

COMMONWEALTH GAMING
TESTIMONY BEFORE THE SENATE COMMUNITY, ECONOMIC AND RECREATIONAL
DEVELOPMENT COMMITTEE

Chair Yudichak, Chair Cappelletti, members of the Committee:

Thank you for the chance to testify about the untenable situation faced by licensed and regulated operators of state-tax generating VGT's.

Previous witnesses have testified about the wide proliferation of so-called "skill games" that require no license, pay no tax, are under no regulation, and follow no rules. Conversely, the VGT industry in Pennsylvania operates in a highly regulated environment with significant scrutiny from the Gaming Control Board, paying a 52% tax rate on revenue.

The privilege of offering VGT comes with a massive ongoing responsibility to comply with the law. We're required to endure detailed background investigations and multiple on-premise inspections. We must prove sufficient diesel sales with bills of lading. We maintain required diversity plans, self-exclusion programs, provide 24/7 video surveillance of gaming areas, and connect our VGT's to a state-monitored accounting system. By statute, we pay truck stop establishments 15% of revenue.

Admittedly the rollout of legal VGT has been slow. Since legalized in 2017, the Gaming Control Board has approved only 230 VGT's for operation. Yet these 230 machines produced \$14.5MM in state tax revenue since inception. By contrast, the tens of thousands of illegal machines, despite their ubiquitous presence in convenience stores, gas stations, and restaurants across Pennsylvania, have produced zero state tax revenue.

Our competitors in the so-called "skill" industry operate with impunity, under no rules without any of the consumer protections fundamental to legal gaming across Pennsylvania. They have no limit to the number of machines, hours of operation, or age requirements. They can offer establishments far more than the 15% share regulated VGT's are allowed to offer under the law. Most egregiously, regulated VGT's shut down during COVID lockdowns only to see the illegal competition merrily continue on as if the global pandemic did not exist.

To say the least, this is an untenable competitive situation. It's as if my football team has to gain 10 yards in four downs, but the other team is allowed to choose their number of downs, ignore the refs, and gets 21 points for every touchdown.

Please allow me to share some real-world anecdotes representative of the marketplace today:

- A licensed VGT establishment wanted more than five VGTs and a bigger share of revenue than allowed by law. They unilaterally unplugged our five regulated VGT's and replaced them with seven illegal machines. The required surveillance, age limits, and

self-exclusion protections are gone. So far the establishment has faced no consequences from regulators or law enforcement.

- One truck stop chain decided to remove skill games and apply for a VGT license. Their skill game vendor is threatening to sue, claiming the skill game vendor has exclusive right to place electronic games in their stores. If true, this will completely block installation of taxed and regulated VGT's.
- Another truck stop chain recently surrendered their conditional VGT license and installed skill games. Obtaining a VGT license is a complex, multi-year project, while skill games require no licenses, approvals, or background checks and are often operational with a mere 24 hours' notice. Since no truck stop operators are facing legal action from skill games, they believe this might be the best business decision, particularly given the unfair competition from skill games.

The State of Pennsylvania receives a 52% tax from VGT and zero from skill games. Skill games provide no consumer protection and operate outside the law. As you can see, it's an impossible competitive situation for a regulated company like mine. Even worse, it's a massive lost opportunity to generate much-needed tax revenue for the people of Pennsylvania.

Our company, and our industry, urge the legislature to tax and regulate the gaming that already exists across the state and allow us all to compete on a level playing field.