

TESTIMONY BEFORE PENNSYLVANIA HOUSE GAMING OVERSIGHT COMMITTEE

BY: PAUL T. JENSON, TAFT STETTINIUS & HOLLISTER LLP

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

My name is Paul Jenson and I am an equity partner at Taft Stettinius & Hollister. I reside in Chicago, but Taft has offices across the Midwest. I am also the Chairperson of Taft's national Gaming Practice. Our gaming practice is broad and varied in that we represent casinos and other gaming operators, lenders, investors, states, cities, manufacturers of gaming equipment and other interests related to the gaming industry in many jurisdictions. Most importantly for today, however, is that a significant portion of my time since 2009 has been spent within Illinois' video gaming industry.

The Illinois legislature passed our Video Gaming Act in July 2009, but for a variety of reasons the industry did not become operational until October 2012. Since then, Illinois' video gaming industry has grown steadily. As of April 21, 2017, there were 6,019 licensed video gaming Establishments hosting an aggregate of 26,350 video gaming terminals, or VGTs. In 2016, Illinois' video gaming industry generated almost \$280 million in state and local tax revenue. In the first quarter of 2017, it generated approximately \$79 million in tax revenue, which projects to over \$315 million if annualized. Please note that we have a 30% tax rate in Illinois' video gaming industry. The Pennsylvania bill contemplates a 34% tax going to the Commonwealth and an additional 4% going to local governments.

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

One of the similarities is that the Pennsylvania bill includes the same three-tiered system of operations used in Illinois. The Pennsylvania Gaming Control Board, just like the Illinois Gaming Board already does, will be asked to license companies to (1) create and sell VGTs; (2) operate VGTs; and (3) host VGTs for play.

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

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

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

Key Differences:

In Illinois, the maximum bet that can be made is \$2, while the maximum jackpot that can be earned on any one spin is \$500. The Pennsylvania bill includes a max bet of \$5 and jackpot of up to \$1,000 per spin. These increased numbers allow for the math models within the VGTs to perform better, so Terminal Operators can offer better odds to players for certain bets. Illinois is likely going to amend its law to increase its limits in similar fashion.

In addition, Illinois allows for municipalities to "opt out" of the Video Gaming Act. Actually, the Illinois Gaming Board interpreted the language to essentially make Illinois municipalities affirmatively "opt in" to the participating in video gaming. This was one of the many reasons for the delay in the industry becoming operational after the Act passed. It gave me the opportunity to visit some very small towns in parts of Illinois I never knew exists. Nevertheless, places like Chicago, where almost 33% of our liquor licenses reside, have not yet opted into video gaming. This will almost certainly happen in time, but significant revenue is being lost every day until this happens. In contrast, the Pennsylvania bill does not allow for an opt out, so video gaming will be available to local businesses throughout the Commonwealth. Each location will be allowed to make the business and personal decision for itself about whether to participate.

As mentioned earlier, it took over three years from the passage of the Illinois Video Gaming Act to the first day of play for VGTs. We believe Pennsylvania would dramatically shorten this delay. As Mr. Ostrowski can attest, the Illinois Gaming Board was not properly funded to regulate this brand new industry. The same people who were tasked with regulating Illinois' casinos were now being asked to develop video gaming regulations and investigate thousands of applicants, essentially in their spare time. This should not be the case in Pennsylvania. The bill calls for the PGCB to receive significant up-front funding, as well as an ongoing revenue stream from the industry when it becomes operational.

The Pennsylvania bill also addresses and provides more adequate funding for responsible gaming than what we have in Illinois. The IGB has spent considerable time in researching this issue and is beginning to implement ideas to promote responsible gaming. Pennsylvania's bill already would provide for some of the things we are considering in Illinois. In addition, the PGCB is likely to benefit from the IGB's work in this area and could implement other ideas.

I could continue for hours, but will conclude with this. We understand that, like Illinois before the passage of the Video Gaming Act, Pennsylvania already has gray gaming in many of its taverns, VFWs, fraternal organizations and other places. These games are being operated by unregulated people and are not taxed. The games are often old and have extremely low payoff rates, so patrons are not being treated fairly. The video gaming bill provides Pennsylvania with a way to provide intense regulation to this existing industry and generate massive amounts of tax revenue. It also provides a legitimate opportunity for small businesses across the Commonwealth to participate. Thousands of jobs will be created or retained. Businesses will be able to reinvest in themselves and offer their patrons improved environments. They also will be hiring businesses in other industries to accomplish this. This bill truly presents multiple opportunities for Pennsylvania to improve its business environment and grow its tax revenue base.

Thank you again for the opportunity to speak today. Please let me know if you have any questions.

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