

Testimony of
Wendy Hamilton, General Manager of SugarHouse Casino and Richard Schwartz, President of Rush
Street Interactive before
The Senate Committee on Community, Economic, and Recreational Development and
The House Committee on Gaming Oversight
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Good afternoon Chairmen Scavello, Petri , Farnese, and Harkins, members of the Senate Committee on Community, Economic, and Recreational Development and the House Committee on Gaming Oversight. Thank you for the opportunity to testify before your Committees today.

The gaming industry in Pennsylvania faces unique competitive pressures today. In addition to increased market saturation from new casinos in neighboring states like Maryland and New York, our industry now also faces additional pressures from within Pennsylvania including video gaming terminals, daily fantasy sports, additional Pennsylvania casinos and the constant threat of increased regulatory assessments and tax rates placed on our industry. Specifically in 2016 alone, the General Assembly enacted an additional supplemental tax of 2% on table game revenues, and the Department of Revenue increased the regulatory assessment on casinos from 1.5% of gross terminal revenue to 1.7%, with an additional increase to 1.9% planned for this August.

Since opening in 2010, SugarHouse Casino has generated over \$98 million in direct tax revenue for the City and School District of Philadelphia and an additional \$650 million in state tax revenue. In addition, we employ thousands of people at our facilities with good family sustaining jobs most of which include benefits, and we make significant charitable donations to our community. The contributions that SugarHouse and other casinos have made to our state and community in many ways reflects the successful framework established in 2004. That framework created a partnership between the Commonwealth and the gaming industry that has provided billions in property tax relief and economic development in Pennsylvania.

However, these significant economic contributions of the casino industry in Pennsylvania are at risk without stability and predictability for our industry. In particular, various proposals to legalize video gaming terminals at taverns and other locations throughout Pennsylvania presents the most direct

threat to the stability of Pennsylvania's gaming industry. Like our fellow operators in Pennsylvania, we remain opposed to current proposals that would legalize video gaming terminals. A 2016 study by the Innovation Group found that legalization of VGTs across Pennsylvania would result in an 18% decrease in casino revenue. This decrease would result in an estimated \$205 million reduction in funds available for distribution from the property tax relief fund through 2020. Equally concerning, the same study found that introduction of VGTs would reduce the total funding available for programs benefiting senior citizens through the lottery fund by \$67 million over the same period.

Even without VGTs, the gaming market has reached a saturation point in Pennsylvania, particularly in the Philadelphia region. Between December 2015 and May 2016, Parx and SugarHouse casinos added a combined total of 504 new slot machines, an increase of 4.6% of total slot machines in the Philadelphia region. However, during 2016, slots revenue at Philadelphia area casinos grew by a stagnant 0.7%. Even more indicative of the Philadelphia market, following the completion of \$165 million expansion in 2016, SugarHouse's slots revenue grew by 4% in 2016, while Harrah's Philadelphia decreased by 5.3% over the same period, suggesting that SugarHouse's modest growth was at the direct expense of Harrah's.

In response to the increased pressures faced by the gaming industry, we believe that if properly implemented, online gaming represents a unique opportunity to increase the health and financial performance of the brick-and-mortar casino industry in Pennsylvania while at the same time generating significant licensing fees and tax revenues for the Commonwealth.

First, while there is much discussion of market saturation and competition for a limited pool of gamers and gaming dollars, there is compelling evidence that online gaming helps to attract new players to land-based Pennsylvania casinos. The operating experience of SugarHouse Casino's New Jersey online gaming partner, Golden Nugget Atlantic City and Golden Nugget's online gaming site in New Jersey provides validating data on this point. In 2016, Golden Nugget's brick-and-mortar casino in Atlantic City generated only 9% of the registered players on Golden Nugget's online site, meaning that 91% of Golden Nugget's online players were new customers to the Golden Nugget brand in New Jersey. Even if we look at revenues in aggregate, less than 20% of Golden Nugget's online revenues in 2016 came from players originating in their Golden Nugget brick-and-mortar casino. This is a similar result

that other New Jersey brick-and-mortar casino operators with online casino sites, such as Caesars and Borgata, have consistently shared publicly.

Internet gaming is also key for millennial customers who are looking for a different gaming experience than their parents. Through a partnership with the Golden Nugget Atlantic City, the SugarHouse brand is already operating online in New Jersey through the PlaySugarHouse.com branded website. We have seen that on average, SugarHouse Online players are 8 years younger than those players visiting SugarHouse's Philadelphia facility. As the brick-and-mortar casino industry seeks to acquire younger players, online gaming represents a proven and effective player acquisition tool. Through cross marketing the online and brick-and-mortar SugarHouse branded properties, new players, who are primarily New Jersey residents, can form a bridge to brick and mortar facilities in Pennsylvania and help ensure the long-term growth and viability of Pennsylvania's land based casinos.

Second, Internet Gaming services are having a materially positive impact on the revenues generated from existing brick-and-mortar casino players. Golden Nugget has found that online casino players increased their average monthly spend at the Golden Nugget brick-and mortar casino by 15% after they opened an online account. Furthermore, players who were cross-sold from an online to brick-and-mortar property (or vice versa from the brick-and-mortar to the online gaming property) spent 33% more with the Golden Nugget in aggregate after they start playing on both properties. Ultimately, having multiple channels, online and brick-and-mortar, for an operator to engage their players, will increase revenues generated for that brand.

There are few other "marketing programs" in the industry that share this same capacity to generate new players and grow the spending of existing players in such a fashion that it will materially improve the performance of the brick-and-mortar casinos in the Pennsylvania. Golden Nugget has also found that the availability of online gaming has not decreased visits to their land-based casino by its traditional land-based casino customers. To the contrary, among these customers, legalization of Internet Gaming in New Jersey has had the opposite effect and increased visits by 15%.

Finally, regulating Internet Gaming will enable brick-and-mortar casinos to broaden both the reach and appeal of the existing casino brands in the region and to acquire a new and expanded player base for these brands. It is clear from the New Jersey operators that Internet Gaming has enabled the Atlantic City-based operators to introduce their brick-and-mortar casino brands to new players in the

region and engage them in new ways. In fact, senior executives from both the Borgata and Caesars have publicly stated that their Internet Gaming databases in New Jersey consist of less than 15% of active brick-and-mortar casino players from their Atlantic City casinos.

Without legal online casinos, the Pennsylvania casino industry is currently disadvantaged compared to the Atlantic City brick-and-mortar casinos because only New Jersey brick-and-mortar casinos are promoting Internet Gaming services to players living within the state of Pennsylvania. For example, Atlantic City casinos are enticing players living in the Philadelphia metropolitan area with offers to visit Atlantic City casinos (and join their loyalty programs) when otherwise the players might have planned visits to Pennsylvania-based casinos. By regulating online casinos in Pennsylvania, the commonwealth can even the playing field and counteract the aggressive marketing and player acquisition initiatives by its New Jersey brick-and-mortar competitors.

Bricks and mortar casinos and online gaming increasingly offer different and complimentary services and experiences. As the casino industry has matured in Pennsylvania, it has become more than just a gaming experience, with expanded dining and entertainment options at many casinos, including SugarHouse and Rivers. As a result of this and other compelling data points, we believe that online gaming represents an exciting opportunity to increase the health and financial performance of the brick-and-mortar casino industry in the state of Pennsylvania, while generating licensing and tax revenue for the Commonwealth.