

Casino Testimony

House Gaming Oversight Committee Hearing

May 1, 2017

Chairman Petri, Honorable members of the Committee, thank you for the opportunity to appear before you and provide testimony on the topic of today's hearing. That topic – the proposed placement of tens of thousands of video gaming terminals, or VGTs, all across our state – entails the risk of substantial harm to the public, the state and our industry. And, despite what you have heard from others today, that harm will be suffered in the pursuit of what, ultimately, is nothing more than fool's gold.

House Bill 1010 would literally authorize the introduction of more than 85,000 new slot machines in bars, taverns, bowling alleys and truck stops across the expanse of the Commonwealth. This figure is more than 3x the current number of slot machines at all of Pennsylvania's casinos combined. There is simply no way that this can be done without inflicting major harm on Pennsylvania's casino industry, on the tax revenues it generates for the state, on property tax relief, on the State Lottery and its programs for senior citizens, on our thousands of employees and the hundreds of businesses and communities we support.

All of which begs a simple question: Why? Pennsylvania's gaming industry is # 1 in the nation for tax generation. Our companies have hired 18,000 employees – approximately 90% of whom reside in PA. We purchase more than \$230 million of goods and services from local Pennsylvania companies and small businesses each year. Why jeopardize all of that?

We support county and local governments, first responders, and economic development agencies across the Commonwealth. When that funding was put at risk, we stepped to the plate and voluntarily agreed to continue providing \$10 million/year in local share support. Such commitments are not feasible if VGTs are approved. Why give that up?

Pennsylvania gaming is highly regarded for its integrity and considered a very well-regulated industry. Why pursue a gaming model that is harder to regulate and has fewer safeguards and public protections? Indeed, leading compulsive gambling experts have called VGTs in bars “possibly the worst model for legalized gambling in the country right now.”¹

And the Commonwealth faces many dollars and cents questions.

- Why give up nearly 60 cents of every gaming dollar in the state in order to get only 40 cents?
- Why siphon off hundreds of millions of dollars from the Property Tax Relief Fund, which helps not only homeowners but also funds rent rebate programs for senior citizens?
- Why adopt a plan that is estimated by the Administration to cause a \$2.3 billion drop in lottery sales over the next decade, and cost the state nearly \$600 million/year in funding for programs supporting older Pennsylvanians?

These questions only scratch the surface as to the many issues and problems surrounding VGTs and HB 1010. But let’s turn our focus to some of the answers that have been put forth to these questions.

We are told that the state must legalize VGTs because there are 40,000 illegal slot machines already in operation around the Commonwealth. This contention is flawed on many levels. First, there is no evidence to substantiate the claimed 40,000 illegal machines. Indeed, as was recently reported by the Associated Press, in all of 2016 the Pennsylvania State Police seized only 706 illegal machines. Also indicative that the 40,000 figure is wildly inflated is the fact that the Pennsylvania Gaming Control Board has a grant fund specifically dedicated to local law enforcement efforts to crack down on these machines. Yet, the PGCB has historically had great difficulty awarding any of the monies due to a lack of need or demand.

¹ *Illinois Criticized for Approach to Problem Gambling*, www.lincolncourier.com (Keith Whyte, Executive Director of the National Council on Problem Gambling).

Second, even if true, legalizing this illegal conduct is not sound policy. It is certainly not the approach the Commonwealth has taken with various other types of illegal conduct. And, we urge you to pause for a moment and think about what it means. Today, persons with any ties to illegal gambling or illegal slot machines could not get a job at one of our casinos even as a parking attendant or janitor, let alone on the casino floor.

The other contention that we frequently hear is that VGTs will provide large sums of money for the state's financial needs. However, a close analysis of the numbers and adjusted tax rates clearly show that this is not true. Simply, the claims made and figures cited by VGT advocates -- most of whom are out-of-state operators looking to profit from Pennsylvania without making any investment in it -- do not add up.

At best, VGTs are a zero sum game for the state. At worst, VGTs will end up costing the Commonwealth and it will suffer a substantial loss of net gaming tax revenue.

Despite what you have heard today, Pennsylvania is not Illinois. Our casinos are different, larger and a more complete entertainment experience. Our casinos are geographically distributed throughout the state. Pennsylvania has more slot machines in place than Illinois did at the advent of VGTs, and there are important differences in the number of bars and taverns in our state and their proximity to our casinos.

That said, even if you assume that the Illinois experience will be replicated here, and Pennsylvania will suffer the same 19% reduction in casino gaming revenue that occurred in Illinois, the state will not realize any financial gain. The nearly \$500 million in VGT revenues claimed by their advocates will be off-set by the loss of casino revenue at the much higher tax rate of 59%, the loss of revenue from the bill's proposed reduction in the slot machine tax, and the loss of incremental revenue from the second casino license in Philadelphia, which will become a victim of VGTs and unable to move forward.

This is true even in Illinois, where there has been no material increase in gaming revenue in markets where VGTs are placed within 25 miles of a casino. As the Illinois Commission on

Government Forecasting and Accountability reported in its *Wagering in Illinois 2016 Update*, when referencing the experience of VGTs in the Chicago area: “With an average annual growth in the gaming of only 1.5% per year, thus far, it appears that video gaming has simply ‘reshuffled the deck chairs’ by redistributing casino revenues to the numerous gaming venues that now exist in the region.”

As stated, however, breaking even is **the best** Pennsylvania can do with VGTs. Many indicators actually project a major loss in net tax revenue to the Commonwealth if VGTs are legalized. For one thing, the numerous ways in which Pennsylvania is different than Illinois, especially the even distribution of its casinos across the state, point to a much greater cannibalization of the higher taxed casino revenue – as much as 30%. This would mean a loss to the state of approximately \$100 million. In addition, authorizing VGTs will severely curtail any capital investment and expansion projects at our facilities, costing the state additional tax revenue, hundreds of millions of dollars in direct and indirect construction expenditures, and thousands of permanent and construction jobs. Finally, the State Lottery is projected to lose as much as \$250 million in sales each year.

Given all of this, I, together with the vast majority of my colleagues, respectfully submit that VGTs would be a disaster for our industry, the State Lottery and the Commonwealth, itself. Thank you for your time and we would be happy to answer your questions.