



May 1, 2017

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Senate President Pro Tempore
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Harrisburg, PA 17120-3025

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Speaker of the House
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Senator Jay Costa
Minority Leader
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Representative Frank Dermody
Minority Leader
423 Main Capitol Building
PO Box 202033
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Dear Honorable Senators and Representatives:

On behalf of our respective casinos, we write to express our opposition to the introduction of video gaming terminals (“VGTs”) into bars, taverns, licensed restaurants and other locations in Pennsylvania. While we understand the Commonwealth is looking for revenues to deal with a deficit, the Legislature needs to carefully consider the negative economic impact such a move would have not only on state revenues, but also on existing casinos and the thousands of employees and the local communities they support.

Contrary to the assumptions promoted by some (primarily out-of-state) VGT advocates that their machines will cure the state’s financial ills, applying the data from Illinois’ VGT experiment to Pennsylvania-specific metrics reveals that the Commonwealth can actually expect **a substantial loss of net gaming tax revenue** from the authorization of VGTs. As such, introducing VGTs will not help the state’s budget deficit – **it will make the deficit worse.**

Under the current VGT proposal, in excess of 85,000 VGTs – more than triple the current number of slot machines at *all our casinos combined* – could find their way onto street corners all across the state. Even conservative estimates projected that the authorization of VGTs could mean the addition of 40,000 slot machines in communities throughout Pennsylvania, the

equivalent of adding 18 more casinos. These slot machines will do nothing more than rob Peter to pay Paul, cannibalizing the casinos and the taxes they generate, as well as leading to job loss.

In simplistic terms, it would mean the replacement of the 59% slot machine tax revenue currently produced at bricks-and-mortar casinos by VGTs producing revenue at a projected tax rate of only 39.5%. Apart from this significant loss of tax revenue to the Commonwealth, legalizing VGTs would also materially damage our existing casinos and employees (as it has done in Illinois). In addition, casinos will be unable to reinvest in their properties, negatively impacting economic development and local business vendors and harming the ability of Pennsylvania's casinos to remain competitive with casinos in surrounding states. Importantly, introducing VGTs would also mean substantial losses to the Pennsylvania Lottery and the senior citizens who rely upon the services it provides.

Underlying the aggressive pro-VGT lobby is the empty promise of providing the additional gaming revenues contemplated in the 2016-17 and 2017-18 budgets. Again, we recognize the Commonwealth's push to increase revenues, but strongly believe the increases budgeted can be accomplished through a number of initiatives that can enhance our mature, responsible and successful industry rather than doing it irreparable harm.

Certain key facts are worth highlighting:

- Gaming patrons will not be protected, as there will be reduced responsible gaming safeguards and less regulation in the VGT environment. Indeed, VGTs in bars and taverns have been described by a leading compulsive gambling expert as "possibly the worst model for legalized gambling in the country right now."¹ Additionally, given the more lax environment in bars and taverns, legislators should anticipate an increase in underage gaming.
- The 18,000 employees at our casinos, approximately 90% of which are Pennsylvanians and many of which are union members, will find their family-sustaining jobs put at risk as a direct result of the authorization of VGTs. In fact, the Innovation Group conservatively estimated job losses for nearly 14% of our employees – more than 2,500 employees would lose their jobs if VGT legislation is implemented.

¹ *Illinois Criticized for Approach to Problem Gambling*, www.lincolncourier.com (Keith Whyte, Executive Director of the National Council on Problem Gambling).

- Local companies and small businesses, which typically sell approximately \$230 million of goods and services to our casinos each year, will see a substantial loss of business.
- Senior citizens and homeowners will feel the pain of major reductions in gaming revenue that would otherwise have gone toward property tax relief and rent rebate programs.
- County and local governments will also feel the ripple effects from decreased gaming revenue, with the harm caused by VGTs expanding to first responders, economic development projects, human services programs, transportation and infrastructure improvements, and other beneficiaries of local share and economic development and tourism dollars.
- And, of course, the Commonwealth, as the 59% stakeholder in our revenues, will suffer the greatest negative effect from the substantial decline in bricks-and-mortar gaming revenues that would be caused by VGTs.

As noted above, in addition to these harms, Pennsylvania's Lottery and all of the programs for senior citizens that it supports will be in jeopardy as a result of VGTs. Just last June, Governor Wolf's administration produced a study that conservatively projected VGT legalization to cause a \$2.3 billion drop in lottery sales over the course of a decade, costing the Commonwealth nearly \$600 million in profits supporting programs for older Pennsylvanians. It is no surprise, given such harm to our seniors, that the Pennsylvania Association of Area Agencies on Aging came out strongly against the introduction of VGTs last session.

Many who advocate for the legalization of VGTs (primarily out-of-state companies that have made no investment in Pennsylvania, employ none of our citizens and are looking to make a quick buck on the state) like to cite to the experience in Illinois as an example of what Pennsylvania can expect. As alluded above, a careful review of the Illinois experience shows that it does not bode well for the Commonwealth.

As documented in *Wagering in Illinois 2016 Update*, issued by the Illinois Commission on Government Forecasting and Accountability, casino revenues in that state have now declined in four (4) consecutive years. Meanwhile, the lottery's "poor performance" in FY 2016 prevented it from transferring any funds to the state's Capital Projects Fund – a decrease of \$145 million since 2014.

Moreover, the differences between Illinois and Pennsylvania, both in terms of the number and placement of bars and taverns and the number, nature and location of slot machines and casinos in the state, indicates that the negative ramifications from VGTs in Pennsylvania will be far more

severe. Pennsylvania has more slot machines than Illinois did at the advent of VGTs, with the machines geographically distributed more evenly across the state, and in facilities that represent a more complete entertainment experience. These factors, combined with the number of liquor licensees and their proximity to licensed casinos, indicate that the loss of casino gaming revenue to be expected in Pennsylvania will be even higher than that experienced in Illinois.

As a result, revenue generated by VGT's at the levels seen in Illinois would be nowhere near enough to offset the loss of casino tax revenue for Pennsylvania. The crucial fact is that the Commonwealth will give up nearly 60 cents on each lost slot machine dollar to gain only 39.5 cents of each VGT dollar. In addition to the loss of revenue from the lower VGT tax rate, any revenues received from VGTs would need to make up for the tax revenue the state will lose from the decrease in the slot machine tax proposed in the latest VGT bill.

In addition, the state must take into account the fact that, with all of the new and unexpected cannibalization that VGTs would represent, future capital investment in the industry would be severely curtailed, costing the state potential license fees, tax revenue, hundreds of millions of dollars in direct and indirect construction expenditures, and thousands of permanent and construction jobs.

Considering these factors and extrapolating actual data from Illinois to Pennsylvania's market results in an ***eight to nine figure net tax revenue loss to the Commonwealth***. Far from generating hundreds of millions of dollars for the state as pro-VGT sources have claimed, the Commonwealth will lose significant amounts of net tax revenue – and that is before you consider the losses to the lottery (as much as \$250 million in sales/year) and the loss of substantial revenue if proposed new projects are cutback or abandoned.

We respectfully submit that pursuing VGTs would be a bad bet for all stakeholders in the Commonwealth. Pennsylvania's carefully crafted approach to gaming is widely credited with catapulting the Commonwealth into its status as the jurisdiction with the highest gaming tax revenue and the second highest gross gaming revenue in the nation. The introduction of VGTs will strike at the very foundation of Pennsylvania's success in gaming, will cripple property tax relief for its citizens, and will eliminate jobs and many other benefits for the state, our local communities and all Pennsylvanians. We remain committed to working with the Commonwealth on its immediate and longer-term financial health, but VGTs are not the answer for Pennsylvania.

President Pro Tempore Joseph Scarnati III
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Thank you for your consideration of our unified position.

Anthony Carlucci
President
Mohegan Sun Pocono

Chris Albrecht
VP & General Manager
Harrah's Philadelphia Casino and Racetrack

Rod Centers
VP & General Manager
Pinnacle Entertainment

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Copies to:

Governor Tom Wolf
Mike Brunelle, Chief of Staff to the Governor
Will Danowski, Secretary of Legislative Affairs
Senator Jake Corman, Majority Leader
Senator Patrick Browne, Majority Chair, Appropriations Committee
Senator Vincent Hughes, Minority Chair, Appropriations Committee
Senator Mario M. Scavello, Majority Chair, CERD Committee
Senator Larry Farnese, Minority Chair, CERD Committee
Representative Dave Reed, Majority Leader
Representative Stan Saylor, Majority Chair, Appropriations Committee
Representative Joseph Markosek, Minority Chair, Appropriations Committee
Representative Scott Petri, Majority Chair, Gaming Oversight Committee
Representative Patrick Harkins, Minority Chair, Gaming Oversight Committee
All Members of the Pennsylvania State Senate
All Members of the Pennsylvania House or Representatives