

Testimony of Parx Casino

Senate Community, Economic and Recreation Development and House Gaming Oversight Committee Hearing

Tuesday March 7, 2017

Representatives: Robert W. Green, Chairman and Tony Ricci, Chief Executive Officer

Robert W. Green – Introduction

Tony Ricci

We are extremely proud to represent Parx Casino and Racing, the number one Casino in Pennsylvania. Parx generates the most tax revenue of any Casino in Pennsylvania, and our beautiful facilities serve as a testament to the benefits of the enabling legislation that created the gaming industry in 2004 and saved our great racing industry. We are equally proud to say that we have delivered on the promises that were made to the legislature back in 2004, in the face of much skepticism, that we would produce significant tax revenue, investment, jobs and economic growth, and conduct our operations with great integrity and benefit to the community.

Some key facts related to our business are as follows:

- 1) We generated total revenue of \$581 million in 2016, including Racing revenue
- 2) We pay \$250 million per annum in tax payments to state and local governments
- 3) We paid \$26.8 million of non-gaming taxes, such as property taxes in 2016
- 4) We paid \$87.7 million in local share assessments in the past five years
- 5) We employ more than 2,500 people, and 1,210 full-time employees receive first-class benefits. 82% of our employees are PA residents, and our overall compensation cost is approximately \$100 million
- 6) Two-thirds of our revenue is derived from customers who live within 30 miles of our Casino, the remaining one-third is predominately from New Jersey and New York. Only 5% of our revenue is generated from customers in Pennsylvania who are more than 30 miles from our Casino
- 7) Parx has invested approximately \$700 million into its operation, and we have transformed our Racing backstretch into the best in the industry

The Gaming Industry in Pennsylvania, as it exists today, serves as model for the entire nation. Pennsylvania is second in the country in overall gaming revenue at \$3.2 billion, but we generate significantly more tax revenue than any other state, in excess of \$1.4 billion, which is more than 50% higher than the number two state, Nevada, and even more than the PA lottery at \$1.1 billion. Furthermore, our industry has made an overall investment of approximately \$6 billion, and we directly employ 18,000 people in well-paying jobs.

This overwhelming success reflects the significantly higher gaming tax rate on Casinos in Pennsylvania, **with the overall effective rate on slot machines at 59%**, and the prudent structural framework for the industry that was established in our enabling legislation. We have twelve Casinos today, with another soon to arrive in Philadelphia, which effectively serves the residents of the Commonwealth by locating them judiciously in the major population centers, and by avoiding oversaturation of markets. We have an orderly market structure that respects the investment made in our communities. **After 10 years of development, our industry has matured to the point where approximately two-thirds of Pennsylvanians live within 25 miles of a Casino.**

We are mindful that the legislature is faced with a budget deficit and is exploring options to increase revenue. We are also aware that forces from outside the Commonwealth are advocating an expansion of gaming based upon results in other states. Although it could be tempting on the surface to look at your major tax contributor to see if there is additional opportunity, we caution that great care must be taken to avoid undermining the very foundation of our great success. **We believe that many of the proposals currently under consideration will actually lower the tax revenue generated by our industry and effectively kill the golden goose. To be clear, these proposals ask the Commonwealth to trade the 59% tax brick-and-mortar casinos are paying for either the 30% paid by VGT's in Illinois or 15% for Internet Gaming. It is clear that the net effect of these proposals will be a reduction in gaming taxes for the Commonwealth, along with thousands of jobs and hundreds of millions of investment dollars by the brick and mortar operators.**

The first item I'd like to address is slots at taverns. It is important when considering this issue to understand the stark differences between the gaming industries in Illinois and Pennsylvania. The tax rate for casinos in Illinois is a progressive rate, with the overall weighted rate at 32%, and all but one casino paying within the 20-30% range. The tax paid by bars in Illinois is 30%, so there is not much difference between the effective rates of the bars and casinos. I'd like to point out that neither the casinos nor the bars pay for regulatory costs, which costs PA casinos 2% of revenue. Furthermore, the casinos in Illinois are smaller riverboat operations that are capped at 1,200 gaming positions. This is clearly not the case in Pennsylvania. At Parx for example, we offer more than 4,000 gaming positions. As I mentioned earlier, our structure in PA satisfies the market in a much better way than Illinois. In fact, there are five additional Casinos on the border in Indiana that also serve the Chicagoland market due to the lack of casinos in Illinois.

The effect of the introduction of VGT's in Illinois on slot gaming revenue from 2012 to 2016 was a net increase of \$677 million or 29.6% overall. This reflected a \$431 million or 19% decrease at the Illinois and Indiana casinos, which was offset by a \$1.1 billion increase in revenue from bars. **It is important to note however, that the growth in overall revenue within 25 miles of a casino from 2012 to 2016 was only \$107 million or 4.7%, with \$538 million of revenue from bars almost entirely offset by the \$431 million or 19% decrease at**

the casinos. This point was confirmed by the Illinois Commission on Government Forecasting and Accountability in their 2016 report in which they state **“the inclusion of video gaming in the Chicago Area has only slightly increased the amount of gaming dollars in this region. With an average annual growth in gaming of only 1.5% per year, thus far, it appears that video gaming has simply “reshuffled the deck chairs” by redistributing casino gaming revenues to the numerous gaming venues that now exist in this region.”**

This point is critical to the evaluation of the VGT proposal. Given that two-thirds of our residents live within 25 miles of a casino and we are already second in the nation in gaming revenue, the gaming revenue upside is nowhere near what it was in Illinois, and the cannibalization of casinos will be even more than the 19% experienced there. **When factoring the significantly lower tax rate into the equation (59% vs 30%), one can easily see how the Commonwealth will actually lose tax revenue. If you were to assume a 20% increase in overall revenue and a 28% reduction in Casino revenue, the Commonwealth would lose more than \$100 million per annum in gaming tax revenue if VGT’s are authorized, along with the potential \$75 million license fee and more than \$600 million investment in the pending Stadium Casino. This is without considering the devastating impact on our industry and the loss of thousands of jobs and substantial ongoing investment. In our view, the only winners in this proposal are the out-of-state game manufacturers who will sell significantly more machines.**

The next major issue to discuss is Internet gaming. Once again, the legislature is asked to accept a 15% rate of tax versus the 59% it currently receives, and is being told that this represents an incremental revenue opportunity based on the experience in New Jersey. However, even more so than in the VGT discussion, there couldn’t be greater differences in approach, structure and success than New Jersey and Pennsylvania.

As you know, New Jersey gaming revenues have decreased from a peak of more than \$5 billion to \$2.8 billion in 2014 and approximately \$2.2 billion today. **Their casinos pay a tax of 9% at brick-and-mortar casinos, and 15% for online gaming, a substantial increase above the casino rate.** They contributed \$237 million in tax revenue in 2015, or one-sixth of what the PA casinos generate. All of their casinos are concentrated in one central location, Atlantic City, as New Jersey created a destination type market that drew from the population centers of Philadelphia, northern New Jersey and New York rather than the more locals, convenience structure built in PA. In fact, only 5% of New Jersey residents live within 25 miles of a casino, as opposed to two-thirds in PA. Once Pennsylvania and New York legalized casino gaming, the precipitous decrease in revenue I mentioned earlier commenced. As a result, it is a long trip to a casino for most New Jersey residents, whether to patronize Atlantic City, New York or the PA casinos. New Jersey legalized online gaming to give the struggling Atlantic City casinos more access to the northern New Jersey market.

New Jersey represents a unique situation for online gaming and in no way reflects the opportunity available in PA. The most recent reports from New Jersey indicate a current level of

online gross gaming revenue of just under \$200 million; however this amount includes free play that likely reduces the cash revenue total to approximately \$150 million. It is important to note that the state only receives 15% of this amount. This is a completely different situation to what exists in PA today, and we should not assume anywhere near the same outcome as New Jersey. Due to our more extensive geographic reach, there is much less upside opportunity and a much greater risk for cannibalization of the existing business. It is also interesting to note that Delaware also offers online gaming and it generates approximately \$3 million in online revenue per year. I recognize Delaware has 7% of PA's population, but it offers a better representation of market structure for PA. If you extrapolated that result, we would expect \$45 million of online revenue in PA. In addition, Nevada offers only Poker online, and is generating revenue of approximately \$7 million per year. Nevada has clearly protected its brick and mortar casinos from online cannibalization. Even sports wagering can only be made at a casino sportsbook. Given the anemic results in New Jersey, Delaware and Nevada, the opportunity for incremental gaming revenue appears to be insignificant in the grand scheme.

Another point that must be addressed with Internet gaming is the theory that this is incremental revenue and will not affect the existing casinos. How can we reasonably assume that after Blockbuster video, Tower records, Borders, and now many major retailers like Macy's, JC Penney and Sears are closing stores and eliminating jobs due to competition from online retailing, our industry is somehow different? Who else should we expect will gamble online but a person who has visited a casino? It is even more important to note that the demise of brick-and-mortar retail occurred with a level playing field; they all paid the same taxes. Given all these facts, I find it impossible to assume that a brick-and-mortar casino paying 59% in taxes will not lose significant business to an online operator paying 15% in an open, unprotected market.

Therefore, it is our view that the Commonwealth will lose revenue by implementing Internet gaming. If you assume generously that we could generate \$100 million in revenue through the internet, I am certain that 50% of that total would come at the expense of an existing casino. **In that case the Commonwealth would lose almost \$15 million dollars per year by trading for slightly more revenue at a much lower tax rate.**

Another discussion topic is the local share assessment for casinos. Parx has never sought a change to the current approach. In our view it was part of the deal when we accepted our license and we intend to honor that commitment. In fact, we along with several other casinos have reached an agreement with our county and township to continue the previous structure until a new legislative approach is implemented. Our only comments on this topic are that we are flexible on the approach so long as it does not increase our payments above the 2% county and \$10 million township levels; however, we must reassess this position if the VGT or internet proposals are implemented due to the threat of cannibalization and the adverse impact on the local tax stream.

One last point I would like to make concerns Gaming Board costs. Just recently we were advised that our assessment from the Department of Revenue would increase from the current 1.7% of revenue to 1.9%. This represents a 26% increase over the past two years from our 2015 level of 1.5%. I can assure you that our costs to operate the business have not increased by 26% over the past two years, nor am I aware of any inflationary statistic to support this charge. We respectfully request that a review and some type of cap on Gaming Board charges to the casinos be considered. It is interesting that New Jersey and Illinois do not have this pseudo tax on casinos, as regulatory costs are part of the state budgets.

In closing, I would like to offer the old adage “if it ain’t broke, don’t fix it.” Far from being broken, our industry is an unparalleled success. It will most assuredly be a losing deal for the Commonwealth to trade 59 cents from a casino for 30 or 15 cents from another source. We understand the importance of the current fiscal situation, and our industry members have met in an attempt to find alternative revenue streams that do not harm the existing casinos. To date, we have yet to reach a consensus, but are committed to working together to find solutions as we have done in the past.