

**Testimony before the House Gaming Oversight Committee**  
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**On behalf of the Department of Revenue and Pennsylvania Lottery**  
**Wednesday, October 30, 2019**

Chairman Marshall, Chairman Conklin, and members of the committee, thank you for the opportunity to provide testimony on House Bill 1598 sponsored by Rep. Dan Moul, which would amend the Small Games of Chance Act. The bill provides for additional small games of chance, including the illegal gambling machines marketed as “Pennsylvania Skill Games.” As I stressed to you when I testified before your committee in June, these machines continue to inflict tremendous harm on the vital Lottery-funded senior programs that thousands of older Pennsylvanians rely upon each day.

To explain this point, consider that these machines are currently in 23% of the roughly 9,800 Lottery retailers operating in the commonwealth. At the current saturation rate, the machines result in the annual loss of approximately \$192.5 million in sales to the Pennsylvania Lottery and the damage is growing by the day as these machines are expanding in Lottery retailers across Pennsylvania. Put another way, this is a significant hardship for the older Pennsylvanians who count on Lottery-funded programs. For them, it means fewer meals, fewer free and reduced-fare rides, and less money for low-cost prescription assistance. It also means less money for property tax and rent rebates, and a strain is placed on the senior centers throughout the commonwealth that rely upon Lottery funds.

While there is no doubt that the current impact is profound, it pales in comparison to the harm that would result from passing HB 1598 into law. As proposed, this legislation would effectively allow the operators of “Pennsylvania Skill Games” to continue their expansion in Pennsylvania and cause further harm to the senior programs the Lottery has funded for decades. Our initial calculations indicate the legislation could result in nearly \$368 million to approximately \$600 million in annual sales losses to the Lottery. Simply put, there will be an even greater impact on seniors and fewer dollars available to provide them with the critical services that they count on to live healthy and productive lives.

In addition to this impact, it’s also important to revisit the other issues related to these gambling machines. First, it’s important to realize what they are — unsanctioned slot machines. They are video gambling machines that use various reel spins and graphical themes to interact with the user. According to the Pennsylvania State Police, they are being operated in direct violation of Pennsylvania law. HB 1598 is an attempt to regulate these illegal machines under the guise of small games of chance amendments. This departure from Act 42 of 2017, which amended the definition of “slot machine” as regulated by the Pennsylvania Gaming Control Board to include “skill slot machines” where skill is the predominant factor, should be discussed on its own merits separate from revisions to the Small Games of Chance Act. Moreover, it should be noted that the Department of Revenue and Pennsylvania Lottery do not have the capabilities to regulate the amendments to the Small Games of Chance Act as proposed in HB 1598.

Furthermore, these illegal machines are not only cutting into the Lottery's current business, but they are having a significant impact on our ability to successfully launch new products. For example, these machines have made it increasingly difficult to recruit Lottery retailers to offer the Lottery's monitor games, which include Keno and Xpress Sports. Retailers that operate the machines marketed as "Pennsylvania Skill Games" often tell our Lottery sales representatives that they receive a larger commission from these illegal gambling machines. As a result, Lottery retailers are opting against adding Keno and Xpress Sports.

Here's why that's important: After being authorized by Act 42 of 2017, Keno and Xpress Sports were launched in 2018 to help the Lottery expand its products portfolio and remain competitive in an increasingly competitive business environment. The General Assembly's intent was to help the Lottery stay vigilant in launching new products that our players want so that we can continue to generate funds for vital senior programs. That premise should remain at the forefront of the conversation when there is consideration made to adding even more sanctioned gaming to the Pennsylvania marketplace.

To make matters worse, "Pennsylvania Skill Games" manufacturers have resorted to falsely advertising their illegal machines as Lottery sponsored, going so far as to improperly include the Lottery's logo on their advertising materials. They place their illegal machines near lottery machines or Lottery advertising, creating brand confusion for consumers, who are being led to believe that the machines are legal, that they are overseen by the Lottery or that, at the very least, the Lottery is ok with those machines. In fact, the Lottery receives numerous calls every week from consumers asking questions about the illegal machines. This confusion not only threatens to further undercut revenues that fund meaningful senior programs, but also undermine the good will and public trust that the Lottery has worked to generate for the past 47 years.

I would also like to take this opportunity to stress the importance of the Pennsylvania Lottery and its mission. We remain the only state lottery to direct all proceeds to programs that benefit older Pennsylvanians. Since ticket sales began in 1972, our Lottery has contributed more than \$30 billion to fund property tax and rent rebates, transportation, care services, prescription assistance, and local services including senior centers and meals. In the 2018-19 Fiscal Year, the Lottery generated more than \$1 billion to support older Pennsylvanians for the eighth consecutive year. Here are some other important facts to consider (data comes from the 2017-18 fiscal year, the most recent data available):

- The Lottery contributed more than \$336 million to Area Agencies on Aging in Pennsylvania. Among other services, these funds helped to provide 10.7 million meals served at senior centers and delivered to homes. Lottery funds helped to provide more than 29,300 meals for older Pennsylvanians, every day.
- More than \$164 million in Lottery funds provided for over 33.6 million free transit rides and 3.4 million shared rides. On average, Lottery funds helped to provide more than 101,000 free and reduced-fare shared rides for older Pennsylvanians, every day.

- The Lottery provided almost \$250 million for care services delivered to more than 15,000 residents. On average, the Lottery funded more than \$684,000 in care services, every day.
- Lottery support for the prescription programs totaled more than \$152 million. Enrollees received more than 6.25 million prescriptions, and Lottery funding helped to fill nearly 17,200 prescriptions for older Pennsylvanians, every day.
- Lottery and slots revenue provided more than \$260.7 million in property tax and rent rebates to more than 548,000 households, an average of nearly \$500 per elderly or disabled household.

In closing, I would ask that you turn your attention away from the current legislative proposal in front of you and instead support House Bill 931, proposed by state Rep. Ed Neilson, and Senate Bill 710, proposed by state Sen. Tommy Tomlinson. Both bills would address illegal gambling machines marketed as “Pennsylvania Skill Games” while protecting funding for senior programs. We feel strongly that both legislative proposals would help the commonwealth preserve hundreds of millions of dollars that help seniors afford prescriptions, transportation, meals and more.

Thank you for the opportunity to provide testimony on behalf of the Department of Revenue and Pennsylvania Lottery.