1033.

8 And again without boring you, I
9 pointed out the consequences of that. And,
10 that, is if you have a downturn in--you know,
11 you have competition, if you assume the table
12 games adversely affect slot revenue--if you
13 have a downturn in the economy for whatever
14 reason, you can create winners and losers, and
15 the losers would be the state and horsemen.

16 And then, finally, the Innovation
17 Group report discusses costs, increased costs
18 that are associated with table games. But
19 they don't give any concrete numbers or
20 supporting data, so that would have been nice
21 to have.

22 They omitted a discussion of slot
23 machines -- I mean tables versus slot machine
24 revenue. And what we found was, looking at
25 the Mountaineer Park -- Not Mountaineer Park,

1 Mountaineer gaming, 10-K, the annual report,
2 that in West Virginia, at Mountaineer, that
3 when you look at assuming six positions a
4 table that the revenue from table games is
5 about twice that of the slots revenue, so.
6 But that that was -- There just wasn't a
7 discussion in their report and I am pointing
8 that out.

9 Again, I have jumped the gun here.
10 In addition, the Mountaineer report shows that
11 there is more revenue that is not just related
12 to the gaming itself but it's to the ancillary
13 revenue generated from food, beverage, and
14 lodging. And they say, in that report, that
15 it was a significant amount.

16 Finally, to beat the dead horse, so
17 to speak, differences in revenue shares for
18 table and slot recipients can create
19 unintended winners and losers in the game. I
20 mean as long as total revenue goes up,
21 everyone will rise, that all boats are going
22 to rise, regardless.

23 But the fact of the matter is--and
24 you can expect from competition that we are
25 going to have here in Pennsylvania from other

1 states--that you are going to see a hit,
2 possibly, and to this state, to the casinos in
3 this state because of this new competition.

4 Finally, and again this is a
5 reiteration of a point that I think is
6 important, is that, with the creation of
7 winners and losers, we can argue all day
8 whether table games introduction creates a
9 decline in slot revenue.

10 My statistical analysis, which
11 holds constant changes in all of these other
12 things, like competition occurring at the same
13 time, says, yes, that it does. But whether it
14 does or not, if there is a decline in slot
15 revenue, for any reason, then this winner and
16 loser scenario can kick in.

17 And, with that, I will conclude my
18 remarks. Thank you.

19 CHAIRMAN SANTONI: Mr. Santanna, do
20 you have testimony?

21 MR. SANTANNA: I do. Thank you. I
22 appreciate the opportunity, Mr. Chairman, and
23 the members of the committee, to speak in
24 front of this committee.

25 I am the president of the

1 Horsemen's Association that represents the
2 horses at both Penn National Racetrack in
3 Grantville and at Presque Isle Downs in Erie.

4 Excuse me. I am of Italian descent
5 and if I haven't talked for at least 10
6 minutes, my voice starts to close on me.

7 CHAIRMAN SANTONI: Nothing wrong
8 with being of Italian descent.

9 MR. SANTANNA: Thank you, sir.

10 However, what I would like to
11 discuss this morning--and it's, once again, on
12 the PowerPoint screen behind you--is that as
13 we move from racino to full casino --

14 (Off-the-record discussion.)

15 MR. SANTANNA: I have two glasses
16 of water, but I really prefer a glass of wine.

17 REPRESENTATIVE O'BRIEN: That's the
18 Liquor Control Board.

19 CHAIRMAN SANTONI: If you were
20 playing table games, you might be able to do
21 that.

22 MR. SANTANNA: I wouldn't want that
23 drink.

24 As you can see and as it has been
25 mentioned, the horse racing industry, which is

1 very prevalent in Act 71, is not included in
2 any table game legislation, and that is the
3 basis upon which the rest of my remarks will
4 address.

5 We see a substantial tax rate shift
6 here that is proposed from the current 55
7 percent required in Act 71 to the two
8 percentages that are included in the currently
9 existing proposed legislation.

10 Based upon the Innovation Group
11 study, it is indicated that slot revenue will
12 increase by three and a half percent when
13 table games are introduced. We heard Doctor
14 Thalheimer indicate that that may not occur.
15 And we clearly recognize that with the
16 increased competition, the failing economy and
17 the introduction of table games, that that may
18 not be true as well.

19 When you add the projected table
20 game revenue at the 12 percent tax rate, which
21 is about eight times the increase in slot rate
22 at about one-fifth of the tax rate, you can
23 see that what's been promised to the
24 commonwealth is an additional \$165 million of
25 revenue, for whatever purpose the table game

1 legislation might use it.

2 By way of professional background,
3 I am a certified public accountant. I have
4 been licensed in this commonwealth for over 35
5 years. So I have to look at actual data that
6 reports historical information so I can look
7 at not only its feedback value but its
8 predictive value.

9 And based upon the Mountaineer
10 gaming securities and exchange 10-K report for
11 2008, they report that about 95 table and
12 poker tables were introduced, generating
13 almost \$50 million worth of additional
14 revenue.

15 That increase in table games did
16 not come along with an increase in slots.
17 Slot play decreased about 10 percent of their
18 total slot playing for almost \$22 million.
19 Therefore, the net increase in gaming was only
20 \$27 million. The 50 million generated from
21 the table games did not materialize because it
22 was offset by the increase in slot play.

23 So we ask the question this
24 morning: How do table games increase slot
25 play? It's based upon actual data in a

1 neighboring state that would -- that had the
2 exact same elements that may be in play here
3 in Pennsylvania: table game players;
4 competition from other states considering slot
5 play; as well as the economic decline that has
6 affected the entire nation.

7 We have an additional cause for
8 alarm. Currently, as it has been mentioned
9 here, some facilities have virtual table game
10 slot machines. While not large in number, as
11 it was indicated here, maybe 75 percent of the
12 floor of the total units in play. We have
13 been told by a gaming operator that their
14 gross terminal revenue can be anywhere from 8
15 to 12 percent, and I believe the gentleman
16 from Philadelphia Park indicated that it was
17 10.

18 Once table games are installed,
19 players will move from these games to live
20 games. You want to be dealt a live hand.

21 We believe that shift will cause
22 further decrease in slot play, and estimate it
23 could be at least another 10 percent of gross
24 terminal revenue. And when you apply the
25 different tax rate swaps from the state's

1 perspective from 34 to 12 percent or even 18
2 percent, it's a decline.

3 And the fact that these machines
4 out-earn their slot counterparts by two to
5 one, or better, even replacing them with an
6 existing, old slot machine, when slot play is
7 decreasing because table games are introduced,
8 may result in overall decline in slot play.

9 So what we are concerned about here
10 is the tax rate swap because, once again,
11 while included in Act 71, were not included in
12 the table game legislation.

13 So if slot play follows course in
14 West Virginia, and we currently will earn 9
15 percent through Act 71 on those dollars, at
16 each facility, the loss to the purse account,
17 the breeders and to the health and pension
18 funds to the horsemen and horsewomen of this
19 commonwealth would be 2 million.

20 When you multiply that by the
21 category one and category two licensees, we
22 are at risk for a \$24 million decrease, if
23 slot play decreases when tables games are
24 introduced.

25 That's an approximate 10 percent

1 decrease in our Act 71 funding, and it becomes
2 an indirect rate reduction, if we are excluded
3 from the table games, in a proportionate
4 percentage.

5 If gaming revenues, overall, were
6 decreased for everybody, we would have no
7 problem because, clearly, misery loves
8 company.

9 But if the gaming revenue is
10 increasing from table games and slot play is
11 decreasing and we are excluded from table
12 games but included in slot play, then no
13 matter what the decrease is attributable to,
14 whether it's competition, economic forces, or
15 table games to the site, our revenue will be
16 decreased.

17 From the state's perspective--and
18 we actually believe, in this case, you're our
19 ally--on the same \$22.2 million of slot play
20 decrease, at the 34 percent Act 71 rate, the
21 loss to the state per facility would be seven
22 and a half million, times the category ones
23 and category twos, would be the total exposure
24 of over \$90 million.

25 So if the Innovation Group is

1 indicating that slot play will increase and we
2 are suggesting that we would have to use the
3 actual facts based upon the West Virginia
4 model that it decreased and we superimposed
5 that on the current position of gaming in
6 Pennsylvania, we would have a question of
7 whether the \$165 million revenue sources to
8 the state would materialize. Just like we
9 would lose 25 million, we believe your net
10 revenue gain would only be 75 million.

11 To finish the analysis: If the 12
12 percent rate on table games let's the operator
13 keep 88 percent, and they are currently
14 keeping 48 percent which is the max under slot
15 play, there is a net here of 40 percent. And
16 the 40 percent on the 22.2 million is almost
17 9 million per facility at the 12 locations.

18 And we clearly believe that the
19 only person benefiting from the currently
20 based assumption that slot play will increase
21 with table games, and based upon the
22 Innovation Group study, that the operators
23 will, clearly, be the only ones to benefit.
24 And I think Doctor Thalheimer's research
25 showed the same thing occurred in West

1 Virginia.

2 Well, just how onerous is this 55
3 percent, or, if you take out the portion that
4 goes to the horse racing industry, 43 percent
5 tax, and, if the purpose of having a smaller
6 tax rate on table games is twofold, one,
7 because the operating costs are proposed to be
8 much higher but to average down the overall
9 tax on gaming in Pennsylvania?

10 Well, one of the -- a key
11 corporate, critical number is the EBITDA
12 number that most corporations report in their
13 financial statements. It's Earnings Before
14 Interest, Taxes, and two non-cash expenses,
15 Depreciation and Amortization.

16 Penn National Gaming, because they
17 are a public company, have reported this
18 following data--and in a letter directed to
19 me, just about a month ago--that in the first
20 year of 2008 of gaming, where they opened in
21 mid February, their EBITDA was 35 million.
22 And you can see clearly what they are
23 projecting it to be through 2011. How onerous
24 is the slot tax rate?

25 And the only other publicly

1 reported company I could find was also at
2 Mountaineer's, where at a much smaller
3 facility and a much smaller demographic area,
4 Presque Isle reported almost 34 million.

5 Other information we think are very
6 pertinent to the decision making on table --
7 the piece of table game legislation, if it
8 will cooperate with me (referring to
9 PowerPoint slide).

10 The overall operating margin from
11 the entire corporate -- from Mountaineer
12 gaming increased from -- increased to 12.1
13 percent from 11 percent. That's a 10 percent
14 increase at 1 percent.

15 Their gross profit from gaming,
16 food, beverage, and lodging increased. The
17 average daily (net) win per slot machine
18 decreased by almost \$20.

19 Their poker rake, with the
20 introduction of the poker machines -- or the
21 poker tables was a rake of over \$500 per table
22 per day.

23 The table game win was, as I
24 mentioned in one of the very early slides,
25 almost 42 million. There was a 225 million

1 drop and they had a hold percentage of 18.4
2 percent. That slots keep in Pennsylvania was
3 9.12 percent, and the average daily win on a
4 table is over \$2,000.

5 This piece of information came
6 directly from their Securities and Exchange
7 Commission report. I did not make that up.

8 They additionally cite that because
9 of the increased patron traffic from the
10 opening of the table games, that, yes, it's
11 true, gaming compensation and benefit costs
12 increased. In this case, it was almost 12
13 million.

14 But they also cited that part of
15 that was because of the addition of the table
16 games. Included in that was an expansion of
17 operations, where they are now open 24/7. We
18 have no idea to what extent the pay increases
19 and, as you all know, the annual, substantial
20 increase in fringe benefits to employees.

21 And we want to also inform you that
22 they reported increases in food, beverage, and
23 lodging were almost \$5 million, with a
24 \$2 million gross profit increase. Their room
25 rates increased over 25 percent. Clearly,

1 another revenue producer. And their other
2 revenue--ticket sales, entertainment,
3 clothing--increased \$2 million.

4 So if we take 2 million at a time,
5 or 6 million, we clearly believe that helps
6 offset the increased cost of labor for table
7 games. Because, remember, we don't -- not any
8 runs (phonetic), only betting, get to keep
9 those profits.

10 Conclusions. Table games decrease
11 slot play. The capital investment in table
12 games is much less than slot machines.

13 If we can be ready in four to six
14 months, it's training employees. It's not
15 adding wings to existing facilities that were
16 built for slot machines at 3,000 units up to
17 5,000 units. When the legislation was passed,
18 very few were above 3,000. Many are still in
19 the 2,000 area. There is room inside the
20 rooms.

21 Only the operators prosper from the
22 ancillary revenues generated from the table
23 games.

24 And our basic position is: If
25 table games add revenue, then everyone, at a

1 minimum, all the other shareholders that are
2 excluded in the table game legislation, should
3 be held harmless if table games decrease slot
4 play.

5 More conclusions. So we are
6 suggesting that we build a correct model that
7 protects everyone's interests.

8 If it's not attractive to the
9 operators, there is plenty of room to expand
10 the existing slot play, which is already in
11 place, and requires no additional legislation.

12 And if we set the -- if we build
13 the correct model, we will clearly know if the
14 operators agree with it. If they do the table
15 games under the 30 percent or 35 percent that
16 West Virginia and Delaware now charge as their
17 tax rate, how can they do it and we can't?

18 This major policy decision cannot
19 be based upon one study funded by three of the
20 current casino operators. We are asking you
21 to seriously consider what Doctor Thalheimer
22 and we are presenting to you this morning.

23 We ask that we protect the
24 demonstrable increase in the quality of racing
25 in Pennsylvania as a result of Act 71. We do

1 nothing to place it into peril.

2 Worth repeating. Table games
3 decrease slot play. Slot play increases when
4 there is live racing. Clearly, slot play
5 increases on "Big Day" racing. If any of you
6 have had the opportunity to go out to Penn
7 National recently on the Governor's Cup Day,
8 the place was crammed with racing fans and
9 gaming fans. And, clearly, racing fans
10 crossed over to the casino that evening, so
11 there is some synergy there.

12 Parimutuel handle decreases as slot
13 machine increases. Parimutuel handle
14 decreases as table games are opened. Because,
15 clearly, it's a game of skill. Handicapping a
16 race is a game of skill. We have the same
17 skill set for our horse players as there will
18 be for table games.

19 Thank you very much for your time.

20 CHAIRMAN SANTONI: Thank you,
21 gentlemen. I will open it up for questions.
22 We will start with Chairman Schroder.

23 REPRESENTATIVE SCHRODER: Thank
24 you. I would like to thank both of you for
25 your very compelling and, I will also say,

1 very alarming testimony.

2 I want to make it clear that I do
3 not want to see a horse racing industry, horse
4 racing itself, the breeders, the farmers, our
5 open space in our rural communities and
6 suburban communities that benefit from the
7 existence of horse farms, I do not want to see
8 them impacted or harmed for the benefit of the
9 existing casino operators. And I believe we
10 need to fight to make sure that that does not
11 happen.

12 With that in mind, would you
13 expound a little bit on either what level of
14 taxation you believe would be appropriate
15 should table games come in, or other ways that
16 would protect or, as you put it, hold
17 harmless, you know, the horse industry's
18 interests here?

19 MR. SANTANNA: If the surrounding
20 states can do it at a third, we certainly
21 would feel that a third could be done in
22 Pennsylvania.

23 If the current rate going to the
24 horse racing industry is 9 percent and we want
25 to maintain the substantial agricultural

1 economic benefit it provides to this
2 commonwealth, if the horse racing industry was
3 somewhere around the same 9 percent, it would
4 leave 24 percent for the state and we could
5 withstand any decrease in slot play because
6 the rates are the same.

7 REPRESENTATIVE SCHRODER: All
8 right. I would like a little bit of a
9 clarification there, I guess. I am just
10 having a little difficulty following your
11 explanation. What tax rate and/or what
12 portion of the tax rate are you advocating
13 that you get?

14 MR. SANTANNA: Well, we would -- we
15 would prefer to receive the same percentage
16 that we now get in Act 71.

17 REPRESENTATIVE SCHRODER: All
18 right. You mean, in other words, the same
19 percentage coming in from table games?

20 MR. SANTANNA: From, yes, exactly.

21 REPRESENTATIVE SCHRODER: You would
22 like to receive that, that you receive in Act
23 71?

24 MR. SANTANNA: I would say,
25 regardless of the fluctuation of where the

1 additional revenue occurs and where it
2 decreases, we aren't held harmless then.

3 REPRESENTATIVE SCHRODER: All
4 right. I might have another question, down
5 the road, after others ask some. But thank
6 you for your testimony.

7 CHAIRMAN SANTONI: Representative
8 Caltagirone.

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

11 Would you happen to know how much
12 money is left in the Pennsylvania Race Horse
13 Development Fund?

14 MR. SANTANNA: The funds that go to
15 the Pennsylvania Horse Racing Development Fund
16 are cleared weekly because we race year round.
17 Those dollars are allocated to the breeding
18 fund, to the purse account for which our
19 horsemen and horsewomen run on a daily basis.

20 REPRESENTATIVE CALTAGIRONE: How
21 much money is that?

22 MR. SANTANNA: I would say it would
23 be insignificant, whatever a week's revenues
24 might be. It does not accumulate. It does
25 not accrue.

1 REPRESENTATIVE CALTAGIRONE: Well,
2 now, members have talked about this historic
3 event, and it came from the Pennsylvania
4 Gaming Control Board.

5 MR. SANTANNA: Yes, sir.

6 REPRESENTATIVE CALTAGIRONE: Okay?
7 August 3rd to August the 9th, it listed the
8 Pennsylvania Race Horse Development Fund at
9 4.8 million for the end of the week, month to
10 date was 6.6 million, year to date was 28.1
11 million.

12 MR. SANTANNA: As those dollars are
13 earned in one week's time --

14 REPRESENTATIVE CALTAGIRONE: Right.

15 MR. SANTANNA: -- the Department of
16 Revenue then transfers them back to the
17 account, with the purse account, transfers
18 them back to the operator, transfers them back
19 to our health and pension funds. And if we
20 race for \$180,000 an evening--and I am
21 speaking now just from the Penn National site,
22 not systemwide--we then settle with the
23 operator at the end of that week for \$720,000.
24 It's basically in and out. There is no
25 accumulation.

1 REPRESENTATIVE CALTAGIRONE: But
2 what if there's a surplus in the fund that has
3 not been used year to date and it's an
4 accumulation from previous years, you are
5 saying that's not the case?

6 MR. SANTANNA: That is not the
7 case.

8 REPRESENTATIVE CALTAGIRONE: Well,
9 what happens to this money?

10 MR. SANTANNA: I don't know where
11 this accumulation is originating. I can tell
12 you that they are the dollars that have been
13 earned year to date, but those dollars get
14 spent weekly.

15 REPRESENTATIVE CALTAGIRONE: That's
16 not chump change, over 28 million. And that's
17 year to date. So I think the fund has been
18 doing quite well, thank you.

19 You know, I understand where you
20 are coming from. You want a piece of the
21 action on the table games, point blank, bottom
22 line. You don't want to lose anything that
23 you are already getting, correct?

24 MR. SANTANNA: That's correct, sir.

25 REPRESENTATIVE CALTAGIRONE: So the

1 bottom line is, is you are not really opposed
2 to table games as long as you get a piece of
3 it?

4 MR. SANTANNA: No, and then I
5 should have mentioned that from the very
6 beginning.

7 We, in no way, shape or form,
8 believe that the competition for gaming in
9 Pennsylvania should be negatively affected by
10 not approving table games. However --

11 REPRESENTATIVE CALTAGIRONE: You
12 are in favor of table games?

13 MR. SANTANNA: Yes. However--and I
14 think I finished with saying--that in the
15 event we are not included in there, it will
16 have a negative effect on the horse racing
17 industry.

18 REPRESENTATIVE CALTAGIRONE: But,
19 you know, some assumptions are in there,
20 compared to the analysis that you have made in
21 some other states, you are saying that you
22 could potentially roll down that same road?

23 MR. SANTANNA: If what happens in
24 Mountaineer happens in Pennsylvania, I believe
25 it's more than an assumption, it's a

1 historical fact.

2 REPRESENTATIVE CALTAGIRONE: That's
3 one example, though. And, ordinarily, when
4 you are doing an analysis, you have to have
5 more than one or two examples.

6 MR. SANTANNA: There aren't many
7 examples. And Doctor Thalheimer, in his
8 research paper, included the others that
9 exist, which was Iowa and West Virginia.

10 REPRESENTATIVE CALTAGIRONE: They
11 are still assumptions.

12 MR. SANTANNA: (No response.)

13 REPRESENTATIVE CALTAGIRONE: They
14 are still assumptions.

15 MR. THALHEIMER: Actually, the only
16 place that you can study today, where there is
17 a difference in the shares to the
18 stakeholders, the various stakeholders, is
19 West Virginia.

20 No other casino in any other casino
21 state, no other -- Well, until Delaware,
22 possibly.

23 Iowa and West Virginia are the only
24 two. In Iowa, they treat table games and slot
25 machines exactly the same. In Iowa, we found

1 that, using the statistical analysis, that
2 when table games were introduced, slot revenue
3 went down 8 percent, holding constant changes
4 in competition and other things. When you add
5 in competition, it's even more. But isolating
6 table games, we found that.

7 We found that in another
8 statistical analysis of all the riverboats and
9 the three Iowa racinos before table games, in
10 Missouri, Iowa and Illinois, there we found
11 that the impact of large increase in table
12 games over that time period was for a 13
13 percent decline in slots. So we found that
14 there's a table games effect.

15 But whether there is or not, if
16 your revenue goes down for slot machines
17 because of competition, because of table
18 games, because of poor economy, because of
19 these differences in the shares to the
20 government, horsemen, and the residual
21 increase to the racetrack operators, there
22 will be winners and losers.

23 REPRESENTATIVE CALTAGIRONE: The
24 bottom line is, simply, if you get a
25 percentage of table games, you would be in

1 favor of the legislation; is this true?

2 MR. THALHEIMER: Joe.

3 MR. SANTANNA: It would be
4 difficult for us to support it, knowing that
5 the intention of Act 71 would be decreased.

6 REPRESENTATIVE CALTAGIRONE: The
7 bottom line, though, will you support the
8 legislation if you get consideration for what
9 you're requesting here today?

10 MR. SANTANNA: Yes, sir.

11 REPRESENTATIVE CALTAGIRONE: Thank
12 you. Thank you, Mr. Chairman.

13 CHAIRMAN SANTONI: Representative
14 Clymer.

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

17 I just have one question. I think
18 you have answered it, but I just want to be
19 sure, in my own mind, that this is what is
20 going to occur.

21 And, by the way, the genesis for
22 the racinos in the legalization of slot
23 machines was to save Pennsylvania horse farms.
24 Remember that discussion very early?

25 MR. SANTANNA: Yes, sir.

1 REPRESENTATIVE CLYMER: That that
2 was the purpose, that was the reason that they
3 drove and drove and drove this whole issue
4 because we were losing out to states like
5 Kentucky and New York and Maryland.

6 And if we didn't change, we
7 wouldn't have a funding source, dependable
8 funding source, the Pennsylvania horseman
9 would be leaving the state, as they were. And
10 we would lose all of this open space in this
11 industry, which, of course, created the
12 hundreds of jobs, and I am not going to go
13 into the litany of all the jobs that it
14 preserved.

15 So what you are saying, though, is
16 that if we legalize table games and the table
17 games increase their revenue, slot machines,
18 in all probability, the revenue will decrease.
19 And even though there is an overall increase
20 of revenue to the racinos, the horseman could
21 be hurt if their percentages remain the same
22 because, obviously, their percentage is with
23 the slot machines. So if that revenue
24 decreases, obviously, this means that they are
25 going to get less money; is that a correct

1 assessment?

2 MR. SANTANNA: That's correct. And
3 include in the definition of horsemen and
4 horsewomen, not only for purses but for the
5 breeders --

6 REPRESENTATIVE CLYMER: Sure.

7 MR. SANTANNA: -- as well as for
8 all of those who we now provide health care
9 and pension plans.

10 REPRESENTATIVE CLYMER: Thank you
11 for including that. Thank you, Mr. Chairman.

12 CHAIRMAN SANTONI: Representative
13 Wansacz.

14 REPRESENTATIVE WANSACZ: Thank you,
15 Mr. Chairman. Thank you, both of you, for
16 testifying.

17 I do have a few questions. I was
18 reading in your report here, and it says that:
19 Nationally, horse race wagering has been in a
20 state of decline for over three decades.
21 Adjusted for inflation, wagering on horse
22 racing in the United States has decreased 52
23 percent from its peak in 1978 through 2006.

24 Now, unlike some of my colleagues
25 here, I voted. I am in support of the horse

1 racing industry. I didn't just come on board
2 now and I am now trying to protect you.
3 Because you guys were losing jobs before,
4 before we passed the slot machine or anything,
5 correct?

6 MR. SANTANNA: Yes.

7 REPRESENTATIVE WANSACZ: Yes. So I
8 am in support of that, unlike maybe some of my
9 other colleagues. Maybe now they are saying
10 it's important to keep you. They did not vote
11 for you. As well as slot machine revenue, you
12 wouldn't have these papers supporting what you
13 have got (phonetic).

14 My question here is--I believe you
15 guys are doing pretty well, with 12 percent
16 right now--what is the exact revenue that you
17 got since the casinos have opened up?

18 MR. SANTANNA: I believe in 2008,
19 it was \$220 million, split among the six
20 racetracks.

21 REPRESENTATIVE WANSACZ: So 220
22 million. How many new jobs were created?

23 MR. SANTANNA: Out of the 220
24 million -- It would be hard for me to say. I
25 don't have that information.

1 But I can tell you that there are a
2 lot more horsemen who have come to
3 Pennsylvania, and they bring along a groom,
4 there is additional veterinarians, there is
5 additional equine dentists, there is
6 additional exercise riders.

7 There are new breeding farms being
8 created in Pennsylvania, one of which is
9 magnificent, in Swatara Township. If anybody
10 gets the chance to see it, it's called Penn
11 Ridge Farms. It's gorgeous. It makes
12 Kentucky farms look like they are here in
13 Pennsylvania.

14 I don't have the total job number,
15 but there has been an increase. I can't
16 quantify that for you.

17 REPRESENTATIVE WANSACZ: Well,
18 that's what I need to see. Because I keep
19 hearing -- And I believe that there have been
20 job increases, I believe that. But I would
21 love to see some type of report--it actually
22 has to be here--your association for that, to
23 have some type of report put together, on how
24 many jobs.

25 Because when I visited the tracks

1 at Pocono Downs, I went through and saw what
2 they were doing and talked with some of the
3 breeders. And I remember one guy telling me:
4 See that guy over there? He is now a
5 millionaire because of the slots. I said,
6 great. Where is he from? He said, New
7 Jersey.

8 And so, that really wasn't, you
9 know, what I was looking for in Pennsylvania.
10 I said, where are these other jobs coming
11 from? And I know there have been odd jobs at
12 the farms, in selling hay and the growing of
13 feed and all of that, with the veterinarians.
14 And so, I would just like to see a more
15 detailed report that says these are how many
16 jobs that have been created now because of the
17 slots.

18 The question that I have has to go
19 to you, Doctor, on your study, on Mountaineer.
20 When did you take the study into account, for
21 example on the gaming revenue at Mountaineer
22 with the slots?

23 And then did you take into
24 consideration -- And I believe the Meadows and
25 the Rivers are in direct competition now with

1 that. Did you take that? Was it those
2 numbers?

3 MR. THALHEIMER: Yeah.

4 REPRESENTATIVE WANSACZ: That's
5 what I am trying to figure out, if the Meadows
6 and the Rivers had any affect on those
7 declining slot and slot machine revenues.

8 MR. THALHEIMER: Right.

9 No. In the report and in my
10 testimony, I said, competition and table games
11 cause that, not the separate. And it didn't
12 matter which it was, but both of those factors
13 contributed to the increase.

14 And the statistical analysis has
15 yet to be done to separate those. In fact, we
16 may be doing something like that in the
17 future.

18 And we would like to add one
19 thing--and you cited from the report and
20 correctly so--that horse race wagering has
21 declined 52 percent over the last three
22 decades.

23 But, in the report, we also say
24 that the analyses that have been done in the
25 past show that a great part of that decrease

1 has been because of casino competition and
2 competition from lotteries. And, in fact,
3 most of the racino states recognize that, in
4 permitting slot gaming at racetracks, is that,
5 because of the competition, in order for the
6 racetracks to compete, that that additional
7 gaming venue should be added to the facilities
8 so that they can compete on the more level
9 playing field.

10 REPRESENTATIVE WANSACZ: And did
11 you, in your study, did you track how many new
12 jobs were created in West Virginia when
13 they -- the table games?

14 MR. THALHEIMER: No, I did not.

15 REPRESENTATIVE WANSACZ: How many
16 jobs were lost in the horse racing industry
17 because of the table games?

18 MR. THALHEIMER: Well, I didn't
19 look at employment.

20 REPRESENTATIVE WANSACZ: Okay.

21 MR. THALHEIMER: No.

22 REPRESENTATIVE WANSACZ: Well, I
23 think that is a big part of what we are
24 looking at right here in Pennsylvania, as you
25 have heard beforehand, when we were talking

1 about 16,000 new jobs being created.

2 I think you also, in your report,
3 point out exactly what we know. The same
4 thing is happening in West Virginia that has
5 happened in Atlantic City: Pennsylvanians are
6 now staying home. And when the Meadows opened
7 up and the Rivers opened up, instead of them
8 going to the Meadows racetrack, they stayed
9 home. And that's what we hope to gain.

10 And that that is a very important
11 thing, I think, that would show a decline in
12 the Mountaineer racetrack is because
13 Pennsylvania had opened up.

14 MR. THALHEIMER: There is no doubt.
15 There is no doubt of that.

16 And, conversely, I might say that
17 because you are going to have new gaming that
18 was not there before in Ohio and Maryland, you
19 can expect now the current players in
20 Pennsylvania to go the other way. I mean
21 that's how competition works.

22 REPRESENTATIVE WANSACZ: That's
23 correct. And that's why, when we can be ahead
24 and be progressive and level with other states
25 and trying to add another choice in gaming by

1 allowing tables.

2 And then the horse, and what I
3 would like say with the horsemen is, you say
4 that casinos open up without -- If the casinos
5 did not open up and we did not allow slot
6 machine revenue, there would not be a horse
7 racing industry in Pennsylvania, probably,
8 today because that's how bad it was
9 struggling.

10 And I remember being here and the
11 horse racing industry coming to us and saying,
12 if you guys don't do something, we are going
13 to be pretty much out of business. Am I
14 correct that the horse racing industry -- that
15 the slots have saved the horse racing
16 industry?

17 MR. SANTANNA: The slots have saved
18 the horse racing industry. The horse racing
19 industry still would be here today without
20 slots, it just wouldn't be mentioned among the
21 elite racing states in the United States now.
22 It would have been a -- We categorize
23 racetracks in three classes, nationwide.

24 I also am president of the National
25 Horsemen's Association that represents 30

1 states and 30,000 owners and trainers, so I
2 have a real feel for what goes on in North
3 America. And Pennsylvania would still have
4 racing, it would be better than racing in many
5 other states that have racing, but now it's
6 mentioned among the elite racing states.

7 And I can tell you, at the May
8 Kentucky State Horse Racing Commission Board,
9 a commissioner got up and said, if we don't do
10 something soon here in Kentucky, all of our
11 horsemen are going to be in Pennsylvania. So
12 this commonwealth can be very proud of what it
13 did as a result of Act 71.

14 And I can tell you, across this
15 country, Pennsylvania, in the horse racing
16 industry, is the most discussed state. It is
17 the most discussed state. And when other
18 states are contemplating gaming, the calls
19 that come to Pennsylvania, to say, how did you
20 guys do it? We would like to do the same
21 thing.

22 And we are now mentioned. When
23 they talk about California, New York, Florida,
24 and Kentucky, Pennsylvania is on the same hand
25 now. It's fabulous.

1 REPRESENTATIVE DeWEESE: Did you
2 hear that, Tom?

3 MR. SANTANNA: And I do want to
4 mention one thing. We are having a study
5 conducted that will provide data on the
6 economic effect of the horse racing industry
7 and the agricultural community in
8 Pennsylvania. It's to be completed by the end
9 of this month, and we'll make sure you get a
10 copy of it.

11 REPRESENTATIVE WANSACZ: I
12 appreciate that. And that's exciting to hear
13 about Pennsylvania because that was one of the
14 original intents of Act 71, one of the many
15 reasons why I voted for Act 71.

16 I think that moving forward will
17 put table games -- Even though, currently, you
18 don't have a piece of the pie, so to speak, I
19 still believe that you are going to generate
20 --

21 I believe more in the industry
22 report because I think I see it firsthand. As
23 when people do come in, it's a different type
24 of gamer that comes in to play table games,
25 and they bring with themselves a significant

1 other person or friends that might not like to
2 play table games that would go and play slot
3 machines.

4 So I believe when somebody is
5 investing \$50 million in a license, when
6 somebody is investing 500 million in a
7 facility, the Brockwoods and greater
8 (phonetic), I think they kind of know what
9 they are doing in looking at the business
10 model.

11 Because like any of us, when you
12 are in business, you better make sure that
13 your numbers are right before you invest your
14 own money, and that's what you are talking
15 about.

16 So I really believe those facts
17 that the slots are going to grow. And because
18 of that, the money, the 12 percent of that
19 hundred million is going to go to the horse
20 races. So I really believe that I think it is
21 going to be a win/win for everybody. And I
22 think more jobs will be created in your
23 industry, if these table games go forward.

24 And, but at the same time, I don't
25 think we need to be kind of splitting it up

1 because it is more labor intensive. You are
2 talking about 16,000 jobs created.

3 And what I would like to see is,
4 maybe in the reports that are coming out, is
5 if you have got a certain percentage, how many
6 more additional jobs would you get by having
7 that, a percentage of the table games?

8 MR. SANTANNA: Well, and our
9 concern, conversely, is if the revenues to the
10 racing industry go down and we have to cut
11 days at racetracks--because keeping the same
12 purse, daily purse, supports the fabulous
13 racing that we have--how many jobs would we
14 lose?

15 REPRESENTATIVE WANSACZ: And how
16 many would that be?

17 MR. SANTANNA: We have not yet
18 quantified that. We have done all we could to
19 be prepared for the delivery we made this
20 morning.

21 REPRESENTATIVE WANSACZ: And,
22 again, I think that's been my criticism of the
23 association itself, is that we have been open
24 three years and we still haven't had those
25 numbers.

1 And I have made my point well-known
2 to them. You guys need to step it up and
3 point out these numbers or facts. We keep
4 hearing these, but we don't see these numbers.

5 How many jobs -- You know, when
6 that report comes out, it will be interesting.
7 How many direct jobs have been -- new jobs
8 have been created because of this, because of
9 the horse racing? Which I believe there have
10 been.

11 I would like to see how many, in
12 what areas? And are they staying in
13 Pennsylvania? Or are they coming from
14 Maryland? Are they both going to New Jersey,
15 as in the case that I personally witnessed?
16 And so, I look forward to receiving that
17 information.

18 And, congratulations, because I do
19 believe Pennsylvania is doing a great job with
20 the horse racing, and I wish you nothing but,
21 you know, the best in the future.

22 Thank you.

23 MR. SANTANNA: Thank you.

24 CHAIRMAN SANTONI: Let's have a
25 couple of clarifications. And I am reading

1 through a lot of numbers and my head is
2 spinning a little bit.

3 In your conclusions, capital
4 investment in table games is much less than
5 slot machines. And then, but the overall, the
6 overall cost of running table game is, in your
7 opinion, less, more than slot machines? It's
8 more, correct?

9 MR. SANTANNA: We have no
10 disagreement with the fact that it costs more
11 to run a table game than it does a slot
12 machine. But absent any pro forma information
13 that gives us some idea of what that might be,
14 there is probably some sense in having a lower
15 tax rate. But no one has quantified that yet.
16 And in the public information available to us,
17 it shows that it does increase. We have no
18 way to quantify that.

19 We would love to see, here is the
20 -- a pro forma financial piece of information
21 that here is the projected revenue for table
22 games, here is the costs of doing that and
23 here is the net and stack that beside slot.
24 Here is what the revenue from slots, here is
25 the cost to do it. That would give much more

1 clarity to us and I am sure to you.

2 CHAIRMAN SANTONI: Okay. Also, in
3 your conclusions, you talk about that any --
4 Employment figures, you didn't include any
5 kind of employment figures in any of your
6 numbers, as far as how it would benefit the
7 state in tax revenues and things like that.
8 That's excluded for that tax, is that what you
9 said?

10 MR. SANTANNA: Well, that report,
11 as I mentioned, is currently under way and
12 will be done by the end of the month.

13 CHAIRMAN SANTONI: Mr. Santanna,
14 can you just give me your opinion of the
15 relationship that the horsemen have with the
16 operators of the facility, just generally?

17 MR. SANTANNA: In some facilities,
18 there is a very cordial working relationship.
19 And at other facilities, they're -- we're --
20 we may constantly be looking forward to
21 different things. Our horseman organizations
22 represent the interests of the horse owner and
23 trainers and the live racing product.

24 We clearly understand, at these
25 racinos, that gaming is the big dollar

1 generator and that all the attention is spent
2 on gaming.

3 We often have a disagreement on
4 advertising and promotion relations. If we
5 could get a dime of every dollar that is spent
6 on casino advertising and promotion, I believe
7 parimutuel wagering in Pennsylvania would
8 increase dramatically.

9 We have no advertising, at least at
10 the racetracks that -- where my organization
11 represents the horseman. We are in a
12 contractual relationship with the management
13 of the racetrack, and our focus has always
14 been on the best quality, live racing product
15 there is, and sometimes we have to disagree
16 with management on how that's delivered.

17 CHAIRMAN SANTONI: Thank you. I
18 appreciate it.

19 My final comment is just one
20 clarification or just a point to make on one
21 of your conclusions. That you say, major
22 policy decision cannot be based upon one study
23 funded by three of the current casino
24 operators, and I can assure you that that will
25 not be the case. It's the due diligence of

1 this committee to hear all sides.

2 We understand who pays for certain
3 people to come here and testify and everybody
4 has their opinion skewed based on who they
5 represent, we understand that.

6 It is our job, as a committee, to
7 conduct hearings like this, bring all the
8 information together and make the decisions
9 that we best think helps our constituents in
10 our commonwealth. So I agree with that
11 conclusion, and I just wanted to make that
12 comment.

13 MR. SANTANNA: Well, thank you very
14 much. I have the utmost confidence in the
15 committee.

16 CHAIRMAN SANTONI: Thank you,
17 gentlemen.

18 We are going to take a five-minute
19 break, please. It's almost -- It's 26 after.
20 If we could start by 12:45, that would be
21 terrific.

22 (Recess occurred at 12:26 p.m.,
23 reconvened at 12:45 p.m.)

24 CHAIRMAN SANTONI: I would like to
25 call the House Gaming Oversight Committee

1 meeting back to order.

2 Our next group of testifiers are
3 representatives from the tourism industry:
4 Mr. John Oliver, President of Visit Erie and
5 Chairman of the Pennsylvania Visitors Bureau,
6 and Mr. Barry Wickes, President of the
7 Pennsylvania Tourism and Lodging Association.

8 Gentlemen, when you are ready, you
9 may proceed.

10 MR. OLIVER: Good afternoon. Thank
11 you for the opportunity to testify in strong
12 support of adding table games in Pennsylvania.
13 I am John Oliver, president and CEO of Visit
14 Erie, and Chairman of the Board of the
15 Pennsylvania Convention and Visitors Bureau
16 Association. I am joined, this afternoon, by
17 Barry Wickes, President of the Pennsylvania
18 Tourism and Lodging Association.

19 Together, we represent the largest
20 tourism organizations in the commonwealth.
21 Our organizations work closely together to
22 help advance tourism issues before state
23 government.

24 In recognition of your time, this
25 testimony is being made on behalf of both

1 organizations.

2 Tourism ranks as the second largest
3 industry in the Commonwealth of Pennsylvania.
4 Our state is the fourth-most visited state in
5 the country. The tourism industry generates
6 \$10.7 billion in wages and benefits, and
7 accounts for almost 7 percent of all
8 individuals employed in the Commonwealth of
9 Pennsylvania.

10 This is a workforce of 400,000
11 representing our hotels, amusement parks,
12 restaurants, ski areas, stadiums, and casinos.

13 The tourism industry has grown
14 state and local tax revenues by sixteen and a
15 half percent between 2003 and 2007. Expanding
16 and improving tourism options are keys to
17 reviving Pennsylvania's economy. With the
18 proper attractions and incentives, our
19 industry can help lead Pennsylvania's economic
20 recovery.

21 Both of our organizations have
22 taken formal positions to support Pennsylvania
23 adding table games. Casino gaming in
24 Pennsylvania has been a strong positive for
25 Pennsylvania's economy. It has created

1 thousands of new tourism and leisure jobs,
2 providing new destinations that have brought
3 more people to Pennsylvania and kept
4 Pennsylvania tourism dollars in the state.

5 Adding table games will create
6 thousands of new jobs and provide more reasons
7 for people to come to Pennsylvania and spend
8 their dollars here. It will also allow
9 Pennsylvania to stay one step ahead of our
10 neighbors.

11 Living in Erie, Ohio and New York
12 are a short car ride away. This year, Ohio
13 will probably approve gaming and Native
14 American casinos in New York are very close.
15 Table games will help Presque Isle Downs and
16 Casino in Erie compete with these gaming
17 options and keep the money in Pennsylvania.
18 This is true with casinos across Pennsylvania,
19 most are very close to neighboring states who
20 have passed or are considering expanding
21 gaming.

22 We also believe that adding table
23 games provides an excellent opportunity to
24 provide a dedicated funding source for tourism
25 promotion, from a tourism business. Dedicated

1 funding will insure that Pennsylvania's
2 tourism industry has proper funding moving
3 into the future.

4 This year, local and regional
5 tourism promotion efforts are targeted for a
6 40 percent reduction in state funding under
7 both the House and Senate passed budgets. We
8 understand that Pennsylvania's fiscal picture
9 is difficult, however, state tourism funding
10 is vital to Pennsylvania and has a direct
11 return on investment that leads to new jobs.

12 It is our great concern that in the
13 future, state tourism funding for local and
14 regional efforts will continue to be reduced,
15 thus hurting tourism efforts in the
16 commonwealth.

17 We believe that dedicating a
18 3 percent share of total table games tax
19 revenue in the next fiscal year, within the
20 tax rates set in a table games Bill and not
21 adding to the operator's table games tax
22 burden, would provide at least \$16 million
23 for local and regional tourism efforts.

24 Those figures are based on the
25 Innovation Group study that was presented to

1 this committee.

2 Sixteen million dollars is the
3 amount of funds that were provided to fund
4 tourism at fiscal year 2009 levels moving into
5 the future. Those funds will continue to
6 build the tourism and leisure sector of
7 Pennsylvania's economy.

8 This dedicated source of funding
9 for regional and local tourism promotional
10 efforts would also allow for approximately
11 \$9 million to be returned to the general
12 budget.

13 I have attached the official
14 position of the PACVB and the PTLA to my
15 testimony for your interest.

16 Gaming in Pennsylvania has been a
17 very positive event, creating new jobs and
18 providing us with new venues to promote and
19 market Pennsylvania. Adding table games now
20 is a logical step to continue the expansion of
21 tourism activity and to provide a proper
22 vehicle for funding tourism promotion and job
23 creation activities.

24 Again, thank you for allowing me to
25 testify, and Barry and I will gladly answer

1 any of your questions.

2 CHAIRMAN SANTONI: Representative
3 Clymer.

4 REPRESENTATIVE CLYMER: Thank you,
5 Mr. Chairman. And good afternoon to the
6 gentlemen from Visit Erie and Pennsylvania
7 Tourism.

8 Up in Connecticut, they have the
9 two largest casinos in North America: The
10 Mohegan Sun and Foxwoods. You are probably
11 not aware of what has been happening up there,
12 but their revenue --

13 And they were built with the
14 purpose of tourism. And they still have some
15 buses coming in, but not to the extent that
16 they were because of competition in other
17 states and because of the economy.

18 So they have seen a significant
19 loss in tourism to those casinos. As a
20 result, the income has dropped, the income
21 that they were using for other purposes.

22 So my concern is and my question
23 is: Are you aware that these dollars that you
24 are asking for, the \$16 million, could be
25 coming from revenue that could be unreliable

1 over a number of years?

2 And as you have just witnessed up
3 in -- As we have witnessed with Mohegan Sun
4 and Foxwoods, they have seen, like I said, a
5 loss in tourism, and because the casino is not
6 putting out the dollars as they once were,
7 there is less dollars to be used by the state
8 for a variety of purposes. Your comment on
9 that situation.

10 MR. OLIVER: Well, I believe that
11 that certainly could be a situation. However,
12 we are looking at a 40 percent decrease this
13 year, in a one year, relying on general
14 funding from the budget for that.

15 But I think looking at a dedicated
16 source, it certainly is an incentive for us to
17 work very closely with them, even closer than
18 we already do, to insure that we are able to
19 maximize the dollars and the visitors coming
20 in.

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

23 CHAIRMAN SANTONI: Just a quick
24 question. In your marketing--obviously, you
25 are from Erie so that you know Presque

1 Isle--how do you incorporate --

2 I mean are there a lot of overnight
3 stays that come in and stay at the casino? Or
4 is it mostly buses that come in and out? Or
5 how do you coordinate that with other tourism
6 interests in your region?

7 MR. OLIVER: Yeah. Primarily,
8 right now, we are seeing more of what would be
9 day trip, bus, and people, individuals driving
10 in. We have seen, our hotels have reported an
11 increase in visits and overnights on --
12 particularly on weekends.

13 We work very closely at Visit Erie
14 with Presque Isle Downs and Casino in
15 marketing. And they will tell us that when
16 they get a bus tour, they are probably good
17 for four hours, but that isn't long enough for
18 a tour to spend and so we work with them and
19 the bus companies to provide them other things
20 to see and do while they are in the area for
21 the additional time that they have.

22 So we are getting them out to our
23 attractions, our restaurants. They are doing
24 shopping and doing some other things in
25 addition to just visiting the casino.

1 CHAIRMAN SANTONI: And maybe you
2 don't have any anecdotal evidence, but is
3 there -- But when people come to the casino
4 there, do they say, I wish they had table
5 games? I mean do you have any kind of
6 evidence or any kind of studies that would ask
7 the people if they would be interested in
8 having an expansion or whether the choice of
9 having table games?

10 MR. OLIVER: We have done no
11 official studies. But, anecdotally, we do get
12 calls at our -- through our visitor's center,
13 where individuals will call in and want to
14 know what there is to see and do. And they
15 will ask: Well, what type of a casino is
16 Presque Isle? You know, do they have table
17 games? Is it just slots?

18 We also operate a visitor's center
19 on Interstate 90, just as you cross the Ohio
20 border. And we get a lot of people that are
21 stopping at that rest stop that are on their
22 way, because we ask them what they are doing
23 and where they are going and a lot of them are
24 Ohioans heading to New York for casinos.

25 And when they're told, well, we

1 have one in Presque Isle, we are told that,
2 yes, but we want to play poker, we want to
3 play craps or roulette. So we are getting
4 some feedback that way.

5 CHAIRMAN SANTONI: Mr. Oliver, Mr.
6 Wickes, thank you so much for your testimony,
7 and I look forward to working with you on this
8 very important bill.

9 MR. OLIVER: Thank you.

10 CHAIRMAN SANTONI: Thank you.

11 Our next and final testifier to
12 talk about revenue analysis is Mr. Paul
13 Girvan, Managing Director of the Innovation
14 Group.

15 MR. GIRVAN: I was going to say
16 good morning, gentlemen, but I guess it's good
17 afternoon.

18 My name is Paul Girvan. I am
19 managing director of the Innovation Group. I
20 run our New Orleans office. I am one of the
21 founding partners of the firm, along with my
22 colleague Steve Rittvo, who I believe you have
23 heard from before.

24 We have been in this business
25 really since the mid '80s when gaming first

1 expanded outside of Las Vegas and Atlantic
2 City. And, ultimately, what we do is we do
3 feasibility studies, and we do these for both
4 state governments and casino operators.

5 Each year, on average, we do
6 between two and three hundred studies. We
7 have done them in states such as West
8 Virginia, New York, Texas, Kentucky, Florida,
9 Maryland and Iowa. In Iowa, we were actually
10 recently hired by the state to look at
11 expansion of gaming there. We have also
12 worked in Illinois and Ohio.

13 And I would like to point out that
14 some years ago, prior to the advent of slots
15 in Pennsylvania, we were hired by the Senate
16 Appropriations Committee to do the first slot
17 studies. And, you know, looking at the
18 numbers today, I am sort of gratified--because
19 I personally worked on that study--that the
20 numbers are on track to reach what we had
21 projected back then.

22 We were hired by some of the casino
23 operators to take a look at the impact of
24 table games in Pennsylvania and that's what I
25 want to address today.

1 Firstly, you know, why table games
2 in Pennsylvania? Well, first, I think it will
3 allow Pennsylvania to compete on a
4 level-playing field and in some cases it will
5 offer a competitive -- an advantage against
6 neighboring states such as New Jersey, West
7 Virginia, Delaware, Maryland, and New York,
8 and Connecticut.

9 It will increase slot play, without
10 a doubt, because of the issue of companion
11 play. And by that, I mean the folks that come
12 to the casino either as a couple or in a group
13 in which there are some people who prefer
14 slots and others who prefer table games.

15 Gaming taxes will increase as a
16 result of table games as well as from the
17 incremental slot play that will be generated.

18 It will create a significant number
19 of jobs in the commonwealth, and also it will
20 allow for the development of additional
21 amenities, such as hotels and dining and
22 entertainment outlets, which will create even
23 more economic benefits within the
24 commonwealth.

25 Just to give you an idea of the

1 sort of topics I want to touch on today real
2 briefly: First, I want to review the current
3 and proposed, competitive landscape. I want
4 to provide our projections on the impact of
5 table games, and then to describe the likely
6 economic impacts that will accrue as a result
7 of the implementation of these.

8 And, finally, I want to give a
9 brief summary and make some comments as
10 regards some of the previous testimony that
11 has been made.

12 And, finally, I want to open it up
13 to questions from the panel.

14 Firstly, the current and proposed
15 landscape. We all know Atlantic City has
16 full scale casinos. Although some projects
17 have been canceled because of economic
18 conditions, others, such as Rivell (phonetic),
19 are moving ahead. So we expect competition
20 from Atlantic City to intensify, regardless of
21 economic conditions at this point.

22 West Virginia has limited table
23 gaming, and Delaware has just approved table
24 games as well as sports betting.

25 In response to slot machines in

1 Pennsylvania, neighboring states, in fact
2 states quite far away from Pennsylvania such
3 as Kentucky, have, are now looking at ways to
4 compete.

5 Maryland, for example, could have
6 up to 12,000 machines as early as 2011, and
7 there has already been some discussion in that
8 market about adding table games as well.

9 New York will likely see VLT's
10 installed at Aqueduct and/or Belmont, which
11 will also compete with Pennsylvania, probably.
12 And, in addition, there is likely to be one or
13 more full-scale casinos in the Catskills.

14 The Ohio governor has recently--
15 and I actually testified up there in front of
16 a legislative committee a few weeks ago--the
17 Ohio governor has recently approved slot for
18 tracks, and there will be a referendum in
19 November on full-scale casinos.

20 I just briefly want to review the
21 legislation that has already been approved.
22 In Maryland, as we know, that up to 15,000 --
23 the legislation calls for up to 15,000 slot
24 machines at four -- at five properties. It's
25 to distribute it as I -- as shown in my

1 testimony, but I believe you have handouts
2 there, so I won't go into the details of that.

3 But, you know, that is progressing.
4 There has been some pickups because of the
5 economy. And to be realistic, some of the
6 high tax rate has discouraged some of the
7 operators there moving forward with full --
8 with the full program, but that is still yet
9 to be determined and to be defined in detail.

10 Delaware has increased the tax in
11 slot revenue from 38 to 45 percent. Three
12 racinos there are now authorized to conduct
13 the sports betting.

14 In New York, there is an expansion
15 of the hours of operations for video lottery
16 gaming. That would be based on the number of
17 terminals at each facility.

18 As I said, at Ohio, the governor
19 has already approved some 17,500 slot machines
20 at the various -- at the seven racetracks
21 there. That will also intensify the
22 competition that Pennsylvania will face.

23 Now, up on the screen, we have put
24 up a map, which really, you know, I think
25 illustrates the vulnerability of a lot of the

1 Pennsylvania facilities to this competition in
2 surrounding states.

3 Most of your facilities are on the
4 periphery of the state, and they will be
5 directly in competition with these facilities
6 in other states, so I think it is really key
7 that Pennsylvania consider improving the
8 competitive stance of its properties at this
9 point, if revenues and tax revenues are to be
10 maintained.

11 Despite this competition, or
12 despite the existing competition that has come
13 on line, Pennsylvania gross terminal revenue
14 continues to increase as more supply enters
15 the market and will enter the market in the
16 future.

17 With the currently authorized
18 competition from other states fully
19 implemented, gross terminal revenue for
20 Pennsylvania, we are projecting to be 3.1
21 billion by 2012.

22 Now, the proposed legislation, as I
23 mentioned, Ohio has already approved --

24 Proposed legislation. Ohio has
25 already approved the slots at racetracks that

1 is likely to be some legal issues there that
2 may delay that. However, also there is a
3 constitutional referendum that is going to the
4 vote in Ohio in this November, and that will
5 legalize full casinos, that's casinos with
6 slots and tables, in both -- in Cincinnati,
7 Cleveland, Columbus, and Toledo.

8 West Virginia. Charles Town,
9 again, is going for a referendum to add table
10 games. Again, that will provide additional
11 competition for Pennsylvania properties.

12 Delaware, where they have approved
13 table games, there is a legislative committee
14 there looking at the specifics of how it will
15 be regulated and what the tax rate will be.
16 That has not been decided or determined at
17 this point.

18 In New York, there is fed -- In the
19 New York market, there is federal legislation
20 which is pending, which quite likely will
21 facilitate Native American casinos, maybe one,
22 maybe two in the Catskills. Again,
23 significant competition for Pennsylvania.

24 Turning to the impact of table
25 games. And I know that my colleague, Steve

1 Rittvo, had presented this before, but I will
2 try and just briefly summarize it. We looked
3 at, very much in detail, at the markets in
4 Pennsylvania. We utilized something we call a
5 gravity model, which takes into consideration
6 the size of casinos, the type of gaming at
7 casinos and their geographical location.

8 This is a model that I myself
9 developed back in the '80s, and that has now
10 been copied by many other consulting firms. I
11 wish I could have copyrighted that. I would
12 have been a rich man by now.

13 But, nevertheless, it's been found
14 to be a very accurate model, and that much of
15 our analysis that we presented was based on
16 that.

17 We made several assumptions in our
18 analysis. First, all 12 Pennsylvania
19 properties are operating. That there is no
20 limit in the number of table games permitted.
21 That the terms and conditions of table game
22 regulations will be similar to other major
23 markets, and that offer table games such as
24 Atlantic City and Las Vegas. That the 12
25 percent gaming tax will be established. And

1 that the operators will build out facilities
2 to accommodate table games, including adding
3 additional amenities needed to be competitive
4 with these other markets, and by that I mean
5 additional F and B, hotels, and so forth and
6 so on.

7 The methodology we employ, we have
8 reviewed experiences at selective properties
9 where table games were introduced in formerly
10 slot-only environments. Now, I want to spend
11 a little bit of time talking about that
12 because there are only two -- Well, there is
13 really only three -- two true areas where that
14 has happened: firstly, in West Virginia, and
15 secondly, in Iowa.

16 In West Virginia, you cannot use
17 that as a comparable. Why?

18 Well, table games there were
19 introduced in response to the advent of slots
20 in Pennsylvania, so they occurred at the same
21 time as Pennsylvania was adding facilities and
22 therefore any decline in slot revenue in
23 Pennsylvania is more than likely associated
24 with the increase in competition from
25 Pennsylvania.

1 Secondly, the addition of table
2 games in West Virginia also occurred at the
3 same time we have had an economic slump. If
4 you look across the country, it is almost
5 universal that slot revenues have declined in
6 almost every single market, and the grade of
7 decline is anywhere between 5 and 15 percent.

8 So using West Virginia as an
9 example of -- or trying to show that West
10 Virginia slot revenues have declined because
11 of the advent of table games is a completely
12 erroneous approach. It just cannot be used as
13 a comparable.

14 In Iowa, however, we were able to
15 isolate some increases; for example, at
16 Prairie Meadows, we discovered that the advent
17 of table games there increased the slot
18 revenue by 3.1 percent.

19 Now, having been hired by the State
20 of Iowa, and generally take a look at the
21 whole state, we delved very deeply into this,
22 and what we have determined, is that, by the
23 increase -- the slot revenue increase, 3.1
24 percent, there also was a 4 percent increase
25 in the supply of slot machines, so we could

1 not attribute the whole group just to the
2 impact of table games.

3 But based on our analysis there,
4 which was statewide and done under the
5 auspices of the state government, we believe
6 that 1.6 percent of that increase in slot
7 revenues is directly attributable to the
8 advent of table games.

9 We also utilized the results of
10 primary research that ourselves and others
11 committed -- that conducted. Back about three
12 years ago, we did a national study with 2500
13 sur -- completed 2500 surveys of respondents,
14 and we asked them a number of questions, and I
15 would like to point out one of the responses
16 there which I think is significant here.

17 Almost 30 percent of people who go
18 to casinos either prefer table games or prefer
19 to play both table games and slots, so there
20 is a substantial portion of the population,
21 right there, that the facilities in
22 Pennsylvania are not addressing at this
23 particular juncture.

24 We also examined the split between
25 slot and table revenue in other comparable

1 jurisdictions. And, as I said earlier, we
2 applied the same gravity model used in the
3 original analysis we did here in terms of the
4 slot -- the initiation of the slot program.

5 Okay, turning to our projections.
6 Research into gaming habits, as I had noted
7 earlier, has identified companion play or slot
8 players who will travel with table game
9 players to casinos that offer both.
10 Obviously, with the lack of table games in
11 Pennsylvania, this demand segment is currently
12 traveling out of state.

13 The data analyzed in our analysis
14 suggest that slot revenue will be enhanced
15 between 1.5 and 4.5 percent based on this
16 companion play when table games are
17 introduced.

18 Based on the attributes of
19 Pennsylvania, and indeed the proximity to
20 Atlantic City and to West Virginia, we believe
21 the increase in slot revenue associated with
22 the increase in table games here will be about
23 3.5 percent.

24 The next slide I have up there
25 really looks at the revenue breakdown between

1 slots and tables. You know, we believe that a
2 favorable tax rate will allow Pennsylvania
3 casinos to compete more effectively with
4 Atlantic City. We also believe that the high
5 slot tax rate suppresses slot play
6 proportionately and therefore the portion of
7 table play will be higher than normal.

8 We believe also that a better table
9 game offering, including dice, roulette and
10 baccarat, should allow for a higher
11 concentration in table game revenues than is
12 occurring in West Virginia.

13 In West Virginia, it is about 18
14 percent of the total revenues. We believe
15 that with this greater table game array that
16 the revenues here in Pennsylvania will
17 approach 20 to 21 percent.

18 In total, we are estimating that
19 table game revenue will generate \$865 million.

20 The 3.5 percent increase in slot
21 revenue, we believe will total 111 million.

22 Adding that to the projected base
23 without table games of 3.1 billion by 2012, we
24 are projecting that, by 2012, with the
25 addition of table games, that the total gaming

1 revenue in the State of Pennsylvania will be
2 about 4.2 billion.

3 This represents a 30 percent
4 increase over a situation where you would not
5 have table games.

6 Combining the slot taxes of 1.8
7 billion under this scenario at a 55 percent
8 tax rate and table game taxes at 103 million
9 at a 12 percent tax rate, we are arriving at a
10 total tax in 2012 to the state of 1.9 billion,
11 for an effective tax rate of 46.1 percent.

12 Turning to the incremental tax
13 rates. Assuming the 55 percent slot tax and
14 the 12 percent table game tax, the
15 commonwealth would receive an additional
16 \$165 million from the introduction of table
17 games, both from the taxes on tables and from
18 the taxes on the incremental slot revenue.

19 Now, this next table, I think, is
20 really illustrative and really important.
21 What it shows is new states which have both
22 tables and slots. The red bar shows the
23 combined slot and table revenue, the blue bar
24 shows total gaming taxes, and the green bar
25 shows the effective tax rate. Pennsylvania is

1 over on the right-hand side.

2 As you can see from this,
3 Pennsylvania would have the third largest,
4 total gaming revenue of any of these states
5 under this proposal. It would have the second
6 highest tax rate and would have the highest --
7 and it would generate the most taxes of any of
8 these states, from gaming.

9 I think some of these states might
10 be looking at Pennsylvania and considering
11 adjusting their tax rates, once they see this,
12 if it's passed.

13 What are the sources of table game
14 revenue? Firstly, we are estimating about
15 \$500 million, about two-thirds of it, will be
16 in the form of dollars that will be
17 repatriated from those people who are
18 currently Pennsylvania residents traveling out
19 of state to gamble, either on table games or
20 going with their husband or girlfriend who
21 will be prepared to play slots, those people
22 will now be attracted back into the State of
23 Pennsylvania.

24 In addition, this \$502 million will
25 also include folks from other states who will

1 now be attracted to come gamble in
2 Pennsylvania because you are offering table
3 games.

4 And, finally, 361 million, the
5 remainder of that money, will be generated by
6 growth in in-state play as a result of table
7 games.

8 But what happens if Pennsylvania
9 stands still? Assuming out-of-state
10 competition that has already been approved,
11 2012 gross terminal revenues, as I said
12 earlier, is projected at 3.2 billion.

13 If additional gaming opportunities
14 currently being considered outside of
15 Pennsylvania are approved, the gross terminal
16 revenue decreases to 3 billion. And, in fact,
17 not all of the -- We have not considered the
18 Ohio developments in these scenarios since
19 they have been so recent and so that decline
20 could be even greater.

21 The gross terminal revenue under
22 that scenario would be in decline by
23 \$202 million. That results in a \$111 million
24 decline in tax revenue, a significant amount.

25 Turning now to other economic

1 impacts. Our market assessment projected
2 1,075 table games for the 12 Pennsylvania
3 casinos.

4 We estimate that this would
5 generate 10,100 jobs directly at the casinos,
6 and this would include dealers, supervisory
7 personnel, casino cage, support staff,
8 security and surveillance.

9 And, again, just a little aside.
10 When I've talked to dealers in betting
11 markets, typically their average salary is in
12 the forty to fifty thousand dollar range, but
13 I have met many dealers who are making eighty
14 to a hundred thousand dollars, the rest coming
15 from tips. It's a significant income.

16 Additionally, the implementation of
17 table games will create the expansion of
18 gaming facilities and additional related
19 amenities, such as hotels, restaurants and
20 entertainment, and, in fact, our analysis does
21 not include jobs associated with these
22 additional amenities.

23 Turning to expenditures. We
24 estimate that the casinos will be -- expend --
25 spending in the economy, to support the table

1 games under the additional slot play, some
2 \$330 million. This will induce another
3 \$68 million expenditure in the economy. And
4 by that, I mean money spent by out-of-area
5 patrons in such areas as gas stations and
6 convenience stores close to the casinos.

7 Applying the multiplier effect on
8 the economy, we estimate another \$500 million
9 in expenditures statewide for a total economic
10 impact in terms of expenditures of
11 \$903 million.

12 In terms of jobs, as I have said,
13 the direct jobs are about 10,100 at the
14 casinos themselves, the induced spending that
15 I mentioned earlier will generate another 463
16 jobs, while the ripple effect of all of this
17 additional spending in the economy will be
18 approximately 5800 jobs, for a total job
19 impact of over 16,000.

20 So, in summary, then, we believe
21 that the implementation of table games grows
22 gaming revenue and will grow state gaming
23 taxes.

24 More importantly, I think it will
25 stabilize the Pennsylvania gaming revenues in

1 light of the competition that has recently
2 been approved and that is being discussed in
3 other states right now.

4 It will create significant
5 employment for the commonwealth.

6 It will engender additional
7 investment by the casino properties.

8 And it will allow for the
9 development of additional amenities, such as
10 hotels and dining and entertainment outlets,
11 which will create more economic benefits.

12 I just wanted to give you -- You
13 know, respond to some of the comments made
14 earlier, and I have done so throughout the
15 analysis here, but there is one area, one
16 state that I wanted to bring to your
17 attention.

18 Colorado, which previously had
19 table -- card games, has recently made some
20 changes, and they are the changes that
21 occurred July 1st of this year. They
22 increased the minimum bet from -- the maximum
23 bet from five to a hundred dollars, and then
24 they added craps and roulette to all the
25 casinos.

1 The preliminary information I am
2 getting from the operators, and it was in a
3 published report recently, is that the result
4 of that, slot revenues in that state have
5 increased by 10 to 15 percent, but I think
6 that sort of undercut some of the arguments
7 that have been made for a decline in slot
8 revenue.

9 And I mentioned Iowa earlier.

10 I spoke to the fact that West
11 Virginia cannot be used in the example because
12 of other extraneous factors.

13 And I think common sense really,
14 really, really, really tells you that the play
15 -- that there is a lot of companion play
16 there. People go to casinos, it is a social
17 environment--they go there with friends, they
18 go there with their husband and wife--and not
19 everyone wants to play slots, people want to
20 play table games, so when you provide them
21 with that, then revenues ultimately and
22 logically will increase.

23 Finally, I just want to say: If
24 Pennsylvania stands pat in the face of all of
25 this growing competition, then it is

1 inevitable that there will be a revenue
2 decline and subsequently a tax decline.

3 There is one other issue I just
4 wanted to address, also. There was a remark
5 earlier about video poker and the impact on
6 casinos. You know, I have done some analysis
7 on this in Illinois. The level of the impact
8 ultimately depends on the number of outlets
9 that will be authorized.

10 Not all outlets will go ahead and
11 install the machines--in Louisiana, it is
12 about 53 percent; in West Virginia, I think it
13 is about 57 percent--so the number of outlets
14 ultimately installed will have, you know, a
15 significant impact of what the impact on the
16 casinos will be, but there is no doubt there
17 will be an impact.

18 You know, we have looked at this
19 before in Illinois, specifically in the
20 Chicagoland area, and we were projecting up to
21 a 13 to 14 percent decline in slot revenue, so
22 that's a significant consideration.

23 I think that was all the comments I
24 had at this point.

25 CHAIRMAN SANTONI: Representative

1 Caltagirone.

2 REPRESENTATIVE CALTAGIRONE: Thank
3 you, Mr. Chairman.

4 I just want to go back to what you
5 alluded to because previously somebody had
6 said about the comparison of West Virginia
7 and/or Ohio, the fact of should table gaming
8 have a negative impact and you are saying
9 that's not true?

10 MR. GIRVAN: Not true. There is
11 the decline in slot revenue in West Virginia,
12 but it cannot be attributed to the addition of
13 table games.

14 In fact, table games were a
15 response to increasing competition from
16 Pennsylvania, where the operators obviously
17 had expected a decline in slot revenue because
18 of that competition, and then the economy, as
19 we have seen across the country, in every
20 market we have looked at, slot revenues have
21 declined in this period that we are talking
22 about.

23 REPRESENTATIVE CALTAGIRONE: Except
24 in Pennsylvania?

25 MR. GIRVAN: Except Pennsylvania

1 because you have been adding supply and it's a
2 new product here. You are very fortunate.

3 REPRESENTATIVE CALTAGIRONE: Oh,
4 yeah. And we would be at a competitive
5 disadvantage if we don't do something to level
6 the playing field and market a product?

7 MR. GIRVAN: Absolutely. When you
8 -- You know, for a fact, we know that Delaware
9 is looking at this issue very closely; they
10 have the legislative committee looking at it.

11 And, you know, I have done quite a
12 bit of work in Maryland, and my sources there
13 tell me, and I think it was even in the
14 newspaper the other day, the Speaker of the
15 House is -- You know, they have been talking
16 about looking at the table game issue as well.

17 So the level of competition is only
18 going to increase. They are only going to be
19 out -- You know, the only way they can really
20 do that is if they add more locations.

21 But if you look at the geography of
22 it, most of the markets are already served;
23 so, therefore, the only way that they can
24 increase revenues is by adding product, and
25 the only way to add product in a significant

1 manner is to add table games.

2 So if you don't have it, if
3 Pennsylvania does not have the table games,
4 you will be at a significant disadvantage to
5 most of the other states that surround you.

6 REPRESENTATIVE CALTAGIRONE: The
7 other issue is the hospitality industry and
8 the ripple effect that it does have, because
9 as you testified earlier that people will come
10 and stay overnight and spend more time and
11 money in the hotels and the amenities within
12 those communities; is that not also the case?

13 MR. GIRVAN: Um-hum. That is
14 absolutely true. In fact, you know, we know
15 from our research that table game players tend
16 to have higher gaming budgets. They expect
17 more amenities. They expect more comp's from
18 the casino. And, typically, those comp's
19 would consist of either a discounted or a free
20 hotel room, so they can stay overnight. They
21 tend to play later in the evening, and they
22 spend more money.

23 And, you know, they are
24 higher-income folks, so they spend more money
25 in your restaurants, so those are the people

1 that's really attractive to get in because
2 they support these other amenities to a large
3 extent.

4 And without table games, it's
5 difficult then to support these amenities
6 because table game players are the ones that
7 really, truly drive the revenues of these
8 other amenities.

9 REPRESENTATIVE CALTAGIRONE: One
10 last area about the video poker gaming
11 potential and the effect that it may or may
12 not have on slots and table games. Do you
13 know what percentage, from the studies that
14 you have done, that could possibly be? I
15 believe you said about 13 or 14 percent?

16 MR. GIRVAN: Yes, that was a very
17 specific analysis, because it depends on the
18 number of outlets, the number of restaurants
19 and bars that are in the area.

20 REPRESENTATIVE CALTAGIRONE: There
21 are 13,000 (phonetic) in Pennsylvania. There
22 are 1,000 distributors. There are
23 approximately 5,000 clubs. The remainder of
24 7,000 or so are restaurants.

25 Not all of the restaurants would,

1 of course, want them --

2 MR. GIRVAN: Yeah.

3 REPRESENTATIVE CALTAGIRONE: --

4 because a lot of them, 3,000 are family type
5 restaurants, they probably wouldn't want them.

6 MR. GIRVAN: Yeah, but -- And this
7 is something I am familiar with because I've
8 lived and I am based in New Orleans and we
9 have video poker in bars and restaurants
10 there, each one has three, and my wife likes
11 to play them, unfortunately.

12 You know, the -- You know, as I
13 said, only about 50 percent of them will
14 actually go ahead and do that, for various
15 reasons.

16 And in a number of states, there is
17 restrictions. You know, distance
18 restrictions. You cannot have them within 500
19 feet of a school or a church or something like
20 that. That could eliminate, you know, a
21 number of locations. There may not be room in
22 some locations.

23 REPRESENTATIVE CALTAGIRONE: Well,
24 the other point that's being made with the
25 video poker machines is that even though there

1 may be a decrease, somewhat, in revenue at the
2 casinos, the money would be shifted back to
3 the local communities for property tax
4 reduction and some other amenities that would
5 be funneled into the local communities and
6 local fire and police and other types of
7 things. And so, on the one hand, it may be a
8 decrease, but at the local level, it's going
9 to be a difficult argument at some point.

10 MR. GIRVAN: There is no doubt
11 about it.

12 REPRESENTATIVE CALTAGIRONE: This
13 Session or this year, but I think it's going
14 to be an argument that's going to be made that
15 that money will, in fact, go back to help
16 those local communities.

17 MR. GIRVAN: There is no doubt that
18 there is a net increase in gaming expenditure,
19 overall. You know, we have seen that in a
20 number of jurisdictions.

21 There is no doubt that depending on
22 the number of outlets that there will be an
23 impact on the casinos. There is no doubt that
24 it has helped many. I know for a fact, in New
25 Orleans, it has helped many small bars and

1 restaurant businesses survive. You know, and
2 that all depends on the tax ratio.

3 So there is a large number of
4 factors that have to be considered. You know,
5 for instance, in Illinois, there were some 45
6 potential -- I think they are looking at
7 45,000 potential machines, and that's even
8 with just 50 percent of them going ahead and
9 installing them.

10 So that's a huge number to throw
11 into a market, particularly in the Chicago
12 outland area, where you have got a number of
13 casinos that, you know, are fairly densely
14 packed there.

15 REPRESENTATIVE CALTAGIRONE: It
16 would probably be somewhere in the
17 neighborhood of forty to fifty thousand, in my
18 rough estimate, initially in Pennsylvania, and
19 provided they were approved (phonetic) for
20 liquor licenses, if that were ever to come to
21 pass.

22 MR. GIRVAN: Yes.

23 REPRESENTATIVE CALTAGIRONE: Thank
24 you. Thank you, Mr. Chairman.

25 CHAIRMAN SANTONI: Representative

1 Clymer.

2 REPRESENTATIVE CLYMER: Thank you,
3 Mr. Chairman.

4 As I look at this report--and you
5 have done this, sir, on behalf of the
6 Pennsylvania casinos, the three of
7 them--aren't you being a bit optimistic?

8 And let me tell you why, especially
9 with the dollars and the 16,000 new jobs. We
10 are experiencing, across the nation, high
11 unemployment. It's continuing to go upward.
12 People are working less hours. The income,
13 nationally, is beginning to dwindle. And I
14 just mentioned to the predecessors, the people
15 on tourism, about the two casinos up in
16 Connecticut, Foxwoods and Mohegan Sun, how
17 they have been decreased.

18 And I could mention Colorado and I
19 could go through a litany of states where the
20 casinos--and New Jersey--where this, you know,
21 the casinos are now providing less funding,
22 jobs are being cut, and that impacts on the
23 hospitality industry and a variety of other
24 ways that they were using this money. And
25 yet, your optimism is, for Pennsylvania, is

1 unprecedented.

2 You think, you are telling us that
3 Pennsylvania is going to be the exception to
4 the rule. That here, in August 2009, with the
5 problems that we are now facing as a state,
6 having a deficit, less income, that we are
7 going to get all of this income coming in, and
8 we don't even -- which we still have yet to go
9 through the 10 casinos, that there is a market
10 out there.

11 I don't know how much disposable
12 income is out there, but I fear that it's
13 beyond disposable income. I think that people
14 will soon be tapping into their savings
15 accounts and their children's college dollars
16 in order to continue their family.

17 I just find that it's so unique
18 that you are saying Pennsylvania can be
19 different than all the other states in the
20 nation during these very difficult economic
21 times when people are struggling.

22 The only thing I can say is that if
23 they continue to spend at the rate that you
24 think they are going to be spending, that's
25 for, really, regressive (phonetic) taxation.

1 And we are still going to pay for this, it's
2 not going to help us with our budget deficit,
3 because we'll have our social costs, but
4 that's another issue.

5 But I just want to get back to the
6 optimism that you are expressing in this
7 report.

8 MR. GIRVAN: Sure. I don't think
9 it's optimism we're expressing. What we are
10 doing here is we are opening up a -- an
11 entirely new segment of business, and it's a
12 segment of the business that attracts
13 higher-income folks.

14 Table game players are typically
15 middle class, they are typically, you know,
16 moderate-to-high income and they are younger.
17 These people have disposable dollars and they
18 will spend them.

19 You are not offering -- You don't
20 -- You are not offering table games at this
21 particular time, other than electronic table
22 games, which is not attractive to this group,
23 because they are looking for social
24 interaction, they are not looking to interact
25 with machinery.

1 So what I am saying is you are
2 opening up to an entirely different business
3 segment.

4 So it's not optimism. I am not
5 saying slot revenues are going to go through
6 the roof. I am saying that table games will
7 provide you a completely different business
8 segment.

9 REPRESENTATIVE CLYMER: Well, time
10 will tell. Of course, we first have to move
11 the bill through the legislative process.
12 It's not long enough, but. I understand that
13 that's your -- You're here trying to show the
14 better side of the table games, and some of us
15 are very skeptical that it's going to do
16 everything that this report says it is going
17 to do.

18 MR. GIRVAN: I just want to the
19 make one other comment, and relating to the
20 VLTs. You know, we have done a lot of -- I
21 have done a lot of work in the area.

22 And, recently, you know, we did
23 some work, we were hired by the government of
24 Bermuda to look at the introduction of gaming
25 there.

1 And that was a very wide-ranging
2 project, including revenue projections,
3 capital costs, and, you know, impacts on the
4 folks, the economy, and the social impacts.

5 And in part of that research, you
6 know, one of the issues that came up was the
7 introduction of VLTs to Bermuda, we came out
8 against that.

9 The reason why we came out against
10 that was because we felt that in a small
11 community like that, that by putting VLTs in
12 restaurants and bars, we were really getting
13 around, or circumventing, the controls that
14 are in place at a casino to identify and to
15 provide funding, in fact to treat those
16 problems with the people with problem
17 gambling. You know, that's just one area, we
18 could agree.

19 But I think our projections are not
20 necessarily optimistic, I think we have shown
21 a decline of, you know, some 200 million in
22 gaming revenues as a result of competition,
23 and what we are really showing here is what
24 the revenue expectations are from a complete,
25 new form of business line.

1 REPRESENTATIVE CLYMER: And my
2 final comment is this: That the capital
3 investment, which has been brought up and is
4 so important, you know, the stock market has
5 dropped, and the financial market has been in
6 disarray, and that's the reason that Las Vegas
7 Sands in Bethlehem could not provide the
8 additional building of the hotels and museum
9 and all of the other parts of that whole
10 project that they had promised the people, and
11 maybe some day they will get there.

12 But the other problem is, is in
13 this recessionary area, that those capital
14 investments may not be there for some of these
15 other casinos that want to expand. We heard
16 this morning that there is three of them that
17 are going to go forward.

18 But, again, if the investment
19 market is not there, they cannot get the
20 funds, how are they going to build to extend
21 the table games?

22 It is just a thought, and if you
23 have a remark.

24 MR. GIRVAN: Well, I have got some
25 good views on that, you know, and I'm probably

1 the only one that has it.

2 You know, we're in a unique
3 position in our business because, you know, we
4 do the feasibility studies that the bankers
5 ultimately use to justify lending the money.
6 So when the credit market is dried up, our
7 business is tight, so, you know, I'm -- I mean
8 my shoes are well-worn today.

9 But what we are starting to see now
10 is a loosening in the credit markets. I mean,
11 I think we have hit bottom. And I see
12 potential. You know, I see, over the last the
13 two months or so, I have seen more and more
14 clients come back to us, starting to look at
15 projects. They now believe that they -- it
16 makes sense to pay us to do a study because
17 they believe they can get the financing now.
18 It is starting to loosen up.

19 REPRESENTATIVE CLYMER: Thank you,
20 Mr. Chairman.

21 CHAIRMAN SANTONI: Thank you. And,
22 Mr. Girvan, thank you for your testimony.

23 MR. GIRVAN: My pleasure.

24 CHAIRMAN SANTONI: I want to thank
25 all of the testifiers for their input today,

1 and I want a special thanks to all of the
2 members for their input.

3 This House Gaming Oversight
4 Committee is now adjourned.

5 (At 1:37 p.m., the hearing was
6 adjourned.)

7 * * * *

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25