



Paul Goldean:

Thank you Chairman Killion and Chairwoman Williams for allowing us to address the committee on behalf of Pennsylvania Skill, Miele Manufacturing and Pace-O-Matic.

My name is Paul Goldean and I serve as the Chief Administrative Officer for Pace-O-Matic. Pace-O-Matic's software powers our Pennsylvania Skill games and we are the leading developer of skill game software in the nation. In addition to Pennsylvania, we are currently legally operating in multiple states and regulated in Virginia, Wyoming, Georgia and the District of Columbia.

I would also like to introduce the other individuals who will be speaking on our behalf today. I am joined by economist Dr. Peter Zaleski and Pennsylvania Skill's Director of Charitable Giving and an owner of Miele Manufacturing, Nicole Miele. Additionally, you have the written testimony of Frank Noonan. However, Mr. Noonan will be available for questions.

We are here testifying in opposition to Senate Bill 1256 as it would kill the skill game industry and dramatically put slot machines in every business across the Commonwealth. To be clear, and this is important, this is not a VGT *and* skill games bill... This bill only supports VGTs. This lumps VGTs and skill games together, calling them hybrid video gaming terminals and taxing them at the same rate. We cannot and do not compete with VGTs or the slot machines in casinos.

Before I address the underlying problems with this bill, I want to tell you a little bit more about our company. Pace-O-Matic prides itself on conducting business the right way and coming into a state through the front door. What does that mean? We will not place our games in a market without getting approval from a state agency, a court, law enforcement or some combination thereof.

Pennsylvania Skill games are legal and have been adjudicated by the Court of Common Pleas in Beaver County. A memo outlining our legal status is included in the packet of materials we have submitted to this committee. This case was not appealed by the Pennsylvania State Police, with the understanding that the Pennsylvania State Police would abide by the court's decision.

Additionally, almost a year ago, in another action we brought against the Commonwealth, the Commonwealth Court ruled that our games are not slot machines or regulated by the

Pennsylvania Gaming Control Board. When the legality of our games is challenged, we have won.

Earlier this year, the Pennsylvania Commonwealth Court reaffirmed the Beaver County Court of Common Pleas ruling, saying our games are presumptively legal. The final decision on upholding our game's legal status is currently in the Commonwealth Court. It is important to note that Pace-O-Matic is the entity that took action against the Commonwealth to uphold our legal status.

Since inception, Pennsylvania Skill games have had a positive impact on Pennsylvania communities... countless jobs have been created, small businesses have been saved, fraternal clubs, VFWs, American Legions and volunteer firefighter halls have gone from bankruptcy to thriving. With Covid-19, many of these locations are just trying to survive. Due to our Pennsylvania Skill games, they have a chance to return to normalcy. I know how important these groups are. As a former U.S. Army Ranger and combat veteran, I am specifically proud of how we help veterans' organizations.

Additionally, our amusement devices are manufactured right here in Pennsylvania, by Miele Manufacturing, based in Williamsport, and nearly all of the parts and materials are sourced from the United States... mostly from Pennsylvania, including, the wood cabinets, steel, wires and other related supplies. Miele Manufacturing has grown from about a dozen employees to well over 100. Miele Manufacturing, a Pennsylvania company, also produces most of the cabinets and terminals Pace-O-Matic deploys across the nation. We recently moved a major manufacturing project, of a new game cabinet, from China to Williamsport.

Contrary to what others have alleged, we have paid tens of millions of dollars in taxes. You will be hearing more regarding that from Dr. Zaleski.

Our Pennsylvania Skill operators have worked with locations and contracted with them to provide skill games and other entertainment equipment, like jukeboxes and pool tables. This bill, in its current form, would eliminate all those contracts, ban skill games, legalize VGTs and prioritize the interests of large, out-of-state companies over Pennsylvania small businesses and manufacturers. Approximately 90% of our game revenues go to small Pennsylvania businesses or are reinvested in the Pennsylvania economy. That money stays in the Commonwealth. Dr. Zaleski will expand on this point in a few minutes as well.

A far greater portion of the alleged revenue generated by VGTs will be pushed out of Pennsylvania.

Additionally, the empty promises of massive tax windfalls from VGTs have been talked about before and have never been realized. Their economic projections are not based on actual results tied to market experiences in the Commonwealth. Our economic projections, on the other hand, are based off of what we have already experienced in the market. We have economic modeling that accurately shows the path to taxing and regulating our market in a way

that supports thousands of Pennsylvania small businesses, while netting the Commonwealth hundreds of millions of dollars in tax revenues.

The other point I would like to address is the tax rate. Our games are not like a slot machine or a VGT. Our games do not rely on the utilization of random number generators and compensating algorithms to control the ultimate result of the game play. The play is slower and requires skill, much like a table game at a casino. Therefore, a tax rate that is closer to the current tax rate of table games at 16% makes sense for our games. A tax rate at a higher level will likely kill our industry and further harm the bars, restaurants, fraternal clubs and small businesses who are desperately trying to survive the economic fallout from the Covid-19 pandemic.

I want to be clear; we support legislative efforts to regulate our industry, allow us to provide additional tax revenue, at a fair rate, based on the revenue our games generate. We also welcome additional enforcement and penalties aimed at cleaning up the illegal games and bad actors.

As I mentioned earlier, in the interests of expediency and time, Frank Noonan, the former Commissioner of the Pennsylvania State Police, has submitted his remarks for the record. I would encourage you to read his testimony and our efforts to ensure compliance with laws and regulations and our contractual terms. We have hired an experienced group of former law enforcement officers, many from the Pennsylvania State Police with experience in illegal gambling, to help execute these efforts. We also have included testimony from Thomas Butler, former Director of the Bureau of Liquor Control and Enforcement, who details his experiences with the enforcement of illegal gaming devices. We also have included testimony from Del Guerrini, the President of Pennsylvania Amusement and Music Machine Association (PAAMA), who discusses the many ways our skill games have rejuvenated the coin-op industry and his customers.

Thank you. I would now like to introduce Dr. Peter Zaleski to discuss how our skill games, the lottery and the casino industry all coexist economically.



Dr. Peter Zaleski:

Thank you, Paul. Good Morning Chairman and members of the Committee. My name is Peter Zaleski. I am a professor of Economics at Villanova University where I have served on the faculty since 1987. Since the 1990s, I have undertaken numerous economic and statistical analyses. Pace-O-Matic has contracted with Meadows Metrics, an analytics consulting firm, to perform an economic impact study. I serve as the lead consultant to Meadows Metrics on this project.

Using data provided by Pace-O-Matic and Miele Manufacturing, we have estimated the economic impact of PA Skill Games on the Pennsylvania economy. This impact includes income generated for Pennsylvania Skill amusement device operators, who live and work in Pennsylvania, and the income generated for owners of the establishments where these devices are located in Pennsylvania. In addition, this impact includes an indirect effect and an induced multiplier effect, a standard treatment in economic analysis which allows us to estimate the dollar value of the added benefits to the community -- examples of which are documented in a recent survey of locations by Harper Polling showing that 91% of respondents say Pennsylvania Skill Games have been beneficial to their business.

The indirect effect accounts for the additional income generated throughout the state as a result of these business owners needing to hire more employees or outsource more work to support their growing businesses. The induced effects measure the extra spending in the community all of those affected will undertake.

As Paul noted, Miele Manufacturing produces these amusement devices in Williamsport and utilizes numerous Pennsylvania suppliers. We have estimated the impact of Miele Manufacturing's manufacturing activities on the Pennsylvania economy. This impact includes an indirect effect as well as the induced multiplier effect. As you will agree, manufacturing is crucial to a healthy state economy. All of our assumptions are conservatively consistent with past economic impact studies of various industries throughout the state.

These activities provide the state of Pennsylvania with much needed jobs and much needed tax revenue. Our estimate for state tax revenue from skill games in 2021 is close to \$50 million, assuming the current Covid-19-related restrictions continue through next year, and up to \$80 million if the economy fully reopens. Beyond that, we estimate a steady-state tax annual revenue stream of over \$100 million.

We have taken seriously the Lottery Commission's concern about the impact of Skill Games on Lottery revenue. Our analyses suggest findings counter to what the Lottery contends. First, if the Commission's estimate that Skill Games result in a \$115 million decline in lottery sales is reliable, one has to note that, after expenses, revenue to the state declines by just \$32 million. But we have reason to doubt their estimate. First, while our request to have access to the data that the Lottery Commission used to make those estimates was not fulfilled, they did provide us with some summary statistics that show Skill Games and Lottery sales are actually positively correlated. Second, in an independent survey of Pennsylvania Lottery players performed by LHK Partners of Newtown Square, PA, the results revealed that of those lottery players whose lottery play was impacted by playing Skill Games, they were twice as likely to increase their lottery play than decrease their lottery play. And those who increased their lottery play were people who played the lottery more frequently, on average, than those who decreased their lottery play.

Third, we looked at annual lottery sales growth in Pennsylvania compared to a control group of New York, New Jersey, Delaware and Massachusetts, states where there are no Skill Games. In 2018 and 2019, as the presence of Skill Games grew to about 5,000 devices and then to over 15,000 devices, Pennsylvania lottery sales growth exceeded lottery sales growth in the control group states by an average annual rate of 2.2%.

Fourth, a look at FY2020 is telling as well. If we remove Powerball and Mega Millions from the analysis, games which saw large sales decline nationwide due to a lower jackpot reset in the face of the covid-19 shutdown, Pennsylvania lottery revenue increased 5.3%. The sale of scratch off tickets alone rose 10.3%.

August 2020 numbers continue the trend with year over year growth over 10%. In terms of growth, the Pennsylvania Lottery is one of the healthiest in the nation. Keno continues to disappoint but that is not because of Skill Games. Keno's share of lottery revenue in Pennsylvania is similar to that of Delaware. In New Jersey where the Keno-like Quick Draw game is growing, it appears to cannibalize the traditional games. That is not the case in Pennsylvania, where Keno's failure illustrates the need for the state to allow a diversification of several types of games to capture the growing interest.

We have looked at Skill Games and the Lottery four different ways, and the results are consistent: Skill Games complement the lottery. And the narrative that Skill Game players use some of their winnings to play the lottery is consistent with the data.

Finally, we have looked at the potential impact on casino revenue. If one considers the locations of Skill Game devices in bars, restaurants, convenience stores and fraternal lodges, the typical Skill Game player is not a casino patron. Going to a casino is a different type of experience, one that Skill Games cannot replicate. The data bear this out.

Pennsylvania casino revenue over time follows a classic industry life cycle curve with expansive growth immediately, 20-plus percent growth in the initial years, and then a flattening. From its peak in FY2012 to FY2015, slot revenue fell by a total of 6%. The Pennsylvania Skill Game was introduced in 2015. From FY2015 to FY2019, slot revenue grew a total of 2%.

Our conclusion is that both markets are benefitting from an increase in demand for all types of games that involve the possibility of winning money. Skill games do not cannibalize casino revenue; rather, they offer additional opportunities for such activities especially for people not inclined to go to the casinos.

In sum, we conclude that PA Skill Games provide jobs and tax revenue to the state without injuring casinos and actually benefitting the lottery.

I would now like to introduce Nicole Miele to discuss more about Miele Manufacturing and their charitable donation program.



Nicole Miele:

Thank you, Dr. Zeleski. Chairman, and members of the committee, thank you for the opportunity to talk about the work we are doing through the Pennsylvania Skill Charitable Giving Program.

I know your focus may be on the enforcement of skill games or the potential tax revenue, both of which are critical, but Pennsylvania Skill's charitable giving is also important to note here today.

We began our charitable giving program in the fall of 2018 because we wanted a way to give back to Pennsylvania and because we could see all the need in communities dotting the state. Just to give you a sense, from fall 2018 to the end of 2019, we gave out over \$700,000 to charities across the commonwealth.

The organizations we donate to have been a very diverse group. They include volunteer fire companies, EMS, police, animal shelters, Salvation Armies, children's hospitals, drug and alcohol programs, schools, veterans' groups, senior citizens organizations, victim services and food banks. The goal of our program has always been to give back on the local level and do what we can to make life better for all Pennsylvanians.

The thank yous we receive tell us that we are making a difference. I can't tell you how good we all feel when we receive a note about our donations from a fire company able to now do water rescues, or the parents of a child with a life-threatening illness who is able to go on a wonderful trip through the Make a Wish Program or a shelter able to help a family in need.

We also work with our Pennsylvania amusement operators on a matching program, encouraging them to also give back to the communities where they live and work. In other cases, we support our skill game locations when they want to fund a local worthy cause. For example, this month we are joining one of our operators in providing funds to a VFW in Montgomery County that was flooded during recent storms.

Pennsylvania Skill decided that it would be a great goal in 2020 to give away \$1 million. And when the state was hit with the pandemic, with most of our skill games and revenues being shut down because our locations were being closed, we didn't choose to tighten our

belts because of uncertainty. Instead we said “How can we help?” and we put \$250,000 in the hands of Feeding PA, which provides funding to the 9 food banks in Pennsylvania. We were able to help the many adults who had been furloughed and the many students who weren’t able to get a breakfast and hot meal at school.

This helped us realize that food insecurity is a serious matter in Pennsylvania and something we want to especially focus our charitable efforts on.

We launched a program called “Take Out On PA Skill” and have held several meal giveaways across the state. This had two great outcomes. First, we handed out meals to seniors and families who have been impacted by COVID-19. Second, we were able to help our struggling restaurant and social club locations that have been hit hard by the pandemic. Since June we have handed out over 2000 meals.

Along with all we donate from Pennsylvania Skill, as mentioned, there are hundreds of thousands of dollars that Pennsylvania Amusement Operators give away where they live, and add to that all the monies that our fraternal clubs, VFWs and American Legions give back to their communities. Some organizations tell us that without skill games they would not be able to offer the college scholarships, Christmas toy donations or veterans programs that they now can.

I want to end by talking for a moment about another issue related to skill games. The industry is helping to create more manufacturing jobs in the state. As Paul mentioned, I am an owner of Miele Manufacturing in Lycoming County where we make all of the skill games. Miele is a third-generation family business. We have been able to expand to about 100 employees, and purchase a larger business space, because of legal skill games.

This translates into more businesses for the other Pennsylvania companies that provide materials to us to make skill games. Truly the story of skill games in the state is a story about creating jobs and helping organizations wanting to do good.

Pennsylvania Skill is Pennsylvania Proud. Thank you for your time today.