

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.)

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

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3 MAJORITY CHAIRMAN PETRI: We will call this  
4 meeting of the House Gaming Oversight Committee to order.

5 The first order of business would be  
6 introductions by Members. We'll start to my left.

7 Bud, would you like to introduce yourself, and  
8 we'll go around the room.

9 REPRESENTATIVE COOK: Good morning.

10 I represent parts of Washington and Fayette, and  
11 I'm Representative Bud Cook.

12 REPRESENTATIVE DOWLING: I'm Representative  
13 Matthew Dowling, the 51<sup>st</sup> District, southern Fayette and  
14 southern Somerset Counties.

15 REPRESENTATIVE DUNBAR: Representative  
16 George Dunbar, Westmoreland County, the 56<sup>th</sup> District.

17 REPRESENTATIVE KLUNK: Representative Kate Klunk,  
18 southern York County.

19 REPRESENTATIVE PHILLIPS-HILL: Kristin  
20 Phillips-Hill, Representative in the 93<sup>rd</sup> District, southern  
21 York County.

22 REPRESENTATIVE HELM: Sue Helm, the 104<sup>th</sup>, Dauphin  
23 and Lebanon Counties.

24 REPRESENTATIVE KAVULICH: Sid Kavulich, the  
25 114<sup>th</sup> District, Lackawanna County.

1 REPRESENTATIVE KORTZ: Good morning, everyone.

2 Representative Bill Kortz, the 38<sup>th</sup> District,

3 Allegheny County.

4 REPRESENTATIVE NEILSON: Good morning.

5 Representative Ed Neilson, Philadelphia County.

6 REPRESENTATIVE DIAMOND: Representative

7 Russ Diamond, the 102<sup>nd</sup> District, Lebanon County.

8 REPRESENTATIVE WHEELAND: Representative

9 Jeff Wheeland, the 83<sup>rd</sup> District, which is primarily

10 Williamsport, the home of Little League Baseball.

11 MR. SHELLY: Josiah Shelly, Executive Director of

12 the Gaming Committee.

13 MAJORITY CHAIRMAN PETRI: Scott Petri, the

14 178<sup>th</sup> District.

15 MINORITY CHAIRMAN HARKINS: Pat Harkins, the

16 1<sup>st</sup> District, Erie.

17 MR. KING: Christopher King, Executive Director

18 under Pat Harkins.

19 MAJORITY CHAIRMAN PETRI: I want to thank all the

20 Members for making the effort and attending. Many Members

21 came from quite a distance on a Monday morning when we're

22 not in session. But I do believe that having a hearing of

23 this nature that involves so much technical information,

24 it's important that we do it on a non-session date so we

25 can really focus on the testimony.

1           I also want to thank both sponsors for being here  
2 and for offering legislation. While we had hearings last  
3 year on video gaming, VGTs, I think to have an actual bill  
4 that we can go line by line is very helpful as part of a  
5 hearing, and so I want to thank both of you for doing that  
6 and being willing to stand for interrogation, which is  
7 never easy.

8           Chairman, do you have any opening comments?

9           MINORITY CHAIRMAN HARKINS: We're good to go.

10          MAJORITY CHAIRMAN PETRI: Okay.

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

15          Thank you, gentlemen. You may proceed when  
16 ready.

17          REPRESENTATIVE STURLA: Thanks.

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

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

22          I want to start out by going way back -- 1988.  
23 Ernie Preate was federally charged for improperly  
24 reporting campaign cash from video poker operators. That  
25 was 1988.

1           I don't know; Chris, you might not have been born  
2 by then.

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

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

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

20           The casinos can participate in this by being a  
21 supplier.

22           The problem gaming has been addressed with  
23 2 million new dollars. There are dollars for people that  
24 have gaming addictions, whereas on the black market, there  
25 are no dollars for that.



1           And all enforcement and regulation would be  
2 similar to the casinos through the Gaming Board.

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

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

14           The tax rate is similar to the casinos.

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

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

1 of those casinos.

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

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

22 It will help with local jobs and banking and  
23 reinvestment.

24 And it will also allow Pennsylvania to diversify  
25 its gaming portfolio to ensure long-term stability. I

1 think it's in our best interests to make sure that we have  
2 as much variety as possible. If we put all our eggs in one  
3 basket and that portion of the gaming industry starts to go  
4 south, we still are left with something to make sure that  
5 we don't lose all the revenue that we depend on in the  
6 State of Pennsylvania.

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

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

14 REPRESENTATIVE MUSTIO: Thank you.

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

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

23 In 2015, Chairman Adolph, Chairman of the  
24 Appropriations Committee, gathered all the Republican  
25 Members together and, you know, put together a list of

1 possible revenue options and said, hey, if we're not going  
2 to do broad-based taxes, we're going to need additional  
3 revenue in Pennsylvania. I decided to dig real deeply into  
4 video gaming terminals.

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

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

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

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

24 So I took a couple of these letters and I went to  
25 -- because they said that VGTs had such a dire impact on

1 the casinos in Illinois. And I took time to go to  
2 Illinois and also took a lot of hours going through the  
3 Illinois Gaming Board website, and I provided some material  
4 to you.

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

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

19 VGTs were not passed until 2009 in Illinois. The  
20 first VGT did not accept money until 2012, and that was  
21 October of 2012. So the first full year was 2013. There  
22 have been significant drops, as you can see on this report,  
23 from admissions to revenue prior to that. And there was an  
24 uptick in 2012 of gross receipts from the casinos, and  
25 that's because Rivers Casino opened at that time.

1           And I have also provided data in the packet and  
2   a little history on Rivers, and you can see, since VGTs  
3   have been in existence in Illinois, Rivers Casino in 2012  
4   had 416 million in revenue, 427 million in gross receipts  
5   at the end of 2016.

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

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

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

23           Chairman Sturla talked about diversification, and  
24   I think it's really critical as well that we diversify.  
25   You know, if you listened to the iGaming hearing, I believe

1 this Committee and the Senate had a joint hearing on that.  
2 I tuned in from home in Pittsburgh and was watching it, and  
3 I swear they were talking about VGTs when I heard them  
4 talking about the need for diversification of their  
5 revenue.

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

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

16 If there is a partnership, if I'm going to agree  
17 with you and say there is a partnership, then I say that  
18 we're the majority partner. You know, we voted -- I was  
19 one of the votes to let casinos come into Pennsylvania in  
20 2004 -- and as a majority partner, we should not be  
21 steamrolled.

22 If we had a partnership with the casinos, I don't  
23 think we would let our partner cannibalize ourselves by  
24 building casinos in bordering States. I don't think that's  
25 how partners treat each other. So I think we need to start

1 treating our budgets and our Pennsylvania taxpayers as if  
2 they were our true partners.

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

9 The final thing I have is a chart, and it's the  
10 revenue that the Pennsylvania Lottery has received since  
11 1999, by game, all the way through 2016. And if you look  
12 at some of the studies, the biggest threat to the Lottery  
13 would be the instant tickets.

14 In 2005, we passed slots in Pennsylvania. The  
15 first slot I think operated in 2007, so let's go to 2007  
16 where instant tickets were \$1,700,000,000. At the close of  
17 2016, it was 2.7, almost \$2.8 billion. So we have had  
18 really a pilot program in Pennsylvania of expanding gaming.

19 Now remember, I think it was Representative  
20 Paul Clymer at the time who was saying how slots were  
21 going to devastate the Lottery. In looking at this report,  
22 that devastation has grown to a tune of an additional  
23 \$1.1 billion in revenue on the instant-ticket line. If you  
24 drop all the way down to the bottom, you'll see an increase  
25 from 3 billion total to almost 4.15 billion.



1           So, Mr. Chairman, that's some information I just  
2 wanted to get into the hands of the Members, some of the  
3 things that I have found over the last 2 years.

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

10          And I thank you for your time.

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

14          I saw Representative Dunbar's hand went up?

15          REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

16          Just quickly, gentlemen.

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

21          I did have a couple of really brief questions.

22          First off, the State's share, a 34-percent tax,  
23 4 percent local share, at 38, 1 ½ assessments, 39 ½, which  
24 leaves 60 ½ percent of proceeds, how are those divvied up?  
25 I don't remember seeing that anywhere in the legislation.

1           REPRESENTATIVE MUSTIO: How are the proceeds  
2 divvied up or the tax?

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

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

10          REPRESENTATIVE DUNBAR: Okay. Thank you.

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

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

21          REPRESENTATIVE DUNBAR: Okay.

22          REPRESENTATIVE MUSTIO: And the two studies that  
23 I have seen have been 5-point -- I think my testimony said  
24 5.2 percent, but I actually reread that this morning. It's  
25 5.5 percent to a little bit over 6 percent is what I have

1       seen.

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

4               REPRESENTATIVE MUSTIO: Yes, sir.

5               REPRESENTATIVE DUNBAR: Okay. Very good. Thank  
6 you.

7               MAJORITY CHAIRMAN PETRI: Representative -- oh.

8               REPRESENTATIVE STURLA: If I could just add to  
9 that.

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

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

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

23              And while I believe that this will have a very  
24 positive impact on the State budget, there are people who  
25 have said to me, well, the only reason you guys are doing

1 this is because you want the money. I actually think there  
2 is reason to do this in spite of the money, even though I  
3 think it will generate significant dollars, and that is  
4 that instead of turning a blind eye to an illegal industry  
5 that's going on in the State of Pennsylvania and sort of  
6 pretending that it's not there sometimes and at other times  
7 doing enforcement if it gets too egregious, this really  
8 does clean it up for everyone and lets everyone play on a  
9 level playing field.

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

13 REPRESENTATIVE STURLA: Yeah.

14 REPRESENTATIVE DUNBAR: Thank you.

15 MAJORITY CHAIRMAN PETRI: Representative Klunk.

16 REPRESENTATIVE KLUNK: Thank you, Mr. Chairman.

17 And thank you, gentlemen, for joining us today.  
18 I appreciate your work on this bill.

19 I have a question. In the beginning of the bill,  
20 I know this is supposed to be a VGT bill, but in the  
21 beginning of the bill, there is a section on slot machine  
22 licenses, and then on page 5 it talks about an undue  
23 economic concentration being prohibited when it goes to  
24 Category 1 casinos. And in reading it, I wanted to get a  
25 little bit of a clarification on this.

1           While I don't represent Adams County, I live  
2 about a mile from the Adams County border, and my concern  
3 with the way that I'm reading this now is that we could  
4 have a Category 1 applicant -- that's in the works right  
5 now with Adams County -- and if this bill goes into effect,  
6 which if I'm reading correctly, it goes into effect  
7 immediately, I'm worried that an applicant like that, that  
8 might not have everything through, might be precluded from  
9 going through and actually, you know, going through with a  
10 Category 1 license, and how that could play out with that  
11 Category 1 still hanging out there with the gentleman in  
12 Adams County being interested in bringing a casino there  
13 and how this undue economic concentration, being prohibited  
14 with the criteria, giving that to the Board to determine  
15 what that really means and how that's going to play out.

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

24           I just have a lot of concerns about that and  
25 would love to know your thoughts behind including that in a

1 VGT bill, why it's in here, why we need this in this bill,  
2 and how that could potentially play out with the  
3 gentleman in Adams County being interested in that casino  
4 license.

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

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

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

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

22 I appreciate the fact that Representative Moul,  
23 who has Adams County and the location where this potential  
24 casino could be, is discussing with our Chairman this  
25 particular part of the bill.

1           It does give me a little bit of heartburn. I  
2 agree on cannibalization. I don't know if this is the  
3 proper bill to do it. I don't know if this is the proper  
4 way to do it. But I'm glad that there are discussions in  
5 at least the topic and Representative Moul raised that  
6 question. So thank you.

7           MAJORITY CHAIRMAN PETRI: Thank you.

8           Representative Kortz.

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

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

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

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

24           REPRESENTATIVE STURLA: Yeah.

25           There is already one casino operator in the State

1 of Pennsylvania that is a supplier of VGTs in other States,  
2 and we believe that given the opportunity to become a  
3 supplier, that there will be more that will enter that  
4 market.

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

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

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

24 You know, we need the revenue, and I think we  
25 have put together a very good piece of legislation. Are



1       there some areas that need to be fine-tuned?  There  
2       probably are, yes.

3               REPRESENTATIVE KORTZ:  Thank you.

4               MAJORITY CHAIRMAN PETRI:  Representative Neilson.

5               REPRESENTATIVE NEILSON:  Thank you, Mr. Chairman.  
6               Thank you, gentlemen.

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

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

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

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

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

23              REPRESENTATIVE MUSTIO:  No, and that's certainly  
24      why we have an amendment procedure, if that's the case, to  
25      clear that up.

1 REPRESENTATIVE NEILSON: Okay.

2 REPRESENTATIVE MUSTIO: It's certainly not the  
3 intent.

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

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

10 Because, like, I testified last time you guys --  
11 you gentlemen know that I'm very passionate on this. The  
12 shopping center that my kids go to GameStop in will have  
13 45 machines, under your legislation, in that one little  
14 strip center. Is there any limitations that you're going  
15 to put in this to say, okay, look, you only can have 5 or  
16 10 within a mile, or any restrictions on these licenses  
17 that are going to be given out?

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

23 REPRESENTATIVE STURLA: Well---

24 REPRESENTATIVE NEILSON: I mean, I know about  
25 amendments and all. I'm just trying to -- we're talking

1 about this, not as amended. So I would like you to --  
2 because I'm poking holes in this, and I'm sorry that you  
3 put yourselves up for this, but it's that bad.

4 REPRESENTATIVE STURLA: Yeah; if I could address  
5 that.

6 REPRESENTATIVE NEILSON: Yes, please.

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

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

24 And so part of this is that the market will  
25 regulate some of this. But the other part is that this is

1 being overlooked by the Gaming Commission, and I don't  
2 think you're going to see the Gaming Commission saying,  
3 yeah, we have had four reports of that nuisance bar; go  
4 ahead, put five slot machines in there also. They simply  
5 won't do that.

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

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

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

19 REPRESENTATIVE STURLA: Right.

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

23 The last time this legislation tried to pass,  
24 they actually even wanted to give us a task force to go  
25 through southeastern PA, since we only have 10 enforcement

1 officers to work the entire end of that State.

2 Is there any community improvement needed?

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

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

16 REPRESENTATIVE STURLA: Well, I think---

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

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

24 There is also, in a lot of cases, no control by  
25 the neighbors if you're going to put a bar in down the

1 street. And there are some people that would claim the bar  
2 has much more negative effects than having a VGT terminal  
3 in that bar.

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

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

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

25 MAJORITY CHAIRMAN PETRI: Representative Hill.

1           REPRESENTATIVE MUSTIO: Mr. Chairman, would I be  
2     able to address some of his -- would I be able to address a  
3     point?

4           MAJORITY CHAIRMAN PETRI: Sure. I'm sorry.

5           REPRESENTATIVE MUSTIO: Thank you. Thank you.

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

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

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

17          REPRESENTATIVE NEILSON: Yes.

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

22                 I mean, you know, you think about all your chain  
23     restaurants that have liquor licenses. They're not going  
24     to have them. I mean, it's just not part of their business  
25     model.

1           So, you know, there are a lot of things we can  
2 throw at this, and the Chairman and I have been looking at  
3 this for a couple of years now and really, I think, have  
4 this in pretty good shape. We're 95 percent of the way  
5 there with some minor tweaks to it.

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

8           Representative Hill.

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

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

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

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



1 Pennsylvania?

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

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

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

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

22 And so my sense is that anybody who currently has  
23 illegal machines is going to want some legal machines. And  
24 there are other establishments that said, I don't want to  
25 operate illegally, that will say, hey, if it makes sense

1 for all those people that have been operating illegally all  
2 those years, it probably makes sense for me to put one over  
3 in the corner of my bar somewhere, because I know that  
4 we'll have patrons that will use them, like myself, that  
5 would drop a couple bucks in occasionally.

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

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

18 So although the percentage to the tavern owner or  
19 the club may be lower, in whatever the final draft is, than  
20 they may be getting now, it's going to be a smaller  
21 percentage, in theory based on what has happened in  
22 Illinois at VFWs, American Legions, on a much higher  
23 number, because you're going to have more people playing  
24 because they have a better chance of winning. And they're  
25 legal now. You know, there's not that stigma with it.

1           And they have seen in these other States  
2 membership grow. They're able to put money back into their  
3 facilities and continue to contribute to charities in their  
4 communities as well. So all of that is, I think, going to  
5 just kind of energize this as something that people are  
6 going to want to do.

7           MAJORITY CHAIRMAN PETRI: Representative Diamond.

8           REPRESENTATIVE DIAMOND: Thank you, Mr. Chairman.

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

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

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

24           REPRESENTATIVE STURLA: Not that I remember.

25           REPRESENTATIVE DIAMOND: Okay. Thank you.

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

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

17           REPRESENTATIVE STURLA: Yeah.

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

22           The only thing I will say is that it will depend  
23 on whether or not they have one machine or whether they  
24 have five machines in their establishment. But certainly  
25 it will be an ability for those people that have played by

1 the rules and not put illegal machines in their businesses  
2 to date to be able to compete with the ones that have  
3 decided to sort of be scofflaws and put the illegal  
4 machines in their businesses and were able to pay their  
5 taxes and subsidize their business with an illegal machine  
6 whereas someone who was actually playing by the rules  
7 couldn't to this point.

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

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

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

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

24 Now, criminal violations, yes.

25 REPRESENTATIVE DIAMOND: Okay.

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

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

12           MAJORITY CHAIRMAN PETRI: Representative Helm.

13           REPRESENTATIVE HELM: Thank you, Mr. Chairman.

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

19           In the last several weeks, I don't think there is  
20 a day gone by that I haven't received an email or a text or  
21 a phone call from a municipality -- now it's starting to  
22 hit my general constituency -- talking about the local  
23 share. So could you just expound on that a little bit, how  
24 that is going to work and what it will do for our  
25 communities?

1           REPRESENTATIVE MUSTIO: Well, basically it's  
2 bringing local-share revenue to all 67 counties. If you  
3 have machines in your county, you're going to get revenue.  
4 If you have them in your municipality, you will get  
5 revenue. How that is ultimately structured is going to be  
6 determined by the Legislature and the Governor as far as  
7 distribution goes.

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

14          REPRESENTATIVE HELM: Well, I think that's  
15 important, because the community is becoming very involved  
16 in understanding how this works and interested in it.

17          So thank you.

18          REPRESENTATIVE STURLA: Yeah.

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

24          You know, if I as a city council person walk into  
25 a local tavern and I see somebody trying to do something

1 illegal, I'm going to be the first one to report it because  
2 that's money out of the local municipality's pocket also.  
3 Whereas before, you know, it was probably in your best  
4 interests not to point out that there was anything illegal  
5 going on there because you were hurting a business in your  
6 district.

7 REPRESENTATIVE HELM: All right. Thank you.

8 MAJORITY CHAIRMAN PETRI: Representative  
9 Kavulich.

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

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

16 (Laughing.)

17 REPRESENTATIVE KAVULICH: Gentlemen, we heard  
18 earlier, when Representative Neilson was talking about the  
19 strip malls and the nuisance bars, we heard about the  
20 costs, that it wouldn't get saturated because of the cost  
21 of the lines, the terminals, so on and so forth. But if  
22 some of these smaller VFWs, the American Legions, these  
23 smaller bars like my dad's needed, as we're hearing, needed  
24 these terminals to survive or these VGTs, how are they  
25 going to afford, some of them which can't even, are



1 struggling to survive, how will they afford that original  
2 outlay for a license, to install the terminals, to get the  
3 machines. How will they be able to afford that original  
4 outlay?

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

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

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

24 REPRESENTATIVE MUSTIO: And the application fee  
25 and the license fee ranges from \$100 to \$250.

1           REPRESENTATIVE KAVULICH: Okay.

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

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

8           REPRESENTATIVE KAVULICH: Thank you, gentlemen.

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

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

21           In Illinois, as you both know, it's \$2 and 500.  
22 So it's a \$2 max bet. You have chosen to go where Illinois  
23 apparently, according to the information I have, is now  
24 going. The Governor is looking for more tax revenue. He  
25 has asked for a tax increase, and he has proposed, or

1       somebody has proposed, that that would be possible if they  
2       had a \$5 max bet with a thousand-dollar payout.

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

5               REPRESENTATIVE MUSTIO: I think that's a fair  
6       representation.

7               MAJORITY CHAIRMAN PETRI: But you think that's  
8       the number that's needed in order to make the metrics  
9       work?

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

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

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

20              Neither in Illinois nor here -- I think I'm  
21      correct -- that there's an opt-out in Illinois. There's no  
22      way if you get a bad operator, somebody you can't get along  
23      with, that you can terminate or void that contract. What  
24      are your thoughts in regard to the ability of a bar or  
25      tavern or a club to terminate an agreement if they believe

1 and can prove that they have in ineffective route  
2 operator.

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

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

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

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

22 REPRESENTATIVE STURLA: Yeah.

23 And from my standpoint, I would certainly be open  
24 to something where there might be an appeals process to the  
25 Gaming Board or something like that.

1           But I think what we were trying to prevent was,  
2   you know, today I put a dish on my roof, tomorrow I tear  
3   that down. I have somebody else run a cable. The next day  
4   I say, I'm going to do it by -- you know. And somebody  
5   says, I'll give you, you know, free bar equipment if you  
6   put us in instead, and you end up with that, once a month  
7   they're calling up the Gaming Commission and saying, hey, I  
8   got a new guy, you know.

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

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

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

21           (Laughing.)

22           MAJORITY CHAIRMAN PETRI: I can't believe that.

23           REPRESENTATIVE MUSTIO: I don't want to tell you  
24   which version.

25           MAJORITY CHAIRMAN PETRI: So I want to thank the

1 witnesses for being patient. I know that usually comments  
2 by the makers of bills are shorter and there aren't these  
3 extensive questions, but I think it's important. I think  
4 it demonstrates the lack or the knowledge level that the  
5 individuals have and the interest that the Members have.

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

8 Doug, if you would like to start, whenever you're  
9 ready.

10 MR. SHERMAN: Good morning.

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

14 I'm happy to be here today to discuss House Bill  
15 1010, which, among other things, does seek to authorize and  
16 regulate VGTs at entities that hold a liquor license,  
17 truck stops, and certain off-track betting parlors, and to  
18 answer any questions regarding the Board's role in  
19 regulating this activity if this General Assembly believes  
20 it appropriate to do so.

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

25 In conjunction with other members of the Board's

1 staff, I have reviewed House Bill 1010 extensively, and it  
2 would appear that the regulatory framework would be  
3 established in the following manner:

4  
5 • The board would license retail  
6 establishments that house and provide VGTs for  
7 play. We would look at those entities, referred  
8 to as the "operators," who oversee the placement  
9 and operation of the VGTs. And we would also  
10 look at the suppliers and manufacturers of the  
11 VGTs. The board would also oversee testing and  
12 approval of VGTs, associated equipment, and  
13 redemption terminals. And finally, the Board  
14 would adjudicate regulatory violations, which  
15 would be prosecuted by the Board's Office of  
16 Enforcement Counsel.

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

22 • And the third leg of this enforcement  
23 would be the criminal law enforcement, and that  
24 would be of not only criminal law enforcement but  
25 to conduct administrative inspections which fall

1           under the auspices of the Pennsylvania State  
2           Police and the Liquor Control Enforcement Bureau.

3  
4           With that context in mind, I'll address a couple  
5 provisions of House Bill 1010 that fall under the Board's  
6 review, such as the licensing of the applicants, the  
7 treatment of confidential information in the investigative  
8 phase, and the challenges of effectively regulating the  
9 prohibitions and enforcing the prohibitions in a manner  
10 consistent with that of the State's casinos.

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

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

24           Given the sheer number of applicants that can be  
25 expected, we believe that the licensing system should be



1 developed in a manner which promotes efficiencies in  
2 order for the Board to handle this task in a timely  
3 fashion.

4           For example, currently House Bill 1010  
5 establishes licensing periods and renewals at intervals of  
6 1-year and 3-year time periods, depending on who you're  
7 looking at. We have stated that with respect to the  
8 casinos, we think licensing periods can be extended to  
9 5 years without sacrificing regulatory oversight, and this  
10 is due in large part to the fact that casino licensees have  
11 the ongoing obligation to provide updated information to  
12 the Board concerning any fact which may impact their  
13 suitability to maintain their license.

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

19           In terms of background investigations, generally  
20 in the regulation of gaming, a priority is to perform a  
21 background investigation and license individuals and  
22 entities that come in contact with the patrons and the  
23 money or which provide a vehicle for gaming; in this case,  
24 those that provide or come in contact with the video gaming  
25 terminals themselves.

1           The legislation appears to mirror or be  
2 substantially similar to the standards currently embodied  
3 in the Pennsylvania Race Horse Development and Gaming Act  
4 in terms of the suitability of licensees and applicants as  
5 well as the treatment of nonpublic information provided to  
6 the Board in connection with the background investigations.  
7 As such, we are comfortable in the receipt, treatment, and  
8 consideration of the information in a manner protecting its  
9 confidentiality.

10           The Board's Bureau of Investigations and  
11 Enforcement is tasked with conducting the investigations of  
12 applicants for the VGT licenses. Given the goal of prompt  
13 implementation of VGT gaming which appears in House Bill  
14 1010 and which, in some cases, establishes relatively short  
15 timeframes for the Board to take action after applications  
16 are received and the potential for thousands of  
17 applications, it is suggested that careful attention be  
18 given to the investigative process to assure that it can in  
19 fact be accomplished in an efficient manner to avoid  
20 backlogs and unavoidable delay.

21           And Chairman, to this extent, we have routinely  
22 been available, our staff has been to the staff here in the  
23 Legislature, to give comments as we go on, and we will  
24 continue to make ourselves available for that purpose, to  
25 make sure that we don't run into impediments that are going

1 to hold up the process, if this is where this body decides  
2 to go.

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

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

16 As I stated, we currently regulate 12 casinos  
17 with just over 26,000 machines and 1,200 tables. The  
18 casinos have heavy burdens placed on them with respect to  
19 security and surveillance, minimum staffing requirements,  
20 on-site regulatory presence, and they are subject to  
21 extremely stiff fines for regulatory violations. Yet, we  
22 continue to see the challenges every month when the Board  
23 has a public meeting that the casinos are facing with  
24 respect to incidents of underage individuals and problem or  
25 excluded gamblers who attempt to access the casinos.

1           And we see no reason to believe that the same  
2 issues will not exist in the VGT setting with thousands of  
3 locations and with differing oversight than applied to the  
4 casinos. The question is how best to deal with these  
5 issues given the wide dispersion of VGT retail entities,  
6 and we believe that that question of how best to deal with  
7 this should be at the forefront of the consideration of  
8 this process as it moves forward.

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

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

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

24           However, this legislation currently provides for  
25 a 1.5-percent cap of gross terminal revenue generated,

1 which in turn would fund the budgets of not only our Board  
2 but the Department of Revenue and the State Police and  
3 Liquor Control Enforcement.

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

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

17 Thank you.

18 MAJORITY CHAIRMAN PETRI: Representative Kaufer.

19 REPRESENTATIVE KAUFER: Thank you, Mr. Chairman.

20 I know you mentioned about problem gambling, and  
21 I know you said you really don't have recommendations at  
22 this time.

23 I guess, you know, we have the same issue going  
24 on. We're talking about iGaming, and I know we're working  
25 on an exclusion list for online gaming. Is that sort of

1     what you're proposing with this, to expand the  
2     self-exclusion program or an ID-type program, which I think  
3     was discussed at one time point with iGaming?

4             Just---

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

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

14            REPRESENTATIVE KAUFER: Mm-hmm.

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

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

23            REPRESENTATIVE KAUFER: Did you say it can be  
24    required?

25            MR. SHERMAN: They cannot.

1           REPRESENTATIVE KAUFER: Cannot be required to  
2 have that.

3           MR. SHERMAN: Yes. In the current version.

4           So those are some of the differences there.

5           1010 has a provision that you won't have a  
6 situation where an individual wins on a VGT and then goes  
7 to the bartender to collect money. Rather, they go to the  
8 terminal, the ticket redemption terminal, put their ticket  
9 in, and it reads the ticket and gives them the cash.

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

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

23           REPRESENTATIVE KAUFER: Well, I just have one  
24 quick follow-up because I want to understand this a little  
25 better.

1           So at the casinos, they have the card swipe, is  
2           what you're saying. The security guards might have that,  
3           which can interact with the self-exclusion list is what  
4           you're saying.

5           MR. SHERMAN: Yes.

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

9           MR. SHERMAN: We cannot require it.

10          REPRESENTATIVE KAUFER: Cannot require it.

11          MR. SHERMAN: Correct.

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

14          MR. SHERMAN: Absolutely. There are fines  
15          for the licensed establishment that could be up to  
16          \$5,000---

17          REPRESENTATIVE KAUFER: Okay.

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

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

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

24                 But thank you for answering those questions.

25                 MAJORITY CHAIRMAN PETRI: Representative Kortz.



1           REPRESENTATIVE KORTZ: Thank you, Mr. Sherman,  
2           for your testimony today.

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

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

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

12          REPRESENTATIVE KORTZ: Okay. Thank you.

13          Thank you, Mr. Chairman.

14          MAJORITY CHAIRMAN PETRI: I have a couple of  
15          questions.

16          First of all -- and I'm not criticizing if you  
17          haven't -- have you talked to the Illinois regulators to  
18          understand what they encountered early on in order to  
19          understand what difficulties you might be facing?

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

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

25          MAJORITY CHAIRMAN PETRI: Okay.

1           My next question, and maybe it's the lawyer in  
2 me; I can't help myself. You used the term twice to "be  
3 cautious." Can you put a measure of how serious you mean  
4 about when you say "be cautious"? So that could range from  
5 "please don't do this" to "figure something out."

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

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

14           MAJORITY CHAIRMAN PETRI: Okay.

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

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

24           Right now, there are provisions in House Bill  
25 1010 that state that the Board has to accept applications

1 within 60 days of this act becoming effective. For us, I  
2 think that's problematic, because first we have to draft  
3 the regulations; get all of the temporary regulations in  
4 place; formulate, you know, what we need in terms of the  
5 application material. That's a lot to do in 60 days while  
6 we're still regulating the casino industry.

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

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

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

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

25 MR. SHERMAN: I think that's fair, because we

1 don't know, again, is the market going to dictate that  
2 we're going to get 500 applicants or is the market going to  
3 say we're going to get 5,000? And that's really the  
4 question of the day, of the year: What should we expect?  
5 Because we certainly don't want to hire a lot of people and  
6 then end up saying, sorry, guys, we don't have enough work  
7 for you.

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

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

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

25 But given Illinois' 2 years of litigation, and

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

6 MR. SHERMAN: Yeah.

7 MAJORITY CHAIRMAN PETRI: Any other questions?

8 Okay. Well, thank you for your testimony.

9 MR. SHERMAN: You're welcome.

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

13 MR. SHERMAN: We certainly will.

14 MAJORITY CHAIRMAN PETRI: Thank you.

15 Our next testifiers will be a panel.

16 We have Paul Jenson, who is a Partner with  
17 Taft Stettinius & Hollister; Richard Teitelbaum, President  
18 of the Pennsylvania Video Gaming Association;  
19 Eric Schippers, Senior Vice President of Public Affairs  
20 and Government Relations at Penn National Gaming; and  
21 Sean Higgins, Chief Counsel for Golden Entertainment.

22 Gentlemen, whoever wants to proceed first. When  
23 you're ready, go ahead.

24 We'll hold questions until the panel has  
25 completed their testimony.

1           MR. JENSON: Thank you for allowing me the  
2 opportunity to address you today about the proposed video  
3 gaming bill that, if passed, will bring the opportunity to  
4 small businesses across Pennsylvania while raising hundreds  
5 of millions in tax revenue for the Commonwealth and local  
6 units of government.

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

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

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

19          The Illinois Legislature passed our Video Gaming  
20 Act in July of 2009, but for a variety of reasons, the  
21 industry did not become operational until October 2012.  
22 Since then, Illinois' video gaming industry has grown  
23 steadily. As of April 21, 2017, there were 6,019 licensed  
24 video gaming establishments hosting an aggregate of 26,350  
25 video gaming terminals, or VGTs.

1           In 2016, Illinois' video gaming industry  
2 generated almost \$280 million in State and local tax  
3 revenue. In the first quarter of 2017, it generated  
4 approximately 79 million in tax revenue, which projects to  
5 over \$315 million if annualized.

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

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

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

24           Like Illinois, the bill directs the Pennsylvania  
25 Gaming Control Board to conduct a deep and rigorous

1     licensing examination on companies and individuals who want  
2     to participate in this business. This investigation is the  
3     equivalent of a regulatory proctology exam, just like what  
4     is experienced by Pennsylvania's casinos and, frankly,  
5     almost any other gaming company in the U.S.

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

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

23            Key differences:

24            In Illinois, the maximum bet that can be made is  
25    \$2, while the maximum jackpot that can be earned on any one



1 spin is 500. As Chairman Petri noted, the Pennsylvania  
2 bill includes a max bet of \$5 and a jackpot of up to a  
3 thousand dollars per spin. These increased numbers simply  
4 allow for the math models within the VGTs to perform better  
5 so terminal operators can offer better odds to players for  
6 certain bets. Illinois is likely going to amend its law to  
7 increase its limits in similar fashion -- we hope.

8 In addition, Illinois allows for municipalities  
9 to "opt out" of the Video Gaming Act. Actually, the  
10 Illinois Gaming Board interpreted the language to  
11 essentially make Illinois municipalities affirmatively  
12 "opt in" in participating in video gaming. This was one of  
13 the many reasons for the delay in the industry becoming  
14 operational after the act passed.

15 It also gave me the opportunity to visit some  
16 very small towns in parts of Illinois that I never knew  
17 existed. Nevertheless, places like Chicago, where almost  
18 33 percent of our liquor licenses reside, have not yet  
19 opted in to video gaming. This will almost certainly  
20 happen in time, but significant revenue is being lost every  
21 day until this happens.

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

1       itself about whether to participate.

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

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

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

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

24              As you can tell, I could continue for hours but  
25      will conclude with this:

1           We understand that like Illinois, before the  
2 passage of our Video Gaming Act, Pennsylvania already has  
3 gray gaming in many of its taverns, VFWs, fraternal  
4 organizations, and other places. These games are being  
5 operated by unregulated people and are not taxed. The  
6 games are often old and have extremely low payoff rates, so  
7 patrons are not being treated fairly.

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

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

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

22           Rich.

23           MR. TEITELBAUM: Thanks, Paul.

24           Chairmen Petri and Harkins and Members of the  
25 House Gaming Oversight Committee, I would like to take this

1 time to thank you for allowing me to come here and  
2 speak.

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

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

14 It is easy for me to tell you with full  
15 implementation of House Bill 1010, the State would generate  
16 \$400 million a year for Pennsylvania from VGT revenue, and  
17 our model would deliver a 4-percent local share for all  
18 67 counties. What isn't as easy to explain in detail is  
19 the amount of other benefits to the State.

20 Nonetheless, if we look to Illinois, where a  
21 similar operator-based system was implemented in September  
22 of 2012, the building trades were affected. To set up a  
23 location, carpentry and electrical work will need to be  
24 done in most establishments, which will have an immediate  
25 impact on the building trades.

1           In addition to the locations generating revenue  
2 from VGTs, they will also benefit with additional food and  
3 drink sales. The additional business in the locations is  
4 going to require these locations to hire additional people  
5 to handle the extra customers.

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

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

21           These small companies bring in millions in tax  
22 revenue and are key to the healthy bottom line for this  
23 State, and they need your help. This industry employs  
24 hundreds of thousands of hardworking taxpaying citizens.  
25 They need the passage of this bill to survive. All

1 Pennsylvania operators rely on liquor-licensed  
2 establishments being successful.

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

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

18 If you look into the current LCB liquor license  
19 transfer list, many licenses are transferring to  
20 supermarkets and c-stores. They are the only ones that can  
21 afford them. We cannot afford to lose an industry.  
22 Illinois has embraced this change, and it is working.

23 It is in Pennsylvania's best interests to  
24 diversify its gaming portfolio to ensure its long-term  
25 viability. I, along with my organization, can deliver that

1 for the Commonwealth.

2 Thank you for your time.

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

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

10 We are headquartered a short drive from here in  
11 Wyomissing, right outside of Reading. And our company was  
12 founded in 1972 as the owner and operator of the  
13 Penn National Race Course, which is a short drive from here  
14 as well. And that evolved our company from a single  
15 racetrack there to what is today one of the nation's  
16 largest regional gaming operators, with everything from  
17 horse racing to riverboat casinos, stand-alone resorts, a  
18 very broad-based portfolio that includes 28 facilities in  
19 17 different jurisdictions across the country.

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

24 I mentioned the 28 facilities in 17  
25 jurisdictions. One of those is the State of Illinois, and

1 that's what brings us here today. We witnessed and  
2 experienced firsthand the advent of retail gaming, which  
3 has grown into a now billion-dollar-plus industry there  
4 over the last 5 years.

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

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

22 In fact, we eventually decided to purchase a  
23 retail gaming route operation in 2015, and today we operate  
24 over 1,500 VGTs in Illinois in addition to our three  
25 casinos there.



1           As I mentioned, unfortunately, the casinos in  
2 Illinois had no seat at the table during the retail gaming  
3 debate, and the VGT legislation that ultimately was  
4 approved contained nothing to address the negative impact  
5 it has had on our business and the other casinos in the  
6 State.

7           Now, there are dueling impact studies that often,  
8 when it comes to the subject of retail gaming, you hear on  
9 both sides. One is that the cannibalization can be as high  
10 as 18 percent. On the other side, you hear as low as 5 or  
11 6 percent. I can only tell you, from our actual experience  
12 in Illinois, the impact has been approximately 8 to 10  
13 percent of our riverboat casino business there that has  
14 been cannibalized.

15           So having learned our lesson in Illinois, we were  
16 willing to sit down with those advocating for retail gaming  
17 here to see if we could find common ground on such things  
18 as regulatory parity in terms of background checks and  
19 other licensing requirements, as well as compliance,  
20 responsible gaming, including self-excluded patron issues  
21 and political contribution bans that all of the  
22 Pennsylvania casinos must adhere to. And most importantly,  
23 to include provisions that will help offset the impact to  
24 the casinos here should this legislation ultimately be  
25 approved.

1           Now, it is obvious by my appearance here today  
2 with a panel full of VGT advocates that we are somewhat  
3 unique in our belief that we should be at the table as this  
4 is being debated as opposed to just oppose it outright, and  
5 we respect and appreciate the concerns of other casinos who  
6 have come to the determination to simply fight as opposed  
7 to push for concessions. As I said, we have a unique  
8 perspective in that. We saw what happened in Illinois when  
9 we sat out that game. We wanted to be involved in the  
10 debate here.

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

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

24           So as it specifically relates to addressing the  
25 cannibalization at the casinos, House Bill 1010 in its

1 current form -- which, to be clear, we support in its  
2 current form. To the extent that there are amendments or  
3 changes made, we certainly reserve the right to reevaluate  
4 our position at that time. But as it stands today, we are  
5 in support of the bill, given that it would lower the base  
6 slot machine tax rate for casino operators by 5 percent.

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

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

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

1 the Commonwealth.

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

7 With that, I will answer questions when we're  
8 done.

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

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

13 A little background.

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

18 We're actually one of the largest distributed  
19 gaming operators in the country. We operate approximately  
20 11,000 VGTs, as you call them here, in Nevada and Montana.

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

25 A little background on myself:

1           I have been involved in the distributed gaming  
2 industry since 1990 in the State of Nevada, and obviously  
3 that was the first State in which, again, I'll call them  
4 VGTs were legalized and operated. And I think I have a  
5 unique understanding of the process as a whole and the  
6 operation of VGTs in competition with casinos, since we've  
7 been doing it there in that State since the late  
8 seventies.

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

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

20           When Nevada, which was the first in the country,  
21 started implementing problem gambling training and  
22 awareness, the Nevada Council on Problem Gambling was  
23 tasked with coming up with both programs for casinos as  
24 well as distributed gaming locations, or bars and taverns.  
25 And we were involved from the very start in implementing

1 that program, training every employee at every tavern, and  
2 going through it.

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

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

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

23 The fact of the matter is, Nevada, Montana,  
24 Illinois, every one of those operators of those liquor  
25 establishments has a vested interest to ensure that

1 underage gaming does not occur. Why? Because they can  
2 lose their license.

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

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

16 This is an industry that we like to have in the  
17 full light of day. We as operators in other States and  
18 other jurisdictions cannot do business and are held to a  
19 higher standard of who we do business with, and we are not  
20 willing as operators, and I'm sure the other gentlemen  
21 sitting at this table would say the same thing, to do  
22 business with unsavory characters. And we are not willing  
23 to put our gaming licenses in any State in the country at  
24 risk to do business with people who intend to bring  
25 disrespect on the gaming industry.

1           Cash management is something that I believe the  
2 gentleman from the Gaming Control Board hit on, and that's  
3 one of the things we take seriously. Operating in over  
4 1,000 locations, we do no cash handling or cash counting at  
5 the location. Our cash is all remotely handled by  
6 cassettes with drop teams, taken to a secure vault. The  
7 fact of the matter is, with the dispensers, cash  
8 dispensers, your bartenders or other servers are not  
9 handling any cash at the location.

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

21           With regard to cannibalization, you know, I'm not  
22 going to sit here and argue that there will be no  
23 cannibalization. But the fact of the matter, having been  
24 in this industry for over 27 years, the gamers in  
25 distributed gaming or VGT locations are not identical to



1 your gamer in a casino operation. They simply are not.  
2 But obviously when you introduce additional gaming devices  
3 into a market, you will have some people who find it more  
4 convenient to go to a VGT location than they do to a  
5 casino.

6 In Nevada, we have had this issue for over  
7 40 years and obviously have coexisted. We have got 20,000  
8 games in the State of Nevada in retail locations, and there  
9 are 190,000 games in casinos throughout the State of  
10 Nevada, and both of those markets are growing.

11 You know, I'll point to Illinois, because that  
12 seems to be the bellwether. The fact of the matter is,  
13 look, anyone can pull up their website and find it clearer.  
14 Out of a \$1.5 billion casino industry, they may have lost  
15 \$100 million while VGTs have brought in 1.1 billion of  
16 grossed-in revenue. So I would call that growing a market,  
17 even if there is some cannibalization. I think that's what  
18 the State of Pennsylvania should look at when they're  
19 looking at the industry as a whole.

20 In closing, HB 1010 and VGTs are good for the  
21 State of Pennsylvania. They're good for the State. They  
22 allow a vehicle to get rid of illegal and other games that  
23 are currently proliferating throughout the State and which  
24 the State is receiving no tax revenue for. They increase  
25 the tax base to the State of Pennsylvania. They're good

1 for local municipalities, both county and city, in the  
2 State of Pennsylvania.

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

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

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

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

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

21 Thank you very much.

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

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

1           Thank you, gentlemen. I appreciate your  
2 testimony today.

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

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

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

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

25           The current blended slot tax rate is around

1     54 percent. The base -- because there is money in there  
2     for per subsidies, there is money in there for regulatory  
3     fees, so we're paying about 54 percent as casinos today.  
4     The base slot tax rate is what gets reduced from 34 percent  
5     to 29 percent. And there is a provision in there that  
6     would provide a hold harmless for those communities to make  
7     whole on the property tax relief.

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

10            MR. SHELLY: Yeah.

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

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

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

24            REPRESENTATIVE PHILLIPS-HILL: So there are some  
25     people who would assert that there was a promise that was

1 made that more revenue was to be provided into property tax  
2 relief when table games came online and that the full  
3 amount of property tax relief was really never realized.

4 So basically we're saying we don't anticipate any  
5 more revenue from this bill coming into property tax  
6 relief, but it will continue to grow with the rate of  
7 inflation.

8 MR. SHELLY: Correct.

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

11 MAJORITY CHAIRMAN PETRI: Representative  
12 Wheeland.

13 REPRESENTATIVE WHEELAND: Thank you,  
14 Mr. Chairman.

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

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

21 The 8 to 10 percent is after taking out some of  
22 what we'll call noise, general macroeconomic softness,  
23 trying to look at other regional markets in that area and  
24 what the decline is there. It could be an ongoing impact  
25 of the smoking ban, et cetera. So trying to isolate out

1 that noise and just look at the increased competition is  
2 how we estimated 8 to 10 percent of cannibalization.

3 REPRESENTATIVE WHEELAND: Okay. Because some of  
4 the numbers that I'm looking at here, the attendance at the  
5 Illinois casinos dropped from 1996 significantly through  
6 2012, which was the year before the VGT operations took  
7 effect. So you're saying that drop-off was because  
8 of---?

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

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

25 MR. SCHIPPERS: Yeah.

1           REPRESENTATIVE WHEELAND: And as soon as they  
2 stop introducing new things for the consumer, their growth  
3 is not as significant.

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

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

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

20           MR. SCHIPPERS: Mm-hmm.

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

24           I just thought it was interesting looking at the  
25 two numbers. But thank you very much.

1 MR. SCHIPPERS: Sure.

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

4 MAJORITY CHAIRMAN PETRI: Representative Dunbar.

5 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

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

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

16 MR. TEITELBAUM: Well, in Illinois, I believe  
17 there is roughly 7,000 locations with VGTs. The State is  
18 roughly generating 30 percent of that. The State's share  
19 is over \$60,000 per location, and just multiplying the  
20 60,000 times 7,000 locations---

21 REPRESENTATIVE DUNBAR: Okay.

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

23 REPRESENTATIVE DUNBAR: Okay. That's fair.

24 And it was 60,000 per location. That's not like  
25 a per-machine number or---?



1           MR. TEITELBAUM: No. That is if you go on the  
2 IGB's website and you take the amount of locations versus  
3 the win and just do the math.

4           REPRESENTATIVE DUNBAR: Yeah.

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

9           MR. TEITELBAUM: As of right now, I mean, we are  
10 estimating, or guesstimating, I think somewhere between  
11 6,000 to 7,000 locations to, you know, put these machines  
12 in. So similar to the Illinois numbers, after full  
13 implementation.

14          Paul.

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

22          REPRESENTATIVE DUNBAR: Yeah. And I think that's  
23 very important for everybody. Because it's easy to toss  
24 numbers around about what projected revenues are, and what  
25 we don't want to do, as Representative Mustio said, is

1 have a situation where we have over-promised and  
2 under-delivered. So I think it's important that we have a  
3 good solid basis for any numbers we're putting out there.

4 MR. JENSON: Absolutely.

5 REPRESENTATIVE DUNBAR: Thank you.

6 MAJORITY CHAIRMAN PETRI: If I can follow up.  
7 You said something, and we're just conferring notes.

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

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

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

19 MR. JENSON: Yes.

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

23 MR. JENSON: Ah, I believe so, but I'm not  
24 positive about that.

25 MAJORITY CHAIRMAN PETRI: Okay; okay.

1           REPRESENTATIVE DUNBAR: Mr. Chairman, my  
2 understanding is the Property Tax Relief Fund is not going  
3 to have any negative impact because of the hold harmless.

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

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

14          MAJORITY CHAIRMAN PETRI: Exactly.

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

18                Representative Neilson.

19          REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

20                Thank you, gentlemen, and welcome to  
21 Pennsylvania. I hope after you're done your testimony  
22 today you take a little drive around the community right  
23 here by the Capitol and look at some of these  
24 establishments of where you're proposing and you're saying  
25 they should go, because you'll see some of the communities

1 that aren't as good off as others. And the people are  
2 hanging out there right now, right outside some of these  
3 licensed facilities, and unfortunately if they get a  
4 dollar, maybe they'll be going in and playing some of your  
5 machines.

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

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

12 MR. SCHIPPERS: Yeah.

13 REPRESENTATIVE NEILSON: So it's not that we  
14 don't have one.

15 MR. SCHIPPERS: No; I appreciate that.

16 REPRESENTATIVE NEILSON: Why the change of heart?

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

22 REPRESENTATIVE NEILSON: You talked about an  
23 8- to 10-percent cannibalization that hurt your casino and  
24 probably hurt your bottom dollar. If we increased our  
25 54 percent to 59 percent, would that be better for you? If

1 we just asked you for 5 more percent of your revenue?

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

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

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

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

20 MR. SCHIPPERS: Mm-hmm.

21 REPRESENTATIVE NEILSON: At that time, you had  
22 1,100 terminals in Chicago. How many terminals do you have  
23 in Chicago now?

24 MR. SCHIPPERS: The city of Chicago doesn't allow  
25 for---

1                   REPRESENTATIVE NEILSON: All right. The State of  
2 Illinois; I'm sorry.

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

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

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

10                  REPRESENTATIVE NEILSON: Not for your  
11 shareholders?

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

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

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

25                  MR. SCHIPPERS: Well---

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

6           MR. SCHIPPERS: Well, two separate things.

7           I don't think we're using the full capacity of  
8   the 5,000 now.

9           REPRESENTATIVE NEILSON: Correct.

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

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

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

19          So like your casino, you pay \$10,000, and I look  
20   at us as -- the State of Pennsylvania, not me -- we are a  
21   major stakeholder. We're 55, 54 percent. We own  
22   54 percent of your casino, and we didn't have to invest a  
23   dime.

24          MR. SCHIPPERS: We're well aware of that,  
25   Representative; well aware of that.

1           REPRESENTATIVE NEILSON: And I'm not, I'm just  
2 not seeing the payback here. So if I charged you \$10,000  
3 per machine to open up your door, I mean, wouldn't that be  
4 a fair cost for us to put on these VGTs for each facility,  
5 \$10,000 per machine?

6           MR. SCHIPPERS: It's a very different model, the  
7 VGT model versus the casino model.

8           REPRESENTATIVE NEILSON: Okay.

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

12          REPRESENTATIVE NEILSON: Construction jobs.

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

20          MR. HIGGINS: Representative, Sean Higgins again.

21               The fact of the matter is, they don't just plug  
22 into a receptacle. The wiring, and we have been out with  
23 the amusement operator who we were working with and looked  
24 at numerous locations, and the wiring is not adequate to  
25 put the five machines in, put all of the necessary wiring



1 for the central server and central site in, for the  
2 redemption kiosk. All those things have to come back to a  
3 single location. You also are going to have a Wi-Fi there.  
4 So the fact is, there is additional wiring in every single  
5 one of those locations to bring that electrical up to code.

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

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

15 MR. HIGGINS: Well---

16 REPRESENTATIVE NEILSON: It takes us 3 years to  
17 build a casino, and here in this legislation which  
18 everybody supports, they are pushing the construction of  
19 casinos, thousands and thousands of jobs offered for  
20 3 years, and I'm just trying to compare apples to apples.

21 We're talking about a receptacle and a wireless  
22 phone line that Comcast will put in, the Wi-Fi. I get it,  
23 because I installed it for a living. But, I mean, I just  
24 don't want the Committee to think all these jobs are coming  
25 with this, because that's not real. That is not real.

1 MR. HIGGINS: Again, Sean Higgins.

2 I would respectfully disagree, Representative.

3 REPRESENTATIVE NEILSON: Yes.

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

7 MR. JENSON: Can I add something to that?

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

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

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

1 neighbor.

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

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

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

13 MR. JENSON: Absolutely.

14 MAJORITY CHAIRMAN PETRI: So continue.

15 Representative Helm.

16 REPRESENTATIVE HELM: Thank you, Mr. Chairman.

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

23 But you say, you know, we support it in its  
24 current form, which makes my job a little bit easier, but I  
25 also would like to know what we would have to do, if there

1 are amendments, what would change your opinion of this  
2 bill?

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

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

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

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

24 And just one quick thing. I will tell you that  
25 the construction jobs, the economic development and model

1 that was gaming through much of the nineties that existed  
2 at that point, which was thousands of construction jobs,  
3 hundreds of millions of dollars of investment, States have  
4 determined that they need the revenues fast for their  
5 budget crises. And so we wouldn't be here today, I don't  
6 believe, had Illinois not turned to the ability to generate  
7 these quick revenues.

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

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

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

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

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

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

5 Representative Kortz.

6 REPRESENTATIVE KORTZ: Thank you, Mr. Chairman.

7 And gentlemen, thank you for your testimony  
8 today.

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

14 MR. SCHIPPERS: Correct.

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

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

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

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

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

25 REPRESENTATIVE KORTZ: So you have added another

1 1,500. I mean, that's a pretty significant amount of slot  
2 machines.

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

6 MR. SCHIPPERS: It's a small amount. It's a  
7 small amount. Because of the overall revenues---

8 REPRESENTATIVE KORTZ: Is it 10 percent?

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

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

15 MR. SCHIPPERS: Mm-hmm.

16 REPRESENTATIVE KORTZ: ---if you're just talking  
17 the slots, forget the table games---

18 MR. SCHIPPERS: Yeah.

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

21 MR. SCHIPPERS: What do you think, Jared?

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

25 REPRESENTATIVE KORTZ: Okay. Could you get that

1 back to us?

2 MR. SCHIPPERS: Sure.

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

5 MR. SCHIPPERS: Sure.

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

8 MR. SCHIPPERS: Sure.

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

11 MR. SCHIPPERS: Absolutely.

12 REPRESENTATIVE KORTZ: Thank you.

13 Thank you, Mr. Chairman.

14 MAJORITY CHAIRMAN PETRI: Representative  
15 Mehaffie.

16 REPRESENTATIVE MEHAFFIE: Thank you,  
17 Mr. Chairman.

18 Thank you.

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

24 My question is, are any of your casinos in  
25 Illinois racetracks as far as horse racing?



1           MR. SCHIPPERS: They are not. There is currently  
2 no gaming at racetracks in Illinois.

3           REPRESENTATIVE MEHAFFIE: Okay.

4           I think my main concern here is, when you say  
5 about cannibalization or it becomes light or however you  
6 want to, you know, identify how it has hurt you a little  
7 bit, up to 10 percent or so, we here, and you being a  
8 racetrack, we have the Horse Racing Fund at about  
9 250 million. If you do get cannibalized and it does hurt  
10 our brick and mortars, I am deeply concerned on what that's  
11 going to do to our horse racing industry and what that  
12 means to them.

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

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

23           REPRESENTATIVE MEHAFFIE: Okay. But if your slot  
24 machines are impacted, that could hurt the Horse Racing  
25 Fund, correct?

1 MR. SCHIPPERS: Moneys could.

2 REPRESENTATIVE MEHAFFIE: Okay.

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

6 REPRESENTATIVE MEHAFFIE: Okay. Very good.

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

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

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

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

24 MR. SCHIPPERS: Yeah. We'll try to compare on an  
25 apples-to-apples basis the revenue levels of our VGTs and

1 our slot machines in Illinois.

2 REPRESENTATIVE MEHAFFIE: All right. Thank you.

3 MR. SCHIPPERS: Sure.

4 REPRESENTATIVE MEHAFFIE: Thank you,

5 Mr. Chairman.

6 MAJORITY CHAIRMAN PETRI: Representative Costa.

7 REPRESENTATIVE COSTA: Thank you, Mr. Chairman.

8 Thank you, gentlemen, for being here.

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

14 I was in law enforcement for 28 years, and I have  
15 been trying to do it and they're still going, and I'm  
16 10 years out of law enforcement.

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

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

1 VGT business.

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

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

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

23 You have taken away the smoking in most places.  
24 I mean, the only place you can smoke is a casino, okay? So  
25 the small mom-and-pops lost that.

1           Now, as far as the security, you want to take  
2 away -- now, let's go to the drinking. Our bars close at  
3 2. The casinos want to stay open all night. So we're  
4 going to shut our bars down at 2 and allow the casinos?  
5 And if we try to pass a bill that says our bars can stay  
6 open all night, the neighborhoods are going to scream  
7 bloody murder.

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

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

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

1 proposal, so the gaming went down.

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

9 Thank you, Chairman.

10 MAJORITY CHAIRMAN PETRI: Thank you.

11 Representative Klunk.

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

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

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

22 REPRESENTATIVE KLUNK: Okay.

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

25 REPRESENTATIVE KLUNK: Thank you.

1 MR. JENSON: Sure.

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

8 In terms of employees, you know, we have  
9 operators of all different sizes. Certainly, you know,  
10 Mr. Schippers' terminal operator is one of the larger ones  
11 in the State. We have others that operate in 5 locations,  
12 10 locations. All of these terminal operators, from the  
13 smallest to the largest, have hired significant amounts of  
14 people. Even the small ones have 5 or 10 employees. The  
15 larger ones have hundreds of employees. We're going to see  
16 that here.

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

19 So in Illinois, your small guys.

20 MR. JENSON: Sure.

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

23 MR. JENSON: Absolutely.

24 REPRESENTATIVE KLUNK: And in Illinois, are you  
25 seeing that those small mom-and-pop guys are being driven

1 out of business by the larger operators or are they able to  
2 survive?

3 MR. JENSON: Yeah; absolutely. They are able to  
4 survive, and I think the word "driven out" is  
5 mischaracterizing it.

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

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

14 REPRESENTATIVE KLUNK: Okay. Thank you.

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

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

25 MR. TEITELBAUM: I mean, in my opinion, you know,



1 number one is to make sure that we are all licensed at the  
2 same time so we can all go out and sign up our customers at  
3 the same time. So that puts us all on a level playing  
4 field.

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

11 REPRESENTATIVE KLUNK: Thank you.

12 MAJORITY CHAIRMAN PETRI: I'm going to follow up  
13 where Representative Klunk ended up.

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

17 MR. JENSON: Where does the revenue come from.

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

20 MAJORITY CHAIRMAN PETRI: Yes.

21 MR. JENSON: Yeah.

22 So, you know, in Illinois we had a challenge,  
23 frankly, in that it was a new industry, that people didn't  
24 really understand it. We did not see traditional sources  
25 of financing from the get-go. So we were forced to have

1 our clients go to more nontraditional sources where the  
2 interest rates were, frankly, higher than what we see  
3 today.

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

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

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

18 MR. SCHIPPERS: Sure.

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

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

24 MAJORITY CHAIRMAN PETRI: Okay. And if the  
25 licenses are going to go away, where does the Commonwealth

1       come up with the one-time fees that are associated with  
2       those licenses? Are you prepared as Hollywood Casino to  
3       pay those fees in?

4               MR. SCHIPPERS: I'm sorry; if which licenses go  
5       away?

6               MAJORITY CHAIRMAN PETRI: Well, the 1 and 3.

7               If those licenses go away, then you would agree  
8       that the Commonwealth loses one-time revenues?

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

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

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

18              MAJORITY CHAIRMAN PETRI: Mm-hmm.

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

23              MAJORITY CHAIRMAN PETRI: I understand.

24              Look, gentlemen, I know these are all difficult  
25      questions because you're all served by a board and, you

1 know, the board has to debate things, but I do feel  
2 duty-bound to ask some of those tough questions.

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

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

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

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

24 MR. HIGGINS: Chairman, again, Sean Higgins.

25 I would -- and I think one of the Representatives

1 hit on this before. My answer to that would be, you have  
2 local zoning laws, and they are set up for liquor  
3 establishments. The State of Pennsylvania controls all  
4 those liquor establishments, unlike out of the State of  
5 Illinois or the State of Nevada where the local  
6 jurisdictions can hand them out.

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

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

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

1 in those municipalities.

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

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

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

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

24 No; I'm sorry.

25 Oh, okay; my apologies. It's Jerry McArdle,

1 State Gaming Committee Chairman, Pennsylvania Licensed  
2 Beverage & Tavern Association; and Ted Mowatt, Executive  
3 Director of the Pennsylvania Federation of Fraternal and  
4 Social Organizations.

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

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

12 Okay. We're ready when you are.

13 MR. MOWATT: Go ahead. We'll go in order.

14 MR. McARDLE: Okay.

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

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

22 Video gaming has been a priority of our  
23 association for many years, and we are happy to present you  
24 our opinion and support for regulating video gaming in the  
25 Commonwealth and allowing the State's taxpayers to benefit

1 by including VGT revenue into a State budget instead of  
2 increased taxes or further loss of State-funded services  
3 and/or programs.

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

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

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

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

25 I mentioned before that I own three licensed



1 establishments in Pennsylvania. One is in Lancaster County  
2 and two are in Delaware County. I try to utilize every  
3 tool the State allows to add to my businesses.

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

11 While Governor Corbett expected to see  
12 \$100 million of revenue from tavern games, the fees,  
13 liabilities, and risks on the tavern owner were too much  
14 for many of us to pursue the permit. That said, with about  
15 50 tavern owners participating in tavern games, the State  
16 collects over \$400,000 a year. That could have easily  
17 correlated to well over \$100 million for the State with  
18 more participants, but the average tavern owner has little  
19 time or extra money to spend to acquire the right to commit  
20 to 8 hours of paperwork a week for reporting, paying a  
21 65-percent tax up front, labor to run the games, and risk  
22 having our livelihoods stripped away in hopes to sell the  
23 whole box of pull-tabs to collect a dozen or so dollars for  
24 the business.

25 However, this video gaming terminal legislation

1 is written to work in a realistic small business situation  
2 and is attractive to tavern owners, because it requires  
3 smaller fees, easier tracking, no cash handling, less  
4 labor, an easier process to get the permit, and because of  
5 the structure, no chance of losing your liquor  
6 license/livelihood for a reporting error.

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

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

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

23           Our small businesses, operating responsibly with  
24 a State-granted license to sell alcohol to the general  
25 public, can and should be utilized to produce much needed

1 revenue for the State. This will help our mom-and-pops to  
2 remain a viable employer of over 100,000 Pennsylvania  
3 citizens as opposed to 18,000 in casinos. This will shield  
4 taxpayers from fee increases and loss of programs, bring in  
5 hundreds of millions of dollars a year to the State,  
6 decrease the amount of gaming machines in the Commonwealth,  
7 and add much needed oversight.

8 In response to Representative Neilson's comments  
9 about nuisance bars, according to the Pennsylvania Tavern  
10 Association, there are thousands of eligible liquor  
11 licensees across the State of Pennsylvania, of which we  
12 estimate 200 to 300 -- that is hundred -- have been  
13 designated "nuisance bars" by the Pennsylvania Liquor  
14 Control Board.

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

23 Thank you for your time and attention to this  
24 testimony. I will be happy to answer any questions at this  
25 time.

1           MR. MOWATT: Good morning -- or good afternoon, I  
2 guess it is now.

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

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

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

25           The previous panel didn't really get into that.

1 There were more focused, I think, and we have been more  
2 focused on the impact on the Lottery and on other forms of  
3 gaming and the casinos. We haven't talked a whole lot  
4 about if there's going to be an impact on small games of  
5 chance.

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

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

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

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

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

23 My name is Tom Helsel, and I'm the Secretary of  
24 the Pennsylvania Association of Nationally Chartered  
25 Organizations.

1           PANCO's membership consists of fraternal and  
2       veteran organizations that are nationally chartered. We  
3       count among our membership lodges, posts, and aeries from  
4       the Benevolent and Protective Order of Elks, the Loyal  
5       Order of Moose, the Fraternal Order of Eagles, the American  
6       Legion, and the VFW.

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

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

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

25          One of the key factors we like about the bill is

1 accountability. Accountability of gross terminal revenue  
2 is linked directly to the Commonwealth, assuring an  
3 accurate and transparent accounting of all revenue. The  
4 concept of redemption terminals lessens the threat of fraud  
5 and theft by keeping all transactions accountable through a  
6 controlled single source.

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

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

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

24           Again, thank you for allowing me the opportunity  
25 to testify.

1           MR. KLEPPER: Chairman Petri, Chairman Harkins,  
2           and Members of the House Gaming Oversight Committee, my  
3           name is Scott Klepper. I'm a Senior Manager with  
4           Pilot/Flying J Travel Centers. We're the number-one seller  
5           of over-the-road diesel fuel in the industry, serving  
6           America's professional drivers and other guests.

7           All totaled, we employ 24,000 team members  
8           across North America. We have 65,000 parking spaces in  
9           769 locations, and we serve 475 million customers a year.  
10          We are the largest truck stop operator in Pennsylvania with  
11          20 locations throughout the Commonwealth and employ around  
12          900 Pennsylvania residents and support teams.

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

19          Our facilities provide fuel, food, showers,  
20          laundry, parking, shopping, for the professional driver to  
21          enhance their life on the road. These drivers traverse the  
22          Keystone State, bringing virtually every product we consume  
23          to market. While traveling, these professionals are  
24          subject to Federal and State laws that require them to stop  
25          from time to time.



1           As we have experienced in Illinois, the  
2           implementation of VGTs can be a great revenue generator for  
3           truck stops, VGT operators, and for the government. In  
4           2016, VGTs in Illinois generated \$1.1 billion in total  
5           revenue. Of that revenue, \$190 million came from the  
6           machines in the State that are placed in truck stops. The  
7           truck stop machines are 4 percent of the total machines in  
8           the State. However, they came up with 17 percent of the  
9           revenue.

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

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

21           MAJORITY CHAIRMAN PETRI: Questions from the  
22           Members?

23           Representative Neilson.

24           REPRESENTATIVE NEILSON: Thank you, gentlemen,  
25           for your testimony today.

1           Mr. McArdle, thank you. I may or may not have  
2 been in one of your establishments before, and it's very  
3 nice. I got to say that on the record, as we're here.

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

6           MR. McARDLE: Total?

7           REPRESENTATIVE NEILSON: Yeah, because we're  
8 here---

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

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

16           MR. McARDLE: Yeah.

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

20           MR. McARDLE: About 2,500.

21           REPRESENTATIVE NEILSON: Thank you, sir.

22           And under your testimony, I can't say it enough,  
23 you're right; the small games of chance didn't work, and it  
24 was set out to be a burden, if anything. And we have had  
25 this conversation before, and we need to do something

1 better. But I don't know if this is the answer, but it may  
2 be. We're going through it.

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

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

18 MR. McARDLE: My establishments, all three of  
19 them, are smoking establishments. The State's smoking law  
20 says that they can't be under 18 in my establishments. I  
21 already have that provision. I don't allow anybody under  
22 21 in my places already. So for me, that doesn't affect  
23 me.

24 REPRESENTATIVE NEILSON: Can you check---

25 MR. McARDLE: As far as amending the bill?

1 REPRESENTATIVE NEILSON: Mm-hmm.

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

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

10 MR. McARDLE: Certainly.

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

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

23 MR. McARDLE: Yes.

24 REPRESENTATIVE NEILSON: And it doesn't matter  
25 what we want to do; it's about what they want to do. So

1 we're looking to make a bad bill better, so to say, in my  
2 opinion. But I'm looking at different amendments to put on  
3 there, and I was hoping maybe your organization can weigh  
4 in on that before I just throw it at it.

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

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

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

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

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

25 REPRESENTATIVE NEILSON: Games of skill machines;

1 correct.

2 MR. McARDLE: The difference between a game of  
3 skill and a gaming machine: a gaming machine is a slot  
4 machine. A gaming machine is a machine that is used for  
5 gambling purposes. These are not used for gambling  
6 purposes.

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

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

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

21 REPRESENTATIVE NEILSON: Mm-hmm.

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

24 REPRESENTATIVE NEILSON: Games of skill?

25 MR. McARDLE: They're not the ones you're talking

1 about. They're the ones in my testimony last year that  
2 pictures of them were showed to the Committee. One of the  
3 Representatives said that they look like a slot machine.  
4 In March, they had just -- it's not the machine you're  
5 talking about now.

6 REPRESENTATIVE NEILSON: Okay.

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

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

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

13 REPRESENTATIVE NEILSON: Okay.

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

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

17 Does anybody else want to tackle that one?

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

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

25 MR. MOWATT: Right. And they're only legal in

1 certain---

2 REPRESENTATIVE NEILSON: Certain establishments?

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

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

12 REPRESENTATIVE NEILSON: All right.

13 Well, thank you, gentlemen. Thanks again.

14 MR. McARDLE: Representative, one thing.

15 REPRESENTATIVE NEILSON: Yes.

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

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

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

23 REPRESENTATIVE NEILSON: Correct. They are the  
24 legal ones, and they give you a printout -- as the week  
25 tallies, it gives you a printout and it shows, okay, money



1 in/money out. And the prize money can only go up to a  
2 certain amount, and they are legal, and that's what I'm --  
3 but that was through a recent decision, and they're  
4 starting to just spread out a little more and more.

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

11 And I believe the people that I have spoke to  
12 locally, they get 30 percent and the vendor gets the other  
13 70 right now. That's the current setup that they have  
14 within those, but I'm sure that can be worked out.

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

18 REPRESENTATIVE NEILSON: Okay.

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

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

25 REPRESENTATIVE NEILSON: Okay.

1           MR. McARDLE: And the split on them is not that.  
2       There is 20 percent taken off the top, and then it's a  
3       50/50 split between the operator and the tavern.

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

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

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

11           Representative Klunk.

12           REPRESENTATIVE KLUNK: Thank you, Mr. Chairman.

13           My question goes, I think to the gentleman from  
14      the Tavern Association.

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

24           Because again, you know, we go back to the  
25      question that Representative Hill asked with the small

1 games of chance, and that was implemented poorly. And I  
2 have sat through testimony about how that has not worked  
3 and why it hasn't, and for good reason why it hasn't.

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

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

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

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

23 With VGTs, you can change the games. You can  
24 have different games. You can have penny games for people,  
25 nickels, quarters. There is all different kinds of

1 options.

2 And one thing I would like to say is, with these  
3 VGTs, it's, I call it recreational gambling. It's not -- I  
4 mean, it's always compared to casinos, but it is not casino  
5 gambling. I mean, you can go into casinos and play slot  
6 machines for millions of dollars, jackpots and things like  
7 that. There are no provisions in here for this.

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

11 REPRESENTATIVE KLUNK: Thank you.

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

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

24 MR. McARDLE: Well, as I already stated, I have  
25 smoking exceptions in all three of my places. The State

1 law states that you have to be 18 to be in my places  
2 anyway.

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

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

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

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

23 Also in the bill, I'm pretty sure there's a  
24 provision where if a restaurant that allowed children in  
25 there decided to have these machines, that they must be in

1 a separate area and the children are not even allowed in  
2 that area.

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

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

11 MAJORITY CHAIRMAN PETRI: I have one question.

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

17 Anybody?

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

22 MAJORITY CHAIRMAN PETRI: Of course.

23 MR. McARDLE: The casinos have said up to 40,000  
24 are here. I read the testimony of the State Police person.  
25 He's saying 15,000.

1           I think it's very hard to pinpoint what it is,  
2       because most of these places, when you walk into the place,  
3       the video poker machines are not in full view. They are  
4       hidden. They might be in a different room. You know,  
5       there's all different -- but, I mean, would you want to  
6       take an estimate between 15,000 and 40,000? I mean---

7           MAJORITY CHAIRMAN PETRI: Mm-hmm.

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

12          MAJORITY CHAIRMAN PETRI: Okay.

13          Well, thank you for your testimony.

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

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

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

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

25          I have provided you some written testimony, but

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

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

9 You heard some testimony about some of the  
10 challenges associated with current enforcement efforts with  
11 video gaming terminals. By the way, our estimate is about  
12 15,000 machines statewide right now, and we base that on  
13 estimates from our Liquor Enforcement people who are in and  
14 out of these establishments on a regular basis.

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

24 Throw into that mix some of the new machines that  
25 you just heard testimony about, and while I would contend



1 that at least those that I'm familiar with are not legal,  
2 there is at least one court decision that we are not fully  
3 in agreement with. However, that is not the rule across  
4 the Commonwealth, if you will. And so we are still working  
5 through that issue and believe that there may be an  
6 opportunity for enforcement, even with some of the machines  
7 that are designated "games of skill," because we believe  
8 there is more of an element of chance as opposed to skill  
9 associated with those machines.

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

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

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

24 When necessary, we will put our Troopers in  
25 uniform to serve as a deterrent in those facilities during

1 times of certain concerts or other events that may draw an  
2 element that may be subject to causing some kinds of  
3 issues.

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

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

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

22 Regardless of what happens with our people in the  
23 casinos, someone has to be in a position to process all of  
24 those applicants. And so if it's not at the casino, I  
25 guess my question would be, would it fall back to our

1 county facilities, in which case that would take a  
2 significant hit on the manpower at each of those  
3 facilities. That's a lot of prints.

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

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

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

24 With that said, I mentioned that we keep these  
25 casinos relatively crime free. There are, however, any

1 number of crimes that occur that, again, are not always so  
2 visible. So we have a significant number of thefts,  
3 voucher thefts and other types of thefts that occur there.  
4 We have forgeries. We investigate thousands of these types  
5 of crimes between all of the casinos statewide.

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

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

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

25 Those are the kinds of violations that without

1 on-site people, on-site investigators, it is very difficult  
2 to detect some of these types of crime and then to  
3 effectively follow through with those investigations. But  
4 I think our people have done a good job, and we routinely  
5 interact with local, State, and Federal agencies who are  
6 conducting any number of money-laundering or money-washing  
7 investigations where proceeds from other criminal acts  
8 outside of the casinos are being laundered or washed  
9 through the casino to try and make that money more usable  
10 by the criminal enterprises that generated it to begin  
11 with.

12           As we move forward, as I interpret House Bill  
13 1010, I also see that PSP would be given the need to  
14 inspect or audit some of the facilities and records at each  
15 of the liquor and truck stop establishments as the Board,  
16 the Gaming Control Board, determines. And so while on the  
17 one hand we would be reducing our complement or eliminating  
18 that complement, depending on how we move forward, we would  
19 then also be taking on additional tasks associated with the  
20 increased number of licenses. And one of our concerns is  
21 that those costs would then be passed on to the taxpayers  
22 as opposed to the way it is currently done, and that is,  
23 the complement of the Gaming Control Enforcement Bureau is  
24 reimbursed by the casinos, and so they are paying for the  
25 services they get.

1           Now, one of the other points that I really want  
2 to make sure that we get across is, there has been some  
3 discussion about returning those 140 enlisted members back  
4 to the PSP complement, and I think it's well intentioned in  
5 that we are short. We are down about 500 Troopers right  
6 now in the department.

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

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

24           As we get funding, we run cadet classes, because  
25 we get funding to run that specific number. So if we get

1 funding for a 100-cadet class, that's what we run, but not  
2 until we have the funding to do it. So I just want to make  
3 sure that all of you understand that it would be very  
4 problematic for us to just have to try and take that  
5 complement back into the department.

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

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

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

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

24 A question for you: How many LCE agents do we  
25 currently have?

1           MAJOR BIVENS: There are, I want to say about 120  
2 right now. I can get you the exact number.

3           MAJORITY CHAIRMAN PETRI: Okay.

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

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

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

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

20           MAJORITY CHAIRMAN PETRI: So going to the loan  
21 situation, as you know, the casinos borrowed some money up  
22 front and then they pay enforcement costs. If we bring a  
23 new class of licensees in, who do you see bearing the cost  
24 of enforcement, and do you have any recommendations on how  
25 we would segregate that?



1           MAJOR BIVENS: Well, my recommendation would be  
2 that, again, the taxpayers not be saddled with that. So my  
3 suggestion would be that if there's a new class of license,  
4 that reimbursement would be made from that, those funds,  
5 and I think it would make sense to use the Liquor  
6 Enforcement people to do the enforcement in the licensed  
7 liquor establishments. So I think it's a matter of  
8 expanding that area of the department as necessary.

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

14           MAJORITY CHAIRMAN PETRI: Yeah.

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

20           Representative Wheeland.

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

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

25           MAJOR BIVENS: Yes, sir.

1           REPRESENTATIVE WHEELAND: And that's in licensed  
2 liquor establishments, correct?

3           MAJOR BIVENS: Yes, sir.

4           REPRESENTATIVE WHEELAND: Okay.

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

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

16          REPRESENTATIVE WHEELAND: Okay.

17          So I just asked my vendor up in Williamsport, who  
18 does not do anything with those illegal machines. It's his  
19 competition that is being brought in, in a lot of cases  
20 from out-of-State and plopped around Pennsylvania. He,  
21 too, does not know, but in his district there are probably  
22 15,000 of them.

23          So he probably agrees, but he has a much smaller  
24 market than the whole of Pennsylvania. So we really don't  
25 know how many illegal machines there are.

1           But my question is, would you support, and again  
2 I'm going back to the games of skill, you know, the true  
3 games, the Pennsylvania games of skill, that won that  
4 particular case in Beaver County that you're aware of.

5           MAJOR BIVENS: Yes.

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

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

15          You know, as I indicated, technology has outpaced  
16 our ability to enforce this. When we go back a number of  
17 years and you had a simple knock-off switch on the back of  
18 the machine, it was easy to find. It was, per se, a  
19 gambling device. Then we went to two prongs on there that  
20 used a coin, for example, to close the circuit, and we  
21 could determine that was a gambling machine. They have  
22 gotten much more sophisticated. Now there's a remote  
23 control that is used from across, you know, the bar or  
24 across the pizza shop or whatever, and it makes it much,  
25 much more difficult unless we actually witness or obtain

1 payoffs from that machine; very time intensive and resource  
2 intensive to do that kind of enforcement. We do it, but  
3 again, it takes quite a bit to identify a vendor and then  
4 conduct enforcement on machines in a number of  
5 establishments run by that vendor.

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

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

22 Because quite honestly, these Pennsylvania games  
23 of skill, some folks from out of State have been able to  
24 counterfeit the machine, the logo, everything, and it's not  
25 a game of skill; it is exactly an illegal poker machine or

1 slot machine, so to speak.

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

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

7 REPRESENTATIVE WHEELAND: Thank you very much.

8 MAJORITY CHAIRMAN PETRI: Representative Neilson.

9 REPRESENTATIVE NEILSON: Thank you, Mr. Chairman.

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

12 MAJOR BIVENS: Thank you.

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

17 We're talking about enforcement. Representative  
18 Wheeland, he just brought up some of the things. Because  
19 when you walk in a place, how do you know if it's good or  
20 bad? It takes resources and investigation for each single  
21 machine that is illegal or not illegal. And we're seeing  
22 them pop up in like our local Stop-N-Gos, 7-Elevens, you  
23 know, laundromats. Who do you call? Me as a citizen, who  
24 do I call and say, hey, look, there are five machines out  
25 here? Who do I call to get them taken out?

1           MAJOR BIVENS: If they call any of our locations,  
2 we'll get that information to where it needs to go. And  
3 not necessarily to get them taken out but to get them  
4 investigated. And we'll provide that information, whether  
5 it's to Liquor Enforcement, whether it's to the vice unit,  
6 to the Bureau of Criminal Investigation, we'll get that  
7 information to where it needs to be to be investigated.

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

16           MAJOR BIVENS: No, I think there is.

17           I think you have the same issues but on a  
18 different scale in the bar. So when I talk about  
19 fictitious IDs, you have the same issues.

20           They have become very sophisticated. And so  
21 within the casinos, they have done a good job. They have  
22 brought new technology into those casinos. It's not as  
23 simple as now having a scanner that you just swipe the  
24 magnetic stripe over and it reads you.

25           There are IDs you can purchase on the Internet

1 that will work and that will fool those machines. So there  
2 are machines that they are using in the casinos that are  
3 actually connected to the Internet that scan the card and  
4 are very good at detecting fraudulent or fictitious  
5 identifications, and then we're able to follow up on that.

6 So even as we speak, we're working with Federal  
7 Homeland Security to try and get some of those websites  
8 shut down where we're seeing those IDs generated. But  
9 again, different scale, but you're going to see those same  
10 kinds of issues. Whether it's at the bar or whether it's  
11 at the casino, they're going to occur.

12 REPRESENTATIVE NEILSON: Going to occur. All  
13 right.

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

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

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

21 In other words, let's say the Pennsylvania games  
22 of skill came into being -- my legislation passed, the  
23 Governor signs it, and they're now legal -- and there's an  
24 all-out effort, to obviously benefit the casinos, to  
25 benefit the mom-and-pop operations, for enforcement to go

1 out and do a really tough raid on these illegal machines.  
2 Is there an issue with warehousing these until it's  
3 adjudicated through the courts?

4 MAJOR BIVENS: There is.

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

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

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

20 REPRESENTATIVE WHEELAND: Okay.

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

22 MAJORITY CHAIRMAN PETRI: Now we're going to move  
23 to Drew Svitko, Executive Director of the Pennsylvania  
24 State Lottery; and Amy Gill, Deputy Secretary of Tax  
25 Policy, the Pennsylvania Department of Revenue.



1 Thank you for your testimony.

2 MAJOR BIVENS: Thank you, sir.

3 MAJORITY CHAIRMAN PETRI: When you're ready.

4 EXECUTIVE DIRECTOR SVITKO: Thank you,

5 Mr. Chairman.

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

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

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

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

24 If VGTs pass as described in HB 1010, we expect a  
25 profit impact of \$14 million the first year for the

1 Pennsylvania Lottery and as much as almost \$100 million in  
2 year five.

3 And, you know, there was some discussion about,  
4 or previous statements that had come out of the Department  
5 in 2009 with regard to that impact or cannibalization, and  
6 I think we're in a very different world than we were in  
7 2009. We have, you know, arguably a large -- we have more  
8 illegal gaming machines. Games of skill, regardless of  
9 what they are, what they are is a form of entertainment at  
10 the local level, and that represents competition for the  
11 Lottery.

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

19 There are other impacts as well that we want to  
20 make you aware of. The 5 percent reduction, from  
21 34 percent to 29, the estimates are a \$123 million  
22 reduction in the State Gaming Fund, and again, that has  
23 just been 1 year.

24 Additional impacts are the technological  
25 challenges. As written, the bill requires the Department

1 of Revenue to establish a central gaming system or central  
2 control system for the VGTs and also make that available to  
3 the Gaming Board, and that presents a lot of technological  
4 challenges and obviously costs associated with that.

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

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

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

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

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

24 MAJORITY CHAIRMAN PETRI: Questions among  
25 Members?

1 Representative Dunbar.

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

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

7 EXECUTIVE DIRECTOR SVITKO: Yes, in the first  
8 year.

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

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

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

18 EXECUTIVE DIRECTOR SVITKO: Sure.

19 REPRESENTATIVE DUNBAR: And also, I guess out of  
20 curiosity's sake, I know that the proposal for iLottery has  
21 a \$19 million price tag. Is the \$14 million loss after the  
22 \$19 million gain or is it beforehand, just to keep things  
23 straight.

24 EXECUTIVE DIRECTOR SVITKO: It is. That  
25 \$14 million impact would be on our core business and

1 would---

2 REPRESENTATIVE DUNBAR: Before the 19 million,  
3 right?

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

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

8 EXECUTIVE DIRECTOR SVITKO: Absolutely.

9 REPRESENTATIVE DUNBAR: Thank you.

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

14 EXECUTIVE DIRECTOR SVITKO: Sure.

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

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

24 MAJORITY CHAIRMAN PETRI: And I certainly respect  
25 that, and like the other Members, I want to thank you for

1 coming and testifying and speaking on behalf of our seniors  
2 throughout Pennsylvania. It is very important. But if we  
3 have the numbers, I think it might help us understand your  
4 concerns.

5 EXECUTIVE DIRECTOR SVITKO: Will do.

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

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

11 Thank you again for your testimony.

12 Gentlemen, whenever you're ready.

13 MR. STEWART: Mr. Chairman, good afternoon.

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

19 As Penn National Gaming's testimony indicated,  
20 11 of the casinos, other casinos in the State that are  
21 currently operating, oppose VGTs and the pending  
22 legislation. A collection of those casinos have submitted  
23 a letter to the General Assembly and to this Committee to  
24 express their opposition to the introduction of VGTs into  
25 bars, taverns, licensed restaurants, and other locations in

1 Pennsylvania. That letter will largely speak for itself.  
2 The hearing has been going for quite awhile, but I would  
3 like to touch on a few points.

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

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

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

21           And even using more conservative estimates, the  
22 bill envisions adding the equivalent of over 18 additional  
23 casinos. These slot machines will do nothing more than rob  
24 Peter to pay Paul, cannibalizing the casinos and the tax  
25 revenues they generate.

1           In simplistic terms, the Commonwealth would be  
2 replacing 59 cents of every slot machine tax dollar that is  
3 currently produced at the bricks-and-mortar casinos with a  
4 tax rate of 39.5 percent, all into the State, including  
5 local share, regulatory costs, and the like.

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

11           Highlighting a few key facts:

12  
13           • As the PGCB testified earlier today,  
14 there will be real challenges in terms of  
15 responsible gaming, safeguards, regulation, and  
16 public protection. The Executive Director of the  
17 National Council on Problem Gaming has called  
18 VGTs in bars and taverns possibly the worst model  
19 for legalized gaming in the country right now.

20           • Pennsylvania's casinos employ 18,000-some  
21 employees, approximately 90 percent of which are  
22 Pennsylvanians. A conservative estimate from the  
23 Innovation Group was that more than 2,500 of  
24 those employees will lose their jobs if VGTs are  
25 authorized.



1           • Local companies and small businesses  
2 across the State do approximately \$230 million of  
3 business with casinos each year, and that will  
4 suffer significantly.

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

9           • And, of course, the Commonwealth as a  
10 59-percent stakeholder in our revenues will  
11 suffer the greatest negative effect.

12  
13           You have heard from the Lottery and Revenue just  
14 before us. The Administration had also given projections  
15 on losses last June, I believe it was. I think if you go  
16 through their schedule today, you will see that as you get  
17 to year three, you are far more than \$14 million in the  
18 hole at the Lottery. I think it was approaching more like  
19 90 million.

20           As alluded to, the Illinois experience is one  
21 that requires careful consideration. And if you look at  
22 that, I think one of the best sources is the Illinois  
23 Commission on Government Forecasting and Accountability.  
24 Its *Wagering in Illinois 2016 Update* noted that the State's  
25 casino revenues have now declined for four consecutive

1 years. It referred to the Lottery's "poor performance" in  
2 fiscal year 2016 and noted that it prevented the Lottery in  
3 Illinois from transferring any funds -- that's a zero  
4 transfer -- to the State's Capital Projects Fund. In 2014,  
5 the Lottery was transferring \$145 million to that fund.

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

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

21 As a result, the revenues generated by VGTs, even  
22 at the levels in Illinois, would not be anywhere near  
23 enough to offset the loss of casino tax revenue in  
24 Pennsylvania. And that's stemming largely because the  
25 Commonwealth is going to stop taking nearly 60 cents of

1 every dollar and start taking only 40. In addition to  
2 those losses, VGT revenues have to make up what you just  
3 heard is \$123 million in lost revenue from the tax  
4 deduction -- or reduction; excuse me -- to casinos.

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

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

22 All of this is to say that we respectfully submit  
23 that VGTs would be a bad bet for all stakeholders in the  
24 Commonwealth. The casinos remain committed to working with  
25 the Commonwealth on its immediate and longer term financial

1 health, but we respectfully state that VGTs are not the  
2 answer for Pennsylvania.

3 Mr. Green.

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

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

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

15 I would just tell you that on the basis that the  
16 Commonwealth is looking for additional revenue, this is a  
17 bad bet. You shouldn't do this, because it could end up  
18 providing less revenue to the Commonwealth. Why substitute  
19 60 cents in the dollar for 40 cents in the dollar, and that  
20 is on the basis of the Illinois cannibalization. We  
21 believe, because of the way our industry is structured,  
22 that cannibalization would be even worse.

23 And the other thing is, we have heard Illinois  
24 does this, Illinois does that. The structures are  
25 completely different. Illinois was set up as a riverboat

1 State for gaming. So if you look at the location of their  
2 casinos, where they are placed, the number of positions, I  
3 know Mr. Schippers didn't know how many they have, but they  
4 have 1,200 in their three casinos and they have 1,500 VGTs.  
5 I think that was the question that he was asked.

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

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

17 In respect, and we have heard and I hear, you  
18 know, I listen with sympathy to the bars' and taverns'  
19 experience, and I am a great fan of bars and taverns as I  
20 visit them daily, especially the mom-and-pop ones. And I  
21 believe there are ways that we can definitely help and  
22 assist bars and taverns through a series of measures that I  
23 won't go into now, but one of them certainly would be to  
24 drastically improve the way the small games of chance are  
25 administered and run. But that would only be one, and I

1 would have several proposals that I think would help the  
2 bar and tavern business.

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

10 Thank you, and I'm happy to answer any  
11 questions.

12 MAJORITY CHAIRMAN PETRI: Any questions from  
13 Members?

14 Sure. Go ahead. Representative Wheeland.

15 REPRESENTATIVE WHEELAND: Thank you very much for  
16 your testimony.

17 It's Mr. Stewart, right?

18 MR. STEWART: Yes.

19 REPRESENTATIVE WHEELAND: Okay.

20 And I know there has been a lot of comparison,  
21 Illinois to Pennsylvania and, you know, what went on in  
22 Illinois. And as I said earlier today about in Illinois,  
23 casino attendance, casino play dropped, was continually  
24 dropping well before the VGTs even entered the market into  
25 Illinois.

1           And I believe you said in your testimony that,  
2           and I guess this is where the confusion, at least for me,  
3           exists, when you talk about the drop-off in revenue if VGTs  
4           are allowed, you're talking the casinos will see a  
5           drop-off, but overall, gaming in Pennsylvania will see an  
6           increase, correct?

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

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

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

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

19          MR. STEWART: Mm-hmm.

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

22          MR. STEWART: Well, you know, we're looking at  
23          tax revenue, not just the gaming revenue. But when you  
24          look at, for instance, if you looked at Illinois'  
25          *2015 Wagering in Illinois Update*, you would find that when

1 you combined the loss at the casinos with the loss at the  
2 Lottery, the State lost about \$80 million.

3 There has been a slight---

4 REPRESENTATIVE WHEELAND: From the casinos?

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

6 REPRESENTATIVE WHEELAND: Total gaming?

7 MR. STEWART: Its receipts were down. It did  
8 not have that loss in 2016. I think it showed about a  
9 3.8-percent growth in overall wagers.

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

17 But what we're saying is that, what Parx is  
18 saying is that at the 19 percent cannibalization rate,  
19 which was identified by the Illinois Commission and  
20 attributed by that Commission primarily to the introduction  
21 of VGTs, when you factor in those numbers at the  
22 differential tax rate and then you also subtract out the  
23 loss of revenue to the Commonwealth from the 5 percent  
24 reduction in the slot tax -- excuse me; the gross terminal  
25 revenue tax -- that you're having a zero-sum game.



1           And that if you look at Pennsylvania's unique  
2 aspects, the way that the casinos are distributed, the  
3 different type of gaming experience that you have,  
4 as Mr. Green testified and as Parx testified, Mr. Ricci at  
5 your last hearing at Parx, that percentage of  
6 cannibalization is actually projected to go higher, in  
7 which case the State could actually have a loss of funds.

8           REPRESENTATIVE WHEELAND: Okay. And then one  
9 last question.

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

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

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

21           And there was another thought moving -- it hasn't  
22 gone to a Supreme Court -- about a certain machine being  
23 regarded as a game of skill, not chance. My view is that  
24 that game is a game of chance. It hasn't been tested up  
25 through the full system, but the types of machines that

1 we're seeing coming into the marketplace are, they have a  
2 random number generation; they have a built-in percentage.  
3 The skill element is virtually meaningless. I believe they  
4 could be and should be challenged as to the veracity of  
5 saying that they are a game of skill.

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

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

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

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

24 MR. STEWART: Sure. Absolutely.

25 MAJORITY CHAIRMAN PETRI: That would be great.

1 Chairman Harkins.

2 MINORITY CHAIRMAN HARKINS: Thank you,  
3 Mr. Chairman.

4 Thank you both for your testimony. Very  
5 insightful.

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

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

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

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

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

25 MINORITY CHAIRMAN HARKINS: I appreciate that.

1           In my area, I know we're really ripe for getting  
2 this right. We rushed the thing through the last time, and  
3 now we're seeing the flaws and some of the problems that  
4 are surfacing.

5           MR. GREEN: Sure.

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

8           Thank you.

9           MR. GREEN: Thank you.

10          MAJORITY CHAIRMAN PETRI: Representative Kortz.

11          REPRESENTATIVE KORTZ: Thank you, Mr. Chairman.

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

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

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

24          You know, I don't know the number, perhaps you  
25 can help me, but I would assume there are thousands of

1 these organizations -- fraternal clubs, et cetera -- and  
2 how that would apply, I think the devil is in the details.  
3 You would have to look very carefully at what is proposed,  
4 who would be eligible, and reach a decision on that.

5 So, you know, I think it's certainly something  
6 that should be considered.

7 REPRESENTATIVE KORTZ: And many of these  
8 organizations are struggling at this time, to be quite  
9 honest with you, and a lot of them depend on that revenue  
10 to help pay their electric bill, to be quite honest with  
11 you.

12 So I would hope that you would take that under  
13 consideration, because there are a lot of us pushing for  
14 this just from that aspect, to be quite honest.

15 MR. GREEN: I understand.

16 REPRESENTATIVE KORTZ: So please give that some  
17 consideration.

18 Thank you, Mr. Chairman.

19 MAJORITY CHAIRMAN PETRI: Well, thank you for  
20 your testimony.

21 We'll now move on to Carol Davies, Board Member  
22 of the Pennsylvania Association of Area Agencies on Aging.

23 You may proceed.

24 MS. DAVIES: Thank you.

25 Chairman Petri, Chairman Harkins, and Members of

1 the Committee, thank you for the opportunity to testify on  
2 this important issue.

3 My name is Carol Davies, and I am the  
4 Administrator of the Lebanon County Area Agency on Aging,  
5 or AAA, and a Board Member of the Pennsylvania Association  
6 of Area Agencies on Aging, or P4A, the statewide  
7 association that represents the 52 AAAs across the  
8 Commonwealth.

9 I am testifying on behalf of P4A today to express  
10 our concern regarding the impact that the legalization of  
11 video gaming terminals, or VGTs, at bars and taverns could  
12 have on funding for programs benefiting Pennsylvania's  
13 seniors.

14 Governed by the Federal Older Americans Act of  
15 1965 and Pennsylvania's Act 70 of 1978, the State's AAA  
16 network provides guidance and services to seniors and their  
17 families. Every year, the Pennsylvania Lottery generates  
18 revenue that helps thousands of Pennsylvania seniors obtain  
19 nutritious meals, transportation assistance, prescriptions  
20 through the PACE Program, property tax and rent rebates,  
21 and home care.

22 Revenues from the Lottery also help fund senior  
23 centers, which provide valuable social connections for  
24 seniors, helping them to avoid isolation. These  
25 community-based services help seniors age in the community,

1 which is generally their preference, and delay or prevent  
2 the time when they may need to access more costly long-term  
3 care services in a nursing home or other long-term facility  
4 instead.

5           The Pennsylvania Department of Revenue projects  
6 that the legalization of VGTs in Pennsylvania will result  
7 in a dramatic decrease in Pennsylvania Lottery sales. The  
8 Department has reported that if VGTs are implemented in  
9 fiscal year 2017-2018, Lottery ticket sales will decline by  
10 63.8 million, or 1 ½ percent, and Lottery profits will  
11 decline by 14.4 million, or 1.29 percent.

12           In year five, the Department estimates that  
13 Lottery sales would be reduced by about \$432 million, or  
14 9.8 percent, and profits reduced by 96.3 million, or  
15 8.44 percent.

16           We understand that the State is facing a  
17 difficult budget situation and Legislators are looking for  
18 new revenue sources, but if the Department of Revenue's  
19 projections are accurate, the legalization of VGTs will  
20 have far-reaching, unintended consequences on the funding  
21 of programs that benefit Pennsylvania seniors.

22           There are already over 4,700 seniors on the  
23 waiting list for these Lottery-funded services, and these  
24 numbers will continue to be impacted by the projected  
25 growth of the Commonwealth's over-60 population in the next

1 several years.

2 The decision for P4A to provide testimony today  
3 was not made lightly. These important and in many respects  
4 life-saving services will be in jeopardy if the Lottery  
5 becomes unable to meet the funding needs of Pennsylvania's  
6 senior population.

7 P4A opposes the legalization of VGTs in  
8 Pennsylvania, and further, we strongly urge the General  
9 Assembly to include iLottery in all gaming expansion  
10 proposals to ensure our seniors receive the services they  
11 need and deserve.

12 Thank you for your time today.

13 MAJORITY CHAIRMAN PETRI: And thank you for your  
14 interest in testifying.

15 Any questions of Members?

16 Representative Neilson.

17 REPRESENTATIVE NEILSON: You skipped me on the  
18 last panel. I waved.

19 Before I ask you a question, I do want to, to the  
20 last panel, if I may, Mr. Chairman.

21 Of all the hearings we have had over this stuff  
22 over the last 5, 6 years that I have been on the Committee,  
23 there has only been one casino owner -- not representative,  
24 owner -- that shows up consistently, and that is  
25 Mr. Bob Green over there. He shows up everywhere. And I



1 just wanted to put that on the record, because he's never  
2 afraid to dodge these hard questions.

3 In our last hearing, we had a hearing at  
4 Mr. Green's facility, and Mr. Ricci, who is not here today,  
5 but he mentioned about the Keno being in local taverns and  
6 how the State Lottery Fund could get \$80 million in revenue  
7 while also having \$60 million in profit for the tavern  
8 owners.

9 In your testimony today, you talked about how you  
10 would be reduced about \$96 million. Where are those  
11 numbers from, because I saw where there is from -- like,  
12 how are you justifying how much money you will lose from  
13 the Lottery sales? Is there anything?

14 MS. DAVIES: For me?

15 REPRESENTATIVE NEILSON: Yes, this is for you.  
16 Yeah; yeah.

17 MS. DAVIES: Okay.

18 Those numbers that we presented came from the  
19 Department of Revenue's projections.

20 REPRESENTATIVE NEILSON: Okay. So if we take  
21 that 96, we have to replace that somehow through  
22 legislation, and you spoke about iLottery. Are there  
23 projections how much, if we introduce iLottery, what that  
24 would produce for you? Do you know?

25 MS. DAVIES: I do not have those projections with

1 me.

2 REPRESENTATIVE NEILSON: Okay. All right.

3 Well, thank you very much for your testimony.

4 I have nothing further, Mr. Chairman.

5 MAJORITY CHAIRMAN PETRI: Anyone else?

6 Okay. Seeing none, thank you so much for your  
7 testimony and for caring for our seniors.

8 MS. DAVIES: Thank you.

9 MAJORITY CHAIRMAN PETRI: Closing remarks?

10 MINORITY CHAIRMAN HARKINS: I just wanted to  
11 thank all the stakeholders, all the testifiers, and  
12 everyone who showed up today.

13 Four hours of great testimony. Great insight. I  
14 know I learned a lot, and thank you.

15 MAJORITY CHAIRMAN PETRI: For the Members, I want  
16 to thank all of you for your patience. I certainly want to  
17 thank the testifiers.

18 In the next couple of weeks, I would suggest to  
19 you that we should be thinking about four options that have  
20 been presented to us, whether it be iGaming, VGTs, or the  
21 satellite location, and I guess the fourth that you're  
22 wondering that I didn't mention is, we could do nothing.  
23 That's always an option.

24 But I think we ought to be thinking about, from  
25 an individual perspective, what you think serves your

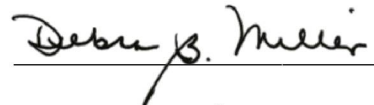
1 community the best. And I'm not anticipating that we'll be  
2 united on that, that we may in fact have four different  
3 ideas.

4           For those viewers who are interested in this  
5 topic, the stakeholders, continue to talk to your  
6 Representatives and Senators, whether they're on this  
7 Committee or elsewhere, because we will have to be making a  
8 decision in the next few weeks. I would say by the end of  
9 May, we need to have a consensus of which of those four  
10 options we might be considering.

11           So thank you. We're going to adjourn this  
12 meeting.

13  
14           (At 1:54 p.m., the public hearing adjourned.)

1 I hereby certify that the foregoing proceedings  
2 are a true and accurate transcription produced from audio  
3 on the said proceedings and that this is a correct  
4 transcript of the same.

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7 

8 Debra B. Miller

9 Transcriptionist

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