COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

GAMING OVERSIGHT COMMITTEE
PUBLIC HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN CAPITOL BUILDING
140 MAJORITY CAUCUS ROOM

MONDAY, MAY 1, 2017
10:00 A.M.

PRESENTATION ON HOUSE BILL 1010 (MUSTIO)
LEGALIZATION AND REGULATION
OF VIDEO GAMING TERMINALS

BEFORE:
HONORABLE SCOTT A. PETRI, MAJORITY CHAIRMAN
HONORABLE BUD COOK
HONORABLE RUSS DIAMOND
HONORABLE MATTHEW D. DOWLING
HONORABLE GEORGE DUNBAR
HONORABLE SUSAN C. HELM
HONORABLE AARON D. KAUFER
HONORABLE KATE A. KLUNK
HONORABLE THOMAS L. MEHAFFIE III
HONORABLE KRISTIN PHILLIPS-HILL
HONORABLE JEFF C. WHEELAND
HONORABLE PATRICK J. HARKINS, DEMOCRATIC CHAIRMAN
HONORABLE DOM COSTA
HONORABLE TINA M. DAVIS
HONORABLE SID MICHAELS KAVULICH
HONORABLE WILLIAM C. KORTZ II
HONORABLE ED NEILSON
HONORABLE MARK ROZZI

* * * * *
Debra B. Miller
dbmreporting@msn.com
ALSO IN ATTENDANCE:
    HONORABLE MARK MUSTIO
    HONORABLE P. MICHAEL STURLA

COMMITTEE STAFF PRESENT:
    JOSIAH SHELLY
        MAJORITY EXECUTIVE DIRECTOR
    THOMAS MILLER
        MAJORITY RESEARCH ANALYST

    CHRISTOPHER KING
        DEMOCRATIC EXECUTIVE DIRECTOR
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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts online.)
MAJORITY CHAIRMAN PETRI: We will call this meeting of the House Gaming Oversight Committee to order. The first order of business would be introductions by Members. We’ll start to my left. Bud, would you like to introduce yourself, and we’ll go around the room.

REPRESENTATIVE COOK: Good morning. I represent parts of Washington and Fayette, and I’m Representative Bud Cook.

REPRESENTATIVE DOWLING: I’m Representative Matthew Dowling, the 51st District, southern Fayette and southern Somerset Counties.

REPRESENTATIVE DUNBAR: Representative George Dunbar, Westmoreland County, the 56th District.

REPRESENTATIVE KLUNK: Representative Kate Klunk, southern York County.

REPRESENTATIVE PHILLIPS-HILL: Kristin Phillips-Hill, Representative in the 93rd District, southern York County.

REPRESENTATIVE HELM: Sue Helm, the 104th, Dauphin and Lebanon Counties.

REPRESENTATIVE KAVULICH: Sid Kavulich, the 114th District, Lackawanna County.
REPRESENTATIVE KORTZ: Good morning, everyone.
Representative Bill Kortz, the 38th District, Allegheny County.

REPRESENTATIVE NEILSON: Good morning.
Representative Ed Neilson, Philadelphia County.

REPRESENTATIVE DIAMOND: Representative Russ Diamond, the 102nd District, Lebanon County.

REPRESENTATIVE WHEELAND: Representative Jeff Wheeland, the 83rd District, which is primarily Williamsport, the home of Little League Baseball.

MR. SHELLY: Josiah Shelly, Executive Director of the Gaming Committee.

MAJORITY CHAIRMAN PETRI: Scott Petri, the 178th District.

MINORITY CHAIRMAN HARKINS: Pat Harkins, the 1st District, Erie.

MR. KING: Christopher King, Executive Director under Pat Harkins.

MAJORITY CHAIRMAN PETRI: I want to thank all the Members for making the effort and attending. Many Members came from quite a distance on a Monday morning when we’re not in session. But I do believe that having a hearing of this nature that involves so much technical information, it’s important that we do it on a non-session date so we can really focus on the testimony.
I also want to thank both sponsors for being here and for offering legislation. While we had hearings last year on video gaming, VGTs, I think to have an actual bill that we can go line by line is very helpful as part of a hearing, and so I want to thank both of you for doing that and being willing to stand for interrogation, which is never easy.

Chairman, do you have any opening comments?

MINORITY CHAIRMAN HARKINS: We’re good to go.

MAJORITY CHAIRMAN PETRI: Okay.

So first, we’re going to hear from both of the cosponsors: Representative, or I should say Chairman Mark Mustio; and Representative Mike Sturla, who is in leadership.

Thank you, gentlemen. You may proceed when ready.

REPRESENTATIVE STURLA: Thanks.

Nobody told me we were going to have to answer questions. No.

I want to thank you for having us here today and for doing a hearing on this.

I want to start out by going way back -- 1988. Ernie Preate was federally charged for improperly reporting campaign cash from video poker operators. That was 1988.
I don’t know; Chris, you might not have been born by then.

You know, this has been an issue that has been around for decades, and people have, in a lot of cases, just turned a blind eye to the fact that there is illegal video gaming going on already in the State of Pennsylvania.

What I think Representative Mustio and I have done is sought to look at, how do we legalize this activity and make it beneficial to everyone involved. And I know last session, the video gaming bill did not make it, and in fact as a cosponsor of that bill, I actually voted against it when it came up because I didn’t think we had everything in order. But I believe that we have addressed, in this legislation, everything that at least people raised concerns about the last time.

There is a 4-percent local share to every county included in this. So, you know, no one can say, well, our tax on amusement machines is going to go away and it’s going to adversely impact us.

The casinos can participate in this by being a supplier.

The problem gaming has been addressed with 2 million new dollars. There are dollars for people that have gaming addictions, whereas on the black market, there are no dollars for that.
And all enforcement and regulation would be similar to the casinos through the Gaming Board.

The notion that, well, you can’t really regulate them anyway, I think we can, because illegals will no longer exist. This bill provides for a 120-day grace period to get all illegal gaming terminals off the market, and after that period, it becomes a third-degree felony and loss of gaming and liquor license.

It’s no longer a business decision about whether or not the one makes you more than the other. The one simply will put you out of business, and doing it legally will still garner the operators dollars and the local municipalities.

The tax rate is similar to the casinos.

And we also believe that there is a different customer for this product, in addition to the fact that we don’t believe that the number of machines will exceed the number that are already out there illegally, so we don’t think it will be cannibalizing either the casinos or the Lottery system.

But I’ll use myself as an example. I have been to casinos, I believe three times since their inception in the State of Pennsylvania, all at the request of the casinos to come look at their operations and what goes on there. I don’t know that I have ever spent a dollar in one
of those casinos.

If I go into an establishment in some parts of this State where the illegal video gaming terminals exist, I don’t spend any money there either, because I know that even if I come up a winner on the machine, if I go to the bar and say to the bartender, hey, I just won over there, he’s going to go, good for you. And he’s not going to pay me out any money because he doesn’t know me, and for all he knows and is pretty sure I will probably be a Gaming Enforcement officer. And so when I say, well, where’s my payout, he will tell me that there are no such things as payout, because it only pays out to the patrons that they know.

If and when these are legalized, just like occasionally I buy a Lottery ticket, occasionally if I’m sitting in a bar waiting for somebody, to meet someone, and it’s a half hour wait or so, I might drop a couple dollars in one of these machines. And so it is a completely different clientele. It is not cannibalizing anything. I believe it is allowing for those people that otherwise may not spend dollars to help our communities to do that.

It will help with local jobs and banking and reinvestment.

And it will also allow Pennsylvania to diversify its gaming portfolio to ensure long-term stability. I
think it’s in our best interests to make sure that we have as much variety as possible. If we put all our eggs in one basket and that portion of the gaming industry starts to go south, we still are left with something to make sure that we don’t lose all the revenue that we depend on in the State of Pennsylvania.

And I will also point out that back in 2009, the Department of Revenue testified in a House Gaming Oversight Committee that there essentially would be no impact on the PA Lottery because unregulated and illegal gaming devices already existed, as I pointed out earlier.

So I’ll turn it over to Representative Mustio, and we will then answer any questions you might have.

REPRESENTATIVE MUSTIO: Thank you.

Chairman Petri and Chairman Harkins and Members of the Committee, I want to thank you for having a hearing on this legislation. And Chairman Petri, you are right; I think it’s something that we actually now have a bill that you can vet.

And I guess what I would like to do is spend a couple of minutes telling you why I’m here and what got me to this position.

In 2015, Chairman Adolph, Chairman of the Appropriations Committee, gathered all the Republican Members together and, you know, put together a list of
possible revenue options and said, hey, if we’re not going
to do broad-based taxes, we’re going to need additional
revenue in Pennsylvania. I decided to dig real deeply into
video gaming terminals.

And I don’t think we can move forward without
saying that the casinos in Pennsylvania have contributed
immensely to many counties in our State. But there is
opportunity to do more, as Representative Sturla said.

Some of the things that I have learned over the
last 2 years of digging into this is, we really need to
look into everything that the casinos say; what does a
partnership really look like; and diversification can be
used to capture the current untapped market share.

Now, in the packet of information that I gave
you, there have been a couple of letters that have been
sent out over the years, one from the casinos, one from the
casino and racetrack near my legislative district, and it
has been challenging for me.

At one point, I got very upset, because, you
know, we as Members of the General Assembly have a lot of
issues in front of us all the time, and we rely on
information that is mailed to us or told to us to be
factual and not misleading.

So I took a couple of these letters and I went to
-- because they said that VGTs had such a dire impact on
the casinos in Illinois. And I took time to go to Illinois and also took a lot of hours going through the Illinois Gaming Board website, and I provided some material to you.

After the letter from The Meadows, you’ll see one of the reasons that there was some cannibalization is not because of VGTs, VGTs that already exist in Pennsylvania in an illegal form, but look at what the casinos have done: They are building casinos all over our borders. Is that going to have or has it had an impact on us? Logically, you would say it would.

A little further back in the packet, I provided a summary of the revenue that Illinois has had since their inception with the casinos’ riverboat gambling in 1991. In the letters that we have received over the years touting how horrible VGTs would be, it talked about revenue reduction since 2007 when VGTs -- implying that VGTs were in operation in Illinois at that time.

VGTs were not passed until 2009 in Illinois. The first VGT did not accept money until 2012, and that was October of 2012. So the first full year was 2013. There have been significant drops, as you can see on this report, from admissions to revenue prior to that. And there was an uptick in 2012 of gross receipts from the casinos, and that’s because Rivers Casino opened at that time.
And I have also provided data in the packet and a little history on Rivers, and you can see, since VGTs have been in existence in Illinois, Rivers Casino in 2012 had 416 million in revenue, 427 million in gross receipts at the end of 2016.

So the point of all of this is that there are various things that impact market share and impact revenues, whether for VGTs or casinos.

In the final page in the handout that I provided to you as far as my written testimony is a comparison of the Pennsylvania slots revenue to the Illinois slots revenue, and you can see the years that our slots revenue went down, so did Illinois'. If you read the trade journals and the financial reports on the gaming industry, you know, there are years where there are downticks. There are years where there is a recession.

You know, for example, Illinois implemented a smoking ban in their casinos, and that was a significant reduction in revenue. Illinois implemented an admissions fee to all the patrons at their casinos. You know, obviously that money is going to local share, but that has an impact as well.

Chairman Sturla talked about diversification, and I think it’s really critical as well that we diversify.

You know, if you listened to the iGaming hearing, I believe
this Committee and the Senate had a joint hearing on that. I tuned in from home in Pittsburgh and was watching it, and I swear they were talking about VGTs when I heard them talking about the need for diversification of their revenue.

So if casinos are looking to diversify, whether it’s diversifying casinos on our borders or diversifying by implementing iGaming at a much lower tax rate, I think it’s important for us as Representatives that we look at diversifying as well. And that gets us back to really looking at, what is a partnership?

You know, some have said over the years that we are partners with the casinos. You know, I personally disagree with that. In my opinion, we are partners with our constituents.

If there is a partnership, if I’m going to agree with you and say there is a partnership, then I say that we’re the majority partner. You know, we voted -- I was one of the votes to let casinos come into Pennsylvania in 2004 -- and as a majority partner, we should not be steamrolled.

If we had a partnership with the casinos, I don’t think we would let our partner cannibalize ourselves by building casinos in bordering States. I don’t think that’s how partners treat each other. So I think we need to start
treating our budgets and our Pennsylvania taxpayers as if they were our true partners.

I think this is a great opportunity for diversification. I think competition is good. I think what we have seen in some other States is that it has really enabled the budgets of those States to grow from a revenue standpoint, and it has also, I think, forced some casinos to invest in their properties.

The final thing I have is a chart, and it’s the revenue that the Pennsylvania Lottery has received since 1999, by game, all the way through 2016. And if you look at some of the studies, the biggest threat to the Lottery would be the instant tickets.

In 2005, we passed slots in Pennsylvania. The first slot I think operated in 2007, so let’s go to 2007 where instant tickets were $1,700,000,000. At the close of 2016, it was 2.7, almost $2.8 billion. So we have had really a pilot program in Pennsylvania of expanding gaming.

Now remember, I think it was Representative Paul Clymer at the time who was saying how slots were going to devastate the Lottery. In looking at this report, that devastation has grown to a tune of an additional $1.1 billion in revenue on the instant-ticket line. If you drop all the way down to the bottom, you’ll see an increase from 3 billion total to almost 4.15 billion.
So, Mr. Chairman, that’s some information I just wanted to get into the hands of the Members, some of the things that I have found over the last 2 years.

And the final piece is, and this just happened last week, the raids. “State Police Announce Results of Illegal Gambling Raids” where they confiscated 215 illegal gaming devices in Pennsylvania, which really just accentuates the point that Chairman Sturla made, that this is happening in Pennsylvania already.

And I thank you for your time.

MAJORITY CHAIRMAN PETRI: Okay. I believe we have a few questions from Members, if you gentlemen don’t mind.

I saw Representative Dunbar’s hand went up?

REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

Just quickly, gentlemen.

First off, as you know, I was involved with this process last year, and I do have to give you guys credit. You did very creative work. I think you have tried very hard to address a lot of concerns that were brought up.

I did have a couple of really brief questions.

First off, the State’s share, a 34-percent tax, 4 percent local share, at 38, 1 ½ assessments, 39 ½, which leaves 60 ½ percent of proceeds, how are those divvied up?

I don’t remember seeing that anywhere in the legislation.
REPRESENTATIVE MUSTIO: How are the proceeds divvied up or the tax?

REPRESENTATIVE DUNBAR: The 60 ½ percent that isn’t going to the State. How much is going to -- is there anything in the legislation of how much is going to the establishment and how much is going to the operator?

REPRESENTATIVE MUSTIO: Yes; 25 percent to the location, 35 percent to the operator, 34 percent to the State, 4 percent local, and then the balance is regulation.

REPRESENTATIVE DUNBAR: Okay. Thank you.

And also, I heard a lot of discussion in your guys’ statements about cannibalization and lack of cannibalization. And I’m not going to argue back and forth, but are you saying that whenever we go through this process and try to drill down onto the exact numbers, we shouldn’t be counting on cannibalization at all?

REPRESENTATIVE MUSTIO: I disagree that there is not cannibalization. I think there is cannibalization. I think the extent of the cannibalization is nowhere near the dire picture that was painted in Illinois.

REPRESENTATIVE DUNBAR: Okay.

REPRESENTATIVE MUSTIO: And the two studies that I have seen have been 5-point -- I think my testimony said 5.2 percent, but I actually reread that this morning. It’s 5.5 percent to a little bit over 6 percent is what I have
seen.

REPRESENTATIVE DUNBAR: Which is consistent with
the Union Gaming report that you shared with me last year.

REPRESENTATIVE MUSTIO: Yes, sir.

REPRESENTATIVE DUNBAR: Okay. Very good. Thank
you.

MAJORITY CHAIRMAN PETRI: Representative -- oh.

REPRESENTATIVE STURLA: If I could just add to
that.

I do think that it is, and I probably overstated
it by saying there will absolutely be no cannibalization.
You can never say there never will be anything.

And I think that part of what we would urge
people to do when they look at this is understand that
we’re not talking about, you know, as Representative Mustio
pointed out, gross cannibalization.

I also think that when we look at the estimates
of what this will generate, I think one of the concerns
last year from some people was that we were overestimating
what it might generate. I think we have really shot pretty
low in terms of first-year operations and even into the
future.

And while I believe that this will have a very
positive impact on the State budget, there are people who
have said to me, well, the only reason you guys are doing
this is because you want the money. I actually think there
is reason to do this in spite of the money, even though I
think it will generate significant dollars, and that is
that instead of turning a blind eye to an illegal industry
that’s going on in the State of Pennsylvania and sort of
pretending that it’s not there sometimes and at other times
doing enforcement if it gets too egregious, this really
does clean it up for everyone and lets everyone play on a
level playing field.

REPRESENTATIVE DUNBAR: And I appreciate that,
Representative, and that’s also why I have been pushing for
gaming as well.

REPRESENTATIVE STURLA: Yeah.

REPRESENTATIVE DUNBAR: Thank you.

MAJORITY CHAIRMAN PETRI: Representative Klunk.

REPRESENTATIVE KLUNK: Thank you, Mr. Chairman.

And thank you, gentlemen, for joining us today.

I appreciate your work on this bill.

I have a question. In the beginning of the bill,
I know this is supposed to be a VGT bill, but in the
beginning of the bill, there is a section on slot machine
licenses, and then on page 5 it talks about an undue
economic concentration being prohibited when it goes to
Category 1 casinos. And in reading it, I wanted to get a
little bit of a clarification on this.
While I don’t represent Adams County, I live about a mile from the Adams County border, and my concern with the way that I’m reading this now is that we could have a Category 1 applicant -- that’s in the works right now with Adams County -- and if this bill goes into effect, which if I’m reading correctly, it goes into effect immediately, I’m worried that an applicant like that, that might not have everything through, might be precluded from going through and actually, you know, going through with a Category 1 license, and how that could play out with that Category 1 still hanging out there with the gentleman in Adams County being interested in bringing a casino there and how this undue economic concentration, being prohibited with the criteria, giving that to the Board to determine what that really means and how that’s going to play out.

One of my concerns in looking down through it, we give the Board the ability to come up with criteria, but we also establish what some of those criteria are when it comes to market share. And I’m just curious, I know there’s nothing here in the bill that lays out how market share is really going to be determined when it comes to an outside consultant. Will the Board be determining that? What factors go into that?

I just have a lot of concerns about that and would love to know your thoughts behind including that in a
VGT bill, why it’s in here, why we need this in this bill, and how that could potentially play out with the gentleman in Adams County being interested in that casino license.

REPRESENTATIVE MUSTIO: Well, part of, you know, part of my, I guess concerns have been that the casinos have been cannibalizing themselves, right?

I understand the local interest, clearly, and I know for certain that this bill is not going from this committee hearing today to the Governor’s desk. So there are plenty of opportunities for discussion on various aspects of this bill.

I have had discussions with Representative Moul regarding this, and I’m sure that he has had discussions with the Chairman, and there is certainly an amendment process. But I can tell you, that was really what the intent of that piece was, was acknowledgment of cannibalization. And the real goal of this legislation is to get legal what’s illegal now.

REPRESENTATIVE KLUNK: Thank you, Mr. Chairman, for that. And just a follow-up comment.

I appreciate the fact that Representative Moul, who has Adams County and the location where this potential casino could be, is discussing with our Chairman this particular part of the bill.
It does give me a little bit of heartburn. I agree on cannibalization. I don’t know if this is the proper bill to do it. I don’t know if this is the proper way to do it. But I’m glad that there are discussions in at least the topic and Representative Moul raised that question. So thank you.

MAJORITY CHAIRMAN PETRI: Thank you.

Representative Kortz.

REPRESENTATIVE KORTZ: Thank you, Mr. Chairman, and thank you both for your testimony today.

And Chairman Mustio, thank you for digging deep into those facts and exposing some of the misinformation that was put out there.

As you know, I’m big behind the VGTs. My particular interest, obviously, is with the American Legions, VFWs, volunteer fire departments, where their localized group is just trying to take care of their membership. And it’s getting harder and harder on them, so thank you for bringing this forward.

Could you expand a little bit on what you said about the casinos being tied in, this legislation allowing the casinos to be tied in to the suppliers and how there can be a partnership?

REPRESENTATIVE STURLA: Yeah.

There is already one casino operator in the State
of Pennsylvania that is a supplier of VGTs in other States, and we believe that given the opportunity to become a supplier, that there will be more that will enter that market.

Right now, I think they have decided that the way to keep VGTs from happening is to say they won’t get any cut of this, but I think the casino industry itself is split based on who is able to do supplying right now, and I think there will be more people that will enter the market immediately, if not sooner.

So this is -- look, we want professionals to be involved in this. This is not something where it’s, you know, you’re going to start a new mom-and-pop business tomorrow because you think there is some money to be made here. This will be highly regulated, just like it is with the current gaming in the State of Pennsylvania. So my sense is that the casinos will be major players in this also.

REPRESENTATIVE MUSTIO: I agree 100 percent, and I think it’s important that -- I think it was good that we didn’t pass the bill last time, comparing it to what we have now. But what we don’t want to have happen is another rollout of small games of chance.

You know, we need the revenue, and I think we have put together a very good piece of legislation. Are
there some areas that need to be fine-tuned? There probably are, yes.

REPRESENTATIVE KORTZ: Thank you.

MAJORITY CHAIRMAN PETRI: Representative Neilson.

REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

Thank you, gentlemen.

I’m hiding behind -- I’m at the kids’ table, just in case you’re wondering.

You know my feeling here, and I want to touch on more of a quality of life.

So under 1010, you allow five machines into many different establishments that are covered under the Liquor Code, under Article IV, which does include definitions like grocery stores, hotels, and other things.

Under Article IV, it also authorizes liquor to be sold, among other things, continuing care retirement communities, or so-called nursing homes. So those nursing homes aren’t subject to the quota of other liquor licenses; they can go out and grab their own.

Are you aware that under this legislation that you propose, it will allow up to five machines in every nursing home through the Commonwealth?

REPRESENTATIVE MUSTIO: No, and that’s certainly why we have an amendment procedure, if that’s the case, to clear that up.
REPRESENTATIVE NEILSON: Okay.

REPRESENTATIVE MUSTIO: It’s certainly not the intent.

I think everybody hopefully knows my motivations. And no, I’m not interested in that.

REPRESENTATIVE NEILSON: Okay. Well, I’m not interested in having them down in the restaurant down the street from my house either. So is that going to be -- is this something that you’re going to try and work out?

Because, like, I testified last time you guys -- you gentlemen know that I’m very passionate on this. The shopping center that my kids go to GameStop in will have 45 machines, under your legislation, in that one little strip center. Is there any limitations that you’re going to put in this to say, okay, look, you only can have 5 or 10 within a mile, or any restrictions on these licenses that are going to be given out?

Because, I mean, to have nine in one city block, and we can just go right down to Harrisburg, right downtown here. There are going to be 14 in one city block, licenses, that can ultimately happen. Are there any restrictions to that within your legislation?

REPRESENTATIVE STURLA: Well---

REPRESENTATIVE NEILSON: I mean, I know about amendments and all. I’m just trying to -- we’re talking
about this, not as amended. So I would like you to --
because I’m poking holes in this, and I’m sorry that you
put yourselves up for this, but it’s that bad.

REPRESENTATIVE STURLA: Yeah; if I could address
that.

REPRESENTATIVE NEILSON: Yes, please.

REPRESENTATIVE STURLA: You know, when you say,
like in Harrisburg, there are 14 restaurants in a row,
there could be 40 restaurants there. There is nothing that
restricts there from being 40 restaurants there, except the
free market says there is not going to be 40 restaurants
there; they can’t all compete. Someone is going to go out
of business.

And with the suppliers having to put the machines
in and the establishment having to give up space in a
restaurant or a bar in order to put these machines in, and
to pay for all the wiring that is necessary and to have it
make sure that there is oversight, not everyone is, one,
going to apply for as many machines as they can get; and
two, even if they want that many machines, they aren’t
going to be able to find a supplier that is going to be
willing to put them in, because they won’t pay out if you
have 45 machines in a strip mall.

And so part of this is that the market will
regulate some of this. But the other part is that this is
being overlooked by the Gaming Commission, and I don’t think you’re going to see the Gaming Commission saying, yeah, we have had four reports of that nuisance bar; go ahead, put five slot machines in there also. They simply won’t do that.

And if we want to tighten those regulations and ensure that the Gaming Commission does that, we can, but I think we’re pretty safe in understanding that there is only so many of these that will be able to exist and make money, and the suppliers are going to limit that.

And they don’t want to compete with themselves in the same strip mall. They’re going to see which one of those establishments has the best ability to generate dollars, and the others will probably not get one. And it certainly won’t be a nuisance bar.

REPRESENTATIVE NEILSON: I’m glad you brought it up, Rep. Sturla, nuisance bars, because you know that’s where I was going next, right?

REPRESENTATIVE STURLA: Right.

REPRESENTATIVE NEILSON: Out of Philadelphia, we have thousands and thousands of them, and it’s something that is in our lack of enforcement, to say the least.

The last time this legislation tried to pass, they actually even wanted to give us a task force to go through southeastern PA, since we only have 10 enforcement
officers to work the entire end of that State.

Is there any community improvement needed? Like, I want to put this in a restaurant down the street from my house. Does the community as a whole there have any say?

I live on one corner, and there is an establishment down on the corner of my house and our neighbors don’t want it. Is there anything in the legislation that lets the community help make these decisions? Are these decisions based upon the owner and the actual vendor, because you said the vendor has a lot to do with this. Do the vendors tell us where they’re going to go, as you just stated, or is it the community has a say and says, no, I don’t want these machines down the street from my house; I don’t want them in my neighborhood.

REPRESENTATIVE STURLA: Well, I think---

REPRESENTATIVE NEILSON: What kind of community input is put into this?

REPRESENTATIVE STURLA: It’s the same kind of community input you get if somebody has to get a zoning change. But if it’s allowed by zoning and it’s a legal, licensed business in the State of Pennsylvania, you know, then no.

There is also, in a lot of cases, no control by the neighbors if you’re going to put a bar in down the
street. And there are some people that would claim the bar has much more negative effects than having a VGT terminal in that bar.

So, no, there is not in that sense. But ultimately, as is the case with any of these things, as I said, I don’t think you’re going to see these going into places where it makes no sense financially, also where it makes no sense in terms of the Gaming Commission.

And finally, there is 2 percent that goes to the county and 2 percent that goes to the municipality, so in Philadelphia, it would be 4 percent. My hope would be that those municipalities wouldn’t just say, hey, that’s money we can go spend on something else rather than neighborhood improvement. I would hope that the 4 percent of what is believed to be a billion-dollar industry would help be used for community revitalization and various projects throughout those communities that improve neighborhoods as opposed to, you know, taking away from neighborhoods.

Now, you know, if the municipality and Philadelphia wants to pass their own local ordinances about how that money gets used, or if you want us to control that from the State, we could do that. But there is a significant portion of dollars that are going to local communities here.

MAJORITY CHAIRMAN PETRI: Representative Hill.
REPRESENTATIVE MUSTIO: Mr. Chairman, would I be able to address some of his -- would I be able to address a point?

MAJORITY CHAIRMAN PETRI: Sure. I’m sorry.

REPRESENTATIVE MUSTIO: Thank you. Thank you.

Yeah; he made a comment that, you know, there were thousands of nuisance bars. I’m hoping that was a misstatement, because there are only 1,700 liquor licenses in Philadelphia. So---

REPRESENTATIVE NEILSON: Guys, there are thousands across the Commonwealth. I’m sorry if you just think I’m talking about Philadelphia here, Rep. I’m sorry.

REPRESENTATIVE MUSTIO: Okay. Because that’s what I had heard you say, and then you talked about the task force for Philadelphia. So I didn’t want people to think that that was going on.

REPRESENTATIVE NEILSON: Yes.

REPRESENTATIVE MUSTIO: But I think we have a really great pilot program in the State, a very similar size to ours in Illinois, and there are just not 45 of these in a strip center.

I mean, you know, you think about all your chain restaurants that have liquor licenses. They’re not going to have them. I mean, it’s just not part of their business model.
So, you know, there are a lot of things we can throw at this, and the Chairman and I have been looking at this for a couple of years now and really, I think, have this in pretty good shape. We’re 95 percent of the way there with some minor tweaks to it.

MAJORITY CHAIRMAN PETRI: Thank you. And my apologies; I didn’t know you wanted to still speak.

Representative Hill.

REPRESENTATIVE PHILLIPS-HILL: Gentlemen, thank you so much for being here today.

I’m new to this Committee, and in my short tenure, prior to my tenure here, a bill was passed for a taverns-gaming measure. And in seeking this office, I heard from many local tavern owners that that bill did not generate the interest because of the way it was constructed. It was not financially viable for taverns to participate, that the process was onerous, that there wasn’t enough revenue for them, and it just didn’t make sense.

So I guess what I would really like to have you articulate for me is, in creating this bill for video gaming terminals, what has been done to ensure that it will be a successful venture?

So this is a lot of effort on the part of all of us here. What is going to make this truly viable in
Pennsylvania?

REPRESENTATIVE STURLA: I think there are a couple of things.

One, when the initial bill had been rolled out for small games of chance in taverns, one, there was a huge buy-in fee. The licensing fee was, you were taking a big risk as a tavern owner to get into the game and hoping that you made some money. And it was labor intensive also, because those small games of chance were games that you ran.

This is non-labor intensive in terms of, it takes up some of the space in your bar or tavern, but it doesn’t require you to have somebody there running games all day long.

Secondly, I believe that what this does is, unlike the other small games of chance, there were a lot of taverns that currently are operating machines illegally that said, why do I want to compete with my own machines? In this particular case, the reason they want to compete with their own machines is because their old machine is illegal and is going to lose them their license.

And so my sense is that anybody who currently has illegal machines is going to want some legal machines. And there are other establishments that said, I don’t want to operate illegally, that will say, hey, if it makes sense
for all those people that have been operating illegally all those years, it probably makes sense for me to put one over in the corner of my bar somewhere, because I know that we’ll have patrons that will use them, like myself, that would drop a couple bucks in occasionally.

REPRESENTATIVE MUSTIO: Representative, the cost to get in is a lot less than it was in the bill we had last session, well over $12,000 less per machine to get in. So that’s why I said earlier that I thought that we probably had a chance of a small games of chance bill last year had we passed it. So the cost is a lot less.

The winning rate or the payout rate is going to be legislated, as it is with slot machines. That is currently not the way it is with the illegal machines. It’s my understanding, you know, I don’t own them, operate them, or never played them, but it’s my understanding that the payout is significantly lower.

So although the percentage to the tavern owner or the club may be lower, in whatever the final draft is, than they may be getting now, it’s going to be a smaller percentage, in theory based on what has happened in Illinois at VFWs, American Legions, on a much higher number, because you’re going to have more people playing because they have a better chance of winning. And they’re legal now. You know, there’s not that stigma with it.
And they have seen in these other States membership grow. They’re able to put money back into their facilities and continue to contribute to charities in their communities as well. So all of that is, I think, going to just kind of energize this as something that people are going to want to do.

MAJORITY CHAIRMAN PETRI: Representative Diamond.

REPRESENTATIVE DIAMOND: Thank you, Mr. Chairman.

Thank you both for coming here today, and thank you for the responses to this bill.

Of course you know I’m a cosponsor of this bill. I have supported this idea since I first came to this Committee 2 1/2 years ago, but I get more supportive as time goes on.

And I just wanted to quickly address the quality-of-life issue that was asked about before. I mean, even though the tavern games’ bill, it turned out to be pretty much a horrible boondoggle that not many taverns got involved in. I wasn’t here when that bill was passed, perhaps both of you were. Was there any kind of density or location, you know, you can’t have nine different taverns on one block doing tavern games? There wasn’t anything like that in that bill, was there?

REPRESENTATIVE STURLA: Not that I remember.

REPRESENTATIVE DIAMOND: Okay. Thank you.
But the reason I become more and more supportive of this is, and this goes to something you said, Chairman Mustio. We have another business partner in this Commonwealth, and that’s our liquor-license holders. And I was wondering if either of you could speak to the effect, some of the modernization and/or privatization liquor bills. I know that’s not this Committee’s topic, but how that has impacted our mom-and-pop taverns, because those are the people I’m really concerned about helping out here.

And along that line, when I think of a mom-and-pop tavern, they’re not serving a whole lot of food or anything like that, so space is limited. So could you speak to how much seating they would have to actually give up to get involved in this and become a further partner with the Commonwealth.

REPRESENTATIVE STURLA: Yeah.

I think there is going to be a panel that testifies later that is the Tavern Association, so I would assume they’ll be able to answer that question better than we can.

The only thing I will say is that it will depend on whether or not they have one machine or whether they have five machines in their establishment. But certainly it will be an ability for those people that have played by
the rules and not put illegal machines in their businesses
to date to be able to compete with the ones that have
decided to sort of be scofflaws and put the illegal
machines in their businesses and were able to pay their
taxes and subsidize their business with an illegal machine
whereas someone who was actually playing by the rules
couldn’t to this point.

REPRESENTATIVE DIAMOND: If I could get just a
follow-up.

Can you speak to, just to get it on the public
record here, I remember with the tavern games’ bill, a lot
of people were afraid of getting involved because if they
had made a mistake on the tavern games’ side, that tagged
their liquor license. Is there some sort of difference
here with the VGT bill?

REPRESENTATIVE MUSTIO: The way we intend to have
it drafted is not to tag their liquor license. I think
Josiah could probably speak to the technical nature of
that.

MR. SHELLY: Noncriminal violations of the VGT
portion of the bill, those would be administrative
penalties from the Gaming Control Board, not something that
goes against their liquor license.

Now, criminal violations, yes.

REPRESENTATIVE DIAMOND: Okay.
REPRESENTATIVE STURLA: And the only thing that would affect their liquor license is if they would have an illegal machine. And one of the reasons why we believe we can eliminate all illegal machines in the State of Pennsylvania is, no one is willing to risk their liquor license.

Currently, all you have to do is claim you didn’t make a payout on that and that machine can be sitting there. It’s perfectly legal for an illegal machine to be sitting in your tavern operating, but you can claim there are no payouts on it.

MAJORITY CHAIRMAN PETRI: Representative Helm.

REPRESENTATIVE HELM: Thank you, Mr. Chairman.

Gentlemen, I would just like to talk a little bit about the 4 percent local share, and the reason I would just like to talk about this is because on another issue, the Legislature is determining now how we’re going to distribute the local share.

In the last several weeks, I don’t think there is a day gone by that I haven’t received an email or a text or a phone call from a municipality -- now it’s starting to hit my general constituency -- talking about the local share. So could you just expound on that a little bit, how that is going to work and what it will do for our communities?
REPRESENTATIVE MUSTIO: Well, basically it’s bringing local-share revenue to all 67 counties. If you have machines in your county, you’re going to get revenue. If you have them in your municipality, you will get revenue. How that is ultimately structured is going to be determined by the Legislature and the Governor as far as distribution goes.

You know, there have been some questions about whether this is going to run separate or it’s going to be combined with another bill addressing the local share overall. You know, I don’t know the answer to that question. But the intent here is to have more winners across the State of Pennsylvania.

REPRESENTATIVE HELM: Well, I think that’s important, because the community is becoming very involved in understanding how this works and interested in it. So thank you.

REPRESENTATIVE STURLA: Yeah. I also will say that from my perspective, as someone who has approached this not so much as an interest in it generating revenue, although I believe it generates significant revenue, having that local share means that there will be local eyes on this at all times also.

You know, if I as a city council person walk into a local tavern and I see somebody trying to do something
illegal, I’m going to be the first one to report it because that’s money out of the local municipality’s pocket also. Whereas before, you know, it was probably in your best interests not to point out that there was anything illegal going on there because you were hurting a business in your district.

REPRESENTATIVE HELM: All right. Thank you.

MAJORITY CHAIRMAN PETRI: Representative Kavulich.

REPRESENTATIVE KAVULICH: Mr. Chairman, thank you for having this hearing.

As someone who grew up living over the family bar, my father never would have thought to put an illegal machine in his bar. The pinball machine paid off like a champ, but---

(Laughing.)

REPRESENTATIVE KAVULICH: Gentlemen, we heard earlier, when Representative Neilson was talking about the strip malls and the nuisance bars, we heard about the costs, that it wouldn’t get saturated because of the cost of the lines, the terminals, so on and so forth. But if some of these smaller VFWs, the American Legions, these smaller bars like my dad’s needed, as we’re hearing, needed these terminals to survive or these VGTs, how are they going to afford, some of them which can’t even, are
struggling to survive, how will they afford that original
outlay for a license, to install the terminals, to get the
machines. How will they be able to afford that original
outlay?

REPRESENTATIVE STURLA: Well, I believe there are
people that will testify later that can talk about exactly
what the expected return on these is and how fast that
return will be. But the majority of this is borne by the
supplier, and so that’s really going to be part of the
determining factor. I think if a supplier looks at a small
mom-and-pop operation and says, you know, it doesn’t
matter; you still do a brisk enough business to have one of
those, that’s worth it.

You know, there are going to be some larger
operations, maybe some of the VFWs, that have two or three
or four because that’s what somebody wants to do when they
show up at the VFW, you know, is go have drinks and sit
with the VGT.

And I think that will be determined a lot by
negotiations with the tavern owner and the suppliers to
say, what works here? Because it’s not in anyone’s best
interest to have a machine sitting there that is not
generating revenue.

REPRESENTATIVE MUSTIO: And the application fee
and the license fee ranges from $100 to $250.
REPRESENTATIVE KAVULICH: Okay.

REPRESENTATIVE MUSTIO: One is per machine, so depending on the number of machines that you would have.

In the bill last year, or the amendment last year, the cost per machine for the tavern owner was approximately $12,500 per machine. We recognized the error of my ways last year.

REPRESENTATIVE KAVULICH: Thank you, gentlemen.

MAJORITY CHAIRMAN PETRI: I have a couple of questions as far as direction, and I want to start off by saying, I’m not criticizing either of you. Anytime you come up with a bill, you got to make choices. And as you have well said, you had a model to follow, and you followed that model in some places and you have departed in -- so far the places you have departed, I agree with, that you have improved on the bill dramatically compared to the way it looked yesterday.

But there are two areas that I’m just curious about your thinking. One deals with the maximum bet and the maximum payout.

In Illinois, as you both know, it’s $2 and 500. So it’s a $2 max bet. You have chosen to go where Illinois apparently, according to the information I have, is now going. The Governor is looking for more tax revenue. He has asked for a tax increase, and he has proposed, or
somebody has proposed, that that would be possible if they had a $5 max bet with a thousand-dollar payout.

So your thought process and why you chose that number in particular.

REPRESENTATIVE MUSTIO: I think that’s a fair representation.

MAJORITY CHAIRMAN PETRI: But you think that’s the number that’s needed in order to make the metrics work?

REPRESENTATIVE MUSTIO: I think that enhances our revenue capabilities. I think it enhances the interest of people that want to play it. Those would be primarily my interests.

MAJORITY CHAIRMAN PETRI: The second area I wanted to ask you about is the length of term for the route operator.

In the bill, as I understand it, it’s somewhere between 60 months and 120 months, and that is somewhat a bargaining between the tavern and the like.

Neither in Illinois nor here -- I think I’m correct -- that there’s an opt-out in Illinois. There’s no way if you get a bad operator, somebody you can’t get along with, that you can terminate or void that contract. What are your thoughts in regard to the ability of a bar or tavern or a club to terminate an agreement if they believe
and can prove that they have in ineffective route operator.

REPRESENTATIVE MUSTIO: I think I would defer to you, Mr. Chairman, as a lawyer on what the real possibilities of that happening are and what the benefits are. That might be something that would be better answered by the taverns and the route operators.

I can tell you that in working to get this piece of legislation together, you know, we have had a lot of different people, all of the people at the table to talk about that.

So I think our intent was to build in some consistency -- right? -- so that there is some sense of what businesses want to make certain. Right? So I think that the length gives some certainty because they have investments, that they’re going to have to buy the machines and put out a lot of money up front.

Now, how do you determine what a bad operator is and in whose eyes that is? I don’t know. That probably ends up in court, I guess. So I would defer to you on that piece.

REPRESENTATIVE STURLA: Yeah.

And from my standpoint, I would certainly be open to something where there might be an appeals process to the Gaming Board or something like that.
But I think what we were trying to prevent was, you know, today I put a dish on my roof, tomorrow I tear that down. I have somebody else run a cable. The next day I say, I’m going to do it by -- you know. And somebody says, I’ll give you, you know, free bar equipment if you put us in instead, and you end up with that, once a month they’re calling up the Gaming Commission and saying, hey, I got a new guy, you know.

MAJORITY CHAIRMAN PETRI: No. And I would share with you that when I went to Illinois, I found the one route operator everybody raved about, and in one case a tavern didn’t, you know, or a bar type of establishment, a restaurant, didn’t like their route operator, so I threw that out there. But clearly the route operator has a lot of expense and cost and can’t be terminated willy-nilly. That would be ridiculous.

So I just threw that out as something to start to think about.

REPRESENTATIVE MUSTIO: I have constituents that think the same of me.

(Laughing.)

MAJORITY CHAIRMAN PETRI: I can’t believe that.

REPRESENTATIVE MUSTIO: I don’t want to tell you which version.

MAJORITY CHAIRMAN PETRI: So I want to thank the
witnesses for being patient. I know that usually comments by the makers of bills are shorter and there aren’t these extensive questions, but I think it’s important. I think it demonstrates the lack or the knowledge level that the individuals have and the interest that the Members have.

So we’re going to hear now from the Chief Counsel of the Pennsylvania Gaming Control Board, Doug Sherman.

Doug, if you would like to start, whenever you’re ready.

MR. SHERMAN: Good morning.

Chairman Petri, Chairman Harkins, and Members of the Committee, I’m Doug Sherman, and I serve as the Chief Counsel to the Pennsylvania Gaming Control Board.

I’m happy to be here today to discuss House Bill 1010, which, among other things, does seek to authorize and regulate VGTs at entities that hold a liquor license, truck stops, and certain off-track betting parlors, and to answer any questions regarding the Board’s role in regulating this activity if this General Assembly believes it appropriate to do so.

The Board has historically taken the approach that the General Assembly establish its policy, and if House Bill 1010 becomes law, we would seek to implement it efficiently and effectively.

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

- The board would license retail establishments that house and provide VGTs for play. We would look at those entities, referred to as the “operators,” who oversee the placement and operation of the VGTs. And we would also look at the suppliers and manufacturers of the VGTs. The board would also oversee testing and approval of VGTs, associated equipment, and redemption terminals. And finally, the Board would adjudicate regulatory violations, which would be prosecuted by the Board’s Office of Enforcement Counsel.

- The second player in the regulatory scheme is the Department of Revenue, and they would oversee the central control computer system, assure the integrity of that system, and collect taxes based on the play of VGTs.

- And the third leg of this enforcement would be the criminal law enforcement, and that would be of not only criminal law enforcement but to conduct administrative inspections which fall
under the auspices of the Pennsylvania State Police and the Liquor Control Enforcement Bureau.

With that context in mind, I’ll address a couple provisions of House Bill 1010 that fall under the Board’s review, such as the licensing of the applicants, the treatment of confidential information in the investigative phase, and the challenges of effectively regulating the prohibitions and enforcing the prohibitions in a manner consistent with that of the State’s casinos.

To be clear, as compared to casino licensing where the Board has licensed to date 12 casinos and their owners, officials, and employees, House Bill 1010 has the potential to create thousands of new applications for the Board’s consideration.

For example, and since we have been using the example of Illinois, at the end of 2013, which was the first full year of VGT operation in Illinois, there were just over 3,200 establishments in that State. In March of this year, not quite 4 years later, that number is just shy of 6,000 establishments. This does not include the applications for principals, key employees, suppliers, or manufacturers.

Given the sheer number of applicants that can be expected, we believe that the licensing system should be
developed in a manner which promotes efficiencies in order for the Board to handle this task in a timely fashion.

For example, currently House Bill 1010 establishes licensing periods and renewals at intervals of 1-year and 3-year time periods, depending on who you’re looking at. We have stated that with respect to the casinos, we think licensing periods can be extended to 5 years without sacrificing regulatory oversight, and this is due in large part to the fact that casino licensees have the ongoing obligation to provide updated information to the Board concerning any fact which may impact their suitability to maintain their license.

We believe that it would be reasonable to also make the licensing terms 5 years for VGT establishments and their operators, as they would have the same reporting obligations to the Board to notify us of any violations or updates or changes to their regulatory status.

In terms of background investigations, generally in the regulation of gaming, a priority is to perform a background investigation and license individuals and entities that come in contact with the patrons and the money or which provide a vehicle for gaming; in this case, those that provide or come in contact with the video gaming terminals themselves.
The legislation appears to mirror or be substantially similar to the standards currently embodied in the Pennsylvania Race Horse Development and Gaming Act in terms of the suitability of licensees and applicants as well as the treatment of nonpublic information provided to the Board in connection with the background investigations. As such, we are comfortable in the receipt, treatment, and consideration of the information in a manner protecting its confidentiality.

The Board’s Bureau of Investigations and Enforcement is tasked with conducting the investigations of applicants for the VGT licenses. Given the goal of prompt implementation of VGT gaming which appears in House Bill 1010 and which, in some cases, establishes relatively short timeframes for the Board to take action after applications are received and the potential for thousands of applications, it is suggested that careful attention be given to the investigative process to assure that it can in fact be accomplished in an efficient manner to avoid backlogs and unavoidable delay.

And Chairman, to this extent, we have routinely been available, our staff has been to the staff here in the Legislature, to give comments as we go on, and we will continue to make ourselves available for that purpose, to make sure that we don’t run into impediments that are going
to hold up the process, if this is where this body decides
to go.

Turning to the topic of regulation of retail
establishments which provide the video gaming terminals, I
note that there are substantial and differing challenges
between regulating casinos and the establishments which may
house VGTs in terms of the numbers of facilities involved,
the size of the operations, issues of public accessibility,
and the presence, or lack thereof, of an on-site regulatory
staff.

This was mentioned by Chairman Barasch last year
when he testified about his concerns as it relates to
underage-gaming and problem-gaming issues implicated by VGT
placement in thousands of retail establishments throughout
the Commonwealth.

As I stated, we currently regulate 12 casinos
with just over 26,000 machines and 1,200 tables. The
casinos have heavy burdens placed on them with respect to
security and surveillance, minimum staffing requirements,
on-site regulatory presence, and they are subject to
extremely stiff fines for regulatory violations. Yet, we
continue to see the challenges every month when the Board
has a public meeting that the casinos are facing with
respect to incidents of underage individuals and problem or
excluded gamblers who attempt to access the casinos.
And we see no reason to believe that the same issues will not exist in the VGT setting with thousands of locations and with differing oversight than applied to the casinos. The question is how best to deal with these issues given the wide dispersion of VGT retail entities, and we believe that that question of how best to deal with this should be at the forefront of the consideration of this process as it moves forward.

And we don’t necessarily have the answers at this time of how to fix that concern, but we think it’s incumbent that we bring it to your attention so that as the amendment process moves forward, all can be aware of it.

Finally, relative to the funding of regulatory expenses, these expenses are typically borne by the industry, and the Board recognizes the need to be judicious in its expenditure of the industry funds.

For example, in the past 9 years, the Board has not spent its appropriated budget relative to casino gaming and in every year has turned a surplus back into the casinos’ 1401 accounts. And we would expect our Board and our staff to carry that mindset over into the regulation of VGTs and not be heavy-handed in terms of the cost of regulation.

However, this legislation currently provides for a 1.5-percent cap of gross terminal revenue generated,
which in turn would fund the budgets of not only our Board but the Department of Revenue and the State Police and Liquor Control Enforcement.

And we urge caution in this regard, as the cost of agencies to exercise their regulatory oversight does not decrease if revenues fall short of expectations or if there is a downturn in the economy or the gaming market. Nor do we think that agencies should retract their level of oversight at the expense of public safety and the integrity of gaming, again, based upon this cap on cost.

In closing, the Board would continue to implement any policies which the General Assembly and the Governor direct in an efficient and effective manner. We look forward to the process moving forward and assisting this body through the amendment process, and I’m happy to answer any questions.

Thank you.

MAJORITY CHAIRMAN PETRI: Representative Kaufer.

REPRESENTATIVE KAUFER: Thank you, Mr. Chairman.

I know you mentioned about problem gambling, and I know you said you really don’t have recommendations at this time.

I guess, you know, we have the same issue going on. We’re talking about iGaming, and I know we’re working on an exclusion list for online gaming. Is that sort of
what you’re proposing with this, to expand the
self-exclusion program or an ID-type program, which I think
was discussed at one time point with iGaming?

Just---

MR. SHERMAN: Well, the House Bill 1010 does have
provisions in it for the establishment of a self-exclusion
list as well as a mandatory exclusion list.

I guess when we look at it and we look at this
model as compared to what we see in the casinos, casinos
currently have security guards stationed at the entrances.
They have handheld or else hardwired monitors. You swipe a
driver’s license. If an individual -- in a lot of cases,
these devices interface with the excluded-persons list.

REPRESENTATIVE KAUFER: Mm-hmm.

MR. SHERMAN: It will tell the security guard,
you know, again, is the ID fake; are they under 21 years of
age; are they on an excluded-persons list.

This version of House Bill 1010 provides that a
facility -- and I’m not making any judgment on it. It is
probably related to the cost of the units. A facility
can’t be required to have a scanner device to check the IDs
of individuals.

REPRESENTATIVE KAUFER: Did you say it can be
required?

MR. SHERMAN: They cannot.
REPRESENTATIVE KAUFER: Cannot be required to have that.

MR. SHERMAN: Yes. In the current version. So those are some of the differences there. 1010 has a provision that you won’t have a situation where an individual wins on a VGT and then goes to the bartender to collect money. Rather, they go to the terminal, the ticket redemption terminal, put their ticket in, and it reads the ticket and gives them the cash.

We’re all in favor of that, because it takes one more avenue for misconduct out of play, or the improper reporting of revenues and the handling of revenues. It’s all done and recorded by the computer system and handled by the machine.

But as a result, you also don’t have the situation that you see at a casino where somebody may go up to the cage to cash the voucher in. There is just less opportunity for direct interpersonal contact in this, which we believe does raise the issue of whether or not underage gaming and problem gaming can be dealt with in the same way it’s done in the casino. And again, not to say it can’t be, it’s just a difference.

REPRESENTATIVE KAUFER: Well, I just have one quick follow-up because I want to understand this a little better.
So at the casinos, they have the card swipe, is what you’re saying. The security guards might have that, which can interact with the self-exclusion list is what you’re saying.

MR. SHERMAN: Yes.

REPRESENTATIVE KAUFER: But you’re saying currently in the legislation, that card swipe cannot exist within the facilities.

MR. SHERMAN: We cannot require it.

REPRESENTATIVE KAUFER: Cannot require it.

MR. SHERMAN: Correct.

REPRESENTATIVE KAUFER: But the places could be fined if they were found out to be doing---

MR. SHERMAN: Absolutely. There are fines for the licensed establishment that could be up to $5,000---

REPRESENTATIVE KAUFER: Okay.

MR. SHERMAN: ---if they are in violation.

REPRESENTATIVE KAUFER: Thank you. I’m just trying to understand exactly what we’re looking at.

Obviously, problem gaming, I think everybody is sick of hearing me speak about this on this Committee, but it’s certainly an area of interest of mine.

But thank you for answering those questions.

MAJORITY CHAIRMAN PETRI: Representative Kortz.
REPRESENTATIVE KORTZ: Thank you, Mr. Sherman, for your testimony today.

Sir, with the thousands of potential operators that can go to these VGTs, are you going to have to hire some additional people to do background investigations?

MR. SHERMAN: I think it would be fair to say that we’ll have to look to hire some people. The number, we don’t know.

And really, I think the issue there is, until we start getting applications in, we don’t know what we don’t know.

REPRESENTATIVE KORTZ: Okay. Thank you. Thank you, Mr. Chairman.

MAJORITY CHAIRMAN PETRI: I have a couple of questions.

First of all — and I’m not criticizing if you haven’t — have you talked to the Illinois regulators to understand what they encountered early on in order to understand what difficulties you might be facing?

MR. SHERMAN: To my knowledge -- I have not, and to my knowledge, we have not as a Board at this point.

We have reviewed various publications related to the Illinois experience, reviewed their regulations, but not had face-to-face contact at this point.

MAJORITY CHAIRMAN PETRI: Okay.
My next question, and maybe it’s the lawyer in me; I can’t help myself. You used the term twice to “be cautious.” Can you put a measure of how serious you mean about when you say “be cautious”? So that could range from “please don’t do this” to “figure something out.”

MR. SHERMAN: I think it’s probably a lot closer to “figure something out,” that I think all the stakeholders, if we’re going down this path, all of the stakeholders really need to have the discussion of, what are the best ways to do it to minimize the risk.

But again, I think it can be handled, from our perspective. It’s just really a matter of dealing with those public policy issues.

MAJORITY CHAIRMAN PETRI: Okay.

So one of the things that I’m concerned about with regard to all the proposals is timing. Do you have any idea, based upon the Illinois experience, how long you think it would take, once the legislation is passed and assuming either the lawsuits have been wound up or there are no lawsuits, how long it would take before we would see the first facility open?

MR. SHERMAN: Oh, facility open? I couldn’t even begin to hazard a guess.

Right now, there are provisions in House Bill 1010 that state that the Board has to accept applications
within 60 days of this act becoming effective. For us, I think that’s problematic, because first we have to draft the regulations; get all of the temporary regulations in place; formulate, you know, what we need in terms of the application material. That’s a lot to do in 60 days while we’re still regulating the casino industry.

And if anybody knows anything about our hiring process, because of the background process we go through for our own employees, between fingerprinting and drug testing and extensive background investigations before we can hire someone, the likelihood of us, once we know that this would be a go, to be able to get that additional staff into place, 60 days is probably pretty tight.

And then there may be another 60-day provision in here for the Board to start granting conditional approvals for facilities.

So I, by no means, would say that it can’t be done, but I think it would be a Herculean task to get it done in those timeframes.

MAJORITY CHAIRMAN PETRI: Well, I don’t want to put words in your mouth, but it sounds as though you and the Board have not yet determined how many employees you’ll need, how much it might cost, and how long it would realistically take to do a proper job.

MR. SHERMAN: I think that’s fair, because we
don’t know, again, is the market going to dictate that
we’re going to get 500 applicants or is the market going to
say we’re going to get 5,000? And that’s really the
question of the day, of the year: What should we expect?
Because we certainly don’t want to hire a lot of people and
then end up saying, sorry, guys, we don’t have enough work
for you.

MAJORITY CHAIRMAN PETRI: To the strong extent
that the Legislature can, at least as one individual in the
Legislature, I would encourage you and your staff to reach
out to Illinois and talk to them about what their
experience is and see how you think that applies to
Pennsylvania, both with regard to cost and staffing and the
like.

The last thing I think any of us want is
legislation to be enacted that we then later turn around
and say, boy, we really messed up there; we should have
taken our time and the like.

And so I think the Committee, in speaking to
other Members of the Legislature, really has to have a good
handle on what the cost is going to be; what the realistic
time is. We don’t want to rush to judgment. On the other
hand, I don’t think we necessarily want, you know, a
process.

But given Illinois’ 2 years of litigation, and
then what I was told, 3 years before they were able to get through the process. I understand why, you know, the authors of the bill want to make it quicker, because they’re trying to drive revenue to the State. But on the other hand, we don’t want to rush to judgment.

MR. SHERMAN: Yeah.

MAJORITY CHAIRMAN PETRI: Any other questions?

Okay. Well, thank you for your testimony.

MR. SHERMAN: You’re welcome.

MAJORITY CHAIRMAN PETRI: And if you do come up with recommendations, could you submit them to both the Chairman and I.

MR. SHERMAN: We certainly will.

MAJORITY CHAIRMAN PETRI: Thank you.

Our next testifiers will be a panel. We have Paul Jenson, who is a Partner with Taft Stettinius & Hollister; Richard Teitelbaum, President of the Pennsylvania Video Gaming Association; Eric Schippers, Senior Vice President of Public Affairs and Government Relations at Penn National Gaming; and Sean Higgins, Chief Counsel for Golden Entertainment.

Gentlemen, whoever wants to proceed first. When you’re ready, go ahead.

We’ll hold questions until the panel has completed their testimony.
MR. JENSON: Thank you for allowing me the opportunity to address you today about the proposed video gaming bill that, if passed, will bring the opportunity to small businesses across Pennsylvania while raising hundreds of millions in tax revenue for the Commonwealth and local units of government.

My name is Paul Jenson, and I am an Equity Partner at Taft Stettinius & Hollister. I reside in Chicago, but Taft has offices across the Midwest.

I’m also the Chairperson of Taft’s national gaming practice. Our gaming practice is broad and varied in that we represent casinos and other gaming operators, lenders, investors, States, cities, manufacturers of gaming equipment, and other interests related to the gaming industry in many jurisdictions.

Most importantly for today, however, is that a significant portion of my time, since 2009, has been spent within Illinois’ video gaming industry.

The Illinois Legislature passed our Video Gaming Act in July of 2009, but for a variety of reasons, the industry did not become operational until October 2012. Since then, Illinois’ video gaming industry has grown steadily. As of April 21, 2017, there were 6,019 licensed video gaming establishments hosting an aggregate of 26,350 video gaming terminals, or VGTs.
In 2016, Illinois’ video gaming industry generated almost $280 million in State and local tax revenue. In the first quarter of 2017, it generated approximately 79 million in tax revenue, which projects to over $315 million if annualized.

Please note that we have a 30-percent tax rate in Illinois’ video gaming industry. The Pennsylvania bill as currently contemplated has a 34-percent tax going to the Commonwealth and an additional 4 percent going to local governments.

The proposed video gaming bill in Pennsylvania is largely patterned after Illinois’ Video Gaming Act because we know that the Illinois model works. However, we believe the bill before you includes many improvements whereby Pennsylvania can learn from Illinois’ experience. We believe Pennsylvania’s video gaming industry could be even more successful than what we have experienced in Illinois.

One of the similarities is that the Pennsylvania bill includes the same three-tiered system of operations used in Illinois. The Pennsylvania Gaming Control Board, just like the Illinois Gaming Board already does, will be asked to license companies to, one, create and sell VGTs; two, operate VGTs; and three, host VGTs for play.

Like Illinois, the bill directs the Pennsylvania Gaming Control Board to conduct a deep and rigorous
licensing examination on companies and individuals who want
to participate in this business. This investigation is the
equivalent of a regulatory proctology exam, just like what
is experienced by Pennsylvania’s casinos and, frankly,
almost any other gaming company in the U.S.

At the end of this process, Pennsylvania’s video
gaming industry will be comprised of companies and
individuals who are responsible and suitable to be involved
in gaming. It will undoubtedly include large casino
operators as well as small but stable businesses with an
opportunity to grow. Illinois’ video gaming marketplace is
vibrantly competitive, and we expect the same to occur in
Pennsylvania if this bill becomes law.

The Pennsylvania Gaming Control Board will have
significant discretion to help shape a video gaming
industry here. We have seen the Illinois Gaming Board do
exactly that in Illinois. We have worked collaboratively
with the IGB’s staff and have seen improvements in our
regulatory environment every year. I have no doubt the
same development would occur here with the PGCB, which is
already widely regarded as one of the best Gaming Boards in
the U.S.

Key differences:

In Illinois, the maximum bet that can be made is
$2, while the maximum jackpot that can be earned on any one
spin is 500. As Chairman Petri noted, the Pennsylvania bill includes a max bet of $5 and a jackpot of up to a thousand dollars per spin. These increased numbers simply allow for the math models within the VGTs to perform better so terminal operators can offer better odds to players for certain bets. Illinois is likely going to amend its law to increase its limits in similar fashion -- we hope.

In addition, Illinois allows for municipalities to “opt out” of the Video Gaming Act. Actually, the Illinois Gaming Board interpreted the language to essentially make Illinois municipalities affirmatively “opt in” in participating in video gaming. This was one of the many reasons for the delay in the industry becoming operational after the act passed.

It also gave me the opportunity to visit some very small towns in parts of Illinois that I never knew existed. Nevertheless, places like Chicago, where almost 33 percent of our liquor licenses reside, have not yet opted in to video gaming. This will almost certainly happen in time, but significant revenue is being lost every day until this happens.

In contrast, the Pennsylvania bill does not allow for an opt-out, so video gaming will be available to local businesses throughout the Commonwealth. Each location will be allowed to make the business and personal decision for
itself about whether to participate.

As mentioned earlier, it took over 3 years from the passage of the Illinois Video Gaming Act to the first day of play for VGTs. We believe that Pennsylvania would dramatically shorten this delay. The Illinois Gaming Board was not properly funded to regulate this brand-new industry. The same people who were tasked with regulating Illinois' casinos were now being asked to develop video gaming regulations and investigate thousands of applicants, essentially in their spare time.

This should not be the case in Pennsylvania. The bill calls for the PGCB to receive significant upfront funding as well as an ongoing revenue stream from the industry when it becomes operational.

The Pennsylvania bill also addresses and provides more adequate funding for responsible gaming than what we have in Illinois. The IGB has spent considerable time in researching this issue and is beginning to implement ideas to promote responsible gaming.

Pennsylvania's bill already would provide for some of the things we are considering in Illinois. In addition, the PGCB is likely to benefit from the IGB's work in this area and could implement other ideas.

As you can tell, I could continue for hours but will conclude with this:
We understand that like Illinois, before the passage of our Video Gaming Act, Pennsylvania already has gray gaming in many of its taverns, VFWs, fraternal organizations, and other places. These games are being operated by unregulated people and are not taxed. The games are often old and have extremely low payoff rates, so patrons are not being treated fairly.

The video gaming bill provides Pennsylvania with a way to provide intense regulation to this existing industry and generate massive amounts of tax revenue. It also provides a legitimate opportunity for small businesses across the Commonwealth to participate.

Thousands of jobs will be created or retained. Businesses will be able to reinvest in themselves and offer their patrons improved environments. They also will be hiring businesses in other industries to accomplish this. This bill truly represents multiple opportunities for Pennsylvania to improve its business environment and grow its tax revenue base.

Thank you again for allowing me the opportunity to speak today.

Rich.

MR. TEITELBAUM: Thanks, Paul.

Chairmen Petri and Harkins and Members of the House Gaming Oversight Committee, I would like to take this
time to thank you for allowing me to come here and speak.

My name is Richard Teitelbaum, and I am the President of the Pennsylvania Video Gaming Association, as well as the owner of Lendell Vending Company. I operate jukeboxes, video games, and ATM machines in restaurants, bars, VFWs, American Legions, and c-stores in the Philadelphia and surrounding communities.

Amusement operators like myself have been advocating for the placement of VGTs in liquor-licensed locations and truck stops for many years now. Our organization, along with other groups, has worked tirelessly advocating for many items in House Bill 1010.

It is easy for me to tell you with full implementation of House Bill 1010, the State would generate $400 million a year for Pennsylvania from VGT revenue, and our model would deliver a 4-percent local share for all 67 counties. What isn’t as easy to explain in detail is the amount of other benefits to the State.

Nonetheless, if we look to Illinois, where a similar operator-based system was implemented in September of 2012, the building trades were affected. To set up a location, carpentry and electrical work will need to be done in most establishments, which will have an immediate impact on the building trades.
In addition to the locations generating revenue from VGTs, they will also benefit with additional food and drink sales. The additional business in the locations is going to require these locations to hire additional people to handle the extra customers.

Looking back to Illinois, now a few short years into the implementation, many locations are now putting money back into their businesses for the first time in many years. In many years, many locations have become more profitable and are able to make major capital improvements. This has caused a dramatic slowdown in the turnover of these businesses. There are certainly many more benefits than what I just described.

The industry that I work in has been hit very hard over the last 5 years. The changes in business regulations, smoking laws, and liquor taxes in some municipalities have really hampered the profitability for these locations. The continued rise in liquor-license costs is making it hard for the mom-and-pop businesses to survive.

These small companies bring in millions in tax revenue and are key to the healthy bottom line for this State, and they need your help. This industry employs hundreds of thousands of hardworking taxpaying citizens. They need the passage of this bill to survive. All
Pennsylvania operators rely on liquor-licensed establishments being successful.

As far as my own industry, our respective companies will handle all aspects of the operations. Operators will purchase and service the machines. We will help locations prepare their gaming area. We will coordinate with the State for approval and setup of the terminals. We will provide redemption terminals and the funds to inventory them, collections, repairs, and the distribution of revenue to the locations and State.

It will be necessary for us to hire many new employees to support this industry. These new employees industrywide and the building trades will continue to add millions of wage tax revenue to our Commonwealth, putting people back to work. The typical gaming operator is a vital part of the partnership between the locations, the Commonwealth, and the operators.

If you look into the current LCB liquor license transfer list, many licenses are transferring to supermarkets and c-stores. They are the only ones that can afford them. We cannot afford to lose an industry. Illinois has embraced this change, and it is working. It is in Pennsylvania’s best interests to diversify its gaming portfolio to ensure its long-term viability. I, along with my organization, can deliver that
for the Commonwealth.

Thank you for your time.

MR. SCHIPPERS: Chairman Petri, Chairman Harkins, and Members of the House Gaming Oversight Committee, I appreciate the opportunity to be here today to testify.

My name is Eric Schippers. I am the Senior Vice President of Public Affairs and Government Relations for Penn National Gaming.

We are headquartered a short drive from here in Wyomissing, right outside of Reading. And our company was founded in 1972 as the owner and operator of the Penn National Race Course, which is a short drive from here as well. And that evolved our company from a single racetrack there to what is today one of the nation’s largest regional gaming operators, with everything from horse racing to riverboat casinos, stand-alone resorts, a very broad-based portfolio that includes 28 facilities in 17 different jurisdictions across the country.

But we’re very proud of our namesake property at the Hollywood Casino, Penn National, in which we invested over $350 million and employ approximately 1,000 Pennsylvania residents. That’s where our story began.

I mentioned the 28 facilities in 17 jurisdictions. One of those is the State of Illinois, and
that’s what brings us here today. We witnessed and experienced firsthand the advent of retail gaming, which has grown into a now billion-dollar-plus industry there over the last 5 years.

And initially, as that legislation was being debated, we stood by and watched and saw that it was enacted without any feedback, input, or concessions for the casino industry. And shortly after the law went into effect, we saw the cannibalization that occurred to our three land-based casinos there and watched as the proliferation continued around the State.

Meanwhile, this industry was being quickly embraced by the gaming regulators there. It was being embraced by the local communities who appreciated the new revenues. And recognizing that retail gaming was here to stay, that it was now a legitimate industry in this State, we had a choice. We could either bury our heads in the sand and allow the cannibalization to continue, or we could, as what we hope is smart business people, look for an opportunity to create value for our shareholders and mitigate the impact that way.

In fact, we eventually decided to purchase a retail gaming route operation in 2015, and today we operate over 1,500 VGTs in Illinois in addition to our three casinos there.
As I mentioned, unfortunately, the casinos in Illinois had no seat at the table during the retail gaming debate, and the VGT legislation that ultimately was approved contained nothing to address the negative impact it has had on our business and the other casinos in the State.

Now, there are dueling impact studies that often, when it comes to the subject of retail gaming, you hear on both sides. One is that the cannibalization can be as high as 18 percent. On the other side, you hear as low as 5 or 6 percent. I can only tell you, from our actual experience in Illinois, the impact has been approximately 8 to 10 percent of our riverboat casino business there that has been cannibalized.

So having learned our lesson in Illinois, we were willing to sit down with those advocating for retail gaming here to see if we could find common ground on such things as regulatory parity in terms of background checks and other licensing requirements, as well as compliance, responsible gaming, including self-excluded patron issues and political contribution bans that all of the Pennsylvania casinos must adhere to. And most importantly, to include provisions that will help offset the impact to the casinos here should this legislation ultimately be approved.
Now, it is obvious by my appearance here today with a panel full of VGT advocates that we are somewhat unique in our belief that we should be at the table as this is being debated as opposed to just oppose it outright, and we respect and appreciate the concerns of other casinos who have come to the determination to simply fight as opposed to push for concessions. As I said, we have a unique perspective in that. We saw what happened in Illinois when we sat out that game. We wanted to be involved in the debate here.

And listen, I’ll be the first to recognize that our casino here is in a more rural location than some of the other casinos who have a different perspective based on geography. And we are now, we have crossed the Rubicon in Illinois. We are in the VGT business, so we do have a unique perspective from that regard.

But still, we firmly believe we would be doing a disservice to our shareholders, given the perennial debate on gaming expansion in the bars and taverns here in Pennsylvania, if we didn’t at least try to find a way to protect our existing investment in Pennsylvania and seek to generate new value from this industry should the Commonwealth ultimately decide to go down this path.

So as it specifically relates to addressing the cannibalization at the casinos, House Bill 1010 in its
current form -- which, to be clear, we support in its
current form. To the extent that there are amendments or
changes made, we certainly reserve the right to reevaluate
our position at that time. But as it stands today, we are
in support of the bill, given that it would lower the base
slot machine tax rate for casino operators by 5 percent.

In addition, given the rapid expansion of the
gaming footprint in Pennsylvania, it would eliminate the
final Category 3 resort license and delay the possible
relocation of the final Category 1 license for 3 years.
This will provide time for the Commonwealth to absorb and
better understand the impact of the new competition that
the authorization of retail gaming would bring.

HB 1010 also creates a robust regulatory
framework, as you heard earlier in testimony, that includes
a player tracking system and a proactive effort to
eliminate up to 40,000 illegal machines currently in use in
licensed beverage establishments across Pennsylvania. We
believe this could drive increased revenues for the
Commonwealth and help to crack down on illegal gaming being
conducted here in the Commonwealth.

I would like to thank you for your attention and
consideration of my testimony this morning. We certainly
recognize the complexity of this issue and appreciate the
concerns, as I mentioned, of the other casino operators in
the Commonwealth.

But in summing it up, as a casino and a retail
gaming operator, we believe HB 1010 strikes a good balance
between helping to mitigate the negative impacts to the
casinos while providing a possible new source of revenue to
the Commonwealth.

With that, I will answer questions when we’re
done.

MR. HIGGINS: Thank you, Chairman Petri, Chairman
Harkins.

Sean Higgins, Executive Vice President and
Chief Legal Officer of Golden Entertainment, Inc.

A little background.

Golden Entertainment, Inc., is a publicly traded
company. We are in both the casino and, as Eric calls it,
retail gaming. We call it distributed gaming. You’ll hear
several different terms used.

We’re actually one of the largest distributed
gaming operators in the country. We operate approximately
11,000 VGTs, as you call them here, in Nevada and Montana.

We also are the largest operator of taverns in
the State of Nevada. We own and operate 60 of our own
taverns, and we have casino properties in Maryland and the
State of Nevada.

A little background on myself:
I have been involved in the distributed gaming industry since 1990 in the State of Nevada, and obviously that was the first State in which, again, I’ll call them VGTs were legalized and operated. And I think I have a unique understanding of the process as a whole and the operation of VGTs in competition with casinos, since we’ve been doing it there in that State since the late seventies.

What I want to do is touch on some areas of concern which I have heard voiced from Members of this Committee and hopefully allay some of the fears that some of the Legislators have. The first thing I want to do is take a look at problem gambling.

I want to have you understand, problem gambling is something that distributed gaming operators take very seriously. Through the course of my career, I have served on the Nevada Governor’s Problem Gambling Advisory Committee. I also served on the Board of Directors of the Nevada Council on Problem Gambling.

When Nevada, which was the first in the country, started implementing problem gambling training and awareness, the Nevada Council on Problem Gambling was tasked with coming up with both programs for casinos as well as distributed gaming locations, or bars and taverns. And we were involved from the very start in implementing
that program, training every employee at every tavern, and
going through it.

I hold up here today and I will make available a
brochure. When you walk into a retail establishment in the
State of Nevada, these will be right next to the gaming
area, in the gaming area, available for patrons, available
for employees to hand out to patrons. It discusses problem
 gambling. It discusses the symptoms of problem gambling.
It gives you a hotline to call if you feel you or someone
you know may have a gambling problem.

So the fact is, people at these retail locations
are not sticking their head in the sand with regard to
problem gambling. We face it head on, and we believe it
has been a useful tool over the course of the last two
decades in the State of Nevada.

The second issue and somewhat related is underage
gaming. I will proffer something that no one has said.
With five gaming devices, you will have a minimum of one
person overseeing those five gaming devices, normally
within 5 to 10 feet of those gaming devices. I challenge
you to sit on a casino floor at a game and see how often
someone on that floor is within 5 to 10 feet of you.

The fact of the matter is, Nevada, Montana, Illinois, every one of those operators of those liquor
establishments has a vested interest to ensure that
underage gaming does not occur. Why? Because they can lose their license.

A gaming license in the State of Nevada is a revocable privilege, much like it is in Illinois, and I’m sure the same here. So the fact is, you know, there is not an incentive to do it, and there is actually more direct oversight at a location like this than there would be on the floor of a casino.

With regard to licensing of both the terminal operators and the location, we are in favor of robust licensing, and we agree that this bill, House Bill 1010, adequately covers that. It requires full background checks on your terminal operators, your gaming manufacturers, many of whom are currently licensed here and supply games to your casino industry, as well as the tavern operators.

This is an industry that we like to have in the full light of day. We as operators in other States and other jurisdictions cannot do business and are held to a higher standard of who we do business with, and we are not willing as operators, and I’m sure the other gentlemen sitting at this table would say the same thing, to do business with unsavory characters. And we are not willing to put our gaming licenses in any State in the country at risk to do business with people who intend to bring disrespect on the gaming industry.
Cash management is something that I believe the gentleman from the Gaming Control Board hit on, and that’s one of the things we take seriously. Operating in over 1,000 locations, we do no cash handling or cash counting at the location. Our cash is all remotely handled by cassettes with drop teams, taken to a secure vault. The fact of the matter is, with the dispensers, cash dispensers, your bartenders or other servers are not handling any cash at the location.

Additionally, our locations all have TI/TO. We call it Ticket In/Ticket Out, and if you have gone to a casino, you have probably seen these. The fact of the matter is, we’re also set up to our own central computer system, much like the State of Pennsylvania uses for its casinos, and we can monitor every single game on our route, over 10,000 games, real-time, and can pull up any one of those games and tell you the history of it and who’s playing on it right now and what it’s doing. So the fact is, the cash handling and the accounting functionality and auto functionality with this are second to none.

With regard to cannibalization, you know, I’m not going to sit here and argue that there will be no cannibalization. But the fact of the matter, having been in this industry for over 27 years, the gamers in distributed gaming or VGT locations are not identical to
your gamer in a casino operation. They simply are not. But obviously when you introduce additional gaming devices into a market, you will have some people who find it more convenient to go to a VGT location than they do to a casino.

In Nevada, we have had this issue for over 40 years and obviously have coexisted. We have got 20,000 games in the State of Nevada in retail locations, and there are 190,000 games in casinos throughout the State of Nevada, and both of those markets are growing.

You know, I’ll point to Illinois, because that seems to be the bellwether. The fact of the matter is, look, anyone can pull up their website and find it clearer. Out of a $1.5 billion casino industry, they may have lost $100 million while VGTs have brought in 1.1 billion of grossed-in revenue. So I would call that growing a market, even if there is some cannibalization. I think that’s what the State of Pennsylvania should look at when they’re looking at the industry as a whole.

In closing, HB 1010 and VGTs are good for the State of Pennsylvania. They’re good for the State. They allow a vehicle to get rid of illegal and other games that are currently proliferating throughout the State and which the State is receiving no tax revenue for. They increase the tax base to the State of Pennsylvania. They’re good
for local municipalities, both county and city, in the State of Pennsylvania.

They're good for liquor establishments. It has shown that VGTs, at least in our State, when you add VGTs to a location, food and beverage tend to increase sales as well as employment numbers.

They're good for the amusement operators. We are currently dealing with several Pennsylvania-based amusement operators as partners in this venture as we try to move forward here, and it will be an added benefit for those.

They're obviously good for the construction industry, as Mr. Teitelbaum hit on earlier. Every location will require some construction, some electrical work, and they will add all those.

And finally, they're good for the employment base in the State of Pennsylvania.

I do appreciate you allowing me the time to testify here today, and I would be happy to stand for questions from the Committee.

Thank you very much.

MAJORITY CHAIRMAN PETRI: Okay. We're going to start with Representative Hill.

REPRESENTATIVE PHILLIPS-HILL: Thank you, Mr. Chairman.
Thank you, gentlemen. I appreciate your testimony today.

Mr. Schippers brought up in his testimony that there would be a reduction in the base slot machine tax rate for casino operators by 5 percent, and that would reduce it down, I believe, to 29 percent. That slot machine tax is what we use to fund the Property Tax Relief Fund that provides property tax relief to our residents across the Commonwealth. And in doing so, I am told that there is a hold harmless for that Property Tax Relief Fund with the implementation of this bill.

Now, as a Legislator from York County, no two words strike more fear and terror in my heart than “hold harmless,” because of course you know that since 1991, that hold harmless provision in the school funding formula has really shortchanged us and caused our property tax rates to go up exponentially because we have not received our fair share of funding from the State.

I don’t know if these gentlemen are the most qualified to respond to this, but can -- or perhaps it’s staff -- but can you articulate how that will impact property tax relief across the Commonwealth?

MR. SCHIPPERS: So let me start by just providing context.

The current blended slot tax rate is around
54 percent. The base -- because there is money in there for per subsidies, there is money in there for regulatory fees, so we’re paying about 54 percent as casinos today. The base slot tax rate is what gets reduced from 34 percent to 29 percent. And there is a provision in there that would provide a hold harmless for those communities to make whole on the property tax relief.

Josiah, from a staff standpoint, do you want to drill down deeper on that?

MR. SHELLY: Yeah.

I don’t have exact numbers, but basically how the hold harmless would work is every year, you would look to see what was -- before we reduce the taxes, we look to see what was in the State Gaming Fund, which is where we get the money for the property tax relief, see how much was in the State Gaming Fund, and then index that amount to inflation for each subsequent year. And whatever is needed, we’re going to be pulling out of the Video Gaming Fund, which is where the VGT taxes go.

REPRESENTATIVE PHILLIPS-HILL: So essentially we will still see some increase in---

MR. SHELLY: You will see the State Gaming Fund grow, index to inflation, using money from VGTs.

REPRESENTATIVE PHILLIPS-HILL: So there are some people who would assert that there was a promise that was
made that more revenue was to be provided into property tax relief when table games came online and that the full amount of property tax relief was really never realized. So basically we’re saying we don’t anticipate any more revenue from this bill coming into property tax relief, but it will continue to grow with the rate of inflation.

MR. SHELLY: Correct.

REPRESENTATIVE PHILLIPS-HILL: Thank you, Mr. Chairman.

MAJORITY CHAIRMAN PETRI: Representative Wheeland.

REPRESENTATIVE WHEELAND: Thank you, Mr. Chairman.

Mr. Schippers, what other cause could be attributed to the decline in the Illinois attendance and gaming revenue that occurred prior to the VGTs being introduced?

MR. SCHIPPERS: Yeah. Thank you. I should have clarified that.

The 8 to 10 percent is after taking out some of what we’ll call noise, general macroeconomic softness, trying to look at other regional markets in that area and what the decline is there. It could be an ongoing impact of the smoking ban, et cetera. So trying to isolate out
that noise and just look at the increased competition is how we estimated 8 to 10 percent of cannibalization.

REPRESENTATIVE WHEELAND: Okay. Because some of the numbers that I’m looking at here, the attendance at the Illinois casinos dropped from 1996 significantly through 2012, which was the year before the VGT operations took effect. So you’re saying that drop-off was because of---?

MR. SCHIPPERS: So we looked at general softness in regional gaming, which with the recession and general economic factors, all of regional gaming took a hit. We isolated that out, because we looked at our surrounding States and the general condition and attendance records, and that’s why we tried to compare the best we could apples to apples with the advent of retail gaming, to make sure that we weren’t just looking at market softness -- smoking issues, all the other noise that could be in the number; increase in tax rates, those sorts of things.

REPRESENTATIVE WHEELAND: Because, and again, the numbers I’m looking at now, which I’m sure you’re not familiar with, but it’s the Pennsylvania Lottery, and, you know, they had significant year-over-year growth as they introduced new games. In other words, they freshened up their storefront, so to speak.

MR. SCHIPPERS: Yeah.
REPRESENTATIVE WHEELAND: And as soon as they stop introducing new things for the consumer, their growth is not as significant.

MR. SCHIPPERS: And I would argue -- this is my argument: that a Lottery customer is a very different customer than even a retail gaming or a casino customer. Our customers who come to our facilities have a higher degree of discretionary income that they’re going to come out and spend and spend a Friday night, have a nice dinner.

Somebody that is buying a Lottery ticket is seeking a change-of-life payout at that occurrence. It’s not really an apples to apples to compare. Maybe a downfall in casino visitation and an increase in Lottery, I would argue that that’s apple-orange types of comparison in terms of the customer and the customer behaviors.

REPRESENTATIVE WHEELAND: And I was only using that as an example from my business background, that as you market, you sell to customers---

MR. SCHIPPERS: Mm-hmm.

REPRESENTATIVE WHEELAND: ---you must continually change, modify, improve your product to enhance additional purchases. That’s my only point.

I just thought it was interesting looking at the two numbers. But thank you very much.
MR. SCHIPPERS: Sure.

REPRESENTATIVE WHEELAND: Thank you,

Mr. Chairman.

MAJORITY CHAIRMAN PETRI: Representative Dunbar.

REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

Mr. Teitelbaum, in your testimony you had said something to the effect that it would be easy for you to tell us how the VGTs will produce $400 million in revenue for Pennsylvania.

I was just curious. Just to make sure what we’re talking about, that 400 million, is that net, of the cannibalization we heard of, is that net of what Representative Hill was talking about, because obviously the VGTs are going to have to at least backload the property tax.

MR. TEITELBAUM: Well, in Illinois, I believe there is roughly 7,000 locations with VGTs. The State is roughly generating 30 percent of that. The State’s share is over $60,000 per location, and just multiplying the 60,000 times 7,000 locations---

REPRESENTATIVE DUNBAR: Okay.

MR. TEITELBAUM: I mean, there’s a basic number.

REPRESENTATIVE DUNBAR: Okay. That’s fair.

And it was 60,000 per location. That’s not like a per-machine number or---?
MR. TEITELBAUM: No. That is if you go on the IGB’s website and you take the amount of locations versus the win and just do the math.

REPRESENTATIVE DUNBAR: Yeah.

And do we have any projections based upon Pennsylvania and per machines, what the higher rates, what the higher payout and higher bet numbers? Do we have anything in that regard?

MR. TEITELBAUM: As of right now, I mean, we are estimating, or guesstimating, I think somewhere between 6,000 to 7,000 locations to, you know, put these machines in. So similar to the Illinois numbers, after full implementation.

Paul.

MR. JENSON: I was going to say, Representative, we have a Union Gaming report that’s out there that’s actually in the process of being supplemented. I think we’re going to be releasing that to you very soon, and the numbers will contemplate how the bill has changed since previous versions. So we’ll have a better understanding of the exact number in the very near future.

REPRESENTATIVE DUNBAR: Yeah. And I think that’s very important for everybody. Because it’s easy to toss numbers around about what projected revenues are, and what we don’t want to do, as Representative Mustio said, is
have a situation where we have over-promised and
under-delivered. So I think it’s important that we have a
good solid basis for any numbers we’re putting out there.

MR. JENSON: Absolutely.

REPRESENTATIVE DUNBAR: Thank you.

MAJORITY CHAIRMAN PETRI: If I can follow up.

You said something, and we’re just conferring notes.

What report are you referring to, so that we
know?

MR. JENSON: There was an analytical report by
Union Gaming. It was basically a market study, how it
would -- an economic impact study effectively, and that is
being supplemented as we speak. And we think in the next,
you know, week or so, we’ll have something for you and your
review.

MAJORITY CHAIRMAN PETRI: Will that report
reflect the changes that are being proposed under this
legislation into the funds?

MR. JENSON: Yes.

MAJORITY CHAIRMAN PETRI: Okay. And will it also
analyze the impact -- positive, negative, or neutral -- on
the Property Tax Relief Fund?

MR. JENSON: Ah, I believe so, but I’m not
positive about that.

MAJORITY CHAIRMAN PETRI: Okay; okay.
REPRESENTATIVE DUNBAR: Mr. Chairman, my understanding is the Property Tax Relief Fund is not going to have any negative impact because of the hold harmless.

MAJORITY CHAIRMAN PETRI: Well, that’s the intent of the bill. The question I have, candidly, is, you know that the spigot is going to turn on at some point in time. You don’t know when and you don’t know how much, so what happens in the interim? And so I think you need almost a yearly analysis of the impact.

REPRESENTATIVE DUNBAR: And I agree, because I think the issue really then is, how much dollars are we going to have to take out of the VGT Fund to backfill that fund.

MAJORITY CHAIRMAN PETRI: Exactly.

So if you can get us that report, then we can circulate it among stakeholders and see if everyone agrees, which I will be amazed if they do.

Representative Neilson.

REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

Thank you, gentlemen, and welcome to Pennsylvania. I hope after you’re done your testimony today you take a little drive around the community right here by the Capitol and look at some of these establishments of where you’re proposing and you’re saying they should go, because you’ll see some of the communities
that aren’t as good off as others. And the people are
hanging out there right now, right outside some of these
licensed facilities, and unfortunately if they get a
dollar, maybe they’ll be going in and playing some of your
machines.

A couple of questions, if you may bear with me.

A little surprised today about the testimony from
Penn National. A little surprised. A change of heart from
last year. Can you explain to us why the change of heart,
because we gave you a seat at the table. That’s why you’re
here today.

MR. SCHIPPERS: Yeah.

REPRESENTATIVE NEILSON: So it’s not that we
don’t have one.

MR. SCHIPPERS: No; I appreciate that.

REPRESENTATIVE NEILSON: Why the change of heart?

MR. SCHIPPERS: Last year’s legislation contained
no concessions, no mitigation for the casinos. This year
was a significant difference in the 5 percent slot tax
reduction and the delay of the additional gaming that would
be coming down the pike.

REPRESENTATIVE NEILSON: You talked about an
8- to 10-percent cannibalization that hurt your casino and
probably hurt your bottom dollar. If we increased our
54 percent to 59 percent, would that be better for you? If
we just asked you for 5 more percent of your revenue?

So rather than put all these other machines in the communities and all, just stick with the casinos and say, okay, look, give me 5 more percent, because that would save you money, right?

MR. SCHIPPERS: No. We would rather have an opportunity to try to realize some upside as opposed to just getting hit with a tax increase, which happened to us with the table games last time when nothing passed and there was a standoff. We ended up getting a tax hike on our table games.

And so we look at it as if there is a decision to expand gaming, is there an opportunity to not only mitigate the downside but realize some potential upside for our shareholders.

REPRESENTATIVE NEILSON: All right. So your shareholders and your upside, I guess that’s -- there was an article that ran here in the Reading Eagle in ’15, 2015, when you acquired your VGT company.

MR. SCHIPPERS: Mm-hmm.

REPRESENTATIVE NEILSON: At that time, you had 1,100 terminals in Chicago. How many terminals do you have in Chicago now?

MR. SCHIPPERS: The city of Chicago doesn’t allow for---
REPRESENTATIVE NEILSON: All right. The State of Illinois; I’m sorry.

MR. SCHIPPERS: In the State of Illinois, we’re at 1,500 machines.

REPRESENTATIVE NEILSON: 1,500 machines. And can you tell us the revenue that you get off of that, or I’m sure it’s public somewhere.

MR. SCHIPPERS: No, it’s actually not public. We don’t break out our revenue number by property.

REPRESENTATIVE NEILSON: Not for your shareholders?

MR. SCHIPPERS: Our shareholders receive regional reports of our revenues based on how we break out the numbers from an SEC compliance standpoint.

REPRESENTATIVE NEILSON: The current legislation, our gaming legislation -- and bear with me; I’ll try and get done quick -- limits the amount of licensing that casinos can have. You can’t own so much of every casino.

And one of my amendments probably would be that those 1,100 gaming machines that you would have, if you were to put them in Pennsylvania, they would account towards your casino license as such. I guess you would oppose that kind of -- right?

MR. SCHIPPERS: Well---
REPRESENTATIVE NEILSON: I’m just thinking out loud. You would oppose me saying that, look, Penn National can only have them 5,000 machines because this could put you well over 6,000, 7,000. We don’t even know what that number could be.

MR. SCHIPPERS: Well, two separate things. I don’t think we’re using the full capacity of the 5,000 now.

REPRESENTATIVE NEILSON: Correct.

MR. SCHIPPERS: Secondly, we would oppose an arbitrary restriction on one operator over another.

REPRESENTATIVE NEILSON: The last question, Mr. Chairman, if I may.

The casinos each pay $10,000 under the license to have one slot machine in a casino. For every slot machine, it comes out to about $10,000 per machine. Would Penn National support a $10,000 cost worked into the licensing mechanism of these VGTs in each facility?

So like your casino, you pay $10,000, and I look at us as -- the State of Pennsylvania, not me -- we are a major stakeholder. We’re 55, 54 percent. We own 54 percent of your casino, and we didn’t have to invest a dime.

MR. SCHIPPERS: We’re well aware of that.

Representative; well aware of that.
REPRESENTATIVE NEILSON: And I’m not, I’m just not seeing the payback here. So if I charged you $10,000 per machine to open up your door, I mean, wouldn’t that be a fair cost for us to put on these VGTs for each facility, $10,000 per machine?

MR. SCHIPPERS: It’s a very different model, the VGT model versus the casino model.

REPRESENTATIVE NEILSON: Okay.

MR. SCHIPPERS: So we are supportive of the current breakdown of fees in 1010. We would not be for increasing that.

REPRESENTATIVE NEILSON: Construction jobs.

I’m out of the construction industry, as many of you know. I’m an electrician by trade. They plug into a receptacle. What construction job are you talking about? Is it the construction job where they take it off the truck and put it in, or is it the construction job that they remodel the facility that probably needed remodeling already? I mean, what construction jobs come here?

MR. HIGGINS: Representative, Sean Higgins again. The fact of the matter is, they don’t just plug into a receptacle. The wiring, and we have been out with the amusement operator who we were working with and looked at numerous locations, and the wiring is not adequate to put the five machines in, put all of the necessary wiring
for the central server and central site in, for the
redemption kiosk. All those things have to come back to a
single location. You also are going to have a Wi-Fi there.
So the fact is, there is additional wiring in every single
one of those locations to bring that electrical up to code.

Now, I don’t know of every one, but we visited
five, and every one of those five absolutely required
upgraded electrical -- every single one.

REPRESENTATIVE NEILSON: Right. But in reality,
it plugs into a receptacle in a wall. If you don’t have an
adequate service at your home for an air conditioner and
you had to add in a receptacle, to me, that’s not a
construction job, because that takes about a 2-hour
install, okay?

MR. HIGGINS: Well---

REPRESENTATIVE NEILSON: It takes us 3 years to
build a casino, and here in this legislation which
everybody supports, they are pushing the construction of
casinos, thousands and thousands of jobs offered for
3 years, and I’m just trying to compare apples to apples.

We’re talking about a receptacle and a wireless
phone line that Comcast will put in, the Wi-Fi. I get it,
because I installed it for a living. But, I mean, I just
don’t want the Committee to think all these jobs are coming
with this, because that’s not real. That is not real.
MR. HIGGINS: Again, Sean Higgins. I would respectfully disagree, Representative.

REPRESENTATIVE NEILSON: Yes.

MR. HIGGINS: And I believe each one of these locations will have some actual construction to allow for a VGT area within the bar.

MR. JENSON: Can I add something to that? Just, you know, from an Illinois perspective, again, we have 6,000 locations, and I can tell you that throughout the State, we have seen significant construction in those bars, not only for just improvements because of the revenues that the VGTs have brought in, so the bars are able to put new roofs on; in some cases, expand rooms to more adequately allow for these VGTs, which promotes play and promotes the improvement. We have seen quite a few of those types of projects throughout the State.

REPRESENTATIVE NEILSON: Have you seen crime go up in these neighborhoods where these VGTs -- I mean, I don’t hear anybody talking about crime. Because we noticed that, you know, gaming does, no matter what State you go to, Nevada, it doesn’t matter, but around these bars, like, and facilities where you have them?

And I’ll end with that, Mr. Chairman. I’m going to sit down to hear the answer, because if not, he’s going to cut me off anyhow. I can see it coming. Thanks,
neighbor.

MR. JENSON: Excellent question, obviously, and I can tell you that we really have not.

And I would again encourage the Pennsylvania Gaming Control Board to speak to the Illinois Gaming Board, and I think that that information would be more than forthcoming.

MAJORITY CHAIRMAN PETRI: We’re going to recognize Representative Helm. But before I do so, none of the Members should be shy about asking questions. I like the robust debate. I like the robust answers. And I think our panelists enjoy being asked tough questions.

MR. JENSON: Absolutely.

MAJORITY CHAIRMAN PETRI: So continue.

Representative Helm.

REPRESENTATIVE HELM: Thank you, Mr. Chairman.

In leading up to this, I was really interested in the testimony from Penn National Gaming since Hollywood Casino is in my district, and I was interested, you know, initially Hollywood wasn’t for the VGTs, now they are, and you pretty much talked about that in your written testimony and also added to it with the questioning.

But you say, you know, we support it in its current form, which makes my job a little bit easier, but I also would like to know what we would have to do, if there
are amendments, what would change your opinion of this bill?

MR. SCHIPPERS: Yeah. We think this -- thank you for the question, Representative.

We think this strikes a good balance and includes the right provisions from a concessions mitigation standpoint. We’re going to, if this passes, dramatically alter the landscape of gaming. And so to then, shortly on the heels of that, reissue a new Cat 3 license, who knows where that’s going to wind up. Maybe relocate the Category 1 license. Who knows where that’s going to wind up.

We think this is a good time to hit the pause button if this were to pass, understand how this sort of, you know, unfolds throughout the Commonwealth, and then take a look at the Category 1, which is why that was delayed versus the elimination of the Category 3, because now you have so many more machines that are out there.

So from that perspective, from the reduction in the tax rate to help recoup some of that cannibalization, we think those are the right elements. Where those elements start getting picked apart and removed, we would have to really seriously reevaluate this.

And just one quick thing. I will tell you that the construction jobs, the economic development and model
that was gaming through much of the nineties that existed
at that point, which was thousands of construction jobs,
hundreds of millions of dollars of investment, States have
determined that they need the revenues fast for their
budget crises. And so we wouldn’t be here today, I don’t
believe, had Illinois not turned to the ability to generate
these quick revenues.

Missouri is looking at it now. Ohio has
discussed it. Indiana is beginning to discuss it. We just
look down the road, see a little bit of the writing on the
wall, and say, if we can’t capture now those principles of
helping the existing operators and mitigate some of that
impact, shame on us what comes down the road later. That’s
why we’re here today.

REPRESENTATIVE HELM: Well, I appreciate you
being on board. And you have kept me in contact pretty
much, and I would appreciate if you would continue to do
that.

MR. SCHIPPERS: Thank you, Representative. We
will.

MAJORITY CHAIRMAN PETRI: I’m going to
editorialize a little bit, take a Chairman’s prerogative.

In the Illinois case, so the Members understand
-- I have it directly from the Legislature -- they passed
the bill because they needed to bond a large sum of money

to pay for bridges and roads, which was certainly their prerogative. But whereas they could not get a gas tax bill done like we did, this is what they resorted to. Just so everybody knows why it occurred.

Representative Kortz.

REPRESENTATIVE KORTZ: Thank you, Mr. Chairman.

And gentlemen, thank you for your testimony today.

Mr. Schippers, obviously Penn National wanted to mitigate some of their revenue loss, so you jumped on board early in Illinois. And you stated in your testimony you have 1,500 VGTs in the retail outside of the land-based casinos, correct?

MR. SCHIPPERS: Correct.

REPRESENTATIVE KORTZ: How many VGT slots do you have in your land-based casinos?

MR. SCHIPPERS: That’s a good question. I think -- do we have that number? About 2,500 in each? Oh, total.

About 2,500 total in the riverboats. And then we have table games, of course, in the riverboats as well.

REPRESENTATIVE KORTZ: So a total of 2,500 slots in the three land-based.

MR. SCHIPPERS: Yeah. Between 2,500 and 3,000.

REPRESENTATIVE KORTZ: So you have added another
1,500. I mean, that’s a pretty significant amount of slot machines.

Now, I know you can’t tell us the amount of money, but can you tell us what percentage of the revenue income these 1,500 have added to your portfolio?

MR. SCHIPPERS: It’s a small amount. It’s a small amount. Because of the overall revenues---

REPRESENTATIVE KORTZ: Is it 10 percent?

MR. SCHIPPERS: ---that we’re making at the casino, not only in terms of an F&B and the table games as well as the slot machines versus the 1,500, it’s a much smaller amount.

REPRESENTATIVE KORTZ: Okay. Well, if you compared apples to apples---

MR. SCHIPPERS: Mm-hmm.

REPRESENTATIVE KORTZ: ---if you’re just talking the slots, forget the table games---

MR. SCHIPPERS: Yeah.

REPRESENTATIVE KORTZ: ---can you give us a percentage?

MR. SCHIPPERS: What do you think, Jared?

Yeah; we would have to run the numbers on that and get you an answer. I don’t have it available for you today.

REPRESENTATIVE KORTZ: Okay. Could you get that
back to us?

MR. SCHIPPERS: Sure.

REPRESENTATIVE KORTZ: What percentage it might be as a comparison?

MR. SCHIPPERS: Sure.

REPRESENTATIVE KORTZ: Just the slots in the casinos, the land-based---

MR. SCHIPPERS: Sure.

REPRESENTATIVE KORTZ: ---and the slots that are in the retail.

MR. SCHIPPERS: Absolutely.

REPRESENTATIVE KORTZ: Thank you.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN PETRI: Representative Mehaffie.

REPRESENTATIVE MEHAFFIE: Thank you, Mr. Chairman.

Thank you.

Eric, thank you for doing what you have done as far as with Penn National and Dauphin County and signing that MOU and helping us out with our local share. We really do appreciate that as Representatives of Dauphin County.

My question is, are any of your casinos in Illinois racetracks as far as horse racing?
MR. SCHIPPERS: They are not. There is currently no gaming at racetracks in Illinois.

REPRESENTATIVE MEHAFFIE: Okay.

I think my main concern here is, when you say about cannibalization or it becomes light or however you want to, you know, identify how it has hurt you a little bit, up to 10 percent or so, we here, and you being a racetrack, we have the Horse Racing Fund at about 250 million. If you do get cannibalized and it does hurt our brick and mortars, I am deeply concerned on what that’s going to do to our horse racing industry and what that means to them.

So in this bill, I don’t think there’s anything in here -- and correct me if I’m wrong -- about anything held harmless for those in the racing industry. Is that correct?

MR. SCHIPPERS: Correct. We see more of a direct correlation between our slot customer and a VGT customer. The racing customer is a distinction that we did not believe there needed to be mitigation funds for. We think our racing will not be impacted at the same level as our slot machines.

REPRESENTATIVE MEHAFFIE: Okay. But if your slot machines are impacted, that could hurt the Horse Racing Fund, correct?
MR. SCHIPPERS: Moneys could.

REPRESENTATIVE MEHAFFIE: Okay.

MR. SCHIPPERS: I mean, this reduces the base slot tax rate. We still have to provide the same level of purse funds, just to be clear.

REPRESENTATIVE MEHAFFIE: Okay. Very good.

So in this, there was a study that just came out, and in it they said that if there was gaming that was expanded here in Pennsylvania, that the horsemen should be held harmless in that. Are you familiar with that study at all?

MR. SCHIPPERS: I have not seen it; no.

REPRESENTATIVE MEHAFFIE: Okay. In that, I think when we look at this and if we do go to this and we have the opportunity or we pass this bill, I think something should be in there for the horsemen and make sure that they do not, you know, that it does not hurt them in any way moving forward.

I guess my last question, too, is, and I think Representative Kortz is asking, and that is, I did want to know how many slot machines are in your brick and mortar in Illinois and then how many are in VGTs. So whenever you can get that information, that would be great.

MR. SCHIPPERS: Yeah. We’ll try to compare on an apples-to-apples basis the revenue levels of our VGTs and
our slot machines in Illinois.

    REPRESENTATIVE MEHAFFIE: All right. Thank you.

    MR. SCHIPPERS: Sure.

    REPRESENTATIVE MEHAFFIE: Thank you, Mr. Chairman.

Mr. Chairman.

    MAJORITY CHAIRMAN PETRI: Representative Costa.

    REPRESENTATIVE COSTA: Thank you, Mr. Chairman.

    Thank you, gentlemen, for being here.

    Mr. Schippers, I have a question for you. You stated that -- and you can correct me if I’m wrong -- basically on the VGTs, it would help eliminate the gray machines, the illegal machines. How would you propose that would happen?

    I was in law enforcement for 28 years, and I have been trying to do it and they’re still going, and I’m 10 years out of law enforcement.

    MR. SCHIPPERS: So Mr. Jenson can speak about what happened in Illinois. But if you provide a bar an opportunity to have a legal venture, to be able to market these machines, to be able to open up your business to a new customer base, we believe that they’ll opt to do so.

    Plus, there is teeth in there that if you continue with the illegal operation, you then, there is a penalty-box provision in terms of then trying to go into the legal VGT business. You have to convert to the legal
VGT business.

REPRESENTATIVE COSTA: Okay. But these would be only the bars and taverns that would basically want to go along with the casino and join the casino in this, where right now if we would go to the mom-and-pops who are running them now and have some of the gray machines in their places and give them the ability to do their own through their vendors, I believe that we would be much more successful.

And I agree with Mr. Higgins as far as the security level. My wife likes to go to the casino and she likes to play the slots. Well, I go out there and I very seldom see anybody approach her or anyone else, but every time I turn around, I see, from the Gaming Committee doing their job so well, that there are fines for underage drinking, underage this, underage that, in the casinos.

I mean, my wife plays slot machines. She will not go to a VFW. Just like VGTs and slots are different, I believe they are, and so are the players. I believe that the estimate is way over what you believe that are going to go from the VFWs or local bars or taverns to a casino. It’s not going to happen.

You have taken away the smoking in most places. I mean, the only place you can smoke is a casino, okay? So the small mom-and-pops lost that.
Now, as far as the security, you want to take away -- now, let's go to the drinking. Our bars close at 2. The casinos want to stay open all night. So we're going to shut our bars down at 2 and allow the casinos? And if we try to pass a bill that says our bars can stay open all night, the neighborhoods are going to scream bloody murder.

So how is this fair to the local -- we're putting our small businesses -- and don't get me wrong. I think the casinos were a wonderful addition to Pennsylvania and revenue in the communities, but our small bar owners, I see parades and things every day that they donate what they can. So, you know, my opinion is, we're putting them out.

They want to do away with the Pennsylvania State Police, back to security again. Why? It doesn't cost the taxpayers of Pennsylvania anything for the Pennsylvania State Police to be in the casino. It costs you folks, but you don't want that cost either.

I mean, we got to -- you know, you can't have it all, is what I'm trying to tell you. And I'm going to look out for the small mom-and-pops. I have been on the Gaming Committee since I got here in '08, and Governor Rendell at that time wanted to take the State to run it. And there was five votes, and fortunately for whoever, but not the Governor, five of those votes were Democrats against his
proposal, so the gaming went down.

And I’m going to stand for small places. The casinos cannot have it all. I mean no disrespect. I think they do a wonderful job. It’s a great place to entertain. My wife loves to go out there. That’s fine. But there are other people that either can’t afford to go out there, can’t get to a casino, or -- but you need to share. You can’t have it all.

Thank you, Chairman.

MAJORITY CHAIRMAN PETRI: Thank you.

Representative Klunk.

REPRESENTATIVE KLUNK: Thank you, Mr. Chairman, and thank you, gentlemen, for joining us this morning.

My question I think will be best answered by Mr. Teitelbaum, and the question goes to, how many operators, gaming operators, do you expect to kind of get in the game, if you will, here in Pennsylvania, and how many new jobs will be created with the expansion of VGTs in your industry?

MR. TEITELBAUM: You know what? I’m going to pass that over to Paul. Only coming from Illinois---

REPRESENTATIVE KLUNK: Okay.

MR. TEITELBAUM: ---he would probably have a better number.

REPRESENTATIVE KLUNK: Thank you.
MR. JENSON: Sure.

It’s an excellent question. You know, in Illinois we had somewhere around 70 or 80 licensed terminal operators. I will tell you, at this point we have somewhere in the 50 to 55 range that are currently operating with any substance, and I think that we’ll probably see something along those lines here.

In terms of employees, you know, we have operators of all different sizes. Certainly, you know, Mr. Schippers’ terminal operator is one of the larger ones in the State. We have others that operate in 5 locations, 10 locations. All of these terminal operators, from the smallest to the largest, have hired significant amounts of people. Even the small ones have 5 or 10 employees. The larger ones have hundreds of employees. We’re going to see that here.

REPRESENTATIVE KLUNK: And so a follow-up to that.

So in Illinois, your small guys.

MR. JENSON: Sure.

REPRESENTATIVE KLUNK: You know, we’re worried about our little mom-and-pop guys.

MR. JENSON: Absolutely.

REPRESENTATIVE KLUNK: And in Illinois, are you seeing that those small mom-and-pop guys are being driven
out of business by the larger operators or are they able to survive?

MR. JENSON: Yeah; absolutely. They are able to survive, and I think the word “driven out” is mischaracterizing it.

We have got smaller operators that are making business decisions to sell their businesses at times. We have got other smaller operators that are choosing to stay and compete. And we have got regulations that allow those smaller operators to do exactly that.

You know, it really does not favor the monster operators. We see just as many small operators do well versus the larger operators.

REPRESENTATIVE KLUNK: Okay. Thank you.

And then I guess a follow-up then to that, to Richard.

Here in Pennsylvania, what are your concerns with other out-of-State operators like those in Illinois, who have been doing it in Illinois and coming here to Pennsylvania and eating up your potential market share? What can we do to protect Pennsylvania amusement operators to make sure that that business stays here in Pennsylvania and we don’t have a big conglomerate coming from Illinois to swoop in and take your business?

MR. TEITELBAUM: I mean, in my opinion, you know,
number one is to make sure that we are all licensed at the
same time so we can all go out and sign up our customers at
the same time. So that puts us all on a level playing
field.

MR. JENSON: It’s an excellent point. I think
having the starting line at the same point, making sure
that people can sign contracts only when they become
applicants or when they become licensed, that is essential
to protecting the smaller and native Pennsylvania
operators, and 1010 already does that.

REPRESENTATIVE KLUNK: Thank you.

MAJORITY CHAIRMAN PETRI: I’m going to follow up
where Representative Klunk ended up.

Where does the revenue come from for the
amusement operator to set up a route? How is that done in
Illinois and where does it come from?

MR. JENSON: Where does the revenue come from.

Are you asking how the terminal operators are
capitalized from the start?

MAJORITY CHAIRMAN PETRI: Yes.

MR. JENSON: Yeah.

So, you know, in Illinois we had a challenge,
frankly, in that it was a new industry, that people didn’t
really understand it. We did not see traditional sources
of financing from the get-go. So we were forced to have
our clients go to more nontraditional sources where the interest rates were, frankly, higher than what we see today.

As banks and other traditional lenders became comfortable with this industry and understood the business and the business model, frankly, we have seen our operators refinance. And we are seeing large institutional financing right now, you know, and I think that’s a sign of the health of the industry and the fact that it is being recognized as a completely legitimate business that competes with other forms of gaming throughout the country.

MAJORITY CHAIRMAN PETRI: Okay. As Chairman, I get to ask the tough questions or the burden, if you will.

For Hollywood Casino, you have -- and a lot of Members have asked you about this, so I’m going to ask very directly.

MR. SCHIPPERS: Sure.

MAJORITY CHAIRMAN PETRI: If the Category 1 and 3 provisions are removed from this bill, are you still on board with the bill?

MR. SCHIPPERS: We would have to reevaluate, but unlikely not. That’s a big, important piece for us.

MAJORITY CHAIRMAN PETRI: Okay. And if the licenses are going to go away, where does the Commonwealth
come up with the one-time fees that are associated with those licenses? Are you prepared as Hollywood Casino to pay those fees in?

MR. SCHIPPERS: I’m sorry; if which licenses go away?

MAJORITY CHAIRMAN PETRI: Well, the 1 and 3. If those licenses go away, then you would agree that the Commonwealth loses one-time revenues?

MR. SCHIPPERS: In terms of the upfront license fees. I’m sorry; I understand you now.

Well, our argument would be that since you are so radically expanding the footprint of gaming, the upside of this new industry that you are creating, which by their estimates is a billion-dollar new industry, is going to offset the downside of the final Cat 3 and the Cat 1.

The other thing is, based on some of the discussions of where that Cat 1 would go currently---

MAJORITY CHAIRMAN PETRI: Mm-hmm.

MR. SCHIPPERS: ---we think it’s a pure cannibalization play anyway, which is why it’s such an issue that is near and dear to our heart. So that would be our response there.

MAJORITY CHAIRMAN PETRI: I understand.

Look, gentlemen, I know these are all difficult questions because you’re all served by a board and, you
know, the board has to debate things, but I do feel
duty-bound to ask some of those tough questions.

So let me get to the other issue that really I’m
struggling with, candidly, and that’s the opt in/opt out
issue.

You know, in Illinois, I think my guess is the
Legislature, like me, did not want to force on any
community that doesn’t want this new form of gaming, or any
gaming for that matter, any expansion of gaming, to have an
option, to have an ability to make a decision for their
community. Yet I recognize what you’re saying, that many
of the communities that initially were afraid of this new
type of gambling may have changed their minds.

I was on a planning commission, which is just
below the level of a local elected official, but I
certainly get the idea that if I were a local official in
my communities back home, I would want the ability to say
no if I thought that was in my community’s best interests.

So any one of you can take it: Why is it that
from a policy point of view we are avoiding that question?
I know it’s in order to gain revenue sooner than later, but
is that really, in your opinion, what we should be telling
our local communities?

MR. HIGGINS: Chairman, again, Sean Higgins.

I would -- and I think one of the Representatives
hit on this before. My answer to that would be, you have local zoning laws, and they are set up for liquor establishments. The State of Pennsylvania controls all those liquor establishments, unlike out of the State of Illinois or the State of Nevada where the local jurisdictions can hand them out.

In the State of Illinois, you had a local jurisdiction where the city council or the town board could hand out liquor licenses to whomever they want, and what they found there was, a lot of locations didn’t, a lot of those municipalities didn’t like what happened, which was they ended up with 8 or 10 more locations because there was no control.

Here, there is certainly a cost to it, so, one, you’re not going to get the proliferation of additional locations. These licenses would go to people who are currently licensed and operating taverns and restaurants in those jurisdictions. They are currently serving alcohol.

So this is an add-on, I would say, to the State alcohol license. So since it is controlled at the State, the alcohol level, I would argue that this would be the same exact thing at the gaming level, which should be controlled by the Pennsylvania Gaming Control Board, and you’re only putting an add-on to a current liquor license
in those municipalities.

MAJORITY CHAIRMAN PETRI: I understand your argument. I’m not so sure I accept it, candidly, only because of this reason:

Number one, in Pennsylvania there is a long line of cases that say you can’t have exclusionary zoning. So even when casinos make the argument to me that local zoning will determine where you can go and can’t go, that’s not really totally true. You may as an elected official have it foist upon you, but more importantly, I think from a policy point of view, at least where I’m sitting, I’m not sure I’m prepared to tell my local communities back home that they have to accept it.

And I would say that for those, you know, that are concerned about that, we ought to start hearing from our constituencies, and the mere fact that we’re having a hearing will tell us, do they view this as any different than the poker machine that is currently in the bar? Maybe they don’t. Maybe they don’t, but we need to hear from people.

We’re going to move on to the next panel, which is -- actually, I think it’s the State Police, if I recall. Yes.

No; I’m sorry.

Oh, okay; my apologies. It’s Jerry McArdle,
State Gaming Committee Chairman, Pennsylvania Licensed Beverage & Tavern Association; and Ted Mowatt, Executive Director of the Pennsylvania Federation of Fraternal and Social Organizations.

My apologies to everybody who is waiting, but we are, I think, getting some good debate.

I’m sorry. It also includes -- thank you, Mr. Chairman -- Tom Helsel, Secretary, Pennsylvania Association of Nationally Chartered Organizations; and Scott Klepper, Senior Manager, Pilot and Flying J Travel Centers.

Okay. We’re ready when you are.

MR. MOWATT: Go ahead. We’ll go in order.

MR. McARDLE: Okay.

Thank you, Chairman Petri, Chairman Harkins, and Members of the House Gaming Oversight Committee for taking the time to hear our testimony on behalf of the retail licensees of Pennsylvania.

My name is Jerry McArdle, and I am the State Gaming Committee Chairman of the Pennsylvania Licensed Beverage & Tavern Association.

Video gaming has been a priority of our association for many years, and we are happy to present you our opinion and support for regulating video gaming in the Commonwealth and allowing the State’s taxpayers to benefit
by including VGT revenue into a State budget instead of
increased taxes or further loss of State-funded services
and/or programs.

As a 33-year veteran retail licensee in
Pennsylvania, employer, and owner of three small
businesses, I am pleased to see House Bill 1010 and
Senate Bill 628 introduced and supported in a bipartisan
manner in both chambers.

Several years ago at a Senate hearing, casinos
testified that there are approximately 40,000 illegal video
casino machines operating in the State. I can confidently
say the number of machines paying winners without
regulation has increased even more so in recent years.

Passing this legislation, according to the
numbers and sponsor explanations, the number of video
gaming machines in the State would actually decrease across
the State. It is such a common practice that in some
places in Pennsylvania, townships and counties collect
permit fees from businesses for placement of these video
casino machines each year.

The legislation has built-in protection for local
governments to still receive revenue each year and adds
regulation to an industry facet that has been happening for
decades without any oversight.

I mentioned before that I own three licensed
establishments in Pennsylvania. One is in Lancaster County and two are in Delaware County. I try to utilize every tool the State allows to add to my businesses.

I chose to become a tavern games permit holder after the State passed the law in 2013. Due to the high cost to get the permit, the upfront costs of pull-tabs, taxes, ticket dispenser, the 2 pounds of application paperwork, and the risk of losing my liquor license due to reporting errors, I chose only to secure the permit for one location.

While Governor Corbett expected to see $100 million of revenue from tavern games, the fees, liabilities, and risks on the tavern owner were too much for many of us to pursue the permit. That said, with about 50 tavern owners participating in tavern games, the State collects over $400,000 a year. That could have easily correlated to well over $100 million for the State with more participants, but the average tavern owner has little time or extra money to spend to acquire the right to commit to 8 hours of paperwork a week for reporting, paying a 65-percent tax up front, labor to run the games, and risk having our livelihoods stripped away in hopes to sell the whole box of pull-tabs to collect a dozen or so dollars for the business.

However, this video gaming terminal legislation
is written to work in a realistic small business situation and is attractive to tavern owners, because it requires smaller fees, easier tracking, no cash handling, less labor, an easier process to get the permit, and because of the structure, no chance of losing your liquor license/livelihood for a reporting error.

The States that have done the same in their licensed establishments have seen great participation levels and hundreds of millions of dollars to their State and local coffers.

As previously stated, our individual businesses and association as a whole have worked tirelessly for decades to finally have the Legislature regulate an ongoing activity that has no signs of slowing down.

After studying other States’ video gaming legislation, we applaud our own Legislature, Representative Mustio, and Representative Sturla for bringing this issue to the forefront. We are continuing to work with everyone involved to duplicate other States’ efforts in addressing VGT percentages and shares to between tavern owners and State-approved operators while keeping the State percentage whole.

Our small businesses, operating responsibly with a State-granted license to sell alcohol to the general public, can and should be utilized to produce much needed
revenue for the State. This will help our mom-and-pops to remain a viable employer of over 100,000 Pennsylvania citizens as opposed to 18,000 in casinos. This will shield taxpayers from fee increases and loss of programs, bring in hundreds of millions of dollars a year to the State, decrease the amount of gaming machines in the Commonwealth, and add much needed oversight.

In response to Representative Neilson’s comments about nuisance bars, according to the Pennsylvania Tavern Association, there are thousands of eligible liquor licensees across the State of Pennsylvania, of which we estimate 200 to 300 -- that is hundred -- have been designated “nuisance bars” by the Pennsylvania Liquor Control Board.

I am a typical tavern owner. My establishments are small neighborhood taverns with 25 barstools. I have lived in Pennsylvania for my entire life. My wife and I have raised two children here, educated in Pennsylvania universities. I have paid millions of dollars in taxes and tens of thousands of dollars to local charities. All most tavern owners want is to make a decent living and receive our fair share.

Thank you for your time and attention to this testimony. I will be happy to answer any questions at this time.
MR. MOWATT: Good morning -- or good afternoon, I guess it is now.

Chairsman Petri and Chairman Harkins and the other Members of the Committee, my name is Ted Mowatt. I am the Executive Director of the Pennsylvania Federation of Fraternal and Social Organizations.

I have enjoyed over the last dozen or so years several opportunities to testify in front of the Committee on a variety of issues, small games of chance being that on a number of occasions, as well as we appreciate the Committee moving forward with the bingo bill, Representative Klunk’s bingo bill just a couple of weeks ago.

The clubs and taverns, or the clubs and fire companies that we represent, you know, statewide, have -- it has been tough to get to a consensus among our association on this legislation over the last several years and the many iterations of it, simply because, in short, I guess, where you stand depends on where you sit, and many of the clubs are in different situations. Some are bigger; some are smaller. All of them uniquely -- and their biggest concern is the impact on their own charitable contributions that they do through the small games of chance.

The previous panel didn’t really get into that.
There were more focused, I think, and we have been more focused on the impact on the Lottery and on other forms of gaming and the casinos. We haven’t talked a whole lot about if there’s going to be an impact on small games of chance.

And again, I don’t know; I know that some clubs now are operating some of the skill machines and, you know, we’re seeing various impacts on that as well.

That said, we are firmly neutral on the legislation at this point. At our convention in June, we will discuss this again. The last time our board met, which is how our body functions and comes up with positions on things, the legislation hadn’t yet been introduced, so we really didn’t have a chance to vet it entirely.

There have been, clearly, a number of changes since last session, and we are interested in seeing how the process moves along, and we appreciate the opportunity to participate in that as we go along.

With that, I’ll move on to Tom and his comments.

MR. HELSEL: Good morning, Chairman Petri, Chairman Harkins. Thank you for allowing me to present testimony today.

My name is Tom Helsel, and I’m the Secretary of the Pennsylvania Association of Nationally Chartered Organizations.
PANCO’s membership consists of fraternal and veteran organizations that are nationally chartered. We count among our membership lodges, posts, and aeries from the Benevolent and Protective Order of Elks, the Loyal Order of Moose, the Fraternal Order of Eagles, the American Legion, and the VFW.

On reviewing House Bill 1010, it is our consensus to support the measure. We welcome any opportunity to help our organizations to raise funds for their purposes. PANCO has been supportive of video poker/video gaming terminal legislation dating back to at least 1988.

The club industry is a niche of its own and is always searching for new sources of revenue. Recent changes in the Liquor Code have left our segment untouched, and we have traditionally looked at gaming as an important source of funding.

Like other businesses, we have taken on the burden of increasing costs to operate to stay open. One of our largest expenses is real property taxes. With the exception of our veteran organizations, our members, like all other businesses, pay real estate taxes on the property that we own. The opportunity that VGTs will bring will significantly help offset those expenses and help fund our ongoing programs.

One of the key factors we like about the bill is
accountability. Accountability of gross terminal revenue is linked directly to the Commonwealth, assuring an accurate and transparent accounting of all revenue. The concept of redemption terminals lessens the threat of fraud and theft by keeping all transactions accountable through a controlled single source.

From our perspective, it also relieves us of potential cash-flow issues. This accountability factor will also be beneficial in promptly distributing the shares of gross terminal revenue to the Commonwealth, local municipality, terminal operator, and us.

We are in an age where our entertainment dollars are at their most sought after. Between other forms of entertainment, charitable, fraternal, and veteran organizations are seeing these dollars less frequently. We see VGTs as an additional incentive to participate in our organizations. Without new sources of revenue, it makes it more difficult for us to keep our doors open. Ultimately, if they shut, the charitable revenue stream that we supply will dry up as well.

To sum it up, VGTs have the potential to help our organizations keep our doors open so that we may continue to provide for the many community programs that we do.

Again, thank you for allowing me the opportunity to testify.
MR. KLEPPER: Chairman Petri, Chairman Harkins, and Members of the House Gaming Oversight Committee, my name is Scott Klepper. I’m a Senior Manager with Pilot/Flying J Travel Centers. We’re the number-one seller of over-the-road diesel fuel in the industry, serving America’s professional drivers and other guests.

All totaled, we employ 24,000 team members across North America. We have 65,000 parking spaces in 769 locations, and we serve 475 million customers a year. We are the largest truck stop operator in Pennsylvania with 20 locations throughout the Commonwealth and employ around 900 Pennsylvania residents and support teams.

I appear before you today to voice our support for the legalization of video gaming terminals in Pennsylvania, specifically those to be placed in truck stops. We serve a unique market of clientele: customers that would not otherwise be captured by other venues in Pennsylvania.

Our facilities provide fuel, food, showers, laundry, parking, shopping, for the professional driver to enhance their life on the road. These drivers traverse the Keystone State, bringing virtually every product we consume to market. While traveling, these professionals are subject to Federal and State laws that require them to stop from time to time.
As we have experienced in Illinois, the implementation of VGTs can be a great revenue generator for truck stops, VGT operators, and for the government. In 2016, VGTs in Illinois generated $1.1 billion in total revenue. Of that revenue, $190 million came from the machines in the State that are placed in truck stops. The truck stop machines are 4 percent of the total machines in the State. However, they came up with 17 percent of the revenue.

Not only is there value in the VGT market for placing machines in truck stops, but drivers also purchased additional consumer items and services while stopped. Purchase of these items is subject to PA sales and taxes, increasing tax revenue to the Commonwealth. Enactment of legislation authorizing VGTs in truck stops encourages out-of-State drivers to stop and spend their money here in PA.

Thank you for allowing me the privilege to testify before you today. I stand ready to answer any questions.

MAJORITY CHAIRMAN PETRI: Questions from the Members?

REPRESENTATIVE NEILSON: Thank you, gentlemen, for your testimony today.
Mr. McArdle, thank you. I may or may not have been in one of your establishments before, and it’s very nice. I got to say that on the record, as we’re here.

Do you know, how many licensed establishments do you represent across the Commonwealth?

MR. McArdle: Total?

REPRESENTATIVE NEILSON: Yeah, because we’re here---

MR. McArdle: Anybody that is entitled to a liquor license? You have a lot of different facets. You have restaurants---

REPRESENTATIVE NEILSON: No. We have part of your association -- you’re here testifying for your association today, right? The Licensed Beverage & Tavern Association?

MR. McArdle: Yeah.

REPRESENTATIVE NEILSON: And you don’t represent every license holder. Out of the license holders in Pennsylvania, how many of them do you represent?

MR. McArdle: About 2,500.

REPRESENTATIVE NEILSON: Thank you, sir.

And under your testimony, I can’t say it enough, you’re right; the small games of chance didn’t work, and it was set out to be a burden, if anything. And we have had this conversation before, and we need to do something
better. But I don’t know if this is the answer, but it may be. We’re going through it.

Something I do is the quality of life. If you have heard me testify before the Committee before, I’m focused in on the quality of life. And I’m concerned with having the kids be exposed to this, having five of my own and two grandchildren, just, like, going into a restaurant and watching my mom or dad across the way playing and gambling their lunch money.

Would you have any opposition to amending this bill to, as casinos have, you’re not allowed -- 21 and under aren’t allowed in casinos, and it’s something that I have been talking about for quite some time now. If your establishment is 21 and over, it makes it a different establishment. Would you have any objection to the bill being amended to not allow anyone under 21 in any of these establishments with video gaming terminals within?

MR. McARDLE: My establishments, all three of them, are smoking establishments. The State’s smoking law says that they can’t be under 18 in my establishments. I already have that provision. I don’t allow anybody under 21 in my places already. So for me, that doesn’t affect me.

REPRESENTATIVE NEILSON: Can you check---

MR. McARDLE: As far as amending the bill?
REPRESENTATIVE NEILSON: Mm-hmm.

MR. McARDLE: That’s not my call to make. That’s something that I would have to talk to with the Board of Directors of the Tavern Association, Representative Mustio, and Representative Sturla.

REPRESENTATIVE NEILSON: Well, could you go back and then talk to your association and see if they would be amendable to that provision, kind of provisions? Because they’re the kinds of provisions that I’m looking at.

MR. McARDLE: Certainly.

REPRESENTATIVE NEILSON: I have always been blessed with the support of my local taverns, and it’s a part of our community. I mean, they are very important to us. But that was something that I have talked to my local tavern owners about, and they were -- but I don’t do this -- when we create State law, I want to try and make stuff for everybody, not just for my locals.

But that was something that they were okay with, but that doesn’t mean your association was. So if you maybe can go back to your stakeholders and ask them and maybe get back to the Committee on that to see if they would be amendable?

MR. McARDLE: Yes.

REPRESENTATIVE NEILSON: And it doesn’t matter what we want to do; it’s about what they want to do. So
we’re looking to make a bad bill better, so to say, in my opinion. But I’m looking at different amendments to put on there, and I was hoping maybe your organization can weigh in on that before I just throw it at it.

MR. McARDLE: As I said, Representative, it wouldn’t affect me one bit. I wouldn’t be against it.

REPRESENTATIVE NEILSON: I understand, but I want you, you know, as you are testifying for your association, I would ask that.

And, of course, the nonprofits and VFWs and all that -- it’s an issue, and that’s the one, the tax issue we’re seeing -- can close down because there’s not enough funding and there’s not enough of the walk-around-money, the WAMs that we so-called had for years up here? They are no longer available, and they’re hurting, and we also are looking to do something.

We saw some games of skill introduced in a lot of local taverns and a lot of the nonprofits. These are legal gaming devices in Pennsylvania. Does anybody have any experience on them and the revenue they produce within, because there are games of skill that are actually doing payouts right now currently.

MR. McARDLE: Representative, they are not gaming machines. They are games of skill.

REPRESENTATIVE NEILSON: Games of skill machines;
MR. McARDLE: The difference between a game of skill and a gaming machine: a gaming machine is a slot machine. A gaming machine is a machine that is used for gambling purposes. These are not used for gambling purposes.

REPRESENTATIVE NEILSON: They are not used to win money? Because the one I played last week was, I put my money in; I lost it. The guy after me, he put his money in and he won. It’s a legal game of skill. My skill wasn’t as good as his. That’s why I didn’t win money back.

I’m asking if there’s anybody -- I know the difference between a game -- they almost look alike. I mean, if you look at them, they almost look alike. I mean, you can put them side by side and they will look alike. Is there anybody that uses these machines, has experience with these machines, and can tell us what kind of revenue they generate for the facility? No?

MR. McARDLE: You mean as far as have them in their establishments, any of us?

REPRESENTATIVE NEILSON: Mm-hmm.

MR. McARDLE: I have two machines in my establishment.

REPRESENTATIVE NEILSON: Games of skill?

MR. McARDLE: They’re not the ones you’re talking
about. They’re the ones in my testimony last year that
tables of them were showed to the Committee. One of the
Representatives said that they look like a slot machine.
In March, they had just -- it’s not the machine you’re
talking about now.

REPRESENTATIVE NEILSON: Okay.

MR. McARDLE: I have two of them in each of my
establishments.

REPRESENTATIVE NEILSON: Do they produce revenue?
Can you share that with us or---?

MR. McARDLE: No, I would not share what revenue
they produce.

REPRESENTATIVE NEILSON: Okay.

MR. McARDLE: But yes, they do produce revenue.

REPRESENTATIVE NEILSON: That’s what -- we’re
trying to look at everything to see, you know.

Does anybody else want to tackle that one?

MR. MOWATT: I can’t give you any numbers on type
of revenue, and I think it varies on, you know, what other
games, for a club’s purposes, that, you know, how many of
those machines are in there.

REPRESENTATIVE NEILSON: Because, yeah, the
vendors distribute them in Pennsylvania, and they give them
a sheet.

MR. MOWATT: Right. And they’re only legal in
certain---

REPRESENTATIVE NEILSON: Certain establishments?

MR. MOWATT: Certain -- yeah. Well, yes, and in
certain jurisdictions. So we’re still working through
that.

And I know the State Police probably will have
some comments about that as well. They’re not fond of
them, because it is tough to tell the difference. And the
clubs are analyzing whether or not they have them and what
impact that’s going to have on their business in general
and their small games of chance revenue.

REPRESENTATIVE NEILSON: All right.

Well, thank you, gentlemen. Thanks again.

MR. McARDLE: Representative, one thing.

REPRESENTATIVE NEILSON: Yes.

MR. McARDLE: The machines that I have in my
place are legal throughout the whole State of Pennsylvania.

REPRESENTATIVE NEILSON: Right. They’re the ones
I’m talking about, because that’s the one my neighbors
have.

MR. McARDLE: And in Pennsylvania, the Supreme
Court has ruled on that.

REPRESENTATIVE NEILSON: Correct. They are the
legal ones, and they give you a printout -- as the week
tallies, it gives you a printout and it shows, okay, money
in/money out. And the prize money can only go up to a
certain amount, and they are legal, and that’s what I’m --
but that was through a recent decision, and they’re
starting to just spread out a little more and more.

I’m wondering about the income on those, because
that’s something that is never discussed up here, that
these are machines that are legal and are in some of these
facilities, which you all represent, and I was just trying
to get kind of a number on what kind of income is coming
through with them, because there is an income base.

And I believe the people that I have spoke to
locally, they get 30 percent and the vendor gets the other
70 right now. That’s the current setup that they have
within those, but I’m sure that can be worked out.

MR. McARDLE: Well, I can only speak from
Delaware and Lancaster County. That’s not the percentages
there.

REPRESENTATIVE NEILSON: Okay.

MR. McARDLE: There’s 20 percent taken off the
top.

You’re talking about two different kinds of
machines here. The machines that I’m talking about that I
have are old-style machines. They are not the ones that
you’re talking about, the Pennsylvania game of skill.

REPRESENTATIVE NEILSON: Okay.
MR. McARDLE: And the split on them is not that. There is 20 percent taken off the top, and then it’s a 50/50 split between the operator and the tavern.

REPRESENTATIVE NEILSON: All right. Thank you for clarifying that.

Thank you, Mr. Chairman. I have nothing else.

MAJORITY CHAIRMAN PETRI: Thank you, Representative. And you may want to sit down with Representative Wheeland, who is very interested in this issue.

Representative Klunk.

REPRESENTATIVE KLUNK: Thank you, Mr. Chairman. My question goes, I think to the gentleman from the Tavern Association.

So with these games of skill, not Pennsylvania skill but the true games of skill machines where you’re maybe matching up, you know, find the thing that doesn’t match or, you know, kind of like a Where’s Waldo, Find Waldo type of a game, what would be the incentive for your taverns to get out of those types of games, pure games of skill, and switch to VGTs? Why are VGTs more beneficial to you as a tavern owner, and what is going to entice you to switch from the pure games of skill to these VGT machines?

Because again, you know, we go back to the question that Representative Hill asked with the small
games of chance, and that was implemented poorly. And I have sat through testimony about how that has not worked and why it hasn’t, and for good reason why it hasn’t.

So why, why will the taverns switch their business model from the games of skill that you’re operating now to VGTs, and why is it going to work based on this bill?

MR. McARDLE: Well, as we all know, VGTs or slot machines, whatever you want to call them, are very popular with people. Today, a lot of people, gambling is a very popular business today when it comes to slot machines, casinos, Lottery, whatever it is.

And the main thing that I would say is to be able to change the games up. When you have a video game of whatever it is, sooner or later that video game, the people get tired of playing it. They don’t want to play it anymore.

And you can talk to any of the video operators. When a game like that is introduced, they usually make their money fast, pay the machine off, make their profit, and then a year or so down the road, that machine is done and the next hot machine is out.

With VGTs, you can change the games. You can have different games. You can have penny games for people, nickels, quarters. There is all different kinds of
And one thing I would like to say is, with these VGTs, it’s, I call it recreational gambling. It’s not -- I mean, it’s always compared to casinos, but it is not casino gambling. I mean, you can go into casinos and play slot machines for millions of dollars, jackpots and things like that. There are no provisions in here for this.

And the main thing is to be able to switch the games up, keep the games fresh to get people to keep playing them, would be my opinion.

REPRESENTATIVE KLUNK: Thank you.

And then, Mr. Chairman, if I may, one more question.

Going back to the concern about IDs and is the person going to be of legal age to play these games. From the Tavern Association’s point of view and as a tavern owner, I’m sure you take, you know, great precaution to make sure that you are not serving alcohol to those who are not of age and take precautions to ensure that. What types of precautions do you see, as an average, ordinary tavern owner, that you will take in your business if you bring in a VGT machine to make sure that those people underage are not gambling in your facility?

MR. McARDLE: Well, as I already stated, I have smoking exceptions in all three of my places. The State
law states that you have to be 18 to be in my places anyway.

And I don’t -- I have signs on all my doors. I don’t allow children or anybody under the age of 21 in my places.

REPRESENTATIVE KLUNK: Right. And so I guess maybe you’re not the best tavern owner to answer the question. But on behalf of tavern owners, because I know, you know, I can go down the street to the Landing in Hanover, Pennsylvania, and it’s a restaurant. They have a restaurant liquor license. It’s a family establishment. But they might be interested -- I don’t know if they are -- in getting a VGT machine.

What type of protocols does the typical restaurant/bar owner/tavern owner take or would they take to make sure that a person who is underage would not be gambling at a VGT machine?

MR. McARDLE: Well, it would be the same as it would for the service of alcohol. I mean, I have an ID scanner at all three of my establishments. Obviously if somebody walks in that is 18, they’re carded. The ID is scanned to make sure it’s a valid ID.

Also in the bill, I’m pretty sure there’s a provision where if a restaurant that allowed children in there decided to have these machines, that they must be in
a separate area and the children are not even allowed in that area.

From what I’ve been told, in Illinois and places that have this thing, they put rooms up which can be seen into but are separated from their establishment.

But the protocol for me would be the same. I mean, what’s the difference whether you’re trying to stop somebody from buying a six-pack of beer or buy a drink at the bar or play a gaming machine. The protocol would all be the same for a tavern owner.

MAJORITY CHAIRMAN PETRI: I have one question.

I have heard a lot of comments about, today and before, about illegal games. Does anyone have any reliable information they believe that they could pinpoint how many illegal games we might have in Pennsylvania? And I’m going to ask the State Police the same question, but---

Anybody?

MR. MOWATT: I would suspect that they are probably a better source of that information. You know, any clubs that would have it, that may or may not be my members, they wouldn’t tell me anyway.

MAJORITY CHAIRMAN PETRI: Of course.

MR. McARDLE: The casinos have said up to 40,000 are here. I read the testimony of the State Police person. He’s saying 15,000.
I think it’s very hard to pinpoint what it is, because most of these places, when you walk into the place, the video poker machines are not in full view. They are hidden. They might be in a different room. You know, there’s all different -- but, I mean, would you want to take an estimate between 15,000 and 40,000? I mean---

MAJORITY CHAIRMAN PETRI: Mm-hmm.

MR. McARDLE: I don’t think anybody really knows exactly how many there are. But now thrown into the mix other machines that are coming out, there’s an awful lot of them.

MAJORITY CHAIRMAN PETRI: Okay.

Well, thank you for your testimony.

We’re next going to hear from Major George L. Bivens, Director of the Bureau of Gaming Enforcement, Pennsylvania State Police.

Sorry to make you wait, but I think now is a good time to hear from you and your testimony.

MAJOR BIVENS: Good afternoon, Chairman Petri, Chairman Harkins. Thank you. We appreciate the opportunity to come in and testify.

With me is Lieutenant Kevin Conrad. He is the Eastern Section Commander within the Bureau of Gaming Enforcement, also with the State Police.

I have provided you some written testimony, but
in the interests of brevity and getting right to the
issues, I thought I would forgo reading that and instead
talk to you a little bit about some of the issues as we see
them within the State Police, because House Bill 1010 does
have a significant impact on our agency in a number of
ways.

First, let me just touch on the video gaming
terminals.

You heard some testimony about some of the
challenges associated with current enforcement efforts with
video gaming terminals. By the way, our estimate is about
15,000 machines statewide right now, and we base that on
estimates from our Liquor Enforcement people who are in and
out of these establishments on a regular basis.

With that said, there are many challenges
currently associated with enforcement of those video
terminals. Technology and court decisions have outpaced
our ability to conduct truly effective enforcement. And so
while we are always looking to conduct investigations, not
only of the individual bar owners but of the vendors that
operate those machines, again, it becomes very challenging.
And what I would tell you is that support for that
enforcement varies by county across the Commonwealth.

Throw into that mix some of the new machines that
you just heard testimony about, and while I would contend
that at least those that I’m familiar with are not legal,
there is at least one court decision that we are not fully
in agreement with. However, that is not the rule across
the Commonwealth, if you will. And so we are still working
through that issue and believe that there may be an
opportunity for enforcement, even with some of the machines
that are designated “games of skill,” because we believe
there is more of an element of chance as opposed to skill
associated with those machines.

But let me cut over to the casinos and talk about
some of our efforts there.

I believe that we have a very good model in
Pennsylvania and that we have created a safe, secure
environment for those who choose to come out to gamble, to
have dinner, to spend an evening at our casinos.

Given the large amounts of cash that are at those
facilities, we believe they are attractive targets for
criminals, for a variety of types of crime. And yet, with
the State Police presence and our partnership with security
at each of those casinos, we believe we have been effective
in keeping those environments safe and relatively free of
crime, at least crime that is visible to most people while
they visit the casinos.

When necessary, we will put our Troopers in
uniform to serve as a deterrent in those facilities during
times of certain concerts or other events that may draw an
element that may be subject to causing some kinds of
issues.

But I also wanted to touch on some of the things
that PSP is responsible for in the casinos, in that there
is a provision in this bill that would take us -- would
physically remove us from the casinos and I believe would
affect our funding and our complement. I think it’s
important that we talk about some of the things that we do
so that an informed decision can be made.

First of all, right now for the casinos, we
fingerprint approximately 11,000 to 12,000 applicants per
year on behalf of the casinos, and those fingerprints are
done for the purpose of licensing by the Gaming Control
Board and the Horse Racing Commission.

And so what happens is, we have people at the
casinos. They take all of these fingerprints. They submit
them. The results, in terms of any criminal history
report, is sent back to an administrative unit that we
have. Those reports are then compiled and provided to the
respective agency that has to make the licensing decision.

Regardless of what happens with our people in the
casinos, someone has to be in a position to process all of
those applicants. And so if it’s not at the casino, I
guess my question would be, would it fall back to our
county facilities, in which case that would take a
significant hit on the manpower at each of those
facilities. That’s a lot of prints.

    And then you throw in the fact that we’re
expanding this, and there would be a lot more applicants to
be done if in fact the video gaming terminal portion passes
and we have various liquor establishments, truck stops, and
so forth that owners and employees have to be processed.

    The other thing that I would tell you is, within
the casinos, there are a number of Title 4 violations that
currently PSP has sole enforcement authority over, and so
that becomes an issue. Even in a casino that is located
within a municipality that has a local police department,
PSP still retains that Title IV authority, and I don’t see
anything to change that in House Bill 1010.

    So we would find ourselves in a position of still
having to respond back into those municipalities to handle
any of those violations. Unfortunately, it also puts us in
a position of not having people on site, so that as those
violations occur, security is not empowered in most cases
to detain an individual. It puts us at a real disadvantage
trying to conduct that type of enforcement if we are not
physically on site.

    With that said, I mentioned that we keep these
casinos relatively crime free. There are, however, any
number of crimes that occur that, again, are not always so visible. So we have a significant number of thefts, voucher thefts and other types of thefts that occur there. We have forgeries. We investigate thousands of these types of crimes between all of the casinos statewide.

And also, regularly we have assaults. As you, I am sure, are well aware, alcohol is consumed within these establishments. You have people that lose money, and sometimes it doesn’t make for a good mix and we end up with assaults, either between patrons or even on the staff at the casinos, and our people are in a position to deal with all of that.

But additionally, there is also a lot of other crime. We have discovered loan sharking at at least one of the facilities, and certainly not anything that the casino is involved in, but loan sharks have set up operations in that facility.

We have a number of other investigations that we have done. For example, we’re working with Federal authorities in the western part of the State where we have uncovered a ring that created fictitious IDs, was involved in a check-cashing scheme, and we have already identified over $400,000 in losses to one of the check-cashing facilities in western PA.

Those are the kinds of violations that without
on-site people, on-site investigators, it is very difficult
to detect some of these types of crime and then to
effectively follow through with those investigations. But
I think our people have done a good job, and we routinely
interact with local, State, and Federal agencies who are
conducting any number of money-laundering or money-washing
investigations where proceeds from other criminal acts
outside of the casinos are being laundered or washed
through the casino to try and make that money more usable
by the criminal enterprises that generated it to begin
with.

As we move forward, as I interpret House Bill
1010, I also see that PSP would be given the need to
inspect or audit some of the facilities and records at each
of the liquor and truck stop establishments as the Board,
the Gaming Control Board, determines. And so while on the
one hand we would be reducing our complement or eliminating
that complement, depending on how we move forward, we would
then also be taking on additional tasks associated with the
increased number of licenses. And one of our concerns is
that those costs would then be passed on to the taxpayers
as opposed to the way it is currently done, and that is,
the complement of the Gaming Control Enforcement Bureau is
reimbursed by the casinos, and so they are paying for the
services they get.
Now, one of the other points that I really want to make sure that we get across is, there has been some discussion about returning those 140 enlisted members back to the PSP complement, and I think it’s well intentioned in that we are short. We are down about 500 Troopers right now in the department.

But one of the misconceptions, I think, is that there is a belief that we somehow have the money to absorb that 140 additional enlisted back into our complement. That is just not the case. If they come back into the complement, we need just under $30 million added to our budget or a lot of other things happen. We stop running cadet classes. We stop making a lot of other purchases. We stop a lot of services that we currently provide.

While our complement overall is 4,719 people, including Gaming Enforcement, Turnpike, and some other Troopers that are outside of the complement, we’re not funded to that level. We’re only funded to about 4,200 Troopers right now. And so anything that gets added on has to have money come with it or something else has to be cut. We’re simply not in a position to just absorb those Troopers back in. We don’t have the money for the vacancies that exist in the department.

As we get funding, we run cadet classes, because we get funding to run that specific number. So if we get
funding for a 100-cadet class, that’s what we run, but not
until we have the funding to do it. So I just want to make
sure that all of you understand that it would be very
problematic for us to just have to try and take that
complement back into the department.

So I think I have hit the majority of our
significant concerns. Again, our interest right now is
making sure we fulfill all the obligations that you all
have put on us. We want to make sure we’re doing it
effectively, and we want to be able to operate within our
budget so that we don’t have to impact the services we
offer to the taxpayers and the citizens elsewhere in the
Commonwealth.

And with that, we’d be happy to take any
questions that you might have for us.

MAJORITY CHAIRMAN PETRI: Okay. I just have a
couple.

I wanted to focus -- first of all, I would like
you to do what I have asked the gaming group to do, and
that is call, contact your counterparts, whoever you need
to talk to, your staff, and try and come up with some
hard-core numbers: what do you think you’re going to need;
how would you cover this.

A question for you: How many LCE agents do we
currently have?
MAJOR BIVENS: There are, I want to say about 120 right now. I can get you the exact number.

MAJORITY CHAIRMAN PETRI: Okay.

Would it be your anticipation that we would need more LCE agents, PSP State Troopers, or both?

MAJOR BIVENS: I think it would depend ultimately what responsibilities are put on us.

In terms of inspecting the establishments, I think we can do that with LCE agents, and so it would take an increase in complement there. They are certainly not in a position to take on the responsibility of inspecting and auditing for all of these machines that we anticipate would be out there.

There may be a need for some additional Troopers over there, but again, that still doesn’t go back and address some of the concerns that we have: who will take over everything from processing all of these applicants to responding to the various types of investigations and calls for service that occur in the casinos right now.

MAJORITY CHAIRMAN PETRI: So going to the loan situation, as you know, the casinos borrowed some money up front and then they pay enforcement costs. If we bring a new class of licensees in, who do you see bearing the cost of enforcement, and do you have any recommendations on how we would segregate that?
MAJOR BIVENS: Well, my recommendation would be that, again, the taxpayers not be saddled with that. So my suggestion would be that if there’s a new class of license, that reimbursement would be made from that, those funds, and I think it would make sense to use the Liquor Enforcement people to do the enforcement in the licensed liquor establishments. So I think it’s a matter of expanding that area of the department as necessary.

And again, I think it’s also then a matter of not overlooking the responsibilities we have in the current establishments, to keep them safe and secure, and also to make sure that the funds are there to pay for the services that are required by those facilities.

MAJORITY CHAIRMAN PETRI: Yeah.

I have not heard from any casinos yet on the enforcement costs, but I can’t imagine they’re going to want to be partially responsible in any way for something that some of them do not support. So that’s why I asked you that question.

Representative Wheeland.

REPRESENTATIVE WHEELAND: Thank you, Mr. Chairman, and thank you, Major, for your testimony.

I guess the number of illegal machines is really, who knows. You had suggested, what, 15,000?

MAJOR BIVENS: Yes, sir.
REPRESENTATIVE WHEELAND: And that’s in licensed liquor establishments, correct?

MAJOR BIVENS: Yes, sir.

REPRESENTATIVE WHEELAND: Okay.

In my district, it’s kind of ironic. The PSP, Liquor Enforcement, conducted a raid in Williamsport, and quickly, all those machines migrated to convenience stores and tobacco outlets and sub shops, which the Pennsylvania PLCB, Liquor Enforcement, has no jurisdiction there, correct?

MAJOR BIVENS: They do not. We use other segments of our department to conduct enforcement there, specifically the vice units out of each of the troops or our Bureau of Criminal Investigation, and they are in a position to conduct enforcement in those locations.

REPRESENTATIVE WHEELAND: Okay.

So I just asked my vendor up in Williamsport, who does not do anything with those illegal machines. It’s his competition that is being brought in, in a lot of cases from out-of-State and plopped around Pennsylvania. He, too, does not know, but in his district there are probably 15,000 of them.

So he probably agrees, but he has a much smaller market than the whole of Pennsylvania. So we really don’t know how many illegal machines there are.
But my question is, would you support, and again I’m going back to the games of skill, you know, the true games, the Pennsylvania games of skill, that won that particular case in Beaver County that you’re aware of.

MAJOR BIVENS: Yes.

REPRESENTATIVE WHEELAND: Would you support the ability of law enforcement to be able to verify quickly upon a visit whether that machine is a legal machine or a knocked-off machine or an illegal machine? Would you support the ability to do that quickly in the field?

MAJOR BIVENS: Yeah, but not on that specific machine. What I would support is clarification in the law and something that does make it very clear-cut what is legal and what is not legal.

You know, as I indicated, technology has outpaced our ability to enforce this. When we go back a number of years and you had a simple knock-off switch on the back of the machine, it was easy to find. It was, per se, a gambling device. Then we went to two prongs on there that used a coin, for example, to close the circuit, and we could determine that was a gambling machine. They have gotten much more sophisticated. Now there’s a remote control that is used from across, you know, the bar or across the pizza shop or whatever, and it makes it much, much more difficult unless we actually witness or obtain
payoffs from that machine; very time intensive and resource intensive to do that kind of enforcement. We do it, but again, it takes quite a bit to identify a vendor and then conduct enforcement on machines in a number of establishments run by that vendor.

So what you’re proposing would be helpful to us in terms of clarifying and making it clear that, you know, these machines are legal or not legal and what makes them legal.

REPRESENTATIVE WHEELAND: Then thank you, because that’s exactly -- I’m about ready to introduce a bill, it will probably be next week, on the Pennsylvania games of skill, which are manufactured right here in Pennsylvania. And that is going to be part of it, where enforcement, no matter what level, will have the ability with a simple smartphone to walk up to a machine, off the screen type in the registration number, and it will give the officer the vendor name, location of the machine, the address, the establishment, whether it’s a sub shop or a tobacco center or a liquor license, immediately to be able to prove whether it’s a legal or an illegal machine.

Because quite honestly, these Pennsylvania games of skill, some folks from out of State have been able to counterfeit the machine, the logo, everything, and it’s not a game of skill; it is exactly an illegal poker machine or
slot machine, so to speak.

So that was one of the things, that we wanted to make it easy for law enforcement to do. But it’s good to hear that you would support that.

MAJOR BIVENS: We would be very interested in working with you going forward on that, sir.

REPRESENTATIVE WHEELAND: Thank you very much.

MAJORITY CHAIRMAN PETRI: Representative Neilson.

REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

First, let me begin by thanking you gentlemen for your service to the Commonwealth---

MAJOR BIVENS: Thank you.

REPRESENTATIVE NEILSON: ---and protecting our families at night. I want to make certain that’s clear, that you are both State Police officers even though you are in regular uniform.

We’re talking about enforcement. Representative Wheeland, he just brought up some of the things. Because when you walk in a place, how do you know if it’s good or bad? It takes resources and investigation for each single machine that is illegal or not illegal. And we’re seeing them pop up in like our local Stop-N-Gos, 7-Elevens, you know, laundromats. Who do you call? Me as a citizen, who do I call and say, hey, look, there are five machines out here? Who do I call to get them taken out?
MAJOR BIVENS: If they call any of our locations, we’ll get that information to where it needs to go. And not necessarily to get them taken out but to get them investigated. And we’ll provide that information, whether it’s to Liquor Enforcement, whether it’s to the vice unit, to the Bureau of Criminal Investigation, we’ll get that information to where it needs to be to be investigated.

REPRESENTATIVE NEILSON: Because we’re seeing people hanging out, and we talked about money coming in and coming out and how the casinos are unsafe with all the cash flow inside and the enforcement. Five machines in a bar, and someone, you know, may or may not be drinking too much and something breaks out. So there’s a safety issue as well for the community there. Am I reading into your testimony a little bit too far?

MAJOR BIVENS: No, I think there is. I think you have the same issues but on a different scale in the bar. So when I talk about fictitious IDs, you have the same issues. They have become very sophisticated. And so within the casinos, they have done a good job. They have brought new technology into those casinos. It’s not as simple as now having a scanner that you just swipe the magnetic stripe over and it reads you.

There are IDs you can purchase on the Internet.
that will work and that will fool those machines. So there
are machines that they are using in the casinos that are
actually connected to the Internet that scan the card and
are very good at detecting fraudulent or fictitious
identifications, and then we’re able to follow up on that.
So even as we speak, we’re working with Federal
Homeland Security to try and get some of those websites
shut down where we’re seeing those IDs generated. But
again, different scale, but you’re going to see those same
kinds of issues. Whether it’s at the bar or whether it’s
at the casino, they’re going to occur.

REPRESENTATIVE NEILSON: Going to occur. All
right.

Thank you, Mr. Chairman, and thank you again,
gentlemen.

MAJORITY CHAIRMAN PETRI: Representative, I
understand you have a follow-up?

REPRESENTATIVE WHEELAND: Major, is it true that
PSP, Liquor Enforcement, has an issue with warehousing
these machines?

In other words, let’s say the Pennsylvania games
of skill came into being -- my legislation passed, the
Governor signs it, and they’re now legal -- and there’s an
all-out effort, to obviously benefit the casinos, to
benefit the mom-and-pop operations, for enforcement to go
out and do a really tough raid on these illegal machines.
Is there an issue with warehousing these until it’s adjudicated through the courts?

MAJOR BIVENS: There is.

The issue becomes that, you know, I talked about the varying degrees of support by county with our enforcement efforts. And so we have had situations where we have seized large numbers of machines and been unable to get a forfeiture petition at some point, and so we house those machines indefinitely until we’re able to work through a solution or a resolution to that issue. In some cases, we have had to store those machines for years.

REPRESENTATIVE WHEELAND: So in the last year, PSP has picked up, your best guess, how many of these illegal machines?

MAJOR BIVENS: Truthfully, sir, that’s not my area of responsibility, so I couldn’t give you a number. But we have done several large raids. I think it’s safe to say at least several hundred machines, maybe more.

REPRESENTATIVE WHEELAND: Okay.

Thank you, Mr. Chairman. Thank you, Major.

MAJORITY CHAIRMAN PETRI: Now we’re going to move to Drew Svitko, Executive Director of the Pennsylvania State Lottery; and Amy Gill, Deputy Secretary of Tax Policy, the Pennsylvania Department of Revenue.
Thank you for your testimony.

MAJOR BIVENS: Thank you, sir.

MAJORITY CHAIRMAN PETRI: When you’re ready.

EXECUTIVE DIRECTOR SVITKO: Thank you, Mr. Chairman.

Chairmen Petri and Harkins and Committee, thanks for having us.

I’m Drew Svitko, Executive Director of the Pennsylvania Lottery. With me is Amy Gill, Deputy Secretary for the Department of Revenue for Tax Policy. And we’re here to share some concerns about the legislation, not to take a position one way or another but to make you aware of concerns.

As with all conversations about expanded gaming, we think it’s important to consider the impact that that expansion could have on the State Lottery Fund.

As you know, the State Lottery Fund is an important program that benefits older Pennsylvanians through prescription drug assistance, through PACE and PACENET, property tax and rent rebate, transportation services. The Area Agencies on Aging provide a host of local services, as well as long-term-living care for that important part of our population.

If VGTs pass as described in HB 1010, we expect a profit impact of $14 million the first year for the
Pennsylvania Lottery and as much as almost $100 million in year five.

And, you know, there was some discussion about, or previous statements that had come out of the Department in 2009 with regard to that impact or cannibalization, and I think we’re in a very different world than we were in 2009. We have, you know, arguably a large -- we have more illegal gaming machines. Games of skill, regardless of what they are, what they are is a form of entertainment at the local level, and that represents competition for the Lottery.

Gone are the days when we think that the Lottery doesn’t have competition. It’s through games like that. Fantasy sports represents competition and a host of electronic opportunities that we have now that we didn’t have in 2009. And in 2009, the iPhone was only 18 months old. So lots of things have changed since then. We’re talking about a different world.

There are other impacts as well that we want to make you aware of. The 5 percent reduction, from 34 percent to 29, the estimates are a $123 million reduction in the State Gaming Fund, and again, that has just been 1 year.

Additional impacts are the technological challenges. As written, the bill requires the Department
of Revenue to establish a central gaming system or central
tool system for the VGTs and also make that available to
the Gaming Board, and that presents a lot of technological
challenges and obviously costs associated with that.

So right now, the Lottery Fund has no reserve.
There is no real long-term protection for that. The
Governor's proposed budget does have several initiatives
that are geared at protecting the solvency of the Lottery
Fund, including some programmatic savings that are
estimated to generate $45 million. But also iLottery,
which has generated in the first year or is estimated to
generate $19 million.

Again, with regard to any gaming conversation, it
is important that we consider the impact on Lottery, those
programs, and importantly and most specifically the older
Pennsylvanians that rely on those programs for their
quality of life.

And with that, we are open to answering any
questions that we can.

MAJORITY CHAIRMAN PETRI: Did you have any
comments you would like to make first?

DEPUTY SECRETARY GILL: No; I let Drew speak for
me.

MAJORITY CHAIRMAN PETRI: Questions among
Members?
Representative Dunbar.

REPRESENTATIVE DUNBAR: Thank you, and we certainly want to protect the Lottery.

The information that you have provided has a number, essentially, of a potential $14 million loss to the Lottery from VGTs. Is that correct?

EXECUTIVE DIRECTOR SVITKO: Yes, in the first year.

REPRESENTATIVE DUNBAR: Do we have any type of calculation, anything we could actually physically look at to see how that was arrived at?

EXECUTIVE DIRECTOR SVITKO: Sure, we can share that. That was based upon the experience in Illinois, extrapolated a little bit. Because of that opt-out option, we’re ignoring that.

REPRESENTATIVE DUNBAR: Okay. We would like to see that.

EXECUTIVE DIRECTOR SVITKO: Sure.

REPRESENTATIVE DUNBAR: And also, I guess out of curiosity’s sake, I know that the proposal for iLottery has a $19 million price tag. Is the $14 million loss after the $19 million gain or is it beforehand, just to keep things straight.

EXECUTIVE DIRECTOR SVITKO: It is. That $14 million impact would be on our core business and
REPRESENTATIVE DUNBAR: Before the 19 million, right?

EXECUTIVE DIRECTOR SVITKO: Right, even if we were to get there.

REPRESENTATIVE DUNBAR: Okay. If you can get that to us, it would be helpful.

EXECUTIVE DIRECTOR SVITKO: Absolutely.

REPRESENTATIVE DUNBAR: Thank you.

MAJORITY CHAIRMAN PETRI: The Representative is on exactly the same plane that I was going to go, and would we be allowed to share that with other parties, including the authors of House Bill 1010?

EXECUTIVE DIRECTOR SVITKO: Sure.

MAJORITY CHAIRMAN PETRI: Because they may disagree with your numbers or they may agree with them, but it would be helpful to know.

EXECUTIVE DIRECTOR SVITKO: Yeah. And, you know, we can debate about methodology and what the numbers are. The fact of the matter is, there are only so many gaming dollars, so many entertainment dollars among consumers in Pennsylvania, and we’re concerned with really any expansion that takes those dollars.

MAJORITY CHAIRMAN PETRI: And I certainly respect that, and like the other Members, I want to thank you for
coming and testifying and speaking on behalf of our seniors throughout Pennsylvania. It is very important. But if we have the numbers, I think it might help us understand your concerns.

EXECUTIVE DIRECTOR SVITKO: Will do.

MAJORITY CHAIRMAN PETRI: Okay. Seeing no other questions, we’re going to move on.

We’re now up to a panel involving Mark Stewart, who is an attorney with Eckert Seamans; and Robert Green, Chairman of Parx Casino.

Thank you again for your testimony.

Gentlemen, whenever you’re ready.

MR. STEWART: Mr. Chairman, good afternoon.

Honorable Members of the Committee, my name is Mark Stewart. I’m an attorney with Eckert Seamans, appearing today as counsel for Parx. And with me, of course, is Mr. Robert Green, Chairman of Parx Casino, and I will offer some brief comments followed by him.

As Penn National Gaming’s testimony indicated, 11 of the casinos, other casinos in the State that are currently operating, oppose VGTs and the pending legislation. A collection of those casinos have submitted a letter to the General Assembly and to this Committee to express their opposition to the introduction of VGTs into bars, taverns, licensed restaurants, and other locations in
Pennsylvania. That letter will largely speak for itself.
The hearing has been going for quite awhile, but I would
like to touch on a few points.

The overarching message was to urge the
Legislature to carefully consider the negative economic
impact that such a move will have, not only on State
revenues but also on the existing casinos and the thousands
of jobs that they support and the many local communities
they support around the State.

Applying the data from the Illinois VGT
experiment to Pennsylvania-specific metrics will actually
reveal that the Commonwealth can expect a substantial loss
of net gaming tax revenue, not a gain. Therefore, rather
than helping with the State’s budget deficit, you may find
that you have actually made it worse.

Under the proposal, literally it could authorize
as many as 85,000, really more than 85,000 VGTs across
Pennsylvania, and that’s just for the liquor licensed
establishments. That’s more than triple the current number
of slot machines at all of Pennsylvania’s casinos combined.

And even using more conservative estimates, the
bill envisions adding the equivalent of over 18 additional
casinos. These slot machines will do nothing more than rob
Peter to pay Paul, cannibalizing the casinos and the tax
revenues they generate.
In simplistic terms, the Commonwealth would be replacing 59 cents of every slot machine tax dollar that is currently produced at the bricks-and-mortar casinos with a tax rate of 39.5 percent, all into the State, including local share, regulatory costs, and the like.

As well, it would materially damage the ability of existing casinos to reinvest in their properties, which will negatively impact economic development, local business vendors, and harm their ability to remain competitive with casinos in their surrounding States.

Highlighting a few key facts:

- As the PGCB testified earlier today, there will be real challenges in terms of responsible gaming, safeguards, regulation, and public protection. The Executive Director of the National Council on Problem Gaming has called VGTs in bars and taverns possibly the worst model for legalized gaming in the country right now.

- Pennsylvania’s casinos employ 18,000-some employees, approximately 90 percent of which are Pennsylvanians. A conservative estimate from the Innovation Group was that more than 2,500 of those employees will lose their jobs if VGTs are authorized.
• Local companies and small businesses across the State do approximately $230 million of business with casinos each year, and that will suffer significantly.

• Likewise, we believe that you will see an impact to the Property Tax Relief Fund and that senior citizens and homeowners will feel that pain.

• And, of course, the Commonwealth as a 59-percent stakeholder in our revenues will suffer the greatest negative effect.

You have heard from the Lottery and Revenue just before us. The Administration had also given projections on losses last June, I believe it was. I think if you go through their schedule today, you will see that as you get to year three, you are far more than $14 million in the hole at the Lottery. I think it was approaching more like 90 million.

As alluded to, the Illinois experience is one that requires careful consideration. And if you look at that, I think one of the best sources is the Illinois Commission on Government Forecasting and Accountability. Its Wagering in Illinois 2016 Update noted that the State’s casino revenues have now declined for four consecutive
years. It referred to the Lottery’s “poor performance” in fiscal year 2016 and noted that it prevented the Lottery in Illinois from transferring any funds -- that’s a zero transfer -- to the State’s Capital Projects Fund. In 2014, the Lottery was transferring $145 million to that fund.

Moreover, there are many differences between Illinois and Pennsylvania, so it is only a guide to some degree. Those differences involve the number and placement of bars and taverns and the number, nature, and location of slot machines and casinos in the State.

Our casinos are very different than riverboat casinos. They have a maximum of 1,200 machines. We have a minimum of 1,500 machines. It’s a much more full and complete entertainment experience. And the casinos are distributed evenly across the State. These factors, combined with the number of liquor licensees and their proximity to licensed casinos, indicate that the loss of casino gaming revenue to be expected in Pennsylvania will be even higher than the 19 percent that you saw in Illinois.

As a result, the revenues generated by VGTs, even at the levels in Illinois, would not be anywhere near enough to offset the loss of casino tax revenue in Pennsylvania. And that’s stemming largely because the Commonwealth is going to stop taking nearly 60 cents of
every dollar and start taking only 40. In addition to
those losses, VGT revenues have to make up what you just
heard is $123 million in lost revenue from the tax
deduction -- or reduction; excuse me -- to casinos.

And actually, earlier today I believe you heard
Penn National state that those revenues will also have to
make up the approximately $90 million in one-time licensing
fees from the Category 1 and 3 facilities that Chairman
Petri asked about.

All of this, considering all of these factors and
extrapolating actual data from Illinois to Pennsylvania’s
market, results in an eight- to nine-figure net tax revenue
loss to the Commonwealth on an annual basis, and that is
before the significant impact to the Lottery and before you
consider losses that will stem from the fact that
Pennsylvania casinos will have to curtail their capital
investments, which costs additional revenue, additional
hundreds of millions of dollars in direct and indirect
spend, on construction expenditures, thousands of
employees, and the like. And construction employees;
excuse me.

All of this is to say that we respectfully submit
that VGTs would be a bad bet for all stakeholders in the
Commonwealth. The casinos remain committed to working with
the Commonwealth on its immediate and longer term financial
health, but we respectfully state that VGTs are not the
answer for Pennsylvania.

Mr. Green.

MR. GREEN: Chairman Petri, Chairman Harkins, and
Members of the Committee, normally the spokesperson for
Parx, because of some speech difficulties that I have, our
spokesperson is our CEO, Mr. Ricci, who unfortunately or
fortunately is on vacation.

You have our written testimony and I’m not going
to read that. I just want to make a few brief points.

Number one is, put aside the social policy of
placing five slot machines in potentially every bar,
restaurant, bowling alley, chop shop. So that’s a social
and moral issue for you to determine.

I would just tell you that on the basis that the
Commonwealth is looking for additional revenue, this is a
bad bet. You shouldn’t do this, because it could end up
providing less revenue to the Commonwealth. Why substitute
60 cents in the dollar for 40 cents in the dollar, and that
is on the basis of the Illinois cannibalization. We
believe, because of the way our industry is structured,
that cannibalization would be even worse.

And the other thing is, we have heard Illinois
does this, Illinois does that. The structures are
completely different. Illinois was set up as a riverboat
State for gaming. So if you look at the location of their casinos, where they are placed, the number of positions, I know Mr. Schippers didn’t know how many they have, but they have 1,200 in their three casinos and they have 1,500 VGTs. I think that was the question that he was asked.

And if you look at that structure, it’s entirely different from Pennsylvania. Where we have our casinos is in only population centers of the State. Whether it’s in Philadelphia, whether it’s in the Lehigh Valley, whether it’s in Scranton, Erie, Allegheny, Pittsburgh, they are covered.

If you look at the total growth of VGT revenue in Illinois, by far the greatest growth of that revenue from VGTs came from those outlets that were over 25 miles from existing riverboats. So that is where you saw that particular growth.

In respect, and we have heard and I hear, you know, I listen with sympathy to the bars’ and taverns’ experience, and I am a great fan of bars and taverns as I visit them daily, especially the mom-and-pop ones. And I believe there are ways that we can definitely help and assist bars and taverns through a series of measures that I won’t go into now, but one of them certainly would be to drastically improve the way the small games of chance are administered and run. But that would only be one, and I
would have several proposals that I think would help the 
bar and tavern business.

And last but not least, I think you have to be 
very careful when you have a $1.4 billion industry, 
producing 1.4 billion in tax revenue every year. We are, 
in the whole of the United States, the biggest gaming tax 
generator of any other State, more than Nevada, more than 
New Jersey, more than New York. Do not put that in 
jeopardy.

Thank you, and I’m happy to answer any 
questions.

MAJORITY CHAIRMAN PETRI: Any questions from 
Members?


REPRESENTATIVE WHEELAND: Thank you very much for 
your testimony.

It’s Mr. Stewart, right?

MR. STEWART: Yes.

REPRESENTATIVE WHEELAND: Okay.

And I know there has been a lot of comparison, 
Illinois to Pennsylvania and, you know, what went on in 
Illinois. And as I said earlier today about in Illinois, 
casino attendance, casino play dropped, was continually 
dropping well before the VGTs even entered the market into 
Illinois.
And I believe you said in your testimony that,
and I guess this is where the confusion, at least for me,
exists, when you talk about the drop-off in revenue if VGTs
are allowed, you’re talking the casinos will see a
drop-off, but overall, gaming in Pennsylvania will see an
increase, correct?

MR. STEWART: No, that’s not what we’re saying.

REPRESENTATIVE WHEELAND: So you’re saying that
if VGTs come into Pennsylvania, all gaming revenue will
drop?

MR. STEWART: That’s what we’re saying, a net
loss to the State of revenue. Or at best, a zero-sum game.

REPRESENTATIVE WHEELAND: Because I thought one
of the numbers I’m looking at here was -- let me get this
right here -- Illinois has seen its total gaming revenue
grow to 2 ½ billion from 1.4 billion over the course of the
last 5 years. So in Illinois, with VGTs entering the
market---

MR. STEWART: Mm-hmm.

REPRESENTATIVE WHEELAND: ---the total of all
gaming increased, darn near doubled.

MR. STEWART: Well, you know, we’re looking at
tax revenue, not just the gaming revenue. But when you
look at, for instance, if you looked at Illinois’
2015 Wagering in Illinois Update, you would find that when
you combined the loss at the casinos with the loss at the Lottery, the State lost about $80 million.

There has been a slight---

REPRESENTATIVE WHEELAND: From the casinos?

MR. STEWART: Overall, from all wagers---

REPRESENTATIVE WHEELAND: Total gaming?

MR. STEWART: Its receipts were down. It did not have that loss in 2016. I think it showed about a 3.8-percent growth in overall wagers.

However, what you had there was a 1.5-percent rate of growth in the areas like Chicago, where there are casinos within, or VGTs within 25 miles of each other. And as Mr. Green said, that’s essentially, you know, when you start drawing those circles around all of the casinos in Pennsylvania, that’s where you’re going to see a different model.

But what we’re saying is that, what Parx is saying is that at the 19 percent cannibalization rate, which was identified by the Illinois Commission and attributed by that Commission primarily to the introduction of VGTs, when you factor in those numbers at the differential tax rate and then you also subtract out the loss of revenue to the Commonwealth from the 5 percent reduction in the slot tax -- excuse me; the gross terminal revenue tax -- that you’re having a zero-sum game.
And that if you look at Pennsylvania’s unique aspects, the way that the casinos are distributed, the different type of gaming experience that you have, as Mr. Green testified and as Parx testified, Mr. Ricci at your last hearing at Parx, that percentage of cannibalization is actually projected to go higher, in which case the State could actually have a loss of funds.

REPRESENTATIVE WHEELAND: Okay. And then one last question.

Back to the Pennsylvania games of skill, which has a component in there for basically local enforcement, would the casinos, in your opinion, support a Pennsylvania games of skill to help get rid of these illegal machines and get them out of the market?

MR. STEWART: I couldn’t comment on that. I just went over the points that were in the letter that was submitted.

MR. GREEN: I think there has been, as you have said, some confusion about what is a game of skill and what is a game of chance.

And there was another thought moving -- it hasn’t gone to a Supreme Court -- about a certain machine being regarded as a game of skill, not chance. My view is that that game is a game of chance. It hasn’t been tested up through the full system, but the types of machines that
we’re seeing coming into the marketplace are, they have a random number generation; they have a built-in percentage. The skill element is virtually meaningless. I believe they could be and should be challenged as to the veracity of saying that they are a game of skill.

And if that area of the law could be clarified and dealt with appropriately, yes, we would support that.

REPRESENTATIVE WHEELAND: Thank you very much, because that is, you know, my whole thought process on that is, the amount of money that is being put through these illegal games as compared to a true Pace-O-Matic Pennsylvania game of skill would benefit not only the mom-and-pops, the vendors, the 205 small business folks that have employees here in Pennsylvania. I think it would be a win-win for the casinos and your industry, and it would be certainly a win-win for the small business man and woman in Pennsylvania.

So I appreciate your comments on that, and we’ll see how it goes. Thank you.

MAJORITY CHAIRMAN PETRI: Mr. Stewart, would you be willing to provide, you know, kind of a calculation of the numbers you went through so that we can share it with other Committee Members?

MR. STEWART: Sure. Absolutely.

MAJORITY CHAIRMAN PETRI: That would be great.
Chairman Harkins.

MINORITY CHAIRMAN HARKINS: Thank you,

Mr. Chairman.

Thank you both for your testimony. Very insightful.

I just had a question for Mr. Green. You had mentioned some help for or some suggestions for the small games, some enhancements. Would you be willing to share some of that with us today?

MR. GREEN: As I said, I think in the first instance, we could help significantly by improving the small games of chance legislation. I think that would add significantly to the profitability of mom-and-pop bar and tavern owners.

I think we could also look in conjunction with the State Lottery, of looking at our Lottery to be available.

I also think that under the previous Governor’s aborted privatization plan, there was an area of looking into Keno for bars and taverns and a very regulated criteria. That also could significantly help.

And as that ran into the days and hours of all of that, we thought long and hard about what could now be done to help those businesses survive and prosper.

MINORITY CHAIRMAN HARKINS: I appreciate that.
In my area, I know we’re really ripe for getting this right. We rushed the thing through the last time, and now we’re seeing the flaws and some of the problems that are surfacing.

MR. GREEN: Sure.

MINORITY CHAIRMAN HARKINS: So anything you have got, we would really welcome any suggestions.

Thank you.

MR. GREEN: Thank you.

MAJORITY CHAIRMAN PETRI: Representative Kortz.

REPRESENTATIVE KORTZ: Thank you, Mr. Chairman.

Thank you, Mr. Green, Mr. Stewart, for your testimony today.

Obviously you are opposed to House Bill 1010 as currently written. If it were to be amended, if it were to be amended, could you be in support of it if it was tailored specific to some veterans’ organizations such as the VFW, American Legion, and volunteer fire departments that currently have a liquor license? Could you be supportive if it was tailored specifically to that group?

MR. GREEN: I think -- I sympathize with that issue. I think the question is, where do you draw that particular line and what particular organization?

You know, I don’t know the number, perhaps you can help me, but I would assume there are thousands of
these organizations -- fraternal clubs, et cetera -- and how that would apply, I think the devil is in the details. You would have to look very carefully at what is proposed, who would be eligible, and reach a decision on that.

So, you know, I think it’s certainly something that should be considered.

REPRESENTATIVE KORTZ: And many of these organizations are struggling at this time, to be quite honest with you, and a lot of them depend on that revenue to help pay their electric bill, to be quite honest with you.

So I would hope that you would take that under consideration, because there are a lot of us pushing for this just from that aspect, to be quite honest.

MR. GREEN: I understand.

REPRESENTATIVE KORTZ: So please give that some consideration.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN PETRI: Well, thank you for your testimony.

We’ll now move on to Carol Davies, Board Member of the Pennsylvania Association of Area Agencies on Aging. You may proceed.

MS. DAVIES: Thank you.

Chairman Petri, Chairman Harkins, and Members of
the Committee, thank you for the opportunity to testify on this important issue.

My name is Carol Davies, and I am the Administrator of the Lebanon County Area Agency on Aging, or AAA, and a Board Member of the Pennsylvania Association of Area Agencies on Aging, or P4A, the statewide association that represents the 52 AAAs across the Commonwealth.

I am testifying on behalf of P4A today to express our concern regarding the impact that the legalization of video gaming terminals, or VGTs, at bars and taverns could have on funding for programs benefiting Pennsylvania’s seniors.

 Governed by the Federal Older Americans Act of 1965 and Pennsylvania’s Act 70 of 1978, the State’s AAA network provides guidance and services to seniors and their families. Every year, the Pennsylvania Lottery generates revenue that helps thousands of Pennsylvania seniors obtain nutritious meals, transportation assistance, prescriptions through the PACE Program, property tax and rent rebates, and home care.

Revenues from the Lottery also help fund senior centers, which provide valuable social connections for seniors, helping them to avoid isolation. These community-based services help seniors age in the community,
which is generally their preference, and delay or prevent the time when they may need to access more costly long-term care services in a nursing home or other long-term facility instead.

The Pennsylvania Department of Revenue projects that the legalization of VGTs in Pennsylvania will result in a dramatic decrease in Pennsylvania Lottery sales. The Department has reported that if VGTs are implemented in fiscal year 2017-2018, Lottery ticket sales will decline by 63.8 million, or 1 ½ percent, and Lottery profits will decline by 14.4 million, or 1.29 percent.

In year five, the Department estimates that Lottery sales would be reduced by about $432 million, or 9.8 percent, and profits reduced by 96.3 million, or 8.44 percent.

We understand that the State is facing a difficult budget situation and Legislators are looking for new revenue sources, but if the Department of Revenue’s projections are accurate, the legalization of VGTs will have far-reaching, unintended consequences on the funding of programs that benefit Pennsylvania seniors.

There are already over 4,700 seniors on the waiting list for these Lottery-funded services, and these numbers will continue to be impacted by the projected growth of the Commonwealth’s over-60 population in the next
several years.

The decision for P4A to provide testimony today was not made lightly. These important and in many respects life-saving services will be in jeopardy if the Lottery becomes unable to meet the funding needs of Pennsylvania’s senior population.

P4A opposes the legalization of VGTs in Pennsylvania, and further, we strongly urge the General Assembly to include iLottery in all gaming expansion proposals to ensure our seniors receive the services they need and deserve.

Thank you for your time today.

MAJORITY CHAIRMAN PETRI: And thank you for your interest in testifying.

Any questions of Members?

Representative Neilson.

REPRESENTATIVE NEILSON: You skipped me on the last panel. I waved.

Before I ask you a question, I do want to, to the last panel, if I may, Mr. Chairman.

Of all the hearings we have had over this stuff over the last 5, 6 years that I have been on the Committee, there has only been one casino owner -- not representative, owner -- that shows up consistently, and that is Mr. Bob Green over there. He shows up everywhere. And I
just wanted to put that on the record, because he's never afraid to dodge these hard questions.

In our last hearing, we had a hearing at Mr. Green's facility, and Mr. Ricci, who is not here today, but he mentioned about the Keno being in local taverns and how the State Lottery Fund could get $80 million in revenue while also having $60 million in profit for the tavern owners.

In your testimony today, you talked about how you would be reduced about $96 million. Where are those numbers from, because I saw where there is from -- like, how are you justifying how much money you will lose from the Lottery sales? Is there anything?

MS. DAVIES: For me?

REPRESENTATIVE NEILSON: Yes, this is for you.

Yeah; yeah.

MS. DAVIES: Okay.

Those numbers that we presented came from the Department of Revenue’s projections.

REPRESENTATIVE NEILSON: Okay. So if we take that 96, we have to replace that somehow through legislation, and you spoke about iLottery. Are there projections how much, if we introduce iLottery, what that would produce for you? Do you know?

MS. DAVIES: I do not have those projections with
REPRESENTATIVE NEILSON: Okay. All right. Well, thank you very much for your testimony. I have nothing further, Mr. Chairman.

MAJORITY CHAIRMAN PETRI: Anyone else?

Okay. Seeing none, thank you so much for your testimony and for caring for our seniors.

MS. DAVIES: Thank you.

MAJORITY CHAIRMAN PETRI: Closing remarks?

MINORITY CHAIRMAN HARKINS: I just wanted to thank all the stakeholders, all the testifiers, and everyone who showed up today.

Four hours of great testimony. Great insight. I know I learned a lot, and thank you.

MAJORITY CHAIRMAN PETRI: For the Members, I want to thank all of you for your patience. I certainly want to thank the testifiers.

In the next couple of weeks, I would suggest to you that we should be thinking about four options that have been presented to us, whether it be iGaming, VGTs, or the satellite location, and I guess the fourth that you’re wondering that I didn’t mention is, we could do nothing. That’s always an option.

But I think we ought to be thinking about, from an individual perspective, what you think serves your
community the best. And I’m not anticipating that we’ll be united on that, that we may in fact have four different ideas.

For those viewers who are interested in this topic, the stakeholders, continue to talk to your Representatives and Senators, whether they’re on this Committee or elsewhere, because we will have to be making a decision in the next few weeks. I would say by the end of May, we need to have a consensus of which of those four options we might be considering.

So thank you. We’re going to adjourn this meeting.

(At 1:54 p.m., the public hearing adjourned.)
I hereby certify that the foregoing proceedings are a true and accurate transcription produced from audio on the said proceedings and that this is a correct transcript of the same.

Debra B. Miller

Transcriptionist

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