

Testimony provided by:

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Community, Economic & Recreational Development Committee, Senate of Pennsylvania

Good morning Chairwoman Ward, Chairman Fontana and members of the committee. I'm Bob Pickus, and I'm before you today as Chairman of the Board of Valley Forge Casino Resort. Prior to joining Valley Forge, I spent over 26 years with Trump Entertainment Resorts, the owner and operator of all Trump branded casinos, and held the positions of General Counsel and Chief Administrative Officer prior to leaving. I also currently serve as the CEO of GCA Leisure, a company providing advisory services in the entertainment and gaming industries and I serve on the Advisory Board of the Levenson Institute for Hospitality, Gaming and Tourism at Stockton College in New Jersey. With me today is Michael Bowman, CEO of Valley Forge Casino Resort.

I'm here today to provide the views of Valley Forge for potential growth in the casino gaming industry and on protecting the economic viability of the Pennsylvania gaming industry going forward. Specifically, my comments will focus on the potential for online gaming in Pennsylvania.

While there are questions by some about online gaming, one conclusion is certain: Authorizing online gaming would generate new tax revenue and cause new capital investment and job creation in Pennsylvania.

That is new tax revenue and job creation that otherwise simply would not exist. Further, doing so early would also place the Commonwealth at an advantage to benefit as state-to-state compacts begin to grow and offer even more revenue and tax benefits for Pennsylvania. The early adopters, as has already been seen to some degree in Nevada and New Jersey, will be the locations where the larger online gaming companies and brands will first establish themselves, investing in infrastructure and creation of jobs. Later adopters will certainly benefit also, but not to the same level as first movers. Since marketing and branding significantly drive online gaming, the first movers will be the force behind future expansion. Also, as more states move to legalize online gaming and enter into compacts with each other, those first adopters will be at the center of the action.

Pennsylvania's timing for introducing land-based gaming was ideal, as it established itself before the recent surge in the expansion of gaming in the Mid-Atlantic, Northeast and Midwest. Ohio,

Maryland, New York and others have tried to replicate the success of Pennsylvania's land-based casino. Pennsylvania is now presented with a second opportunity to be at the forefront of gaming by taking a leadership role with the expansion into online gaming.

With respect to state-to-state compacts relating to online gaming, it is important that the various states have regulatory structures that are similar. In this manner, the conduct of online gaming in one state by operators located in and licensed by another state can be consistent, offering both regulators and the gaming public the comfort of those similarities.

Looking at the potential revenues for the Commonwealth from online gaming, I'm sure we're all now familiar with some of the projections, including those recently done by Econsult for the Legislative Budget and Finance Committee. Those projections seem very reasonable to us based on the actual experience in New Jersey. In the first five full months of operation, online gaming in New Jersey generated almost \$50 million in revenue, putting it on track to reach \$120 million in during the first full year of operations. As payment processing issues are addressed through bank and customer education, we expect to see strong growth in the NJ market. With a population almost 50 percent greater than New Jersey, Pennsylvania can be expected to generate \$180 million in its first year of online gaming. Like any business, online gaming would then ramp up quickly from a starting model to a more mature one. At that point, it's reasonable to conclude Pennsylvania casinos will achieve more than \$300 million in annualized revenue from online gaming.

In order to help ensure the economic growth and viability of the gaming industry in the Commonwealth, the conduct of online gaming should be limited to those casinos operating brick and mortar facilities in the State. Such structure gives both regulators and the gaming public the comfort of knowing that the online operation is known to the state and that certain levels of security and comfort are present. That model has wisely been adopted in the three states currently permitting online gaming. In NJ, this model has created a thriving, competitive market by enabling five multiple skins per casino location.

The evaluation of appropriate tax rates must coincide with certain fiscal factors. While online gaming does not require the initial capital of land-based casinos, the operating expenses associated with online gaming are still significant. A large portion of revenue, up to 50 percent, is typically used for online gaming marketing and customer reinvestment. Not spending the necessary marketing and customer reinvestment dollars will prohibit Pennsylvania-based online gaming operators from

effectively competing with illegal, no tax operations, thus reducing revenue projections. Accordingly, we believe that a tax rate more than 15 percent of revenue would make it difficult for online operators here in the Commonwealth to perform economically.

Finally, I would like to quickly address a few important points:

- Studies have shown that the markets for online gaming and land-based gaming are different. As a result, the cannibalization of land-based casino revenue by online operators is not likely. In fact, those studies, as mentioned in the Econsult Report, further suggest that the exact opposite may be true: Online gaming leads to increased demand for the land-based casino experience.
- Online gaming provided in a strictly regulated environment with reasonable tax rates shrinks the demand for unregulated black market operations.
- Online gaming provides law enforcement and regulators with important tools for the identification of fraudulent and criminal activity.
- Adequate safeguards exist in online operations to prevent underage play and promote responsible gaming.

In closing, I want to thank the chairs and members of the committee for the opportunity to present our views on online gaming. I hope our thoughts are helpful and we would be happy to answer any questions you may have.

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