



**Testimony Before the Senate Community, Economic and Recreational Development Committee
Drew Svitko, Executive Director
Pennsylvania Lottery
Tuesday, October 6, 2020**

Chairman Killion, Chairwoman Williams, and members of the committee, thank you for the opportunity to provide testimony on Senate Bill 1256, proposed legislation that would legalize so-called “Games of Skill” while also drastically expanding video gaming terminals, otherwise known as VGTs, in bars, taverns, social clubs and other establishments throughout Pennsylvania. I’d like to start my testimony by saying that we are opposed to this proposed legislation due to the extreme negative impact that Games of Skill currently have on the Pennsylvania Lottery, and the potential for even greater harm if this bill were to become law. As of today, the Lottery estimates that these machines, which have been operating illegally in the commonwealth for years, are located in nearly 28 percent of the Lottery’s network of more than 9,600 retailers. Each day these machines are taking in money that would otherwise be directed to Pennsylvania Lottery games. These are lost sales that could help generate funds for the critical senior programs and services that are funded by the Lottery. Instead, we are facing direct and effective competition from illegal gambling machines that have undercut the public purpose of state-sanctioned games available through the Lottery.

To understand the issue, we first have to consider what Games of Skill are and what they look like. At first glance, these machines may resemble Pennsylvania Lottery machines and give the impression they are sanctioned by the commonwealth, but neither is the case. Rather, they are video gambling machines that use various reel spins and graphical themes to interact with the user. Put simply, the machines are unsanctioned slot machines that have been operating in violation of Pennsylvania law, according to the Pennsylvania State Police. And though the Lottery recognizes that the legislation being considered by this committee seeks to legalize these machines so that the commonwealth may benefit from increased gaming revenue, approving this legislative proposal would undoubtedly give greater strength to a significant threat the Lottery has faced for years. By extension, that would directly harm the older Pennsylvanians who annually benefit from the programs the Lottery funds. Approving this legislation would also reward the manufacturers of these machines who have been operating illegally for several years during a period of time when they have not paid any gaming taxes on their machines or licensing fees.

To further explain the impact of these machines, I’ll return to a point that I made earlier in my testimony. As of today, nearly one in three lottery retailers are offering at least one Games of Skill machine, and that number continues to grow each week. To this point, in the past year, the number of lottery retailers that operate Games of Skill machines has increased by more than 100 percent. To make the matter worse, these machines are often deliberately placed near our products, confusing players who may think they’re playing a Pennsylvania Lottery game. In reality, they’re playing an illegal Games of Skill machine without knowing the difference.

To provide further context, one must also consider that Games of Skill have made it difficult to recruit Pennsylvania Lottery retailers to offer the Lottery’s monitor games, which include Keno and Xpress

Sports. Retailers that operate Games of Skill 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 and crowded business environment. Our goal is to stay vigilant in launching new products that our players want so that we can continue to generate funds for vital senior programs. Games of Skill are undoubtedly proving to be a significant source of competition when it comes to ensuring these new products are successful.

The same concept also applies to the component of SB 1256 that seeks to authorize VGTs in additional establishments throughout Pennsylvania. Doing so will allow further gaming options and make it increasingly more difficult for the Lottery to fulfill its mission of responsibly generating profits for the programs that benefit older Pennsylvanians. Also, as I touched on above, offering VGTs in bars and similar establishments will make it very hard for the Lottery's sales representatives to convince our retailers they should offer Keno and Xpress Sports, the games the Lottery is attempting to grow to ensure a diversified business portfolio. Put simply, approving this legislation would undercut the very intent that members of the General Assembly had in 2017 when they significantly increased gaming options available in the commonwealth with the passage of Act 42 of 2017.

I would also like to reintroduce a point that I've made in prior testimony before both chambers of the General Assembly. The reality is that no one has yet had the opportunity to fully study the impact of the gaming expansion that was authorized by Act 42 of 2017. This legislation created many new gaming options that are available to consumers throughout Pennsylvania, and many of those options are still being rolled out as I provide testimony to members of the committee today. This means that we do not have a full understanding of how the additional gaming options that are available will affect the market in Pennsylvania. Before we have that knowledge in hand, it would be incredibly risky to authorize even more gaming that would be available to Pennsylvania consumers. It's very difficult to estimate just how much revenue additional gaming would generate for the commonwealth without considering whether we would be cannibalizing the options that are already available, including the games offered by the Pennsylvania Lottery.

Impact of Pennsylvania Lottery

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 \$31 billion to fund property tax and rent rebates, transportation, care services, prescription assistance, and local services including senior centers and meals. In the 2019-20 Fiscal Year, the Lottery generated more than \$1 billion to support older Pennsylvanians for the ninth consecutive year. Here are some other important facts to consider (data comes from the 2018-19 fiscal year, the most recent data available):

- The Lottery contributed more than \$283 million to Area Agencies on Aging in Pennsylvania. Among other services, these funds helped to provide 8.9 million meals served at senior centers and delivered to homes. Lottery funds helped to provide more than 24,400 meals for older Pennsylvanians, every day.

- More than \$162 million in Lottery funds provided for over 33.6 million free transit rides and 3.3 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 more than \$368.8 million for care services delivered to more than 38,000 residents. On average, the Lottery funded more than \$1 million in care services, every day.
- Lottery support for the prescription programs totaled more than \$139.4 million. Enrollees received more than 5.53 million prescriptions, and Lottery funding helped to fill nearly 15,200 prescriptions for older Pennsylvanians, every day.
- Lottery and slots revenue provided more than \$253.6 million in property tax and rent rebates to more than 531,900 households.

Please know that funding for these important programs and services are being threatened every day by illegal Games of Skill. We also know that there is the potential for hundreds of millions of dollars in future harm if these machines are legalized, as SB 1256 seeks to do, and Games of Skill remain a competitor to the Lottery in the retail environment. That's why we need to take action to protect the Lottery and prevent further damage to the funding stream for older Pennsylvanians.

We can do that by supporting proposed legislation, such as House Bill 931, proposed by Representative Ed Neilson, and Senate Bill 710, proposed by Senator Tommy Tomlinson. Both bills would address illegal Games of Skill and protect funding for senior programs. House Bill 931 strengthens the Crimes Code for law enforcement to confiscate illegal gambling devices and skill machines, while Senate Bill 710 further strengthens the existing law by making it a criminal offense for anyone to knowingly make, assemble, maintain, lease or sell Games of Skill. We feel strongly that Senator Tomlinson's and Representative Neilson's respective legislative proposals will crack down on these illegal machines and 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 Pennsylvania Lottery.