

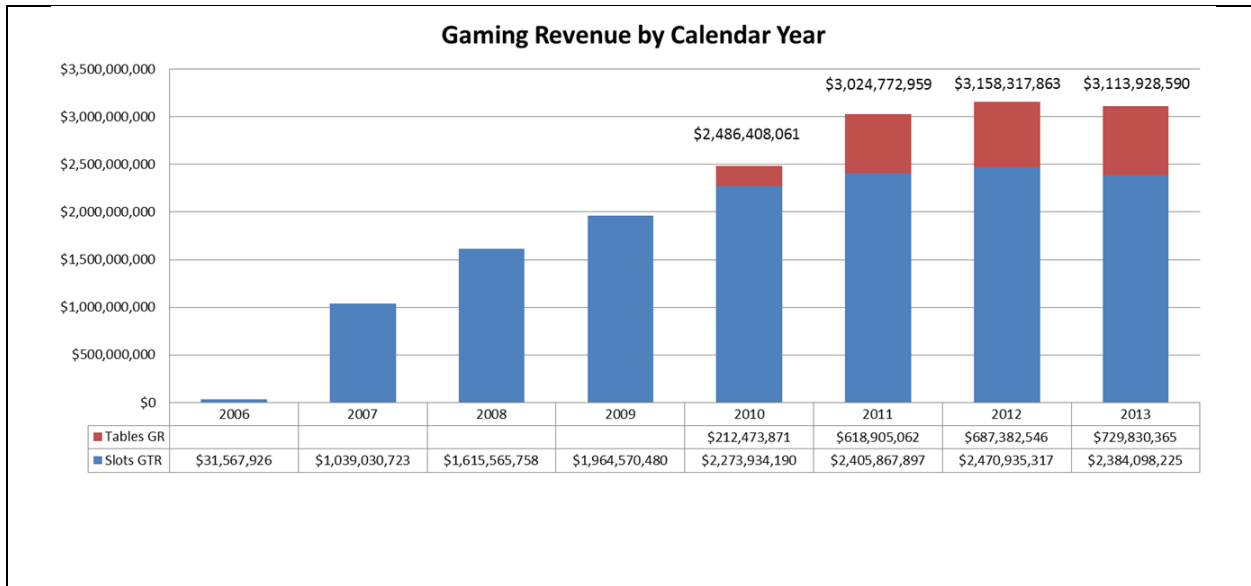
**William H. Ryan, Jr., Chairman
Pennsylvania Gaming Control Board
Senate Community, Economic and Recreational Development Committee
June 3, 2014**

Good morning. My name is Bill Ryan and I am Chairman of the Pennsylvania Gaming Control Board. Seated beside me is Kevin O'Toole who is the Executive Director of the Board and seated behind me in the audience are Commissioners Tony Moscato, Greg Fajt, Annmarie Kaiser, Dave Woods and John McNally. Thank you for the opportunity to address the Committee today.

Pennsylvania Gaming Industry Performance

The Gaming Act currently authorizes 14 slot machine licenses across three different categories, with a potential 15th license, a Category 3, available in July, 2017. Currently, 12 casinos are in operation, 10 of which have been in existence for over 3 years.

The state of Pennsylvania's gaming industry as a whole is still vibrant, having achieved over \$3.1 billion in revenue in each of the last 2 years. Currently, Pennsylvania ranks second in the country behind only Nevada in gross commercial casino gaming revenue. 2013 saw the industry experience its first year-over-year revenue drop in Pennsylvania in the amount of 1.4%, with slot machine revenue declining by 3.5% and table game revenue increasing by 6.2%. Thus far in 2014, gaming revenue is down 4.7%, with slot machine revenue down 6.3% and table game revenue up by about 1%.



Since the first casino opened in Pennsylvania in 2006, the Eastern United States gaming market has changed dramatically. Pennsylvania's entrance into the legalized gaming market significantly impacted New Jersey's gaming revenue as Pennsylvania residents stayed home to gamble and many residents of New Jersey had new and closer options for gaming.

Due in part to Pennsylvania's success, Maryland and Ohio have since entered the market while both Delaware and West Virginia expanded to table

games and New Jersey and Delaware began offering Internet gaming. New York, which has five tribal gaming facilities and slot machine gaming at nine horse racing tracks, is now committed to expand the commercial casino market with stand-alone casinos at various tourist destinations located within four designated areas of the state. Certainly, the Eastern US gaming market will become very competitive.

Econsult has produced a lengthy report for the Legislative Budget and Finance Committee that discusses potential regulatory changes and new revenue sources for consideration in the face of such competition. Pursuant to the Committee's request, we have outlined some brief thoughts on these two areas of their report.

Current Regulatory Landscape

It is clear that the primary objective of the Gaming Act, to which all other objectives are secondary, is to protect the public through the regulation and policing of all activities involving casino gaming. We adhere to this objective as we continually strive to achieve strong, but efficient and reasonable regulation. We read with interest the section of Econsult's report that identified areas of regulation that they suggest may potentially disadvantage Pennsylvania gaming, and will briefly comment on the items identified that touch upon the Board's authority.

In its report, Econsult stated that casino operators suggested to them that approval time for new games is longer in Pennsylvania than in other states. Our Gaming Lab strictly enforces the statutory requirement that no slot machine be set to pay out less than 85%, and we do issue rejections for non-compliance with slot machine standards. In addition, the Gaming Lab has

regular communication with the Vice Presidents and Directors of Slot Operations at the casinos to determine which new products they are hoping to have approved so that the Lab can prioritize equipment review accordingly. Nevertheless, to the extent this is a concern to the industry, we commit to review our processes to see if improvements can be made.

The report also indicated that Pennsylvania's specific requirements on many table game rules lead to less revenue for the casinos. To illustrate, Econsult used the requirement that the house stand on a soft 17 in blackjack, which Econsult states "tips the odds slightly in favor of the player." Specifying the rules of table game play allows for the protection of the gambling public by ensuring that game play rules are fair to both the operator and the player.

Specific to the requirement that the house stand on a soft 17, the Board strongly supports keeping this rule in place, as we feel that it establishes fairness and assures uniform treatment of all patrons in the most popular table game in every Pennsylvania casino. Without the rule, casinos would operate the game of blackjack for the high roller in a manner that requires dealers to stand on a soft 17, but offer a modified version with a larger "house advantage" for the casual or recreational gambler by requiring a dealer to hit on a soft 17.

This fundamental rule of the game is different from, for example, the 12 different approved side wagers that are available to the operator in the game of blackjack. These side wagers offer higher hold percentages for a casino but do not skew the fairness of the basic game because the side wagers are optional and do not have to be made by the player to participate.

The Board has provided flexibility to the casino operators by approving side wagers in the play of almost every table game, but we maintain that fairness to the patrons is paramount when it comes to the basic rules of the game.

The Econsult report also discusses the statutory prohibitions on gaming floor cash advances and the acceptance of third party checks by the house, as well as the personal check cashing limit of \$2,500 per day.

While cash advances are prohibited by statute from occurring on the gaming floor, the report did not point out that the Board does authorize casinos to process cash advances in areas off the gaming floor. In addition, some casinos have received approval to utilize the services of licensed gaming service providers, who establish cash advance booths off the gaming floor.

With respect to third party checks, while the Board would support authorizing casino operators to accept checks made payable to patrons from other casinos, we would caution the Committee that allowing for other third party checks does involve some degree of risk of counterfeiting, fraud or theft when compared to casino checks. Third party checks include payroll, business, tax refund and possibly even welfare or unemployment compensation checks. As for the personal check cashing limit of \$2,500, please know that this is set by the Board as a per day limit, and patrons desiring to utilize a larger amount of funds do have the option of applying for interest-free casino credit to be drawn against their bank accounts. While these options seem adequate for the vast majority of patrons, we will review the \$2,500 limit to determine whether there should be any changes made.

The Econsult Report also indicates that the number of people employed by the Board is higher than all jurisdictions with the exception of Nevada, and suggests that, while once appropriate when the industry was new and growing, the present size of our agency should be smaller. We are tasked with regulating a very complex industry which sees more revenue generated by commercial casinos than any state outside of Nevada. While we are mandated to strictly regulate for the protection of the public, I can personally attest that efficiency is always one of our highest priorities.

The Board has provided a historical overview of its employment numbers as well as the approved budgets and surpluses that the Board has returned in the past six Fiscal Years. This is an area that the Board takes seriously.

Fiscal Year	<u>PGCB</u> <u>Appropriation</u>	<u>Actual</u> <u>Expenditures</u>	<u>Lapse</u> <u>Amount</u>	<u>Ending Filled</u> <u>Complement</u>
08-09	\$33,310,000	\$30,031,407.79	\$3,278,592	279
09-10	\$33,744,500	\$30,637,873.48	\$3,106,627	312
10-11*	\$35,800,000	\$34,687,636.20	\$1,112,364	325
11-12**	\$35,501,000	\$33,422,933.88	\$2,078,066	319
12-13***	\$36,098,000	\$33,905,045.74	\$2,192,954	315
13-14	\$36,908,000	TBD	TBD	309****

*Table Games implemented in July; SugarHouse Opens (9/23/10)

**Valley Forge Opens (3/30/12)

***Nemacolin Opens (6/6/13)

****Current Filled Compliment (as of 6/2/14)

The Board has reduced its personnel count from a high of 330 in 2010 to its present 309 employees. We have done this despite the opening of the Valley Forge and Nemacolin casinos, which necessitated the hiring of 14 Casino Compliance Representatives to provide onsite regulatory oversight at

these facilities. The Board has also returned yearly surpluses which are credited back to the casino industry for the payment of regulatory costs, pointing to the fact that we do not spend money simply because it has been appropriated to us. In fact, over the last five fiscal years, the Board has taken steps to reduce annual costs by approximately \$2.1 million. This includes reducing or consolidating positions, negotiating new office leases, reducing parking spaces, cutting the vehicle fleet by 60%, and negotiating a new contract for investigative database searches, among other cost savings initiatives.

This Committee can trust that the Board will continue its efforts at effective, efficient regulation not only through review of our personnel costs, but on the operating cost side as well.

Econsult also discusses staffing levels on the operator side, suggesting that rather than the Board's current practice of mandating a minimum number of table game and security staff, the state may want to allow casinos to set their own staffing levels. Econsult states in the report that it is unclear that the state has an interest in ensuring a level of staffing beyond what casinos find optimal.

We disagree with this suggestion. Security staffing is an important regulatory oversight tool to ensure both the physical safety of patrons and guests and the operational safety of the casino's assets. In addition, staffing levels for the conduct of table games is a critical component of ensuring the integrity of gaming. When cheaters and scammers, whether they are patrons or employees, go undetected because of inadequate oversight, casino revenue, and therefore Commonwealth tax revenue, is impacted.

Though not recognized in the report, the Board has considered and approved flexibility on a case by case basis when the Board has determined that table game integrity will not be compromised. In fact, regulation § 465a.35 allows a casino operator to submit for approval an alternate supervisory staffing plan. All 12 casinos have done so and each request has been substantially approved in order to offer flexibility to the operators.

One final area Econsult listed as regulation potentially disadvantaging the casino industry is the licensure of non-gaming vendors, or the Board's regulation of companies that do business with casinos. The report states that casino operators and local economic development experts indicated that requiring non-gaming vendors and their employees to be licensed is unduly burdensome and prevents many businesses from partnering with casinos.

This is an area that the Board has periodically reviewed and, where appropriate, made changes. Initially, the Board took a very strict approach to vetting every business, small or large, that wanted to work in the gaming industry.

After gaining more regulatory experience in this area, the Board had revised and relaxed the gaming service provider review process by implementing a three tier approach -- Notification, Registration and Certification -- depending on the level of business being done with a casino.

The notification process is sufficient for a casino to do business with a vendor who is expected to do annual billings that total less than \$100,000. These notifications are submitted to the Board by the casino, not the vendor, so vendors making sales of less than \$100,000 do nothing more than what they would already provide to the casino. Since 2010, when the Board's regulations were amended to the present three tier approach, this category of

vendors consist of approximately 80% of all vendors doing business with casino operators.

Registration is for businesses that will perform or provide less than \$500,000 but more than \$100,000 in goods or services in a 12-month period and the business does undergo a background investigation.

Certification involves businesses that will perform or provide greater than \$500,000 in goods or services in a 12-month period and the business does undergo a detailed background investigation.

As the amount transacted between the casino and the vendor increase or access to restricted areas or the casino floor for a vendor's employment is necessary, the level of licensure and investigation by the Board also increase. The Board monitors and investigates vendors because such entities have a financial relationship with casinos, and at times, their employees need access to secure information or areas of a casino's operations. It is important to ensure that casino funds are being spent for represented purposes with properly vetted entities that are suitable to receive such funds. Likewise, it is also important to do background checks on employees of vendors who, for instance, work in a casino count room to repair equipment, or issue cash advances to a patron utilizing a customer's credit card.

Shortly after the Board implemented its current approach to regulating gaming service providers, the General Assembly seemed to validate our approach by adding a section to the Gaming Act regarding gaming service providers that largely mirrors the framework of what the Board had already put in place. However, the Board does appreciate the importance of reviewing this area of regulation and will review our current processes to see if additional changes to our current structure merit consideration.

Potential New Sources of Revenue

Some of the sources for potential new revenue outlined by Econsult are well known, while others are quite novel “gaming” concepts.

Internet gaming is obviously at the forefront of Econsult’s items for consideration, and would appear to be the option with the most potential for creating additional revenue for the Commonwealth. However, I want to stress “potential” because there is no track record or hard revenue data available relative to the United States from a historical perspective. It was only in 2011 that the Department of Justice issued a letter opinion that the Wire Act applied only to sports betting and thereby opened the door for intra-state Internet gaming. Since that time, three states (Delaware, Nevada and New Jersey) have authorized Internet gaming with New Jersey being the largest.

Should the General Assembly and the Administration decide to authorize Internet gaming, the Board suggests that its operation should be limited to the existing licensees and that the Board be vested with the regulatory responsibility. We would recommend that the statutory framework be expansive in the sense that technology is ever changing so the Board should have the ability to fill in that framework with regulations -- specifically, through temporary regulation powers. Internet gaming presents unique regulatory challenges relative to location of the patron, the age of the patron and the potential for abuse by a patron.

Again, if you consider Internet gaming, I would urge caution in developing revenue estimates and would look to the experiences thus far of New Jersey for an example. New Jersey’s initial estimates were very

aggressive, have been significantly lowered and to date, actual revenue may cause further lowering of the revenue expectations. As a courtesy, we have provided a chart outlining New Jersey’s Internet gaming revenue and tax collection for your information.

New Jersey Internet Gaming	Internet Gaming Revenue	Internet Gaming Taxes Paid
2013		
November	\$980,323	\$147,048
December	\$7,391,163	\$1,108,700
2014		
January	\$9,467,344	\$1,420,102
February	\$10,318,743	\$1,547,811
March	\$11,864,650	\$1,779,697
April	\$11,492,056	\$1,723,810
Grand Total	\$51,514,279	\$7,727,168

In addition, offering Internet gaming is not something that can happen overnight. The development of regulations, vetting applicants and assuring the integrity of the systems required over 9 months for New Jersey, and their regulators have acknowledged that the rollout may have gone smoother if they had more time to prepare. I can assure you that the Board would work diligently on this but we should not sacrifice protection of the public and the casinos for speed. Therefore, we would request an effective date of one year to implement Internet gaming should the General Assembly and the Administration decide to authorize it.

Econsult’s second potential option for new revenue is sports betting. It is difficult for me to provide any insight other than a historical overview and where the issue stands now. Federal law currently prohibits sports betting in

all but 4 states, Nevada, Oregon, Montana and Delaware. New Jersey has challenged the federal statute, lost the initial court ruling, lost on appeal to the Circuit Court and is now seeking to have the issue heard by the United States Supreme Court. The only ways for Pennsylvania to consider sports betting would be if New Jersey wins its challenge of the federal statute or by an Act of Congress. At this point, it appears quite uncertain that either event will occur anytime in the near future.

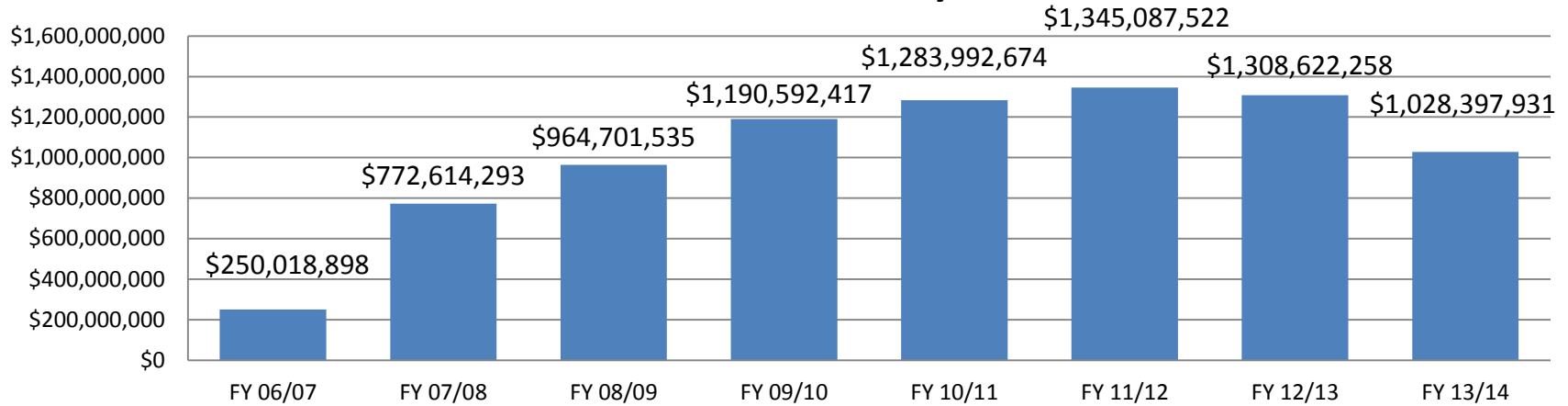
Another new revenue option discussed by Econsult, fantasy sports betting, is interesting. However, New Jersey currently allows casinos the option of offering fantasy sports betting as a promotional tournament and, to date, no casino has utilized that option. I would also note that while Econsult provides this as a potential source of revenue it recommends that no taxes, at least initially, be imposed.

In closing, please find attached to my testimony a chart outlining the local economic impact of casinos pursuant to the Committee's request, as well as charts outlining both gross gaming revenue and gaming tax revenue in Pennsylvania on a fiscal year basis.

At this time Kevin and I are available to answer any questions that you may have.

PENNSYLVANIA CASINOS ECONOMIC IMPACT	2013 Casino Local Spend*		Local Share CY 2013		Employment**	
	Casino	Statewide	Local	Slots	Tables	Total Employees
Parx Casino	\$75,392,926	\$73,386,389	\$20,705,595	\$2,384,884	1,840	82.50%
The Meadows Racetrack and Casino	\$51,063,102	\$42,235,546	\$12,841,081	\$691,042	1,325	91.85%
Lady Luck Casino Resort	\$41,022,763	\$1,408,719	\$457,250	\$47,908	368	94.29%
Sands Casino Resort Bethlehem	\$31,276,499	\$21,546,489	\$15,915,025	\$2,531,555	2,227	89.09%
The Rivers Casino Pittsburgh	\$26,683,408	\$25,548,211	\$15,674,325	\$1,354,046	1,825	95.95%
Mohegan Sun at Pocono Downs	\$28,698,152	\$14,328,587	\$12,013,942	\$875,298	2,003	99.45%
Valley Forge Casino Resort	\$24,473,393	\$18,831,292	\$3,366,549	\$660,925	1,078	87.48%
Harrah's Philadelphia Casino and Racetrack	\$20,634,033	\$12,945,152	\$13,444,061	\$1,545,712	1,609	76.38%
Mt. Airy Casino Resort	\$18,246,503	\$9,898,706	\$7,680,027	\$810,468	1,153	93.58%
SugarHouse Casino	\$16,644,731	\$16,158,264	\$10,079,361	\$1,695,958	1,091	70.67%
Hollywood Casino at Penn National	\$14,432,442	\$7,099,295	\$13,071,560	\$728,543	1,124	97.43%
Presque Isle Downs and Casino	\$10,156,070	\$8,167,468	\$7,316,195	\$270,270	855	97.43%
Total	\$358,724,022	\$251,554,118	\$132,564,971	\$13,596,609	16,498	89.58%
<p>*As reported by Casino to the Pennsylvania Gaming Control Board (Local is the casinos host county and contiguous counties)</p> <p>**Based on 1st Quarter 2014 Statement of Conditions Reports</p>						

Slot Machine Tax Revenue by Fiscal Year



Gaming Tax Revenue by Calendar Year

