



**TESTIMONY BY ERIC SCHIPPERS, SR. VICE PRESIDENT OF PUBLIC AFFAIRS AND
GOVERNMENT RELATIONS FOR PENN NATIONAL GAMING BEFORE THE SENATE
COMMUNITY, ECONOMIC & RECREATIONAL DEVELOPMENT COMMITTEE
June 10, 2015**

Good morning Chairwoman Ward, Chairman Wiley and members of the Senate Community, Economic & Recreational Development Committee. My name is Eric Schippers and I am the Sr. Vice President for Public Affairs for Penn National Gaming. We are a proud Pennsylvania company that went public in 1994 on the strength of nearby Penn National Race Course and its off track wagering facilities alone. Today, we've grown to become the nation's largest publicly traded regional gaming operator with 27 facilities in 18 jurisdictions across North America. Importantly, despite our growth, we have never forgotten our roots and remain headquartered an hour east of here in the small Borough of Wyomissing.

Between Hollywood Casino at Penn National Race Course and our Corporate Headquarters, we have over 1,400 Pennsylvania-based employees, representing over \$83 million annually in payroll. Last year, we contributed more than \$2 million to local community and charitable organizations. And, since 2008, we've generated over \$1.75 billion in gaming revenue for the Commonwealth and over \$965 million in gaming taxes. Finally, Penn National continues to be a strong supporter of our state's horse racing industry. On May 30, Hollywood Casino at Penn National Race Course was proud to host the Grade 3, \$500,000 Penn Mile race for 3-year-old thoroughbreds. Our race card that night set a record for combined handle of nearly \$4 million.

This past February, we were pleased to join together with our fellow casino operators to discuss what consensus items we might be able to agree upon to help Pennsylvania's gaming industry compete in what has become a regional gaming arms race. We applaud this Committee for recognizing our partnership with the Commonwealth and for allowing us an opportunity to talk about how we might preserve the important tax revenues our industry generates and remain strong in the face of ever increasing competition from casinos located in bordering states and the greater Mid-Atlantic region.

In our March 17, 2015 letter to this Committee, the six Category 1 casinos and four Category 2 casinos took a joint position against several potential threats to the continued health of Pennsylvania's gaming industry. We also requested the consideration of several initiatives designed to enhance and maintain our industry's competitiveness. I will briefly address these topics, including some of the issues addressed in the letter, as well as some new issues that are before this Committee.

Threats to the Industry

Video Gaming Terminals (VGTs): We urge the General Assembly to firmly reject any expansion of casino-like gaming that is not done through the Commonwealth's existing casinos, which have invested hundreds of millions of dollars in our establishments and employ thousands of workers. Changing the rules in the middle of the game by authorizing mini-casinos on virtually every street corner throughout the state will result in the cannibalization of existing gaming revenue and weaken the financial condition of the Commonwealth's casinos. In addition, such an initiative will discourage existing casinos from making future capital investments in their facilities.

Initiatives to Maintain and Enhance Competitiveness

Multiple Slot Machine License Prohibition: To enhance operational efficiency, we request that Section 1330 of the Gaming Act either be amended to increase the multiple license ownership threshold from one and a third (1 $\frac{1}{3}$) to two (2) licenses or eliminated in its entirety. If the restriction were to be eliminated, we note that the Pennsylvania Gaming Control Board would continue to maintain the ability to enforce an "undue economic concentration" rule pursuant to Section 1102(5) of the Gaming Act and Section 421a.5 of the Board's Regulations.

Tax Credits: With respect to state sponsored economic development incentives, we respectfully submit that Pennsylvania's gaming industry should be treated in the same fashion as any other business in the state. More specifically, the General Assembly should consider the authorization of reinvestment tax credits and/or other incentives that are designed to: (i) encourage casino operators to update and invest in their facilities and equipment, and (ii) attract and retain gaming patrons -- particularly out-of-state gaming patrons -- to Pennsylvania casinos. For example, in West Virginia, casinos benefit from something known as the "Modernization Fund," which allows them to receive one dollar back from the state for every two dollars they spend on refreshing their slot floors with new games, up to a maximum of \$3 million annually. Also, in Ohio, their Legislature has been presented with a proposal that would provide a dollar for dollar match of qualified out-of-state advertising expenditures that help drive tourism. We respectfully suggest that Pennsylvania consider similar programs.

Regulatory Complexity and Cost: Pennsylvania's casinos are regulated by four (4) separate agencies (PGCB, Department of Revenue, State Police and Attorney General). For racinos, the list of agencies increases to five (5) if either the Horse or Harness Racing Commissions are included. As such, it is no surprise that Pennsylvania's rate of coverage by regulators is close to being the highest in the nation. While such level of oversight may have been appropriate when the Commonwealth's gaming industry was new and growing, we respectfully submit that is no longer the case. We therefore urge the General Assembly to enact legislation designed to: (i) eliminate redundancy and increase efficiency among and within the various agencies, and (ii) ease some of the strict regulatory requirements, thereby reducing the regulatory cost burden carried by Pennsylvania's casinos. Initiatives that we would respectfully ask this Committee to consider include -- but should not be limited to -- lengthening the license renewal period for Slot Machine Licensees from 3 to 5 years, and broadening the scope of duties for State Police personnel already assigned to

casino facilities, including, for example, incidents that occur in our parking lots and/or other areas on our property.

Underage Sanctions: The General Assembly should consider implementing serious sanctions designed to deter underage persons from gambling at Pennsylvania's casinos. New Jersey, for example, imposes fines and suspends for six (6) months the driver's license of any underage person caught gambling in Atlantic City (and elsewhere), and this has proven to be a real deterrent.

Revenue Expansion Opportunities

I-Gaming: Penn National firmly believes that I-Gaming is a vital tool to enable Pennsylvania's gaming industry to continue to evolve and protect what has been built here. We estimate that if the Commonwealth's existing brick and mortar casinos were permitted to conduct online gaming, the operations could ramp up relatively quickly and begin generating approximately \$250 million in total revenue in year one; approximately \$300 million in year two; and approximately \$350 million in year three and beyond. Thus, at the 14 percent tax rate and \$5 million license fee currently being considered in House Bill 649, which we fully support, Pennsylvania would be on track to receive as much as \$60 million in upfront license fees and approximately \$49 million in annual tax revenues by the third full year of full operations. These estimates are similar to the forecast supplied by Econsult Solutions, which predicted \$307 million in total revenue per year from I-Gaming. Importantly, these estimates assume that any I-Gaming legislation will not include unnecessary and over-burdensome in-person sign up requirements, which will do nothing more than depress potential revenue. We note that in New Jersey, where these types of artificial "restrictor plates" do not exist, I-Gaming revenue has been on the upswing for several months, with revenue in April climbing 11% over the same time last year.

Critically, before I move off the subject of I-Gaming, I want to address head-on two important misconceptions about the I-Gaming space that appear to be motivating the inclusion of "restrictor-plates" into the debate.

First, the implementation of I-Gaming in Pennsylvania will ***not*** cannibalize bricks-and-mortar casinos in our state. In fact, the opposite is true. New Jersey casinos with I-Gaming platforms report that 75% to 85% of their on-line players are new to them or were long lapsed customers. So rather than cannibalization, I-Gaming has instead attracted new patrons to New Jersey casinos.

Second, because of the significant technology and marketing expenses that a casino must incur to operate an I-Gaming platform, a lower tax rate will ***not*** result in Pennsylvania casinos steering patrons away from their bricks and mortar facilities to an on-line gaming site. In fact, when these significant expenses are taken into account, the cost of running an I-Gaming site is more or less comparable to what it costs a Pennsylvania casino to operate a bricks and mortar facility, even after calculating in the higher tax rate.

In short, I-Gaming attracts *new patrons* and generates *new revenue* that the Commonwealth and its casino partners should be eager to attract.

Fantasy Sports: We believe that Fantasy Sports offers yet another avenue for Pennsylvania's gaming industry to continue to grow and evolve. Penn National is supportive of the Commonwealth implementing an appropriate regulatory framework that would restrict the operation of fantasy sports tournaments to existing casino operators only.

Slots at Off Track Wagering and/or Ancillary Locations: We understand that the Senate may be interested in authorizing Category 1 and Category 2 Slot Machine Licensees to place a limited number of slot machines at off track wagering and/or other ancillary locations in order to supplement the existing casinos' business model and access currently underserved areas of the Commonwealth. The location of these limited gaming facilities would be subject to various mileage and geographic restrictions that currently exist in the Gaming Act. Subject to our review of authorizing legislation (which is not yet available), Penn National is cautiously supportive of this initiative.

In concluding my testimony today, I note that over the last nine years Pennsylvania's gaming industry has delivered and the Commonwealth has enjoyed an impressive track record of billions in tax revenue, billions in facility investment and associated economic development spin off, and thousands of jobs. The advent of intense competition in every direction, however, necessitates that the Commonwealth and the industry do things differently and more efficiently if this success is to continue.

Thank you for your attention and consideration of my testimony this morning. Penn National's I-Gaming expert Chris Sheffield, our Hollywood Casino General Manager Bill Hayles, and I will be happy to answer any of your questions.