

HOUSE OF REPRESENTATIVES  
COMMONWEALTH OF PENNSYLVANIA

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House Bill 295

Act Providing for State-wide Gaming Referendum

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House Judiciary Committee

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Room 140, Majority Caucus Room  
Main Capitol Building  
Harrisburg, Pennsylvania

Wednesday, May 28, 1997 - 10:00 a.m.

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BEFORE:

- Honorable Thomas Gannon, Majority Chairman
- Honorable J. Scot Chadwick
- Honorable Craig Dally
- Honorable Brett Feese
- Honorable Stephen Maitland
- Honorable Al Masland
- Honorable George Kenney
- Honorable Robert Reber
- Honorable Chris Wogan
- Honorable Thomas Caltagirone, Minority Chairman
- Honorable Andrew Carn
- Honorable Peter Daley
- Honorable Frank Gigliotti
- Honorable Harold James
- Honorable Babette Josephs
- Honorable Kathy Manderino
- Honorable David Mayernik
- Honorable Don Walko

KEY REPORTERS (717) 764-7801

1997-115

1 ALSO PRESENT:

2 Heather Ruth  
Majority Legislative Assistant

3 David L. Krantz  
4 Minority Executive Director

5 Paul A. Carriamani  
Intern

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1                   CHAIRMAN GANNON: The House Judiciary  
2 Committee will come to order for public hearings on House  
3 Bill 295. Our first witness is Dr. Jacob DeRooy,  
4 Institute of State and Regional Affairs of the  
5 Pennsylvania State University at Harrisburg. How do you  
6 pronounce your last name?

7                   DR. DEROOY: DeRooy.

8                   CHAIRMAN GANNON: Thank you. You may  
9 proceed.

10                  DR. DEROOY: Ladies and gentlemen, good  
11 morning. The Institute of State and Regional Affairs  
12 located on the Harrisburg campus -- good morning again.  
13 The Institute of State and Regional Affairs which is an  
14 arm of the Pennsylvania State University at Harrisburg  
15 conducted an appraisal of the expected economic impact  
16 from introducing a new industry into the State of  
17 Pennsylvania. This new industry would be legalized  
18 riverboat gaming.

19                  A new industry generates added economic  
20 activity for the state in the following ways: First of  
21 all, it will increase the production of goods and  
22 services, in other words, business sales; secondly, it  
23 will generate new jobs. Third, these new jobs and  
24 business sales will generate increases in personal income;  
25 and then finally those increases in personal income and

1 sales activities would increase tax collections by the  
2 state and local governments.

3           The economic benefits which will come from the  
4 introduction of the new industry in Pennsylvania occur in  
5 two stages, the construction stage and the operation  
6 stage. During the construction stage Pennsylvania will  
7 receive new investment to construct the facilities of the  
8 industry, in other words, to create its capacity to serve  
9 patrons. There will be also increased business activity  
10 for in-state Pennsylvania businesses which act as  
11 suppliers to the new industry. Then there will be  
12 increased jobs and personal income, all of which will  
13 result in increased consumer spending in the state.

14           The economic benefits coming from introducing  
15 a new industry in the state such as riverboat gaming  
16 create what we call in academia a multiplier effect. If  
17 you think of a multiplier effect as similar or analogous  
18 to dropping a stone in the middle of a clear, calm pond,  
19 when you drop the stone into the pond, you get an  
20 immediate ripple around the point of impact. However, I'm  
21 sure you're well aware that following that immediate  
22 ripple there are other ripples spreading out from that  
23 point of impact. These ripples are a multiplier effect.

24           The multiplier effect in the construction --  
25 coming from the construction of a new industry takes three

1 basic forms which we can say are similar to the waves that  
2 surround the stone being put into the pond.

3           The first wave or impact from new industry  
4 comes as a result of that initial investment, that is, the  
5 construction of new facilities. That initial impact, of  
6 course, will create sales. The second impact, which we  
7 call the indirect impact, comes about as a result of  
8 existing business firms, not new business firms, but  
9 existing businesses in the state which are called upon to  
10 supply goods and services to the new industry. This  
11 secondary or indirect effect will create a somewhat lesser  
12 number of jobs and income.

13           But it's extremely important to look at the  
14 third ripple. Here I have to depart a little bit from my  
15 physical analogy because this third ripple is actually  
16 bigger than the second ripple. The third ripple is what  
17 we call the induced effect. The induced effect is created  
18 when the income received by the employees of the new  
19 industry plus the income received by the employees of the  
20 supplying firms, the Pennsylvania firms that supply the  
21 new industry, as this income receipt -- is received and is  
22 channeled to families and households within the state,  
23 that leads to an increase in consumer spending of the  
24 whole range of goods and services that consumers typically  
25 purchase. This induced effect is a very important part of

1 the total impact of the new industry.

2           Now, as I mentioned before, the economic  
3 impact comes primarily in two stages, the construction  
4 stage and the operation stage. Let me just take one  
5 minute to talk about the construction stage.

6           In the study which the Institute for State and  
7 Regional Affairs conducted, and by the way which is  
8 presented in this report that was distributed to your  
9 offices earlier, I believe last week, in the construction  
10 phase we're assuming that construction of new facilities  
11 would take place over a three-year period. During this  
12 three-year period we would see investments in floating  
13 dockside casinos, riverboat casinos, and to a lesser  
14 extent in new adjacent hotels. The total investment which  
15 we might expect -- and these figures are supplied by  
16 potential investors in the industry -- represent about  
17 \$233 million in the first year, \$338 million in the second  
18 year, and \$231 million in the third year, totaling about  
19 \$802 million over the three-year period.

20           These represent new funds coming into the  
21 state to construct these facilities. What will be the  
22 impact over this three-year construction period of this  
23 construction spending? Here I refer to the ripple effect  
24 I just described, the indirect effect as suppliers in the  
25 industry provide this new industry and the consumer

1 effect, what we call the induced effect, as larger incomes  
2 are spent in the variety of goods and services in the  
3 state.

4           Taking together the total impact of these  
5 ripple effects, we anticipated in our study that over the  
6 three-year period construction, which involves essentially  
7 this infusion of \$800 million of new money, will lead to  
8 \$1.4 billion in new output of goods and services in the  
9 state, primarily business sales, 16,000 additional jobs in  
10 the labor force in the state, and as a result of that,  
11 \$495 million in personal -- in increased personal income  
12 in the state.

13           I'm quick to point out, however, that the  
14 construction -- the impact of construction is a temporary  
15 one. Obviously these increases that I've just  
16 illustrated, these increases of 16,000 jobs and \$495  
17 million in personal income, will be experienced only as  
18 long as the construction phase lasts. In other words when  
19 the construction ends, these construction-related  
20 activities will disappear.

21           It is at that point that we turn our attention  
22 to the second phase and that is the operations phase. In  
23 the report which you have available to you -- and by the  
24 way, there is a one-page executive summary which really  
25 does capture the essence of the report, there's a one-page



1 executive summary in the beginning. In this report we  
2 only looked at the operations over the first three years  
3 of the industry.

4           Now, year one will occur after year one of  
5 construction. In other words, during year one of  
6 construction we construct the first casino, the first  
7 riverboat facility, and then the following year they will  
8 be in operation. Year two of the operation phase, which  
9 would follow actually year two of the construction phase,  
10 of course, the industry will have greater capacity to  
11 serve patrons. Year three we assume that the industry  
12 will be at its full capacity and so therefore years one  
13 two and three will really follow years one, two and three  
14 of construction. Year one of operations comes after year  
15 one of construction and so on.

16           Now, what are the effects of the operations  
17 going to be on the economy of the State of Pennsylvania?  
18 Well, here again we had to begin our analysis by getting  
19 some data from potential investors in the industry, from  
20 the industry itself. And we have -- we have from them  
21 their estimated revenues of their investments, and these  
22 estimated revenues vary from as little as \$1.1 billion in  
23 the first full year of operation to \$3.8 billion dollars  
24 in the third year of operations. In other words total  
25 revenues are expected to be \$7.5 billion -- adding

1 together years one, two and three, \$7.5 billion during the  
2 first three years of operation. However, that revenue  
3 will continue to grow as the industry -- as the industry  
4 matures.

5           Now, what will be the economic impact of these  
6 revenues generated by the industry? That's where our  
7 economic impact analysis comes in. Again we considered  
8 the direct effect, the indirect effect and what we call  
9 the induced effect, these total ripple effects on the  
10 economy. What will be the impact?

11           Well, first of all, beginning in year one  
12 we'll see creation from operations, not  
13 construction, this is separate from the construction,  
14 operations will generate 31,000 jobs. This will grow to  
15 110,000 jobs in year three. We expect it will grow beyond  
16 that point, but again our analysis was confined to only  
17 the first three years of patronizing -- of serving patrons  
18 of the industry. In addition, there will be increases in  
19 personal income of \$500 million in year one, that's  
20 additional personal income to the state, growing to \$1.7  
21 billion -- in other words, 1700 million dollars in  
22 personal income in year three. Over the three-year period  
23 we're talking about creating personal income increases of  
24 \$3.4 billion.

25           Now, in addition to that, those increases in

1 jobs and personal income, we will have an increase in tax  
2 collections that grow from a \$151 million in year one to  
3 \$530 million in year two over the first three-year period  
4 of operation. We therefore expect state and local tax  
5 collections to increase by a total of 1 billion, 50  
6 million dollars.

7           Well, having given you all these figures,  
8 you're probably asking yourself, well, where does this  
9 multiplier effect come from, that is, how can we expect  
10 that the creation of this new industry will add economic  
11 benefits to the state that we don't already have. Well,  
12 the new revenues, business sales and employment come from  
13 the following basic sources.

14           First of all, the new industry will attract  
15 out-of-state visitors bringing money into the state that  
16 would otherwise not be here. This, of course, is where  
17 tourism would come in and that's part of the induced  
18 effects of the new industry.

19           The second source of the new revenues comes  
20 from what we call recapture of Pennsylvanians'  
21 out-of-state gaming expenditures. Currently it has been  
22 estimated by federal studies that Pennsylvanians spend  
23 \$1.6 billion a year on gaming and gaming-related  
24 activities outside of the state. This is the  
25 Pennsylvanians going to Atlantic City, going to Las Vegas,

1 going to other places where gaming activity is available  
2 to them. We will -- the new industry will in fact  
3 recapture some of these expenditures.

4           We made rather conservative estimates, which  
5 some of you may disagree with, but we thought they were  
6 low enough to be viable. We estimate in the first year of  
7 operation of the industry we'll recapture about 30 percent  
8 of the current Pennsylvanian out-of-state expenditures as  
9 Pennsylvanians realize they can satisfy their desire for  
10 gaming entertainment within the state at lower cost than,  
11 of course, traveling to other states. We expect this  
12 recapture to grow to about 50 percent in year two and  
13 about 70 percent in year three.

14           The third source of new revenues will come  
15 from the higher levels of in-state economic activity that  
16 are going to be generated as a result of the new industry.  
17 Here is where the new industry, added suppliers create new  
18 jobs, these new jobs create new income, and people  
19 spending comes through the household in the whole variety  
20 of ways that consumers' expenditures are felt.

21           We have listed in the study what these  
22 industries are that will benefit. Someone came to me, by  
23 the way, after a press conference we had last week -- this  
24 is an off-the-cuff remark -- said, hey, you know, you've  
25 estimated that there is going to be an increase of

1 \$400,000 of additional revenue coming to funeral parlors  
2 in the state as a result of the new industry, why is  
3 that.

4           Well, that looks rather strange, and  
5 apparently that was one of the industries that caught this  
6 particular reporter's attention. And as people have more  
7 income, they spend this more income in a variety of ways,  
8 one of which might be fancier funerals. So what I'm just  
9 trying to say is there are a whole range of additional  
10 benefits.

11           Now, the final comment I wish to make about  
12 the introduction of the new industry in the State of  
13 Pennsylvania is that the new industry provides consumers  
14 with a broader range of choices in amusements than they  
15 currently have available within the state. And this wider  
16 variety of choices means two things. First let me speak  
17 like the professor I am little, a bit of classroom type,  
18 and say there's a theory in economics that says that the  
19 more choices you give consumers, the more ways they can  
20 spend their income, then the more likely they will be to  
21 achieve a higher level of personal satisfaction.

22           Think of, for example, you're in a town where  
23 you have a movie theater with two screens. You want to go  
24 out to the movies tonight, there are two choices and, gee,  
25 if you don't like either one of the movies you stay home

1 and don't spend your money or you wind up seeing a movie  
2 that you don't really enjoy but it was something to do  
3 that night.

4           Other people might be in a town which has a  
5 nine-screen movie theater. Nine screens gives you nine  
6 different choices. You're more likely to find a movie  
7 that just suits your particular tastes and just brings you  
8 to a higher level of satisfaction for the entertainment  
9 that you are trying to consume for that evening. That's  
10 what I mean by providing additional choices to consumers.

11           Now, we should also mention, however, that  
12 regional impacts will differ. When you introduce a gaming  
13 industry in one part of the state, that may have a  
14 different impact on that region than the same facility  
15 introduced in another part of the state. However, in our  
16 study we were considering statewide impacts as a whole so  
17 therefore we were more or less assuming dollars spent on  
18 riverboat casino gaming in Philadelphia might have the  
19 same impact as a dollar spent in Harrisburg or Pittsburgh  
20 or Erie, wherever. So essentially what we're looking at  
21 are a statewide average impact, not individual regional  
22 impacts. In some regions the impacts might be larger, in  
23 other words, than what we forecast here, to some regions,  
24 smaller.

25           With those introductory remarks I'll be happy

1 to entertain any questions that you have regarding our  
2 study.

3 CHAIRMAN GANNON: Thank you, Dr. DeRooy.  
4 Representative Gigliotti.

5 REPRESENTATIVE GIGLIOTTI: Thank you, Mr.  
6 Chairman. Doctor, where do you get the figures 1.6  
7 billion, the billion six dollars that people of  
8 Pennsylvania spend? Where do you get the figure?

9 DR. DEROOY: We get -- I'm trying to refer to  
10 what particular --

11 REPRESENTATIVE GIGLIOTTI: You said a billion  
12 six dollars leave.

13 DR. DEROOY: Oh, okay. That is out-of-state,  
14 current out-of-state spending on gaming by Pennsylvanians,  
15 and that comes from a federal study which is cited in the  
16 report. There's a U.S. Gaming Panel that did a study in  
17 Washington, and I have to refer to this for the exact  
18 source, which estimated that currently Pennsylvanians are  
19 spending about \$1.6 billion outside the state. They're  
20 carrying the money outside the state.

21 REPRESENTATIVE GIGLIOTTI: I beg to differ  
22 with you. I mean I've been concerned about riverboat  
23 gambling for quite a few years, and the figures I have say  
24 that it's a billion dollars just from Philadelphia going  
25 elsewhere to gamble. I got my numbers from Las Vegas and

1 Atlantic City, and Las Vegas ranks us number four -- of  
2 all the states in the United States we're rated fourth for  
3 people leaving our state and going elsewhere to gamble.

4 And they gave me a figure like 10 to 15 billion dollars.

5 DR. DEROOY: I have seen those figures.

6 REPRESENTATIVE GIGLIOTTI: I'd like to share  
7 them with you. Because I've been studying riverboat  
8 gambling for the last seven years and I had about five  
9 difference pieces of legislation that really haven't gone  
10 anywhere. And the purpose of this meeting is to try to  
11 get a referendum on the ballot which the governor wants us  
12 to do and that's why I'm here today to support that  
13 referendum and to support the other parts of that  
14 referendum too.

15 But I appreciate your time and your effort.  
16 It's a great report, and I'm looking forward to working  
17 with you in the future. Thank you.

18 DR. DEROOY: Thank you. Let me just respond  
19 very briefly. We have seen our staff -- I didn't do all  
20 the library research -- I got reports from our staff at  
21 the institute on this, and they did discover studies that  
22 were done by the Gaming Commission in New Jersey and the  
23 Gaming Commission in Nevada that gave the kinds of figures  
24 you're referring to.

25 REPRESENTATIVE GIGLIOTTI: That's where I got



1 them.

2 DR. DEROOY: Then we also came across this  
3 federal study which was somewhat more conservative than  
4 the figures you're working with. And I think if we erred  
5 in this study, we erred on the side of conservatism. We  
6 wanted to use the lower figures. And so now what is the  
7 effect of the bias that might have been introduced by our  
8 decision to use the federal figures rather than the state  
9 gaming commission figures that you are citing? And the  
10 effect is that I think we underestimated what the real  
11 impact might be on the studies of the gaming -- in other  
12 words, if in fact people -- Pennsylvanians are spending  
13 much more than \$1.6 billion, which your figures indicate  
14 would be the case, then our recapture would be much  
15 greater in the recapture than we expected.

16 REPRESENTATIVE GIGLIOTTI: That's the trouble.  
17 We're trying to be true conservatives on the figures. The  
18 actual spending out of state is unbelievable. I've been  
19 to the Atlantic City Gaming Commission and I've been to  
20 the Las Vegas Commission and I talked to the chief  
21 executives of both commissions, and why do you think  
22 Atlantic City right now is putting \$600 dollars into  
23 rebuilding Atlantic City. I know they don't want  
24 Pennsylvania to have riverboat gaming. That would cause  
25 them to lose their money.

1 DR. DEROOY: It would be a big hit for their  
2 economy.

3 REPRESENTATIVE GIGLIOTTI: It sure would be.  
4 Thank you, Doctor.

5 CHAIRMAN GANNON: Representative Walko.

6 REPRESENTATIVE WALKO: No questions.

7 CHAIRMAN GANNON: Representative Reber.

8 REPRESENTATIVE REBER: Just one question,  
9 Doctor. What was the genesis, if you will, for the  
10 preparation of this report? What moved you to institute  
11 this study and develop this empirical data and issue this  
12 report?

13 DR. DEROOY: The Institute for State and  
14 Regional Affairs at Penn State Harrisburg has an economic  
15 analysis unit which I head which has developed the  
16 capacity for measuring the economic impact of any type of  
17 policy change, industrial change that occurs in the  
18 state. For example, we've done economic impact studies of  
19 base closings, and the impact of any type of policy or  
20 economic event.

21 That is a service that we offer the  
22 constituents of Pennsylvania. We were -- we made this  
23 available to public service on a cost recovery basis. We  
24 were approached by the Pennsylvanians for Growth and  
25 Economic -- Growth and Development of Gaming to apply our

1 skills to their -- to the industry that they were  
2 proposing for the state. And so we applied the same  
3 methods we have done for other industries and other  
4 activities.

5           And to answer your question even more bluntly,  
6 we had a customer and they were willing to pay for this  
7 work to be done. But -- so we do this on a cost recovery  
8 basis for anyone who essentially hires our services. And  
9 by the way, these results would be the same pretty much  
10 regardless of where the customer is. In other words  
11 if -- if anyone came to us and did this study, I think we  
12 would get the same results.

13           REPRESENTATIVE REBER: So in essence the  
14 customer in this case was Pennsylvanians for Growth, et  
15 cetera, that --

16           DR. DEROOY: That's right; yes.

17           REPRESENTATIVE REBER: And they in essence  
18 contracted with you to do this?

19           DR. DEROOY: That's correct. They contracted  
20 with the university to do this. Of course, the university  
21 does not position itself in terms of for or against any  
22 position, any policy or legislation. Our analysis is very  
23 much objective. We try to be very objective and we will  
24 operate no matter where the customer's money comes from.

25           REPRESENTATIVE REBER: Doctor, could I ask, do

1 you recall the approximate date when the request was made  
2 for this study to be commenced?

3 DR. DEROOY: I'd have to look at my records,  
4 but I think that we were approached originally in March of  
5 this year. But then, of course, there was some  
6 negotiation as to the extent of the work that they wanted  
7 done so that most of our work was done during April and  
8 May.

9 REPRESENTATIVE REBER: And this was all  
10 in '97?

11 DR. DEROOY: In '97.

12 REPRESENTATIVE REBER: Thank you very much.  
13 Thank you, Mr. Chairman.

14 CHAIRMAN GANNON: Representative Manderino.

15 REPRESENTATIVE MANDERINO: Thank you, Mr.  
16 Chairman. Following up on Representative Reber's last  
17 questions, Pennsylvanians for Economic Growth and Gaming,  
18 et cetera, is a coalition of various organizations with  
19 interests who are interested in expanding legalized  
20 gambling in Pennsylvania; correct?

21 DR. DEROOY: As I understand it, yes. I have  
22 not been previously affiliated with that organization, but  
23 that's as I understand it.

24 REPRESENTATIVE MANDERINO: In the beginning of  
25 the report, and you actually state in your phone call

1 because I called Penn State about 9:30, quarter of ten  
2 this morning, not realizing you were going to be here  
3 because I did receive the full report yesterday -- or this  
4 morning when I came in. I think it was delivered  
5 yesterday. There in the beginning of your executive  
6 summary you talk about the importance of understanding the  
7 assumptions that were made in compiling the data.

8           And I do note on page ten of the report where  
9 you start with the section on creating riverboat gaming  
10 industry in Pennsylvania a list of I guess what I would  
11 call kind of assumptions. Here's the model that we used  
12 to draw some of these conclusions, where the boats would  
13 be, how many and all that kind of stuff. Other than in  
14 this section, the only other thing that I found that might  
15 have looked like an assumption were in cases where you  
16 were estimating personal income you made an assumption of  
17 jobs averaging \$30,000 a year.

18           DR. DEROOY: That was not an assumption.

19           REPRESENTATIVE MANDERINO: See, that's what  
20 I'm trying to get. I'm trying to get to the difference  
21 between assumptions made and where I can find it in the  
22 report and then data such as that and where those revenue  
23 or data, either estimates or figures came from.

24           DR. DEROOY: Yes. I think that's very sound  
25 to do that. I'm glad you're giving me the opportunity of

1 spelling that out.

2           Let's make a distinction between our  
3 assumptions and our discoveries. The assumptions are what  
4 we put into in the beginning of our study. The  
5 discoveries are what we found to go the result.

6           I can summarize our assumptions very quickly.  
7 First of all, we assumed that the industry would invest  
8 the \$800 million that we spelled out in Table 1-A and  
9 1-B. We -- and indeed to the extent that that investment  
10 is larger or smaller than what we assumed, of course, that  
11 will have a pro rata impact on our discoveries and what we  
12 assumed our conclusions.

13           The second assumption that I think is very  
14 critical is that we made assumptions regarding the revenue  
15 that these facilities would generate. Again those  
16 assumptions came from the potential investors. We assumed  
17 that those potential investors are in a better position to  
18 know what kind of revenues would come out of their  
19 investments than we are.

20           The third assumption is one that I selected  
21 and that is the assumption regarding what Pennsylvanians  
22 are spending outside the state. We just got through  
23 discussing that. And the recapture rates, those were our  
24 assumptions. Okay?

25           Now, beyond that point, beyond that point we

1 had to rely solely on our computer analysis of industrial  
2 patterns within the state. Let me spell that out more  
3 clearly. We know, for example, that -- where a million  
4 dollars in construction expenditures would go within the  
5 state. We know, for example, how much of that money would  
6 be spent by suppliers of the construction industry in  
7 Pennsylvania versus suppliers outside the state.

8           There are always going to be some leakages  
9 because there's some things that cannot not be provided in  
10 the state. For example, shipbuilding. Shipbuilding  
11 almost entirely will be done outside the state. That  
12 would be a leakage of part of that 800-million-dollar  
13 investment.

14           So based on our knowledge of the economy in  
15 Pennsylvania, our knowledge of the capacity of  
16 Pennsylvania to supply the various needs of the  
17 construction industry, we could then generate our  
18 estimates of how much of that money would stay within the  
19 state and how much would create jobs and income within the  
20 state. Okay. That -- and in fact our appendices to the  
21 study list over 420 separate industries in Pennsylvania,  
22 and we pinpoint exactly which -- how much money will go to  
23 each one of those industries.

24           One of these happen to be funeral directors,  
25 and that's where somebody picked that up. So we pinpoint

1 exactly which industries here are affected. Although the  
2 tables that you're looking at within the body of the  
3 report only look at the summary, the total of these  
4 impacts, but if you -- the details of which industries of  
5 the 420 industries, which ones are going to be impacted,  
6 they're in the appendix.

7                   So that's the difference between what we  
8 assumed and what we discovered.

9                   REPRESENTATIVE MANDERINO: One of the  
10 assumptions regarding potential investors -- without a lot  
11 detail just so that I can find it later, where are those  
12 in here?

13                   DR. DEROOY: That would be -- I'm going to  
14 give you the exact page. I believe that's Table 1-A and  
15 1-B, but let me confirm that to save you time because I  
16 don't want you to look at the wrong table.

17                   REPRESENTATIVE MANDERINO: Yeah. It mentions  
18 800 million in Table 1-A and 1-B. That was assumption  
19 number one.

20                   DR. DEROOY: Yes. 1-A just tells you the cost  
21 of a single facility, casino facility. Table B on page  
22 13 that totals these investment expenditures. And by the  
23 way, notice they make the distinction between what will go  
24 outside the state and what will be saved within the state.  
25 Our analysis was based only on those construction



1 expenditures which we discovered will stay within the  
2 state.

3 REPRESENTATIVE MANDERINO: I'm sorry. Maybe I  
4 misheard you. That is the investment assumption?

5 DR. DEROOY: That's correct.

6 REPRESENTATIVE MANDERINO: Did I misunderstand  
7 that assumption number two were revenue assumptions from  
8 potential investors?

9 DR. DEROOY: That's correct. And that you  
10 will find in the first -- in the last line of table 1-C  
11 which appears on page 15. The bottom of page 15, those  
12 are industry providers. Now, we broke down the industry  
13 totals into what we in the institute assume will come from  
14 recapturing and what we assume will come from new tourism  
15 and also what we expect will come from other businesses in  
16 the state which also provide amusement activities for  
17 which the casinos would be a substitute.

18 There will be some shifting. Any time you  
19 introduce a new industry in the state there is some  
20 shifting of consumer expenditures. If previously they had  
21 gone to an amusement park and now they're going to the  
22 casino, yes, there will be some shifting. So that's what  
23 we did.

24 Now, to get back to your question. On Table  
25 B, for example, in year one we expect a total construction

1 of casinos, say floating dockside casinos, there would be  
2 three of them and we broke down the out-of-state and the  
3 in-state expenditures. \$3.3 million for construction,  
4 \$3.3 million for shipbuilding, all of that will go out of  
5 state and have no economic benefits to the state. The  
6 construction that will be in the benefit to the state is  
7 the 161 million.

8           REPRESENTATIVE MANDERINO: Yes. I understood  
9 that. I just wanted to know so that when I'm reading it  
10 later I was clear on how to interpret it. Thank you. The  
11 second point that I wanted to make that you slightly  
12 touched on was the substitute amusement issue.

13           DR. DEROOY: Um-hum.

14           REPRESENTATIVE MANDERINO: And I noticed in  
15 your report a figure of -- but I'm not quite sure I  
16 understand what this means and I'd like you to explain it.  
17 In our analysis of economic impact we did not consider  
18 this 99-million-dollar loss by other industries as a gain  
19 for new riverboat gaming industries, merely as a result of  
20 a switching of spending patterns. Could you elaborate on  
21 that point and how that is or isn't reflected in the  
22 figures here?

23           Because that's something we often hear from  
24 opponents is that it's really shifting and all these  
25 projections of the growth of this new expanded gambling

1 industry isn't taking into account the loss to existing  
2 industries.

3 DR. DEROOY: We had to recognize the  
4 substitution effect. It would be -- otherwise I think our  
5 report would have lost some credibility. The United  
6 States Department of Commerce in its standard industrial  
7 classification system classifies casino gaming as an  
8 amusement industry. There are, however, other elements of  
9 the amusement industry. And the consumer's budget clearly  
10 does contain a share for amusement. When you increase the  
11 choices of amusements available to the consumer, you're  
12 going to find that some consumers who had been choosing,  
13 for lack of a better word, second best entertainment,  
14 choices will take some money away from that second best  
15 and put it into casino gaming.

16 Now, there will be -- I know this term  
17 sometimes rankles people, but as an economist I use it  
18 frequently in a market system such as ours to which we owe  
19 a great deal of our prosperity and success, there are some  
20 winners and losers. When you introduce a new facility  
21 there are going to be some businesses that are going to  
22 lose out.

23 For example, near where I live, three years  
24 ago a vacant piece of property was used to construct a  
25 Wal-Mart. I happen to know of a shoe store in my town

1 that complained that many of its customers were now buying  
2 their shoes at Wal-Mart rather than at the family-owned  
3 local store. They felt themselves to be a victim of this  
4 progress.

5           Now, clearly the Wal-Mart store created a lot  
6 of new jobs, a lot of new activity in the area, and I know  
7 of a lot of people, some friends of mine, who got jobs in  
8 the Wal-Mart. But there were some casualties. There was  
9 some shifting.

10           Now, is that shifting good or is that shifting  
11 bad? If you'll allow me to speak purely as an economist,  
12 I think it's good to the extent that perhaps consumers  
13 found a better selection at Wal-Mart than they found at  
14 the local store. If you have a nine-movie theater choice  
15 to make, you might choose a better picture than you would  
16 otherwise watch if you had a two-movie-screen theater to  
17 choose from.

18           So to that extent there will be -- a consumer  
19 given more choices may decide that here is where they  
20 would rather spend their money rather than where they had  
21 spent it in the past. So that substitution factor is  
22 inevitable, but it is the price we pay for the progression  
23 of a market economy.

24           REPRESENTATIVE MANDERINO: So but what you've  
25 said in this report is we have estimated a

1 99-million-dollar loss to some other sectors but we have  
2 already factored that in so what you're viewing as policy  
3 makers in terms of the revenue projections for an  
4 expansion of the game industry is a net effect?

5 DR. DEROOY: That's correct.

6 REPRESENTATIVE MANDERINO: Okay.

7 DR. DEROOY: Actually, if you wanted to see  
8 the computer program that we did, we put in the negative  
9 and we put in a positive, and what you see is we're adding  
10 together the negatives and the positives.

11 REPRESENTATIVE MANDERINO: Okay. And then my  
12 final question again on net effect is does that same model  
13 apply, if not, why not? Because I don't think it was  
14 taken into account here. Does that same model of looking  
15 at the net effect apply when it comes to personal  
16 incomes?

17 DR. DEROOY: I'm afraid I'm going to ask you  
18 to clarify that.

19 REPRESENTATIVE MANDERINO: Well, there  
20 are -- maybe personal income isn't the right way because  
21 I'm looking at the fact that that there are -- that there  
22 are winners and losers personally in the gambling  
23 scenario.

24 Now, is the personal income that you measured  
25 a personal income solely based on wages of the people

1 working in that industry and none of that took into  
2 account potential winnings and so therefore it isn't  
3 appropriate to take into account income loss of  
4 individuals who lost at the gambling tables? Do you  
5 understand my question? I'm looking at --

6 DR. DEROOY: You're talking about two  
7 different things.

8 REPRESENTATIVE MANDERINO: Okay. Maybe I am.  
9 That's why I'm asking you to clarify. I'm looking at  
10 family income and saying that there are winners and losers  
11 in that respect too. That if you don't measure  
12 it -- clearly you don't measure them. My question is is  
13 it appropriate or not, and if yes or no, why, or, if not,  
14 why?

15 DR. DEROOY: Let me give you two answers to  
16 that question because again I'm not -- I have to  
17 apologize. I'm not totally clear. The first point is  
18 that when we talk about net revenues coming to the gaming  
19 industry when it's created in the state, net revenues is  
20 defined as the total expenditures that consumers make less  
21 their winnings. In other words, how much they leave in  
22 the casino. That's net revenue.

23 So if you look at the bottom of page -- page  
24 15, you look at the bottom of Table C-1 which has the  
25 revenues, leaves a net of patron winnings. Okay. Now,

1 those net revenues are then the income of the industry  
2 which constitutes part of the engine of the growth.  
3 That's the pebble effect. That's the stone that goes in  
4 the pond that creates the ripple effects that benefit the  
5 economy.

6           The second answer to your question concerns  
7 personal income. Personal income consists of wage and  
8 salary income plus income of proprietors of self-owned  
9 businesses, self-employed people or partnerships. That's  
10 the government's definition of personal income. Clearly  
11 those -- the employee of that family-owned shoe store near  
12 where I live, some of those employees are going to lose  
13 their jobs. Their personal incomes are going to go down  
14 due to unemployment.

15           Now, some of these people may be fortunate  
16 enough to go over to the Wal-Mart store and get hired by  
17 those people and so their lost income will be in part or  
18 wholly replaced. In fact they might wind up making more  
19 money at the Wal-Mart than they made in the family-owned  
20 shoe store.

21           So when you look at what we estimate the  
22 personal income impacts to be, we have netted these  
23 winners and losers together, we've added them together.  
24 We've taken the losses into account as well as the gains.  
25 And clearly the fact that we show that there will be a

1 positive increase in personal income means that the  
2 gainers of personal income are going to get more money  
3 coming to them than the losses that come from those who  
4 are losing jobs and may not be able to find replacement  
5 employment.

6           So that I hope that answers your question.  
7 But again, just like in class, I'm never too sure when my  
8 students ask a question whether I've succeeded in  
9 answering it.

10           REPRESENTATIVE MANDERINO: Thank you, Mr.  
11 Chairman.

12           CHAIRMAN GANNON: Thank you. Representative  
13 Daley.

14           REPRESENTATIVE DALEY: Thank you, Mr.  
15 Chairman. Doctor, I share the same concerns that  
16 Representative Manderino just mentioned about shifting of  
17 funds and money. Obviously a consumer only has so much  
18 discretionary income. And I represent part of the  
19 district that encompasses the Pocono Mountains area, and  
20 tourism is a very big industry there.

21           If you offer consumers more choices that are  
22 going to draw them to say Philadelphia or Pittsburgh,  
23 which the consumers may be happier because they have more  
24 choices, it doesn't do much for the employees who are laid  
25 off in the resort in the Poconos. He doesn't really have



1 alternative employment. Does your study address from a  
2 regional perspective the impact of that shifting of  
3 money?

4 DR. DEROOY: No, it does not. We were asked  
5 to give a statewide economic impact. And to reiterate a  
6 point that I had made earlier, we ignored differences in  
7 regional impacts. And I'm putting that right on the  
8 table. We ignored that. In other words to put it rather  
9 plainly, we assumed that when you bring a dollar of  
10 investment money in the state, it's going to have the same  
11 impact -- ripple effect on the economy whether that dollar  
12 is spent on gaming in Philadelphia or on tourism in the  
13 Pocono Mountains. That may be a little bit of a stretch.

14 Consequently what you're looking at in our  
15 study is really a statewide average. We're saying on  
16 average a dollar brought into Pennsylvania will have this  
17 ripple effect on the state.

18 But I think you recognize -- your question  
19 seems to indicate that you clearly recognize that that  
20 ripple effect is going to be different for you whether  
21 that money is going to be spent in Philadelphia or whether  
22 it's going to be spent in the Pocono Mountains area.  
23 You're right. We did not cover that area. You're looking  
24 at a statewide average.

25 REPRESENTATIVE DALY: Thank you.

1 CHAIRMAN GANNON: Representative Chadwick.

2 REPRESENTATIVE CHADWICK: Do we know the state  
3 lottery effect beyond the state line?

4 DR. DEROOY: The state as you now is already  
5 in the gaming business. And indeed part of the consumer's  
6 income is currently spent on gaming. In fact the state is  
7 very aggressive in advertising state gaming in terms of  
8 its urging consumers to buy lottery tickets. I mean it's  
9 a very aggressively advertised industry.

10 I would -- I would first of all tell you that  
11 we did not have a mechanism for differentiating between  
12 gaming in the casinos versus gaming in the lottery. I go  
13 back to your question on the substitution effect. There  
14 may be some substitution that occurs as dollars may be  
15 taken from the lottery and gambled or gamed in the  
16 casino.

17 It really is going to depend upon the number.  
18 How much is -- the substitution effect might result from  
19 consumers' perception of the odds that they get. If they  
20 find, for example, that the state lottery returns only 30  
21 or 40 cents out of every dollar waged but the casino might  
22 return 95 cents out of every dollar waged, maybe the  
23 consumer will say, 'hey, I stand a better chance of coming  
24 home with winnings by gaming in the casino rather than  
25 gaming at a lottery. So, yeah, there will be switches of

1 that type.

2           And also, of course, consumers again being  
3 given the choice will have to decide whether it's more  
4 exhilarating, more fun for them to go to their  
5 Seven-Eleven store and buy a ticket versus going into  
6 casinos with lights and some music and entertainment and  
7 deciding to spend that money there.

8           But again, that's consumer choice. So to  
9 answer the question, we didn't specifically measure that  
10 substitution effect on the lottery.

11           REPRESENTATIVE CHADWICK: I suspect there are  
12 probably some other states' experience that we can draw on  
13 for that answer. Thank you, Doctor.

14           DR. DEROOY: Thank you.

15           CHAIRMAN GANNON: Representative Josephs.

16           REPRESENTATIVE JOSEPHS: Thank you, Mr.  
17 Chairman. Listening to some of the questions and some of  
18 the answers, let me just get clear one of the assumptions  
19 that you made was that all of the people who are presently  
20 gambling outside of Pennsylvania will do that activity  
21 *inside of Pennsylvania is that the case?*

22           DR. DEROOY: Yes. We made a very conservative  
23 estimate of how many of these people we can keep at home  
24 who are now carrying their money to Atlantic City.

25           REPRESENTATIVE JOSEPHS: So you did not assume

1 that every single person --

2 DR. DEROOY: No. I think that would have been  
3 a little bit grave. I would like to have done that, and  
4 frankly I hope that would happen. I hope that all the  
5 Pennsylvanians decide to game at home rather than outside  
6 the state, but I think that we would be severely faulty if  
7 we were to make that assumption. So we made a 30 percent  
8 assumption, we'll recapture 30 percent of this business.

9 Eventually as the industry becomes larger,  
10 that is, more casinos are available and becomes better  
11 known and people become familiar with it, then their  
12 loyalties to out-of-state gaming facilities would decrease  
13 and they'll decide to stay at home.

14 REPRESENTATIVE JOSEPHS: So you said initially  
15 we'd recapture 30 percent of the dollars?

16 DR. DEROOY: That's correct. That are  
17 currently being carried outside the state by Pennsylvania  
18 residents.

19 REPRESENTATIVE JOSEPHS: Do you know of any  
20 study that's actually looked at people who have gone out  
21 of the state and do you have any idea of a realistic  
22 assumption?

23 DR. DEROOY: Well, I cited the U.S. Gaming  
24 Panel study which estimated very conservatively, as your  
25 question indicated very conservatively, the amount of

1 money that is currently being carried outside the state.  
2 But as far as how much of that money would be brought back  
3 into the state, we don't have data on that simply because,  
4 of course, this is a new industry. We're going to have to  
5 observe. And I think if I were to sit before this  
6 committee three years from now, assuming that the industry  
7 was in place, I could give you much better data as to how  
8 much money we were successful in recapturing.

9           REPRESENTATIVE JOSEPHS: The reason I ask that  
10 question is I talk to people in my district, I watch  
11 people in my district who have gone down to Atlantic City  
12 for the day, and my impression is that's where they want  
13 to go, that they're going there partly because of the trip  
14 and partly because of the activity at the end of it.

15           Now, I have no idea 30 percent, 40 percent,  
16 whatever. I have never done any kind of scientific  
17 survey. But my feeling is, at least antidotally from the  
18 people that I have spoken to is that most of them would  
19 continue to go to Atlantic City. That's what they like.

20           DR. DEROOY: That's the 70 percent that we  
21 left in. That's why we had 30 percent.

22           REPRESENTATIVE JOSEPHS: Thank you. Thank  
23 you, Mr. Chairman.

24           CHAIRMAN GANNON: Representative Carn.

25           REPRESENTATIVE CARN: Thank you. Without

1 expressing how you feel about gambling and this proposal,  
2 are you saying economically this would benefit the  
3 Commonwealth of Pennsylvania?

4 DR. DEROOY: Any time you bring a new industry  
5 into the state which increases consumers' options for  
6 spending, you're going to generate new income, new jobs  
7 within the state.

8 REPRESENTATIVE CARN: So you're saying  
9 economically based on your study this would be a positive  
10 impact on the Commonwealth of Pennsylvania?

11 DR. DEROOY: It will. Of course you -- it's  
12 up to you to decide whether that impact is larger or  
13 smaller than what you desire. Frankly -- this is very  
14 personal -- I found the economic impact to be a little  
15 less than I thought it would be. I thought it would  
16 generate far more jobs than what it wound up generating or  
17 expect to generate. But nonetheless, we will generate new  
18 jobs, we will generate new income. And incidentally, let  
19 me mention one other point that has not been discussed  
20 today, we will be generating more tax revenues.

21 REPRESENTATIVE CARN: Very good. Now  
22 then -- but there is the unknown factor of our ability to  
23 be creative and to be competitive in the marketplace with  
24 these other locations, again which have not been factored  
25 in, so the possibility of creating more jobs than you

1 might have thought conservatively can still be there --  
2 possibility?

3 DR. DEROOY: Yes, indeed. Unfortunately  
4 forecasting is not an exact science. And what we have  
5 done is use well established other complex technology of  
6 well established technologies and software and expertise  
7 to estimate what we expect the effects to be.

8 Now, those effects will be larger or smaller  
9 in practice than what we have estimated. So that's why I  
10 think we erred on the side of conservatism. And to put it  
11 more bluntly, I think the impact figures we gave are  
12 probably going to be the lower end of what will actually  
13 happen in the state.

14 REPRESENTATIVE CARN: Thank you, Mr. Chairman.  
15 Thank you, Doctor.

16 CHAIRMAN GANNON: Doctor, you had indicated  
17 earlier that you had done some other reports -- economic  
18 impact reports. I think you mentioned base closings?

19 DR. DEROOY: Yes.

20 CHAIRMAN GANNON: And that's happened in the  
21 past. But my question is I'm questioning or asking about  
22 the validity of your report so I use that base closing as  
23 an example. You did some study before the base closing to  
24 project what the economic impact would be. We've had the  
25 base closing. How does your report gel with what actually

1 happened, if you know?

2 DR. DEROOY: Yes. I understand and indeed on  
3 the base closings we could not answer that. We did a  
4 study of the Ship Parts Control Center in Mechanicsburg  
5 and its impact of closing on the state. Since in fact  
6 that base did not close, we had no basis for determining  
7 whether our gray scenario would have been realized.

8 We have -- then another way -- another way of  
9 answering your question, however, is to point out that the  
10 economic analysis unit of the Institute for State and  
11 Regional Affairs has always tried to upgrade the quality  
12 of its services, and the particular econometric model  
13 computer model that we used for this particular study are  
14 a relatively new addition to our facilities and therefore  
15 we used a different, much more sophisticated methodology  
16 for this gaming study than we used for the base closing  
17 study.

18 So consequently it would be comparing apples  
19 and oranges. Even if I could answer your question as to  
20 how accurate the study would be, that accuracy measure  
21 would not apply to this different methodology. So I'm  
22 afraid as I sit before you I'm not able to give you a full  
23 answer to your question.

24 CHAIRMAN GANNON: This study was commissioned  
25 by the Pennsylvanians for Economic Growth?



1 DR. DEROOY: And Gaming Entertainment.

2 CHAIRMAN GANNON: And Gaming Entertainment.

3 Have any other organizations involved in the gaming  
4 industry approached your group to do any kind of study?

5 DR. DEROOY: No. Just because you give  
6 consumers a choice doesn't mean they realize what's  
7 available to them.

8 CHAIRMAN GANNON: Did you -- in your study did  
9 you consider folks that would come to Pennsylvania as a  
10 destination but then leave Pennsylvania to do their  
11 gaming? What I'm thinking about are folks that would come  
12 into the state for a convention, and you mentioned certain  
13 areas here in Pennsylvania, and say go to another city,  
14 game, come back to Pennsylvania for their convention  
15 activity. Were this factored in at all?

16 DR. DEROOY: Not exclusively, no. What you're  
17 talking about is a rather -- you're giving a profile,  
18 rather complex situation. And, however, let me point out  
19 that we did not ignore that in the aggregate analysis we  
20 did do. For example, all we're saying is simply this,  
21 that if you generate certain amount of income, people will  
22 on average spend it in a certain way. Now, some people  
23 will spend it in different ways, but we're looking at the  
24 average.

25 For example, some people if you -- if we

1 increase your income or everyone's income by a thousand  
2 dollars, we know that on average perhaps ten dollars would  
3 be spent on gaming. Now, some people at that -- here in  
4 this room would spend only one dollar on gaming. Other  
5 people would spend \$20 on gaming. We're only looking at  
6 the average. You happen to be picking out a scenario that  
7 is one of many different scenarios that would compose that  
8 average. So we didn't break out that individual scenario.  
9 I'm sorry.

10 CHAIRMAN GANNON: Well, my next question, I  
11 think you've already answered it, what would be the shift  
12 of revenues from illegal gaming activities to legal gaming  
13 types of activities that are available?

14 DR. DEROOY: We used data supplied by --  
15 primarily by federal sources. In other words in our  
16 modeling we had the capacity of separately analyzing the  
17 effect of a new industry on each one of 525 different  
18 industries in the State of Pennsylvania. It so happens we  
19 only identified 420 industries in Pennsylvania that would  
20 have a significant impact, and those are the 420 which are  
21 itemized in the appendix.

22 But to get to your question and the answer  
23 very explicitly, because I can do that, the data on each  
24 of these industries are provided by federal and state  
25 sources. Our system of compiling national income data

1 excludes illegal activities.

2           By the way, that leads to some rather curious  
3 results, and I'm going to give a plug. I wrote a book  
4 which was published two years ago called Economic  
5 Literacy, What Everyone Needs to Know About Money and  
6 Markets. And in that book I have a chapter on national  
7 income statistics and expenditures. And I pointed out  
8 that, for example, a dollar spent on illegal gaming in  
9 Pennsylvania would not be counted as part of national  
10 expenditures or national income, but that same dollar  
11 spent in Nevada where gaming is legal would be counted.

12           So we have a rather peculiar way of accounting  
13 for national income figures. Where it's legal, we count;  
14 where it's not legal, we ignore it, we don't count it.  
15 Now, it's been estimated that the underground economy,  
16 which is the economists' general term for illegal  
17 activities of any type gaming or whatever, count for  
18 perhaps as much as 20 or 25 percent of the total economic  
19 activity in the country. Nonetheless, our government --  
20 you can accuse them of being pristine, but our government  
21 says, hey, we are not going to put a figure on that 20 or  
22 25 percent because we can't count it. So in answer to  
23 your question, we do not have a measure of illegal gaming  
24 activities.

25           CHAIRMAN GANNON: Thank you very much, Dr.

1 DeRooy, for being here today and offering your testimony  
2 and further explain the report that your group has  
3 completed. Thank you.

4 Our next witness is the Honorable Joseph W.  
5 Battisto, State Representative from the 189th Legislative  
6 District. Welcome, Representative Battisto. Thank you  
7 for being here today.

8 REPRESENTATIVE BATTISTO: Good morning, ladies  
9 and gentlemen. I want to thank Chairman Tom Gannon and  
10 the other members of the Judiciary Committee for giving me  
11 the opportunity to testify today on House Bill 295 and the  
12 issue of gambling in general.

13 My involvement with the issue of gambling goes  
14 back 20 years to 1977. At the time I was mayor of Mt.  
15 Pocono and a teacher just after New Jersey legalized  
16 casino gambling for Atlantic City only. At that time  
17 Nevada and then New Jersey were the only states where  
18 casino-type gambling had been legalized. However, knowing  
19 that Pennsylvania would soon be affected as a result of  
20 the legalization of casino gambling in New Jersey, I  
21 decided to undertake a study of the issue of gambling to  
22 ascertain how it would affect the lives of Pennsylvanians.

23 My lengthy study drew two main conclusions.  
24 First, I concluded that using gambling as an economic  
25 development instrument is not a sound policy. In

1 addition, I learned that the legalization of additional  
2 forms of gambling produces serious social ills. Over the  
3 years I have not changed this focus in arguing against the  
4 expansion of gambling, and I have found that the more  
5 people take their time to study the real effects of  
6 gambling in some depth, the more people reject gambling as  
7 a viable economic development tool.

8           Therefore, I respectfully request that you  
9 undertake a study yourselves as the Judiciary Committee or  
10 begin a joint study with, for example, the State  
11 Government Committee. However, the best approach might be  
12 to have a commission appointed to carry out a serious  
13 study on the matter of gambling's impact on Pennsylvania.  
14 The public, before voting on any referendum, must have the  
15 opportunity to attend hearings, to openly debate, and to  
16 read the results of a thorough study of the present  
17 situation with respect to gambling in Pennsylvania and to  
18 learn what effects the legalization of any one, two or  
19 three of the types of gambling listed in House Bill 295  
20 would have on the economic and social well-being of  
21 Pennsylvania.

22           I'm not the only one who feels that this  
23 matter is far too serious to be acted upon swiftly with  
24 only superficial public education.

25           Specifically, the Patriot News in a May 15,

1 1997 editorial states: "If Pennsylvanians are going to  
2 legalize slots at the track, they are approving a modified  
3 form of casino gambling. They need to know more about  
4 revenues and social impact. To do this, they need a  
5 referendum - two, actually, both at the state and county  
6 level - and above all, more time to study this critical  
7 issue."

8                   Also in a May 11, 1997 editorial, The  
9 Tribune-Review wrote in referring to the sudden move to  
10 place slots at race tracks: "Perhaps it's time that  
11 Pennsylvanians demand an end to government by legislative  
12 surprise. Approval of this issue will forever change the  
13 Commonwealth's social fabric. Thus, extensive public  
14 hearing should be demanded and a thorough and public  
15 debate of the issue - of at least several months' duration  
16 should take place before members of the General Assembly  
17 vote."

18                   It is obvious why proponents of gambling want  
19 to move quickly. They know that unbiased, objective  
20 studies show that the apparent benefits of legalizing  
21 gambling are outweighed by the negative social and  
22 economic impacts. For example, a study by the Better  
23 Government Association, a Chicago-based watchdog, found  
24 that the social costs of compulsive gambling combined with  
25 the infrastructure and enforcement expenditures associated

1 with riverboat casinos in Illinois exceeded \$250 million  
2 each year. Also added \$240 million that is lost by  
3 businesses in communities near the ten floating casinos as  
4 money that ordinarily would be spent within the local  
5 economy is bet on slot machines and other gambling  
6 devices.

7           An author of this study told the Philadelphia  
8 Inquirer that Pennsylvania would experience similar  
9 results if it legalized riverboat gambling. Consequently,  
10 it's imperative that you take the lead to stop the move  
11 toward a vote before this issue is deeply studied.

12           If you followed the debate in the House a few  
13 weeks ago on the issue of allowing the placement of slot  
14 machines at race tracks, you would have heard the  
15 Democratic Caucus chairman's speech explaining how his  
16 observations and study over about a decade have changed  
17 him from a supporter of gambling to an opponent of that  
18 proposal that was then before the House. As a  
19 long-standing observer of House action with respect to  
20 gambling legislation, I was particularly struck by the  
21 caucus chairman's remarks for I clearly remember seeing  
22 his name as a cosponsor of various gambling bills during  
23 the 1980s.

24           The caucus chairman admitted that study  
25 enlightened him about the many negative aspects of

1 legalizing more gambling.

2           We must take notice of the amount of money  
3 that is presently been directed toward legal gambling in  
4 Pennsylvania. Over \$1.6 billion was spent in 1995 on the  
5 state lottery. Moreover, considering live racing events,  
6 simulcasting, call-a-bet, and off-track betting, over one  
7 billion dollars are wagered on race tracks' related  
8 activities. In addition, millions more are spent on bingo  
9 and other small games of chance. That's a total of over  
10 \$3 billion presently being spent on legal gambling  
11 activities in Pennsylvania. And we'd all be considered  
12 terribly naive if we didn't understand that because it's  
13 not taxed and offers better odds to the growing number of  
14 more experienced gamblers, illegal gambling activities  
15 continue to flourish. In fact, the experience of  
16 legalizing gambling as previously argued by gambling  
17 advocates does not drive out illegal gambling. Quite to  
18 the contrary, as reported, in Robert Goodman's book The  
19 Luck Business.

20           I quote: It is often argued that government  
21 involvement in gambling eliminates the role of organized  
22 crime and shifts illegal gambling dollars into public  
23 coffers. While this is partially true, the creation of a  
24 larger consumer pool of gamblers through the expansion of  
25 legal gambling also provides new players for continued



1 illegal activity. Organized crime, by offering better  
2 odds and nontaxable payments, has remained an active  
3 supplier of gambling products with its own market niche.

4           In 1992, Bob Walsh, Assistant Director of the  
5 FBI in Chicago, told the Chicago Metro Ethics Coalition  
6 that in spite of legalization organized crime had been  
7 continuously involved in gambling. Gambling generates new  
8 gambling said Walsh. The more accepted it becomes, the  
9 more all forms of gambling benefit.

10           Therefore with the knowledge that over \$3  
11 billion is now being spent on legal gambling activities in  
12 Pennsylvania, isn't it essential that we, supposedly a  
13 deliberative body of legislators, pause to assess the  
14 present social and economic impacts these activities are  
15 having on Pennsylvanians, and through additional study,  
16 project what effects more legal gambling would have on our  
17 Commonwealth?

18           The fact is there exists no public mandate for  
19 the legalization of additional forms of gambling. As  
20 Professor Goodman states in The Luck Business, the rush to  
21 legalize casino gambling was not the result of any popular  
22 drive for more gambling in America. In spite of the  
23 enormous expansion of casinos since the late 1980's our  
24 research at the United State Gambling Study did not  
25 uncover a single grass roots organization lobbying for

1 more opportunities to gamble.

2           Unlike the public call to end prohibition or  
3 the groundswell that has been developing in Pennsylvania  
4 for tax reform, there is no public group in the  
5 Commonwealth clamoring for the legalization of more forms  
6 of gambling. Only the gambling profiteers are lobbying to  
7 impose more legalized gambling on Pennsylvanians without  
8 the benefit of a thorough and serious study of gambling's  
9 present and future impacts.

10           Consequently, House Bill 295 should be held in  
11 abeyance until the General Assembly and the public have  
12 completed a detailed study of this very important issue.  
13 That is, House Bill 295 might appropriately be considered  
14 months from now, but even then the format of House Bill  
15 295 needs to be altered. Specifically, placing three  
16 major forms of gambling on one ballot tends to dilute the  
17 significance of each one. Some voters look upon the three  
18 ballot questions like multiple-choice test questions,  
19 there would be a tendency among some to select the best of  
20 the three or the least offensive on the list.

21           Also, the language of question three on page  
22 two, lines 12 through 14, tends to disguise what type of  
23 gambling could take place in taverns if such an item were  
24 approved. The words, I quote, "limited forms of gaming at  
25 taverns" makes it appear as if certain small games of

1 chance would be legalized when in fact what the tavern  
2 people have been seeking is the most addictive and costly  
3 form of gambling - electronic machines.

4           To underscore the importance of the need for a  
5 serious study of the true impacts of gambling, I must  
6 present information garnered from other research and  
7 studies.

8           In particular, much research conducted  
9 following the legalization of gambling in other places  
10 reveals that money spent on gambling hurts the local  
11 economy.

12           In studying ten Illinois counties where casino  
13 riverboats were legalized in the early 1990's, Earl  
14 Grinols, a University of Illinois economist, found that  
15 riverboats created no additional jobs. They merely  
16 siphoned jobs from existing sectors of the economy.  
17 As explained in The Luck Business, a business survey in  
18 Natchez, Mississippi, taken a few months after the first  
19 riverboat opened for gambling, revealed that over 70  
20 percent of local establishments reported 10 to 20 percent  
21 decreases in sales. A year later, many nearby restaurants  
22 and taverns had closed and evening entertainment business  
23 during the city's peak tourist season had declined over 20  
24 percent.

25           In essence, as Robert Goodman reports in his

1 study of gambling's economic impact on local economies,  
2 the gradual shift of people's discretionary spending to  
3 gambling activities and away from other purchases produces  
4 a negative economic multiplier. Because the less consumer  
5 spending is directed toward local businesses, their  
6 profits decline; and a variety of employees ranging from  
7 clerks to managers experience reductions in hours worked  
8 or are laid off.

9           These underemployed and unemployed workers now  
10 have less discretionary income to spend on other goods and  
11 services which also further reduces the demand for workers  
12 in other local businesses.

13           Besides cannibalizing the local economy, the  
14 increased legalization of gambling adversely affects  
15 gambling enterprises already legalized such as state  
16 lotteries.

17           As Robert Goodman states in The Luck Business,  
18 soon after riverboat and casino gambling was legalized in  
19 Iowa, Illinois and Connecticut, lottery sales and racing  
20 revenues in these states decreased. Furthermore, a  
21 University of Louisville study concluded that the  
22 introduction of casinos in Atlantic City resulted in a 34  
23 percent decline in betting at New Jersey's horse racing  
24 tracks during the decade from 1978 to 1988.

25           In addition to the need to study the economic

1 impact that new forms of gambling would have on  
2 Pennsylvania communities, there must be serious  
3 consideration given to the social impact that more  
4 gambling would have on the Commonwealth.

5           In April of 1995 an impact study of  
6 Wisconsin's 17 tribal casinos showed that the money  
7 generated by the Indian casinos were making the tribes  
8 more economically independent; however, the rest of the  
9 state was paying an enormous price. This study, conducted  
10 by a team of University of Nevada and Georgia Southern  
11 University researchers, estimated that when the costs  
12 associated with compulsive gambling were tabulated through  
13 calculating increased welfare, lost work productivity,  
14 embezzlement and other criminal activities committed by  
15 those in debt to gambling, the casinos were costing  
16 Wisconsin between \$318 and \$493 million per year.

17           As state-sanctioned gambling expands into  
18 additional communities, more people, who ordinarily would  
19 not have gambled, are recruited into gambling, especially  
20 through gambling machines. In 1994 Valerie Lorenz,  
21 Executive Director of the National Center for Pathological  
22 Gambling, found that the number of pathological gamblers  
23 is rising on a daily basis as more and more gambling  
24 becomes available to everyone.

25           According to Professor Goodman, researchers

1 now call gambling the fastest-growing teenage addiction.  
2 Moreover, Howard J. Shaffer, Director of the Harvard  
3 Medical School Center for Addiction Studies predicted -- I  
4 quote -- "We will face in the next decade or so more  
5 problems with youth gambling than we'll face with drug  
6 use."

7           There are many accounts revealing that with  
8 the introduction of gambling to a community there is a  
9 concomitant increase in compulsive gambling, family  
10 disruptions and crime. In fact, a 1996 U.S. News and  
11 World Report analysis showed that crime rates in casino  
12 locations to be nearly double the national average.

13           It is sufficient to explain what Ronald A.  
14 Reno, a social research analyst found when examining the  
15 number of problem gamblers in various parts of America.  
16 Specifically a 1989 survey revealed that 1.7 percent of  
17 Iowans had a gambling problem. The next year the state  
18 legalized riverboat gambling and a new study in 1995  
19 indicated that the number of problem gamblers had more  
20 than tripled.

21           In testifying before Congress in 1996, Earl  
22 Grinols, the University of Illinois economist, stated that  
23 casinos earn more than half their revenue from problem and  
24 pathological gamblers.

25           I could make a list of a number of cases I

1 have accumulated in my reading on the subject of gambling  
2 addiction. However, I'll conclude with only a few to show  
3 the range of people whose lives are destroyed through  
4 compulsive gambling.

5           In 1994 Jeffrey Bloomberg, the state's  
6 attorney for the small town of Deadwood, South Dakota,  
7 presented to a Congressional committee studying the  
8 impacts of gambling an especially devastating account of  
9 how ordinary people's lives had been ruined after casinos  
10 were legalized there.

11           Mr. Bloomberg said -- I quote -- "we have seen  
12 individuals who prior to their exposure to gambling had no  
13 criminal history, who were not junkies or alcoholics, many  
14 of whom had good jobs, who became hooked on slot machines  
15 and after losing all their assets and running all credit  
16 resources to their maximum began committing some type of  
17 crime to support their addiction."

18           I quote -- I continue, "I think of this pizza  
19 restaurant manager who had a spotless record and embezzled  
20 \$45,000 from his employers", recalled Bloomberg, "or the  
21 gaming business bookkeeper who having run up thousands in  
22 debts, committed suicide, or more tragically, the  
23 technical sergeant in the United States Air Force who  
24 prior to gaming had an exemplary ten-year military career,  
25 who became hooked on slot machines and eventually murdered

1 a casino operator in a desperate attempt to retrieve \$400  
2 in bad checks he had written to the casinos. Sergeant  
3 Cobb is now serving a life sentence without parole at the  
4 potential cost of over a million dollars to the South  
5 Dakota taxpayers, not to mention the loss in training  
6 dollars invested by the federal government, or most  
7 tragically, the loss of human life."

8           In a Minneapolis Star Tribune article entitled  
9 Gambling's Toll in Minnesota, by Chris Ison, the author  
10 writes about a 49-year-old mother of three who would not  
11 leave a casino despite being paged by her 21-year-old son.  
12 This particular weekend in May of 1994 she was quite  
13 depressed because she was in danger of being fired after  
14 eleven years as an assistant state attorney general. On  
15 Monday, her fourth straight day at the casino, she  
16 returned home broke and more depressed than ever. Two  
17 days later Catherine Avina committed suicide.

18           The same news article contains an account of  
19 Jeff Copelan, a 21-year-old from suburban Minneapolis who  
20 gambled away \$20,000 earmarked for college. It ruins your  
21 life, he says, and people don't really understand. I  
22 thought about suicide. It's the easiest way to get out of  
23 it.

24           There are many more cases with names and  
25 tragic endings, but I'll terminate on this note: The



1 General Assembly of Pennsylvania is supposed to be a  
2 deliberative body with the best interests of its citizens  
3 placed above all special interests. If ever there was a  
4 time for serious and lengthy deliberations and continued  
5 study to make sure Pennsylvania's best interests are  
6 served instead of the best interests of a special few, the  
7 time is now.

8           We must not abdicate our sacred responsibility  
9 to do the people's business carefully. Therefore we must  
10 reject all gambling-related legislation in favor of a  
11 serious full-blown study of gambling as it now impacts on  
12 Pennsylvania and as it would impact if more forms are  
13 legalized. We should do no less.

14           CHAIRMAN GANNON: Thank you, Representative  
15 Battisto. Representative Carn.

16           REPRESENTATIVE CARN: Thank you, Mr. Chairman.  
17 Good morning, Representative.

18           REPRESENTATIVE BATTISTO: Good morning,  
19 Representative.

20           REPRESENTATIVE CARN: You're very expressive  
21 in how you feel about this subject. Can you explain to  
22 me -- you initially talked about how you as mayor of Mt.  
23 Pocono --

24           REPRESENTATIVE BATTISTO: Right.

25           REPRESENTATIVE CARN: Initially you looked at

1 this issue because you recognized that there is going to  
2 be an impact on your community as a result of legalized  
3 gambling in the State of New Jersey?

4           REPRESENTATIVE BATTISTO: Yes. In fact I  
5 heard Representative Daly, and he represents part of the  
6 Poconos, our districts are contiguous.

7           REPRESENTATIVE CARN: Yes. Can you share with  
8 the committee what in fact have been the impacts of that  
9 legalization in Jersey on the Pocono communities; economic  
10 situation?

11           REPRESENTATIVE BATTISTO: Okay. I didn't do a  
12 personal impact study of just the Poconos. I did a -- I  
13 did a study through reading and research, that's how -- I  
14 read many books. By the way, in 1978, '77 when I began  
15 that there were few books -- few books. A lot of  
16 articles, you know, but most directed toward Nevada  
17 because there's no history beyond that.

18           REPRESENTATIVE CARN: But, Representative, I'm  
19 trying to get an impact on your personal situation where  
20 you live at that you are indicating to us will be  
21 negatively impacted by gambling coming in. I'm trying to  
22 understand. So I don't want to hear about Nevada right  
23 now. I want to hear about what happened to the Mt. Pocono  
24 as a result of gambling. Was there an impact or was there  
25 not an impact? Did it matter one way or another based on

1 what your people feel?

2           REPRESENTATIVE BATTISTO: Yeah. Well, but the  
3 fact is -- the fact is there's probably a wash as far as  
4 what I can possibly see because from the Poconos and all  
5 over go to Atlantic City to gamble, they go to race tracks  
6 in New Jersey, and people from New Jersey come to the  
7 Poconos skiing and they come to the Poconos -- they come  
8 to a beautiful shopping center in my district that's an  
9 attraction in itself.

10           So it's probably -- probably a wash, although  
11 I can't tell you statistically. All the studies that you  
12 read are not regional. They're statewide or they're  
13 nationwide studies.

14           REPRESENTATIVE CARN: I understand. But I  
15 want to say on your point --

16           REPRESENTATIVE BATTISTO: Yeah, I understand.

17           REPRESENTATIVE CARN: -- about how you  
18 concluded in reality that it might have been a wash.

19           REPRESENTATIVE BATTISTO: Well, I concluded in  
20 reality the wash based upon the fact that the number of  
21 resorts that are there are still there except for five who  
22 declared bankruptcy. But I still -- our skiing resorts  
23 though are flourishing because people -- because that's a  
24 development of the last two decades.

25           REPRESENTATIVE CARN: You gave us an

1 indication though that because some of the persons who  
2 vacation in the Poconos go to Atlantic City that that has  
3 been a positive impact or it's still just a wash?

4           REPRESENTATIVE BATTISTO: Well, the money  
5 that's drained to Atlantic City is recaptured when people  
6 come back to ski and come back to shop at The Crossings,  
7 other shopping places, so there's the appearance of being  
8 a wash because the hotels that were there before are still  
9 there except the named hotels, four of them were in  
10 bankruptcy. Now, again I can't prove that that's because  
11 of gambling.

12           REPRESENTATIVE CARN: You can prove that to  
13 the gambling?

14           REPRESENTATIVE BATTISTO: No, I can't prove  
15 that at all.

16           REPRESENTATIVE CARN: , Now following --

17           CHAIRMAN GANNON: Just as a favor to the  
18 stenographer don't jump over each other. Let's try and  
19 keep it one at a time.

20           REPRESENTATIVE CARN: I was just trying to  
21 move it along. Representative, then just your conclusion  
22 and I'm not really -- I don't care rather about the report  
23 you presented national realities as to what is written on  
24 the subject matter. I'm really interested in what happens  
25 to the people who live in these communities that are

1 impacted by a possible gambling situation. My community  
2 would be impacted. Okay? So I'm really concerned or  
3 really listening to what happens in Mt. Pocono.

4           Now, you said to me that -- you said to the  
5 committee now that Atlantic City had a positive impact  
6 possibly on the Mt. Pocono situation because, as you said,  
7 no hotels closed, some businesses increased, skiing  
8 business, some people jump off Mt. Pocono and run down to  
9 Atlantic City do their gambling and come back to Mt.  
10 Pocono. Do you understand? I understand because I see it  
11 happening also in the City of Philadelphia.

12           Now, do you just object to us keeping that  
13 money because the cost of your local community realities  
14 would be impacted negatively? I'm trying to get a  
15 sense -- you started off by talking about how much it  
16 would cost based on some study that you established that  
17 would cost the local community, and I was just trying to  
18 get a sense of if that's the basis of your opposition.

19           REPRESENTATIVE BATTISTO: Well, for studies  
20 that have been done with respect to the effect it's had on  
21 local communities it has shown to be negative. I read the  
22 Illinois study and the ten communities which riverboats  
23 were working and their results indicated that the outflow  
24 of money -- that the loss was greater than the gain.

25           REPRESENTATIVE CARN: Is that the basis --

1           REPRESENTATIVE BATTISTO: Now, there's been no  
2 study of the Poconos itself. Right. And I'm not here  
3 to -- I usually try to promote the Poconos, skiing, but  
4 let me just say -- let me just tell you very candidly that  
5 talking about the hotels before, the big ones in  
6 bankruptcy, generally speaking I think the resort industry  
7 will admit that as a destination -- as a destination,  
8 well, it has picked up skiing, skiing patrons and shopping  
9 people -- I'm not sure -- I'm not sure that as a  
10 destination it's the place that it used to be.

11           Now, again, I wouldn't stand here and say that  
12 it's because of gambling in Atlantic City. I'm not going  
13 to say that because I don't have that proof. All I'm  
14 saying is that that's a possibility. That's a  
15 possibility. But there's been no study of just that  
16 reason itself so I can't use statistics like in Illinois,  
17 other places.

18           REPRESENTATIVE CARN: But at the same time  
19 it's a possibility that if there was casino gambling that  
20 those four hotels might still be here doing well?

21           REPRESENTATIVE BATTISTO: That's what I can't  
22 tell you.

23           REPRESENTATIVE CARN: That's a possibility?

24           REPRESENTATIVE BATTISTO: If there were casino  
25 gambling at the hotels?

1           REPRESENTATIVE CARN: Yes.

2           REPRESENTATIVE BATTISTO: Oh, yeah. The  
3 hotels. Okay. The hotels probably would prosper just as  
4 the hotels in Atlantic City prosper. Most of them, not  
5 all of them. But again, there -- here's the negative  
6 multiplier, all the other businesses surrounding the  
7 hotels that would have captured this business would  
8 probably lose patrons, would lose business and  
9 therefore --

10          REPRESENTATIVE CARN: Okay. I'm sorry. I  
11 didn't mean to interrupt.

12          REPRESENTATIVE BATTISTO: And therefore that's  
13 where the negative multiplier comes into effect, that you  
14 know when you drain money from the other businesses, the  
15 gain that a hotel -- would be reflected by losses at the  
16 other small businesses.

17          REPRESENTATIVE CARN: My analysis is a little  
18 different than yours. My analysis is that the new patrons  
19 to these four hotels full of customers would increase the  
20 businesses of the local community because those people  
21 would not be in that area had not these hotels existed  
22 which -- without their casino gambling. That's my  
23 analysis.

24          REPRESENTATIVE BATTISTO: Representative Carn,  
25 ask the restaurateurs in Atlantic City why there were 446

1 restaurants in Atlantic City in 1978 and there are 146  
2 now. What happened to those -- what happened to 40  
3 percent? Forty percent went of business because the  
4 people did come to hotels at the gambling places, Trump  
5 Plaza and wherever else, and they ate there and they spent  
6 their money there, whatever money they spent, and didn't  
7 go to the restaurants. Add the other businesses in  
8 Atlantic City who experienced a 20 to 40 percent decline  
9 in general retail sales you see. So, yes, the people come  
10 to hotels, they spend their money there, but the other  
11 businesses are cannibalized. In Las Vegas there were no  
12 businesses are out there to be cannibalized. It's in the  
13 middle of a desert. There's no cannibalization.

14 REPRESENTATIVE CARN: Thank you.

15 CHAIRMAN GANNON: Representative Daley.

16 REPRESENTATIVE DALEY: Thank you, Mr.

17 Chairman. Representative Battisto, I'm rather baffled by  
18 some things you say here, and maybe you can clarify these  
19 to me. Your statement testifying today on one page that  
20 your research indicates that there is no single grass  
21 roots organization lobbying for more opportunity for  
22 gambling.

23 REPRESENTATIVE BATTISTO: Um-hum.

24 REPRESENTATIVE DALEY: And the thing that  
25 strikes me is earlier in your testimony you said over \$1.6



1 billion was spent in Pennsylvania on the state lottery.

2 REPRESENTATIVE BATTISTO: Right.

3 REPRESENTATIVE DALEY: So that indicates  
4 there's \$1.6 billion of activity in Pennsylvania  
5 presumably by predominantly Pennsylvanians --

6 REPRESENTATIVE BATTISTO: Absolutely.

7 REPRESENTATIVE DALEY: -- to gamble.

8 REPRESENTATIVE BATTISTO: Um-hum.

9 REPRESENTATIVE DALEY: And Pennsylvanians are  
10 doing this even though there is no grass roots  
11 organization. I mean the public -- and maybe you can  
12 clarify this for the committee -- the public in  
13 Pennsylvania appears to have accepted wholeheartedly the  
14 lottery in Pennsylvania as a legal form of gambling.

15 REPRESENTATIVE BATTISTO: Absolutely.  
16 Absolutely. You're absolutely right. What I'm saying is  
17 though I don't know how many letters you got from  
18 constituents who said, hey, Representative Daley, please  
19 introduce a bill to legalize gambling in Washington  
20 County. I don't know how many letters Chairman Gannon got  
21 or how many Representative Walko or Gigliotti got, but I  
22 got zero number. And I'm sure generally speaking --  
23 generally speaking I'm sure there are some who wrote to  
24 you and asked you to vote for the riverboat gambling in  
25 Pittsburgh or wherever. But what I'm saying is there is

1 no statewide grass roots organization saying we don't have  
2 gambling, we don't have enough ski slopes or whatever.  
3 That's what I'm saying.

4           And that's also been the general report  
5 nationwide that, you know, the people of Wisconsin didn't  
6 clamor for 17 tribal casinos, and the people in Iowa  
7 didn't clamor for riverboats. Somebody wanted to develop  
8 riverboat gambling there because it's a profitable  
9 business for those people who have the riverboats. That's  
10 what I'm saying.

11           REPRESENTATIVE DALEY: Yeah. And I understand  
12 what you're trying to say. But I really think that the  
13 statistics prove to the contrary. Even though there's a  
14 lot of people out there that want motion pictures that are  
15 of the type that are very action oriented and violent,  
16 there's no grass roots organization publicly that supports  
17 that. However, we see whatever we see, the Lost -- the  
18 new movie by Steven Spielberg making a hundred million  
19 dollars, the people really like to do that.

20           And I think what I'm saying here is that even  
21 though there is no single grass roots organization logging  
22 in, I have a lot of people in my district office  
23 supporting riverboat gambling, supporting casino gambling,  
24 supporting gambling in taverns in Southwestern  
25 Pennsylvania, and I think it's running about three to one

1 for it as opposed to against it in my area from my  
2 constituents. There is generally the acceptance, number  
3 one; there's a participation, number two. And I think  
4 there's a desire to show participation because the lottery  
5 is working in Pennsylvania.

6 REPRESENTATIVE BATTISTO: That's why  
7 absolutely it's worked, 1.6 billion dollar industry,  
8 mature industry now.

9 REPRESENTATIVE DALEY: My second question, Mr.  
10 Chairman, and I'll be very quick, is that one statement  
11 Mr. Robert Goodman that in Iowa and Illinois and  
12 Connecticut that a lot of the sales, racing revenues in  
13 the state decreases with the advent of riverboat gambling  
14 and casino gambling. Also you stated with the  
15 introduction of casinos in Atlantic City they saw a 34  
16 percent decline in betting in New Jersey's horse racing  
17 tracks from '78 to '88. That's old data. What happened  
18 since then?

19 REPRESENTATIVE BATTISTO: Race tracks all over  
20 the country are in trouble, not only in New Jersey,  
21 Pennsylvania, Iowa. They're trying -- that's why they  
22 want slot machines to try to rescue them because again you  
23 reach a saturation point. And if you believe that people  
24 should spend only discretionary income, and I hope we all  
25 believe that, then all the discretionary income out there

1 is \$1.6 billion in the lottery, so many billion in the  
2 combination of small games of chance and horse racing and  
3 so forth, and the fact of the matter is there is a  
4 saturation point and many people unfortunately go beyond  
5 that point.

6           But race tracks all over the country are in  
7 trouble and they'll be in trouble because -- I'm sorry. I  
8 don't want to lecture you.

9           REPRESENTATIVE DALEY: Yeah. I just don't  
10 understand the data you're trying to sell the communities.  
11 Really I don't think it tells the whole story.

12           REPRESENTATIVE BATTISTO: Well, I think that  
13 we all realize that the advent of any new business in the  
14 area is going to have some sort of impact and that's  
15 true.

16           REPRESENTATIVE DALEY: And you're saying  
17 there's a decline in racing sales, lottery sales and so  
18 forth in the state. That was in the beginning. What's  
19 happened since then?

20           REPRESENTATIVE BATTISTO: It's continued.  
21 It's continued.

22           REPRESENTATIVE DALEY: It's declining?

23           REPRESENTATIVE BATTISTO: Yes. The racing  
24 industry is declining. I mean it's losing. It has not  
25 been as viable as it was because of the fact that money is

1 siphoned away from that entertainment, as the gentleman  
2 said before me, to another form of entertainment. Yes.

3           REPRESENTATIVE DALEY: So you're telling us  
4 today that the Illinois, Iowa, Connecticut the racing,  
5 lottery sales revenues are still declining today and that  
6 the 34 percent decline in the -- in betting at the New  
7 Jersey horse racing tracks from 1978 to 1980 continue to  
8 decline today because of Atlantic City?

9           REPRESENTATIVE BATTISTO: Because of the  
10 siphoning off. That's right. And let me just say  
11 continue to decline today. They're trying everything they  
12 can to do things to try to get people to go back to race  
13 tracks, and that's why the whole idea of slot machines at  
14 race tracks. That's where it came from.

15           REPRESENTATIVE DALEY: Joe, is that based upon  
16 any quantifying data that you have that you could provide  
17 to the committee?

18           REPRESENTATIVE BATTISTO: What was what based  
19 on?

20           REPRESENTATIVE DALEY: Your analysis.

21           REPRESENTATIVE BATTISTO: About lottery sales  
22 being decreasing in Iowa and as I said? No. That's right  
23 in the book The Luck Business I have right here.

24           REPRESENTATIVE DALEY: Thank you, Mr.  
25 Chairman.

1                   CHAIRMAN GANNON: Representative Manderino.

2                   REPRESENTATIVE MANDERINO: Thank you. Joe,  
3 this really isn't a question, but to ask you to look  
4 at -- because I share some of the concerns you raised  
5 about the form of the question in the Bill 295. And also  
6 about the -- not only the three put together, but what  
7 does the term limited forms mean in part number three.

8                   And I would just ask you to look at -- you  
9 don't have to respond now, and I guess I'll ask  
10 Representative Clymer because I think those are the only  
11 people that are going to be speaking today that would be  
12 concerned about the language in the bill per se -- about  
13 also the term providing a mechanism of. Because the way  
14 the term providing a mechanism is listed in the form of  
15 the question I think everyone's head says, oh, this is  
16 talking local referendum, but my gut reaction says that  
17 language could be something much broader than that. And  
18 if you could give some thought to that, you know, for  
19 future I would appreciate kind of your thoughts on that.

20                   REPRESENTATIVE BATTISTO: And I really don't  
21 have an answer now, but I am concerned about that. And  
22 let me just say one thing, if I may, Mr. Chairman, with  
23 respect to that. I had to cut a lot off of my testimony  
24 to get down to an acceptable length, and I was going to  
25 add a point though. I'd say if you're going to ask three

1 questions, multiple choice, I have a fourth question.  
2 I'll give you the question in the Committee House Bill  
3 788. House Bill 788 has been introduced three different  
4 terms. And what it would do, it would track a  
5 track's -- a federal or district court case from Erie  
6 confiscated many of these video poker machines and said in  
7 essence video poker machines are designed and manufactured  
8 primarily to promote gambling therefore they're gambling  
9 devices.

10           Therefore we ought to amend the second of the  
11 Crimes Code that define gambling devices and include --  
12 include those and therefore they should be banned. My  
13 question would be do Pennsylvanians want to do so, and  
14 that is to ban video poker machines because they are the  
15 most addictive form of gambling, even worse than slot  
16 machines.

17           REPRESENTATIVE MANDERINO: And my final point  
18 too in terms of just going back and looking at language,  
19 because you made the point that all the electronic  
20 machines -- all electronic machines come in that limited  
21 form and you made reference to the addictiveness of it, I  
22 would suggest that you also go back and look at the exact  
23 language of the definition for the equipment and machines  
24 that was in the horse track bill that we were debating  
25 last week. Because my reading of that language was that

1 it would have allowed many more than just one-armed  
2 bandits or slot machines. It would have allowed all of  
3 this electronic equipment as well.

4 Thank you, Mr. Chairman.

5 REPRESENTATIVE BATTISTO: Good point.

6 CHAIRMAN GANNON: Representative Gigliotti.

7 REPRESENTATIVE GIGLIOTTI: Joe. Thank you,  
8 Mr. Chairman. Joe, I just want to ask one question. I'll  
9 make it short. When Atlantic City did a referendum that  
10 let them have the casino gambling, didn't the Pocono  
11 Mountains have the same opportunity and they had a  
12 referendum and you lost?

13 REPRESENTATIVE BATTISTO: We lost.

14 REPRESENTATIVE GIGLIOTTI: Did you shut it  
15 down in the referendum?

16 REPRESENTATIVE BATTISTO: Yes. There was a  
17 non-binding referendum that was four to one against any  
18 kind of --

19 REPRESENTATIVE GIGLIOTTI: Now, you know, that  
20 this Bill 295 it needs a lot of changes and I agree with  
21 you, but, you know, you say in your testimony gambling is  
22 a new venture and it's not been studied?

23 REPRESENTATIVE BATTISTO: The statewide -- the  
24 Commonwealth has never done that; that's right.

25 REPRESENTATIVE GIGLIOTTI: I'm here ten years.



1 In 1990 video poker passed both chambers and was vetoed by  
2 the governor. 1991 I ran the riverboat gambling, it  
3 failed. 1994 tracks come back with simulcast television,  
4 it passed.

5 All this bill, whether wording -- you like the  
6 questions or not, this governor for this State of  
7 Pennsylvania said that he won't consider any kind of  
8 legislation until there's a referendum passed statewide.

9 Now, you know, I'm a pro gambling supporter.  
10 I've been that ever since I've been here. I agree with  
11 the governor. Any of these things have value to the State  
12 of Pennsylvania should be put on the ballot for the people  
13 of Pennsylvania to vote.

14 Whether you agree with the way the questions  
15 are phrased now, that's what this great committee will  
16 change when they come up to vote, and if it's voted out of  
17 committee and comes on the floor, then we all debate this  
18 issue on the floor.

19 But for every person that you said that was  
20 against gambling, I can bring you 20 organizations that  
21 are for gambling. I mean it's something that's been  
22 debated for the last ten years on all three fronts. I'm  
23 saying this is only a referendum. So I think all the  
24 questions are going to be whether you agree with the  
25 following three. And you want to add the fourth, it's

1 okay with me. That's all the question's going to be, the  
2 referendum, no bills. So I understand all the debate with  
3 my friend Mr. Paul Clymer, you know, when we debate  
4 riverboat gambling he said he wanted a statewide  
5 referendum. And I got the testimony. Well, Paul and Joe,  
6 I know how you felt because totally, jump street, this is  
7 what we're going to give you, we're going to give you an  
8 opportunity for the people of Pennsylvania to decide what  
9 type of gambling they want.

10                   REPRESENTATIVE BATTISTO: Representative  
11 Gigliotti, that's a good point. And I think I said  
12 somewhere in my testimony that months from now House Bill  
13 295 might be appropriate. All I'm saying is that we have  
14 never in this Commonwealth -- the president talks about a  
15 commission, you know, and I heard various people appointed  
16 and they're jockeying around, this guy is from the  
17 gambling industry, this guy is not.

18                   That's all nonsense. Can't we get some kind  
19 of objective commission to really study gambling's  
20 effects? That's all I'm saying is to really do an  
21 economic and social impact in this Commonwealth. What we  
22 have -- as I said we spend over \$3 million, as you know,  
23 on legal gambling, what economic impact, is it true that  
24 it cannibalizes as I read it does. You know, what effect  
25 and what about the social costs. When we tabulate those

1 up, what about the net result.

2           That's all I'm saying. I'm saying that we owe  
3 to our constituents statewide to really do -- in depth  
4 study this issue from the standpoint of social and  
5 economic impacts in this Commonwealth -- in this  
6 Commonwealth. That's all I'm saying.

7           CHAIRMAN GANNON: Thank you, Representative  
8 Battisto, for being here today to offer your testimony.  
9 We very much appreciate it.

10           Our next witness is Mr. Scott Scherer,  
11 Executive Director of International Game Technologies.

12           Do you have some of equipment as part of your  
13 presentation?

14           MR. SCHERER: Yes, Mr. Chairman. We had  
15 requested, if it's available, an overhead projector and  
16 screen. I have some overhead transparencies.

17           CHAIRMAN GANNON: Are they on their way?

18           MR. SCHERER: I thought they were on their  
19 way.

20           CHAIRMAN GANNON: Why don't we just take a  
21 little break.

22           (Recess was taken from 11:50 until 11:57 a.m.)

23           CHAIRMAN GANNON: Back on the record. Mr.  
24 Scherer, you can begin. Start slowly. People will drift  
25 in once we get the meeting started. Thank you very much

1 for being here today. You may proceed.

2 MR. SCHERER: Thank you, Mr. Chairman, Members  
3 of the Judiciary Committee. My name is Scott Scherer.  
4 I'm with International Game Technologies.

5 I appreciate this opportunity to be here and  
6 speak to you today. A little bit about the gaming  
7 industry and what's happening in gaming around the United  
8 States.

9 International Game Technologies is the world's  
10 leader in manufacturing gaming devices, slot machines,  
11 video poker games, and computerized monitoring systems  
12 that are used with those games. We're licensed in more  
13 than 90 different jurisdictions around the world. We're  
14 listed on the New York Stock Exchange and have been since  
15 1991. We've been publicly traded since 1981.

16 In my prior lives I served in the Nevada  
17 Legislature where I saw a number of gaming bills that  
18 Nevada dealt with, and I also served as Nevada Attorney  
19 General's Office of Counsel for the Nevada Gaming Control  
20 Board. So while I don't intend to go to great lengths on  
21 regulations today, if there are questions with regard to  
22 regulations and the way that gaming is regulated in  
23 various jurisdictions, I'd be happy to try to address  
24 those.

25 Additionally for IGT I track a lot of the

1 economic and social statistics, some of which you heard  
2 cited in the last presentation. And again I didn't intend  
3 to go into those in great detail today, but I'd be happy  
4 to try to answer questions if you have questions.

5           What I did want to cover are two things. One  
6 was tying together the various states in North America  
7 and, secondly, what kind of technology is used in the  
8 gaming machines and in the computerized monitoring  
9 systems, what are the capabilities and how does it work.

10           We feel that there's been a great deal of  
11 misinformation all over the country, not just in  
12 Pennsylvania about how machines work. We hope that we can  
13 perhaps provide a little bit of background information for  
14 you so that you can have an informed debate on this  
15 issue.

16           We are not taking a position for or against  
17 any particular form of gambling or for or against gambling  
18 in any of the particular venues that you have in this  
19 particular bill. We just want to provide some background  
20 information for you for your debate.

21           In looking at -- many of you have probably  
22 heard the statistics that there are now 48 different  
23 states in the country that have some form of legalized  
24 gambling. Only Utah and Hawaii have no legalized gambling  
25 at all. Most of those, of course, are lotteries where

1 there are lotteries in 38 different jurisdictions in the  
2 United States.

3 Charitable gambling is the most abundant. All  
4 but four states I believe have charitable gambling of some  
5 form, charitable bingo and other forms of charity events.

6 Pari-mutuel facilities, of course, are quite  
7 abundant. Tennessee authorized pari-mutuel gaming a  
8 number of years ago and has never actually opened a race  
9 track. I think green states of Virginia recently  
10 authorized pari-mutuel wagering and has a track that is  
11 being built currently. Nevada actually allows pari-mutuel  
12 wagering at its county fairs, but they don't have an  
13 existing track.

14 Indian gaming of course on Native American  
15 reservations have been the fastest growing perhaps type of  
16 gaming in recent years.

17 Just some of the terminology. Class three  
18 basically means the blue, that is, full casino gambling.  
19 That's the class three -- that's the definition of Indian  
20 Gaming Regulatory Act. Class two includes bingo, card  
21 games such as poker which the players play against each  
22 other, not just the house. Class three with no machines  
23 obviously includes table games such as blackjack,  
24 roulette, crap, but not machines. The red states do not  
25 have machines, New York and Washington.

1           Video gaming -- and this chart basically does  
2 not talk about video gaming in pari-mutuel facilities.  
3 The next one will do that. This is video gaming in bars  
4 and taverns in the states where that type of gaming is  
5 authorized. Six currently. New Mexico recently  
6 authorized video gaming in its fraternal organizations.  
7 And that should start up sometime next year.

8           Gaming machines at pari-mutuel locations,  
9 again New Mexico recently authorized machines for its race  
10 tracks and slot machines and video games. Iowa is in the  
11 green in the center has slot machines. Louisiana tracks  
12 have video poker. Rhode Island and West Virginia and  
13 Delaware. I think Rhode Island is probably too small to  
14 show up on there in blue, but Rhode Island also has video  
15 game machines at their pari-mutuel facilities.

16           Land-based casino gaming, only a handful of  
17 states actually have casinos on land. Of course, New  
18 Orleans has casinos authorized. It's not currently  
19 operational. Michigan voters last fall authorized three  
20 casinos in Detroit and those are not yet -- haven't been  
21 built, but the licenses have not been issued because they  
22 have to establish the gaming control board and gaming  
23 licenses in process.

24           Riverboat gaming is clustered around the  
25 Mississippi River. Six states in the heartland of the

1 country. And all of those are now operational.

2           Just a quick summary before you move into  
3 technology. The 38 states with lottery, 6 with  
4 riverboats, 29 now with some form of Indian gaming compact  
5 with the state. The video gaming, video lottery, video  
6 gaming, that actually should be seven if you don't count  
7 pari-mutuel locations. And they could be eight if you  
8 include Rhode Island in there which has a video gaming.  
9 It's actually run by a lot of the pari-mutuel locations  
10 and it's not on here, but there are I believe now six  
11 states with gaming machines at pari-mutuel facilities,  
12 five or six.

13           Just to look at some of the recent trends and  
14 what's happening and why gaming is expanding across the  
15 country. In large part it's due to public attitudes.  
16 U.S. acceptance of casino entertainment continues to  
17 increase. From 1992 to 1995 now over 70 percent of the  
18 people surveyed say that gaming entertainment and casino  
19 gaming is acceptable for anyone. Another almost  
20 approximately 40 percent -- some of these are duplicates  
21 obviously because they overlap -- say it's acceptable for  
22 others but not for themselves. And the smallest group,  
23 less than 10 percent, say it's not acceptable for anyone.  
24 That survey was done annually by Harrah's Entertainment --  
25 for Harrah's Entertainment. It was done by Yankovich for



1 Harrah's.

2           The business of U.S. casino destinations in  
3 1995 grew to over 155 million visits or approximately 155  
4 million visits to casino destinations. As you can see in  
5 the chart, in 1995 the majority of those were new  
6 destinations that had been legalized since 1990. Since  
7 1994 there have been a number of new jurisdictions.

8           There was a huge wave of expansion in 1991,  
9 '92, '93, but since 1994 there have been some additional  
10 expansions. And some of the opponents of casino gaming  
11 would have you believe that there's been a sudden halt to  
12 it because people have found that it's so horrible that  
13 they had to stop it. The fact is it has continued to  
14 expand and it has expanded dramatically.

15           Michigan voters, as I noted, approved casinos  
16 last fall; Delaware, of course, put slot machines in their  
17 race tracks in 1994. New Mexico in 1996 agreed to put  
18 machines at their race track and fraternal organizations.  
19 Iowa had riverboats already, but in 1994 allowed  
20 their -- the race tracks to have machines as well. West  
21 Virginia allowed the machines in their pari-mutuel  
22 facilities. Louisiana had votes last fall on all three of  
23 their forms of gaming -- machine gaming, video poker,  
24 riverboats and land-based casinos. All three received the  
25 majority votes in favor statewide.

1           Now there were parish by parish votes and some  
2 of the parishes did vote out video poker, but the majority  
3 who voted statewide did vote for it. In fact the majority  
4 of the parishes voted out video poker, a slight majority  
5 of the smaller parishes. The larger parishes all agreed  
6 to keep it. The majority who voted agreed to keep it.

7           The riverboat casinos, all of them -- all of  
8 the parishes that have riverboat casinos were approved  
9 overwhelmingly. The smallest vote in favor of riverboat  
10 casinos was 58 percent in any of the parishes in  
11 Louisiana.

12           Also South Carolina had votes on their video  
13 gaming and only approximately 20 percent of their counties  
14 voted it out. Statewide averaged over 60 percent of the  
15 voters voted in favor of keeping it. Quebec, Ontario,  
16 British Columbia, a lot of the Canadian provinces have  
17 expanded their gambling offerings as well.

18           So the expansion does continue, contrary to  
19 what is commonly spread these days by people who are  
20 opposed to expansion.

21           Turning to the machines and the way that they  
22 operate. Machines today are no longer the traditional  
23 one-armed bandits that were mechanical in nature that had  
24 gears that clicked into place as the tumblers spun around.  
25 Today they operate electronically. They are computer

1 microprocessor controlled. They are designed -- they are  
2 very much like a computer. You have a processor board,  
3 you have your switches and your lights and everything  
4 else. And a part goes bad, you pop it out and replace the  
5 part. They are self-diagnosing. They have a number of  
6 diagnostic switches where each of the components of the  
7 machine will go through a test itself and tell you if  
8 there's a problem with the component.

9           Then they are random number generators. The  
10 random number generators in the computer choose the random  
11 numbers to determine the outcome of the games. The random  
12 number generators in our machines cycles continuously  
13 until the coin's inserted so it is -- as you see a machine  
14 sitting there, if it is powered up, the random number  
15 generator cycles the numbers and when you insert a coin it  
16 instantly grabs those numbers that is in its memory bank  
17 at that point in time and those are the numbers for that  
18 particular game. And when that game is over, it will  
19 begin cycling again.

20           The random number generator is designed to  
21 test -- to detect patterns so that it is as random as you  
22 can get. Although the engineers tell me that no such  
23 thing is truly random but that the fact that these  
24 machines meet standards, that is typical standards,  
25 statistical tests for randomness and normally known as the

1 chi squared test.

2           The parameters for the random number generator  
3 depend, of course, on the game type. A poker or blackjack  
4 game is based on a deck of cards. Normally you pick the  
5 numbers between one and 52, for example. If it's a joker  
6 poker game, when there's a joker, then one and 53.

7           With the reel machine, the wind-up games  
8 they're called, will pick a number for each reel that  
9 determines the position of the reels when the reel  
10 stops. They use separate motors which actually position  
11 the reels. The random number generators determine the  
12 result of the game. The reels display the result of the  
13 game. Unlike the older mechanical machines where the  
14 position of the reel actually determined the result of the  
15 game.

16           The components, I'd like to look at this  
17 diagram quickly. A coin comparator for inserted coins,  
18 bill acceptor, a number of different features involved in  
19 those. They -- you have the hopper which is down below  
20 which dispenses the coins to the player. You have the  
21 reels which are the display mechanism, various types of  
22 components. You've got the processing board in the back  
23 which is a locked part gauge as we call it.

24           Turning to coin and bill handling. The coin  
25 comparator actually looks at the size and weight of a

1 coin, the magnetic properties of and the optics to  
2 determine the path of the coin. They're very  
3 sophisticated these days to prevent any kind of  
4 counterfeiting or cheating in the use of counterfeit coins  
5 and the use of a coin on a wire known as string a machine  
6 or yo-yo the machine where you have a coin on a wire and  
7 bob it up and down to access the machine.

8           Today, again like I said, the size, the weight  
9 of the coin, it actually measures the rate at which it  
10 drops. The optics look at the path it takes. If it takes  
11 the wrong path, pulling the coin back up out of the  
12 machine, it sees that and the machine is disabled. And  
13 like I said, it compares the magnetic properties of the  
14 metal in the coin.

15           The bill acceptor looks at the picture of the  
16 bill, the transparency of the paper used by the federal  
17 government, the magnetic qualities in the ink. There's  
18 actually lead in the ink that the U.S. mint uses to print  
19 currency, and the amount of lead in the ink differs from  
20 bill to bill so you can actually look at the magnetic  
21 properties in the bill to also evaluate it.

22           And once it's accepted, the bill cannot be  
23 retrieved because you pull a bill back out again, there is  
24 a mechanism that stops it from being retrieved. If you  
25 change your mind and you don't want to play the game, you

1 receive your change back in coins -- you receive your  
2 money back in coins.

3           The hoppers typically basically is the payout  
4 mechanism. A hopper dispense coins. It's a mechanical  
5 mechanism that dispenses coins directly to the players.

6           Ticket printers are typical anymore in video  
7 gaming and they print these vouchers that would be  
8 redeemed by the player either by the cashier or the  
9 bartender of the bar, depending on the location. The  
10 tickets would have security information coded on them to  
11 prevent counterfeiting tickets to be validated by what we  
12 call the clerk validation terminal or CVT. You punch the  
13 number of the voucher into the CVT and check with the  
14 central computer system to make sure that that is a  
15 legitimate voucher before the cashier pays that out.

16           Machines are also equipped with various  
17 meters, what we call hard and soft meters. Hard meters  
18 are sort of an electro-mechanical meter that keeps track  
19 of every coin in and coin out, play, those kinds of  
20 things.

21           The soft meters are the software. They're  
22 like hard meters and they're actually more accurate these  
23 days. They're electronic and not mechanical. They are  
24 more accurate than the hard meters. They keep track of  
25 coins in, coins out, credits played. Importantly, the

1 door open, hard gauge, power shutdown, those are important  
2 security features that I touched on in these notes.

3           The types of games that are available, you've  
4 got poker, various types of poker games usually modeled  
5 around draw poker on the machines. Blackjack machines,  
6 keno games can be on stand alone machines as well as what  
7 you see in some state lottery drawings, you've got a  
8 computerized pool of games. You also have keno on these  
9 stand alone machines. Bingo can be on a stand alone  
10 machine as well rather than the pool of games.

11           Line games, that's the first one. It's a  
12 slot-type game, line up symbols to equal a particular  
13 payout. The game rules at play tables are typically  
14 printed right on the glass of the machines. The player  
15 knows what the rules are and knows what the payout is for  
16 each different combination of symbols.

17           Some of the security features -- I touched on  
18 the coin and bill acceptor already. The processing board  
19 really controls the play of the game. It is locked in  
20 what we call the hard cage in the back of the machine and  
21 it is a separate key. It uses a separate key from the key  
22 that opens the main door. So usually to access the hard  
23 cage you would need at least two different people with two  
24 different keys to provide security for the game.

25           The hopper and ticket printer, the hopper has

1 optics and it counts the coins that come out and has -- if  
2 the hopper is spinning and coins are not coming out it  
3 automatically shuts itself down. People cannot try to  
4 hold the hopper open. It will blind the optics and have  
5 coins being dispensed and not being counted.

6 I talked about the security features on the  
7 tickets already. The display -- for example, on the  
8 traditional slot machine or electronic slot machine that  
9 has reels, the computer actually remembers what the last  
10 position of the reels was. If someone would, for example,  
11 have a conspiracy going where a slot mechanic would  
12 work the casino involved in trying to set up a jackpot,  
13 open the door or move the reels that you had three seven  
14 on the pay line, the minute you close the door and turned  
15 on the power the reels would re-spin themselves back to  
16 where they were at the end of the last game.

17 One of the security features the game  
18 recalls -- the video machines actually include the  
19 reel-type game as well -- provide a five-game recall  
20 stored in the memory as the actual result of the last five  
21 games. If there's a dispute about whether somebody won or  
22 not or whether there was cheating involved or whether  
23 there's a malfunction involved, you have all of that  
24 information stored in memory.

25 The communications -- talk about in a minute.



1 Most of the machines -- in fact every jurisdiction in  
2 North America that has authorized any form of legalized  
3 gaming machines in the last fifteen years has acquired a  
4 computerized system hooked up to those machines to monitor  
5 the activity on those machines. That computerized system  
6 communicates to the machines through a secure protocol,  
7 it's inscripted data, and that data can only be read  
8 typically by the computer at the other end of the line.

9           Additionally, even if someone is able to hack  
10 into that data screen and get the data, the machines  
11 themselves are protected against anyone sending data  
12 downline to influence the outcome of the game. A game now  
13 is clearly determined by the process of voiding the  
14 machine itself, not by the computer system attached to the  
15 machine. The computer system merely collects data.

16           So even if someone could hack into the system,  
17 all they could do is collect data. They can't alter the  
18 results of the game. And additionally, if they could  
19 alter the data, if they do alter the data, the old data  
20 will be stored back when the change is made, will be  
21 stored so you always have an audit trail leading back if  
22 somebody got in and changed the data.

23           A little diagram to show you how the systems  
24 work. Again, you have the computer system which might be  
25 in a room in the casino, or in the case of machines in

1 bars and taverns, typically it's -- usually it's in a  
2 state office building of some type, either state lottery  
3 headquarters, state police headquarters or some other  
4 state agency authorized to regulate games. It  
5 communicates either over leased lines or a dial-up system  
6 to the CVT or port validation terminal. Our competitors  
7 have different names for their devices, but basically the  
8 names are the same type of devices.

9 I pointed out the AC terminal would be on the  
10 premises of the bar or tavern or the race track or casino  
11 site hooked up in this fashion. It would be on the  
12 premises and it would be hooked up to the computer  
13 machines.

14 Now, there are three levels of storage data.  
15 Machines store data in the meters. CVT would poll the  
16 machines periodically, and that depends on how frequently  
17 your regulatory agency wants to poll and it would store  
18 the data and the system itself would hold the data.

19 Normally the system itself would only collect  
20 the accounting data from the CVT once a day, and once --  
21 the systems are dial-up systems so that once a day,  
22 usually two or three in the morning, the system will dial  
23 in to the CVT and download the data. That way when the  
24 regulator comes in in the morning, 8:00 a.m., the report  
25 is printed and ready for them to review the data from the

1 previous day's transactions.

2           The security data, however, door opens, any  
3 kind of critical security can be immediately downloaded to  
4 the central system so somebody monitoring the system in  
5 the state office will know that there has been some type  
6 of security event that's occurred.

7           Which events those are are up to the  
8 regulators. They can set the system so that certain  
9 events the CVT will immediately dial the central system,  
10 others events it will not, it will wait till the data is  
11 polled. It's up to regulators as to which information  
12 they want when.

13           I talked a little bit about most of these  
14 things. The security data, again the door opens, the card  
15 cage being accessed, the power being turned off to get  
16 access, some of the more critical parts to the machine.

17           The accounting information usually is polled  
18 daily. Monitoring -- if you wanted to -- if you were on  
19 line, if you wanted to check into a particular machine any  
20 particular time of day at any particular location as to  
21 what the activity was on that machine, you could watch any  
22 particular location if you wanted to any particular time  
23 at any particular time of day.

24           So there's monitoring functions as well. And  
25 EFT, electronic fund transfers, if you wanted to, you have

1 a number of jurisdictions where even having a  
2 gaming -- licensees now pay their taxes by electronic fund  
3 transfers through the system. They deposit their funds in  
4 a segregated bank account and that bank account is swept  
5 either daily or weekly or monthly, depending on the tax  
6 reporting period by the system.

7 I talked about the communications already,  
8 dial up a leased line. Two options, the dial-up line is a  
9 cheaper option. To dedicate the leased line for the  
10 length it's opened, 24 hours a day is much more expensive  
11 if you have to cover a wide area and be on line full time.  
12 So usually in the casino it's on line full time because  
13 you don't have the telephone costs because it's  
14 always -- it's a local area network. When you get into a  
15 wider area, the more common for the dialing system -- to  
16 have a dialing system.

17 Security, we talked critical debt reporting.  
18 Also, even if you don't decide to have the critical event  
19 reported by the CVT dialing into the system, you have the  
20 event logged so all of that information is still logged  
21 and can be retrieved. If you have a high number of  
22 suspicious events occur in a particular location, you can  
23 start having that -- you can start registering every one  
24 of those events as a critical event and having it  
25 received, redial into the central system. Or you can send

1 out undercover agents to start looking into suspicious  
2 activity.

3           The system really provides a great deal of  
4 assistance to regulators in making sure that the games are  
5 run honestly, the taxes are paid, and that the public can  
6 trust the system and the machines are doing what they're  
7 supposed to be doing.

8           The accounting -- I'm sorry. Signature  
9 verification is a very important feature. It is the  
10 system actually checks the e-prompt (phonetic) in the  
11 machine which is the computer chip that runs the game to  
12 insure that it is the correct computer chip that is in the  
13 game.

14           If someone got into the machine and tried to  
15 switch the computer chip, the game would be disabled.  
16 When you turn the power back -- and the only way you can  
17 switch the computer chip is to turn the power off and go  
18 into the processing board, when the power is turned back  
19 on the system will check to see if the correct e-prompt is  
20 in the game. If it is not, the game would be disabled.

21           Accounting, you have a number of different  
22 reports to run depending again on what your taxing  
23 authorities want. You can run a report every day, at the  
24 end of the day, on a weekly, monthly or annual reports.  
25 It can be by machine, by locations, overall. Accounting,

1 you can pretty much set it up however you want to set up  
2 the accounting reports for your tax collectors and your  
3 tax systems.

4           The monitoring, we talked about the on-line  
5 monitoring. We can look at a particular location of a  
6 machine. The audit capabilities, that audit trail is  
7 created every time you get any unusual transactions. If  
8 there's ever a difference between the hard and soft  
9 meters, also, you have an audit notation made, an audit  
10 trail so you can go back and look at where those two  
11 discrepancies occurred and try to figure out why there's a  
12 discrepancy.

13           I mentioned occasionally the hard meters will  
14 get stuck, they'll get old and sticky if they're not  
15 lubricated and maintained properly, they're more likely to  
16 be wrong and you can stop the machine.

17           The electronic funds transfer I mentioned.  
18 The central site control, the system also allows you to  
19 enable and disable machines from the central location. So  
20 if you have a particular location that wasn't paying its  
21 taxes, a particular location that is violating  
22 regulations, and you wanted to make sure that those  
23 machines were shut down, you could actually shut them down  
24 from the computer system initially and they would not be  
25 able to use those particular machines.

1           It's not to say that they couldn't make  
2 illegal machines and then try to operate those. They  
3 would have to go out and get new machines and not be  
4 able -- they would not be able to use the ones they've got  
5 in the system.

6           I guess using illegal machines is something  
7 that's already occurring virtually everywhere in the  
8 country already. The only way that you're going to shut  
9 that down is active enforcement of illegal activity.

10           With that I'd be happy to answer any questions  
11 about the technology or about the trends in gaming today.

12           I did want to note in response to the previous  
13 speaker just quickly that virtually all of the people who  
14 were quoted, all of the books, all of the experts that  
15 were quoted, are experts that are on the National  
16 Coalition Against Legalized Gambling, the expert panel.  
17 Professor Goodman did a very biased study and did a very  
18 biased book.

19           If you look at the primary data, the numbers  
20 are much different than what you would hear from the  
21 opponents of gambling. I encourage you to look at the  
22 real statistics. Look at the sales tax revenue, look at  
23 the employment numbers, look at the number of retail  
24 locations rather than relying on the antidotes that you  
25 hear, conclusions drawn by people who oppose these.

1                   CHAIRMAN GANNON: Thank you very much, Mr.  
2 Scherer. Representative Manderino.

3                   REPRESENTATIVE MANDERINO: Thank you. Thank  
4 you for your explanation, particularly of the current  
5 status as to the gaming equipment. I understood that a  
6 differentiation you made between the old -- the mechanical  
7 old ways that machines operated and how everything is kind  
8 of electronic now. My question goes to one of your slides  
9 talks about the types of games. You have poker,  
10 blackjack, keno, bingo, line games. Line games, is that  
11 the definition for what you traditionally think of as a  
12 slot machine where the numbers or pictures or something  
13 comes up and they match or then don't match, and is that  
14 like a term of art within the industry? If you understand  
15 my question.

16                   MR. SCHERER: I do. Yes. Representative,  
17 that is sort of a term of art in the industry, more in the  
18 lottery industry I guess. It's a term that is used to  
19 describe both the traditional slot machines that have  
20 reels and a video machine that simulates reels, yes. Both  
21 of those games what you try to do is line up symbols on  
22 particular lines. That is why it's called a line game.

23                   REPRESENTATIVE MANDERINO: So as I understand  
24 the definition of a line game, does that by definition  
25 exclude video poker, video blackjack, video keno?



1 MR. SCHERER: It certainly would by the common  
2 understanding of people in the industry, yes.

3 REPRESENTATIVE MANDERINO: How about are there  
4 any places that have machine gambling that have any games  
5 beyond I guess those five or six listed?

6 For example, if I go to an amusement arcade,  
7 not at all familiar with gambling, related to gambling  
8 there are what I would call the modern day versions of the  
9 pinball machine and video games and you get in there and  
10 play war and knock somebody off or you accumulate so many  
11 kind of points. Is that -- or the same kind of game that  
12 you might play on your home computer. There are tons of  
13 video games out there that you can buy the software and  
14 play on your home computer. Are any of those kinds of  
15 those scenarios or story-telling or action packed or --  
16 words to give them -- games being used in the formal  
17 industry where there is gambling or betting going on?

18 MR. SCHERER: Not in the formal industry no.  
19 I can't speak for what's being done illegally in the  
20 underground industry, but, no, not for the legal industry.

21 REPRESENTATIVE MANDERINO: My other question,  
22 and I don't know if you know this or not, but I thought  
23 you might based on the beginning of your testimony  
24 vis-a-vis what's happening in various states, what's  
25 legal. Do you know whether or not there are any states or

1 localities, depending on how their legislation is written,  
2 set up, that allow various forms of legalized gambling  
3 where the governmental authority, the taxing authority,  
4 whether it is a state or the locality or both, does not  
5 charge a premium of some sort on the industry? Because  
6 it's a gambling industry as compared to a supermarket or a  
7 movie theater. A movie theater opens in the City of  
8 Philadelphia and they pay whatever taxes that they pay,  
9 they may even pay municipal taxes but they don't pay a  
10 surcharge like most of what I've heard us talking about in  
11 Pennsylvania, and I suspect other states, a surcharge  
12 of -- on the profits or revenues because they are gambling  
13 institutions? Is the question clear and do you know an  
14 answer?

15 MR. SCHERER: I hope the question is clear, I  
16 think I know the answer. Is there any state that does  
17 not -- let me try to restate the question. Is there any  
18 state that does not have a specific gambling tax that is  
19 imposed over and above and normal taxes that are imposed  
20 on every business? Is that basically the question?

21 REPRESENTATIVE MANDERINO: Right.

22 MR. SCHERER: The only one is perhaps South  
23 Carolina where they have the per machine device fee that  
24 they charge and they also charge a per machine device for  
25 amusement devices as well as for gambling devices.

1           Now, the per machine device gambling devices  
2 is higher than for normal amusement devices, so I guess  
3 you could call that a surcharge because it's not a  
4 separate tax. It's just how it's categorized in a  
5 particular tax schedule.

6           REPRESENTATIVE MANDERINO: And how does -- if  
7 you know, how does the State of South Carolina regulate or  
8 oversee gambling interests or concerns within its borders?

9           MR. SCHERER: The Department of Revenue is  
10 actually the regulator. And frankly, in South Carolina  
11 machines were legalized by a Supreme Court decision or by  
12 the Supreme Court by inartful drafting by the legislature  
13 perhaps. The Supreme Court found that because of the way  
14 that their -- the language of their criminal code was  
15 written it is not illegal to offer gambling devices in the  
16 State of South Carolina.

17           That was eleven years ago. Now, the  
18 legislature has never seen fit to correct that omission so  
19 they've allowed the industry to continue and have in fact  
20 in the meantime passed some legislation to regulate it.  
21 The Department of Revenue only recently got some  
22 rule-making authority and some authority to actually  
23 regulate the devices.

24           REPRESENTATIVE MANDERINO: The regulation is  
25 done by -- unlike with what we're familiar with in New

1 Jersey, the various commissions on gambling that oversee  
2 the industry, it doesn't -- they don't oversee the  
3 industry -- maybe I just need to look at what specifically  
4 they regulate. I can do that. Thank you.

5 MR. SCHERER: South Carolina is the only one I  
6 think that does not have some type of -- and actually they  
7 do now too. The Department of Revenue does have a  
8 separate gambling enforcement unit now. They do have some  
9 authority to regulate gambling over and above typical  
10 business regulations.

11 REPRESENTATIVE MANDERINO: Thank you.

12 CHAIRMAN GANNON: Representative Masland.

13 REPRESENTATIVE MASLAND: Thank you, Mr.  
14 Chairman. Mr. Scherer, I apologize I was not here earlier  
15 to hear the first two speakers so I can't put some of your  
16 comments in perspective. But as I sat up here and  
17 listened, what impressed me with your testimony is the  
18 high-tech, clinical, secure nature of how you described  
19 these machines.

20 I almost found myself being lulled into a  
21 sense of assurance that, well, this is very clinical let's  
22 just put the rubber gloves on and trust them to take out  
23 our appendix or do a heart transplant or whatever else.

24 You made one comment which really kind of  
25 popped out to me, and that was basically -- and I'll

1 paraphrase the initial part -- that these machines are so  
2 secure, that this process is so secure that "the public  
3 can trust that the machines are doing what they're  
4 supposed to be."

5           Now, from my perspective, my understanding,  
6 these machines are supposed to make money for the people  
7 that own the machines and put them into place. And the  
8 only way to do that is for the people to use the machines  
9 to lose money. Isn't that what I guess the public  
10 ultimately should trust is going to happen?

11           MR. SCHERER: That's ultimately going to  
12 happen, but they should also trust that the game is fair  
13 and is played by the rules and --

14           REPRESENTATIVE MASLAND: That was one word you  
15 didn't use -- fair. I was listening for fair. Maybe I  
16 missed that at some point in time. But I mean you can  
17 set -- with all of this great technology, you can set it  
18 up so that somebody wins 10 percent of the time, somebody  
19 wins 90 percent of the time, somebody wins zero percent of  
20 the time.

21           I guess we can have a wide variety of  
22 parameters there, and it's all very clinical and it's all  
23 very precise and I think the public should know and the  
24 public should trust that if they use those machines, they  
25 will probably lose 70 percent of the time or 80 percent of

1 the time.

2 MR. SCHERER: Actually the numbers are  
3 significantly different than that, Representative. A  
4 typical machine pays back approximately 90 percent of  
5 everything that's wagered there. So, yes, the house  
6 hold -- approximately 10 percent of every dollar, 10 cents  
7 of every dollar that is wagered, the house is going to  
8 hold typically.

9 Those are set by regulation, those payback  
10 percentages, usually in the range -- New Jersey pays 70 to  
11 99 percent, Nevada is I think between 75 and 99 -- 75 to a  
12 hundred percent. Most jurisdictions are somewhere around  
13 80 percent, 80 to 85 percent, because there's minimum  
14 payback to players and most of them cap it at 99, a  
15 hundred. Some of them cap it as low as 95, 96.

16 REPRESENTATIVE MASLAND: You said a hundred  
17 percent, some machines pay back a hundred percent of what  
18 goes in. They'd have a hard time --

19 MR. SCHERER: They do, yes. They do.

20 REPRESENTATIVE MASLAND: It's amazing that  
21 there's this altruistic streak in the industry.

22 MR. SCHERER: It's called marketing,  
23 Representative. Loss leader.

24 REPRESENTATIVE MASLAND: I remember that from  
25 law school. Well, I'm not going to put you on the spot.

1 I think I made my point. But whatever the percentages  
2 are, that's what the public should know. And as clean and  
3 secure as you make it sound, it is still ultimately, when  
4 it comes down to it, a win-lose proposition.

5 MR. SCHERER: Yes. It's not like any other  
6 form of amusement. You pay a price for that form of  
7 entertainment, that form of amusement. You go to the  
8 movies, you pay for a movie. If you play arcade games,  
9 you pay to play arcade games. If you go into a casino for  
10 casino entertainment, you are going to spend some money  
11 typically. Occasionally you'll win, you'll walk out with  
12 some money, but most of the time you're going to lose.

13 And a typical casino patron walks in there  
14 knowing how much they're willing to lose, and when they've  
15 lost that, they walk out.

16 Now, that's not everyone. I'm not saying  
17 there aren't problem gamblers, but I think it's important  
18 to define who are the problem gamblers and really what  
19 portion of the population they are and what the impact on  
20 them is. I don't know that that's been properly done by  
21 the studies that have been recited earlier.

22 REPRESENTATIVE MASLAND: That last comment  
23 about how many people go in knowing and limiting  
24 themselves to what they know ahead of time they're willing  
25 to lose, I guess we'll hear from Mr. Milillio, the Council

1 on Compulsive Gambling in the next few minutes so I'll let  
2 him address that. Thank you, Mr. Chairman.

3 CHAIRMAN GANNON: Representative Josephs.

4 REPRESENTATIVE JOSEPHS: Thank you, Mr.  
5 Chairman. I'm interested -- this may be outside of your  
6 area of expertise, but I'm interested in some of your  
7 auxiliary things that go along with these machines. Can  
8 you tell me if there is any jurisdiction in which there  
9 are gambling casinos described in here but in which  
10 alcohol is not sold in conjunction with those  
11 establishments?

12 MR. SCHERER: Yes. Mr. Chairman, there are  
13 some Native American reservations where the local tribal  
14 ordinances do not allow the service of alcohol in the  
15 casino. I am not finding it in my brain right now, any  
16 other jurisdictions other than the Native American  
17 reservations. Puerto Rico.

18 REPRESENTATIVE JOSEPHS: That's actually what  
19 I was thinking of. But I've been in situations, for  
20 instance, where the alcohol, the bar, the tavern, is at  
21 this end of the room -- this is speaking hypothetically --  
22 there is a barrier about 20 feet away, and then 20 feet on  
23 this other side of the room commences either gambling  
24 machines as you have described them or I guess what people  
25 think of as more traditional, people standing, dealers



1 standing at tables and activity going on.

2           In the situations that you've mentioned, the  
3 Indian reservations jurisdictions, are you -- is that the  
4 situation there or are you aware of what the situation is?

5           MR. SCHERER: Well, the typical casino-type  
6 environments where you have machines, tables around in a  
7 large room and there's no service of alcohol in that  
8 particular room. There may be a bar in the next room but  
9 there's no service of alcohol. In some cases there was no  
10 service of alcohol in the premises period by tribal  
11 ordinance, the local ordinance that controls that  
12 facility.

13           REPRESENTATIVE JOSEPHS: If you have more  
14 information on that, I would be very interested in it. If  
15 you could forward that to the chairman of the committee,  
16 and I know he will circulate it to the rest of us. Thank  
17 you, Mr. Chairman.

18           CHAIRMAN GANNON: I'm just a little -- maybe a  
19 clarification. I think you already stated it, but I may  
20 have missed it, and that is the difference between a video  
21 game machine and a slot machine. You can have a slot  
22 machine that doesn't have any wheels or a lever. It's all  
23 done electronically. How do you distinguish that between  
24 the video gaming machine and calling that a slot machine  
25 or do you? I don't know.

1 MR. SCHERER: You have different rules of the  
2 game. It's video poker, video blackjack, different rules  
3 of the game. You might have a payout, the ticket, the  
4 hopper.

5 CHAIRMAN GANNON: What you're saying is you  
6 can have a -- I think you called it a line game which  
7 would be analogous to the slot machine but it's  
8 electronic, and you would call that a video game machine.  
9 So frame of reference is a slot machine. I can see a  
10 thing with a spinning wheel and a lever you have to pull  
11 to make it --

12 MR. SCHERER: It can be either one. The one  
13 with the spinning wheel is what we call a reel game,  
14 r-e-e-l, a reel game but it's also electronic. It's also  
15 controlled by a microprocessor and a random memory  
16 generator. Or you can have a video display and really a  
17 difference in the way that the results of the play are  
18 displayed on the reel or it's displayed on the video  
19 screens.

20 CHAIRMAN GANNON: Yeah. I just was getting  
21 back to what Representative Manderino touched on, the  
22 definition of these types of machines for legislative  
23 purposes, if legislation went forward with some concept of  
24 what they were authorizing and find out it was something  
25 else because the definition was not correct.

1                   And I understand that earlier this year there  
2 were certain provinces in Canada that actually voted to do  
3 away with these -- some of these video lottery -- they  
4 call them video CLT?

5                   MR. SCHERER: Video lottery terminals, yes.

6                   CHAIRMAN GANNON: Is that what happened?

7                   MR. SCHERER: There was one small town I'm  
8 aware of in Alberta, the province of Alberta, Rocky  
9 Mountain House that voted to remove video lottery  
10 terminals from their town, and they did in fact remove the  
11 eleven terminals from the town. That was only one, one  
12 particular town in -- I think there was a referendum  
13 pending in other towns, but after the supposed huge  
14 momentum to remove video lottery terminals from the  
15 province, even though the provincial government said any  
16 town that wants to remove the machines, no other towns  
17 actually followed up.

18                   CHAIRMAN GANNON: Okay. This was just the  
19 town; this wasn't the province?

20                   MR. SCHERER: Correct. I think there were  
21 fewer than a thousand votes cast all together in the  
22 election.

23                   CHAIRMAN GANNON: On these payouts you said in  
24 some instances the payout can be as high as 99 or a  
25 hundred percent. When you go into -- when a casino

1 has -- say they have a thousand machines. Does every  
2 machine pay out better or is it an average for that  
3 thousand machines that the payback is only -- say it's 99  
4 percent that they're paying back so that some machines  
5 would be -- well, let's say 95 percent. Some machines  
6 would pay back 97, some machines would pay 90; that's an  
7 average?

8 MR. SCHERER: Typically, yes. It depends on  
9 the regulations and jurisdictions. Typically when you see  
10 that advertised it's an average. They might say some  
11 machines as high as 99 percent. But we have a  
12 hundred-percent machines. It doesn't mean every machine  
13 pays back a hundred percent. Obviously they wouldn't be  
14 making money if that were the case.

15 CHAIRMAN GANNON: But if there's a minimum,  
16 then no machine in that casino pays less than the  
17 statutory minimum?

18 MR. SCHERER: Correct.

19 CHAIRMAN GANNON: Or can be the average?

20 MR. SCHERER: No. There is a statutory  
21 minimum. Then every single machine would have to meet or  
22 exceed that statutory minimum. In every jurisdiction that  
23 has legal gambling, legal machine gambling, has a  
24 laboratory test the machines.

25 CHAIRMAN GANNON: And yet if there's a

1 statutory maximum, that doesn't mean that every machine  
2 has to pay out -- that doesn't mean that every machine has  
3 to pay the maximum?

4 MR. SCHERER: Correct. There's typically a  
5 range of acceptable payout percentages, and as long as  
6 it's within that range the machine will be approved.

7 CHAIRMAN GANNON: Thank you very much for your  
8 testimony today. I appreciate you coming and providing us  
9 with the information.

10 MR. SCHERER: Thank you for this opportunity.

11 CHAIRMAN GANNON: Our next witness is the  
12 Honorable Representative Paul Clymer, State Legislator  
13 from the 145th Legislative District.

14 Welcome, Representative Clymer. Thank you for  
15 your patience.

16 REPRESENTATIVE CLYMER: Mr. Chairman, I'm  
17 sorry to report that I don't have any copies of my  
18 testimony. I just have my notes and I hope to put out a  
19 press release later on. So if you'll indulge that  
20 oversight -- it's not an oversight, just things get very  
21 busy. You know how it is. So if everyone listens up,  
22 I'll try to be as concise and as clear as possible.

23 Thank you, Mr. Chairman, for providing this  
24 opportunity to discuss casino gambling in general and  
25 referendums as they relate to this type of gambling.

1           As a Pennsylvania legislator, my public and  
2 moral duty is the protection and safety of Pennsylvania's  
3 assets. The issue of whether or not to allow  
4 Pennsylvanians to express their opinions regarding  
5 legislation dealing with casino gambling in Pennsylvania  
6 as a referendum is definitely a very interesting one.

7           Let's take a moment and examine casino  
8 gambling so all of us know what we are talking about, what  
9 we're asking the citizens to do. The history of casino  
10 gambling as we know it here in America, at least the  
11 houses and things of that sort, has really been Las Vegas.  
12 The first casino was built in the 1930s by members of  
13 organized crime. That is the beginning. That is the  
14 heritage of casino gambling. What is it that we want the  
15 people to vote on? What is it that we want them to know  
16 about? And that's what I plan to discuss in the few  
17 minutes that I have here.

18           To win regardless -- I heard some interesting  
19 testimony throughout the day about how the slots pay out  
20 certain amounts, but to win the casinos have to create an  
21 enormous number of losers. That's a definite. That's why  
22 they're open 24 hours a day, seven days a week. They're  
23 opened on federal and religious holidays. So in order to  
24 get the people in, who losses, who are the people that  
25 they -- that they deal from? They deal with a wide

1 segment of society for sure. But who is at risk? Who are  
2 the most vulnerable? The poor, the less educated, welfare  
3 recipients, are some of the ones that are hit the hardest.

4           It doesn't mean that others are not hit like  
5 Lane Toast, \$24 million that he lost or many average  
6 Americans, hard-working Pennsylvanians and others who  
7 travel elsewhere to do their gambling.

8           I also want to send along the 18 year olds  
9 which is in a piece of legislation that's under  
10 consideration by this General Assembly. It allows 18 year  
11 olds to gamble. Now, I have a problem with that because  
12 as Representative Joe Battisto, my good friend, had  
13 enumerated earlier, the addiction of gambling among that  
14 age group is very severe. In fact there was an article in  
15 the Harrisburg Patriot -- let me just read a couple  
16 paragraphs: It is no coincidence, experts say, that  
17 teenage gambling has surged in Pennsylvania, New Jersey,  
18 and other states that have legalized and glamourized  
19 waging from lotteries, the playing of horses to casino  
20 gambling. Studies bear out the author of the study, the  
21 more legal gambling the state has, the more likely  
22 teenagers are to bet, and experts contend, more likely it  
23 is that gambling will get out of control. So that's a  
24 major problem that we have to deal with.

25           As I said before, for the casinos to win, and

1 they did win big, million-dollar profits, multi-million  
2 dollar profits, they have to create many losers. In her  
3 book Jennifer Vogel -- called Crapped Out, she mentions a  
4 part called tricks of the trade, it's called dollars and  
5 drinks. And I believe Representative Josephs had wanted  
6 to know about that. And this is why it's in the book,  
7 alcohol, boozin' gamblers up. Casinos pour a hefty shot  
8 and a half.

9           Check cashing booths and credit card machines  
10 abound and it's often easier to get a casino credit than  
11 to get a car loan. Instead of giving out an option at a  
12 major casino, ATM machines, that if you want a single  
13 hundred-dollar bill, that's what you will get, you will  
14 not get the change, you will not get the breakdown in  
15 other paper denominations.

16           Let me just take a moment to talk about  
17 fairness that was raised by another member. Fairness,  
18 they're there not to get your discretionary  
19 money -- they'll take your credit cards, they'll take  
20 loans, they'll take every -- the ATM machines, they'll  
21 take additional cash, they'll take everything you want.  
22 That's why they're there. The environment is so skewed at  
23 these casinos or other casino types of operations, I  
24 would -- I haven't been to any race tracks where they have  
25 the 3,000 slots yet, but speaking of the casinos



1 themselves, the environment is such to attract them in,  
2 bring them in. They're not there to have entertainment.  
3 That's a misnomer and I hope that members understand that.

4           What else do we know about casino gambling  
5 that we want to deal with? How about political corruption  
6 and influence peddling. In Arizona in 1990 six  
7 legislators were convicted by accepting bribes and illegal  
8 campaign contributions to legalize casino gambling. In  
9 Kentucky in 1992 seven legislators guilty of accepting  
10 bribes, and at least if my memory serves me correctly, I  
11 believe the Speaker of the House of Kentucky was also  
12 cited and convicted.

13           In West Virginia 1990, former Governor Arch  
14 Moore was convicted for bribes. In Louisiana, I think  
15 that's ongoing where they have legislators and all kinds  
16 of public officials that are under investigation. South  
17 Carolina, again convictions related to gambling.

18           Mayors of Atlantic City, and the list goes on,  
19 including our on Attorney General was involved in some  
20 kind of illegal gambling. I don't know the technical term  
21 so I won't be able to be as widespread there, but he was  
22 involved in that unfortunately.

23           So more legalized gambling breeds more illegal  
24 gambling. In fact that was a good point that was made by  
25 Representative Joe Battisto. Again in her book by

1 Jennifer Vogel called Crapped Out, the FBI estimates that  
2 a hefty \$40 billion is spent illegally per year.

3           Some time ago I had passed out to the members,  
4 maybe five years ago, the comments by former State Police  
5 Superintendent of New Jersey, Superintendent Degammo.  
6 Back in 1988 he told the select committee of New Jersey  
7 legislators that illegal gambling is a spin-off from  
8 legalized gambling. That the argument that you can  
9 control it, you can control illegal gambling because  
10 you've now made it legalized is not true. And I have that  
11 report if anyone is interested in securing that.

12           That is why, Mr. Chairman, that is why many  
13 attorney generals and scores of other law enforcement  
14 officers across this nation oppose casino gambling.

15           In addition, there is a potential -- I'll make  
16 it very clear -- there is the potential of perhaps even  
17 local government officials becoming involved because of  
18 the high flowing dollars that are going to take place to  
19 contractors and those who provide services. Possibility.

20           John Warren Kent, an economics professor at  
21 the University of Illinois, from his studies estimates for  
22 every dollar from gambling that's generated in the tax  
23 revenues, the social problems it creates, including theft,  
24 embezzlement, insurance fraud and other crime in general  
25 and the incarceration of those who are convicted costs the

1 state three dollars. It's not a kind of win for the  
2 states.

3           Let me just say this, that I talked about  
4 embezzlement, and this is from Insurance Problems and  
5 Pathological Gambling, the Journal of Gambling Behavior,  
6 it says this, the most common method of insurance fraud  
7 and theft or making false claims after auto accidents and  
8 stealing something for which they knew an insurance  
9 company had to pay. The authors of this 1987 study  
10 estimated that each pathological gambler on the average  
11 costs the insurance industry \$65,468 for fraudulent  
12 claims. The annual loss to the insurance industry due to  
13 fraud by pathological gamblers is estimated to be 1.32  
14 billion dollars. That was a 1986 study.

15           The cost that was mentioned again by  
16 Representative Battisto, this comes from the Social Cost  
17 of Gambling in Wisconsin, it's from the Wisconsin Policy  
18 Research Institute, and it says this: The annual total  
19 cost for the entire state from the estimated 32,425  
20 problem gamblers in Wisconsin is \$370 million.

21           So there are some severe costs here and we  
22 need to know that and the voters need to know that this is  
23 not -- you know, this is more than so-called economics and  
24 jobs.

25           Now, this General Assembly has been talking

1 about race tracks now, for a moment specifically the  
2 General Assembly has aided the state's race tracks on more  
3 than one occasion to help them with their economic  
4 situation from simulcasting within the state to  
5 multi-simulcasting, telecasting live races around the  
6 country, to legislation that offered off-track betting  
7 centers for race track corporation.

8           But, Mr. Chairman, you can be assured that  
9 this will not be the end if slots become legal at our race  
10 tracks. Be assured our neighboring states that do not  
11 have casino gambling at race tracks will be under severe  
12 pressure to have their race tracks also have the slots.  
13 And those states that already have the race tracks,  
14 they'll go back to their legislators and they'll say, we  
15 want more, we can't be competitive. This is indeed the  
16 Commonwealth getting its nose under the tent if we approve  
17 any kind of casino gambling.

18           Mr. Chairman, another thought as we are  
19 talking about the race tracks, and that is that we're  
20 asking the voters to approve 3,000 slots, up to 3,000  
21 slots per race track. However, I find it very interesting  
22 that Penn National Gaming, which owns two of the race  
23 tracks, will get up to 6,000 slot machines and it's my  
24 understanding they are already profitable So why is it  
25 that we want to give 6,000 slot machines to a corporation

1 that is already profitable?

2           And as the press has reported and it's been  
3 widespread that Penn National Gaming owns a race track in  
4 Charlestown, West Virginia, soon to open with 600 slots.  
5 Isn't this really an overkill?

6           Voter referendum sounds easy, sounds good,  
7 fair play. I heard that again and that was -- I like  
8 that issue that was raised by one of the members -- fair  
9 play. Well, be assured that's not what will happen if we  
10 go to a referendum. Because if you look at the past  
11 referendums that had been held across the country, you  
12 just have to go in 1996 to the State of Ohio where they  
13 did have a referendum on casino gambling to change the  
14 Constitution, the pro gamblers spent \$10 million. The  
15 people who were opposing, close to almost a million. And  
16 that's really high for the anti-gamblers to get that much  
17 money together. Usually it's 500,000, maybe \$600,000.

18           So the people who will be coming in will  
19 really be spending heavy, they'll be the highest and the  
20 slickest and the best in public relations people to  
21 convince, as it would be in this case, our citizens that  
22 this is something of an economic benefit, that  
23 Pennsylvanians should have casino gambling, that is one of  
24 the best things, that we need this because we don't know  
25 what we're missing and all the revenue that other states

1 are now enjoying.

2           So we have to recognize that's an important  
3 part of this entire discussion that's taking place today.

4           Mr. Chairman, I have a few other notes that I  
5 made. It's very interesting that you talk about casino  
6 gambling and it creates no new wealth. Since other  
7 speakers were talking about other speakers, the one  
8 gentleman was trying to relate a Wal-Mart situation with  
9 casino gambling. And the Wal-Mart situation, Mr.  
10 Chairman, what you do is you simply -- you buy something  
11 of wealth, you buy a commodity of wealth. It's not as  
12 though you go in there and you spend all your money.

13           When you go into a Wal-Mart and you spend \$10,  
14 you come out with \$10 worth of merchandise. When you go  
15 to a casino, you may spend \$10 and you may spend more.  
16 For those very few, very few winners, they may come out  
17 with more than what they went in with. But they  
18 certainly -- the overwhelming majority come out with a lot  
19 less. That has been the testimony.

20           And the fact that they do cannibalize  
21 industries, there is no doubt about it. Why does anyone  
22 think that the Pennsylvania Restaurant Association has  
23 come out publicly in opposition to casino gambling if they  
24 felt it was not hurting their members? And their own  
25 studies have indicated that that's been a real problem.

1           And so let me -- I want to make also one more  
2 comment, then I'll conclude. And that is that I concur  
3 with my colleague Joe Battisto that we ought to do a  
4 statewide study assessment of the impact of casino  
5 gambling in all its forms here in Pennsylvania. Other  
6 states have done it, Florida, Maryland, I think it's time  
7 for us to look at this issue because it's a -- it could be  
8 a very serious issue for us here in the Commonwealth. I  
9 think we need to do that.

10           Let me just go back and reiterate my opening  
11 statement as to what my primary duty is. And that is I  
12 consider Pennsylvania families to be priceless. You can't  
13 put a price on it. There is no price. And it's important  
14 that in this day when we're talking about building  
15 families and keeping families together and making  
16 Pennsylvania strong and moving our economy forward without  
17 casino gambling because that's exactly what we should do,  
18 and therefore my opposition is to any kind of casino  
19 gambling that any of these referendums would bring about.  
20 Thank you for your patience and your tolerance.

21           CHAIRMAN GANNON: Thank you, Representative  
22 Clymer. Thank you for being here today and offering your  
23 testimony. We appreciate your time.

24           Our next witness is Brother Gary Hahn. Is he  
25 still here? He had an engagement and we were trying to

1 speed things up. He did provide written testimony that he  
2 submitted.

3 And the next witness will be Reverend Penrose  
4 Hoover. Welcome, Reverend Hoover.

5 REVEREND HOOVER: Thank you. Thank you, Mr.  
6 Chairman. Mr. Chairman, Honorable Representatives, as has  
7 been mentioned, my name is B. Penrose Hoover. The B does  
8 stand for Boise so there is another Boise Penrose at hand.

9 I am pastor of Salem Lutheran Church in  
10 Lebanon and a member of the Policy Board of the Lutheran  
11 Advocacy Ministry in Pennsylvania. The Lutheran Advocacy  
12 Ministry is a partnership agency of the Division for  
13 Church in Society of the Evangelical Lutheran Church in  
14 America, the seven geographic synods within Pennsylvania,  
15 and the 27 Lutheran social ministry organizations of the  
16 Pennsylvania Lutheran Agency Network.

17 Our specific mission is to offer a voice of  
18 the church on behalf of those who have little or no voice  
19 in the decision-making processes of our Commonwealth.

20 The seven geographic synods of the Evangelical  
21 Lutheran Church in American in Pennsylvania represent over  
22 1,360 congregations and 650,000 church members. These  
23 seven synods and the Policy Board of the Lutheran Advocacy  
24 Ministry in Pennsylvania continue to oppose expanded  
25 state-operated or state-authorized gambling and gaming.



1           While we do consider some theological and  
2 ethical issues related to gambling and gaming, the main  
3 thrust of our statement is directed toward government in  
4 establishing a just public policy.

5           Specifically, today we address the use of  
6 referenda as a means to assess public opinion as outlined  
7 in House Bill 295. We believe that, in the event  
8 expansion of legalized gambling and gaming occurs, the  
9 citizens in any potential location of expanded gambling  
10 and gaming should have the right to choose its  
11 appropriateness in their communities. These referenda,  
12 however, should be based on requiring prior approval  
13 rather than belated rejection. That is, as residents of  
14 Lebanon County, I and my fellow citizens there should be  
15 given the opportunity to vote on whether we want legalized  
16 gambling and gaming in our locality and what type of  
17 legalized gambling and gaming we want before we see the  
18 first slot machines in the local pizza parlor or tavern.

19           If a referendum were to fail statewide or in a  
20 specific locality, a multi-year moratorium on future  
21 referenda should be assured so that citizens know their  
22 decision has been heard and respected.

23           House Bill 295 allows legislation on the  
24 gambling and gaming through local options in counties. If  
25 expanded gambling and gaming are allowed through local

1 option, are local county commissioners, city, borough and  
2 township officials willing to have the burden of the extra  
3 costs fall only on that locality?

4           The experience of gambling enterprises in  
5 other states leads us to the conclusion that almost all  
6 the promises of great economic benefits are deceptive.  
7 They entice believers with large amounts of revenue in  
8 exchange for huge social and human costs.

9           Gaming is the socially and politically correct  
10 word for gambling. Gambling is big business that depends  
11 on large numbers of individuals losing large sums of money  
12 so that a very few people can profit.

13           Communities across our nation have learned to  
14 their distress, that the first step of authorization of  
15 increased gaming leads to rises in negative impact on the  
16 community and the families, bankruptcies, crime, family  
17 violence, the decline and closing of small businesses near  
18 casinos and compulsive gambling. Once a locality  
19 establishes its dependence on the revenue from gambling  
20 enterprises, the climate becomes one in which most, if not  
21 all, public policy decisions are made with an eye to  
22 protecting and enhancing that revenue stream.

23           One factor -- the protection of the local  
24 gaming businesses can drive tax systems, zoning laws,  
25 budget matters, and human service direction. Good public

1 policy requires consideration of the best interests of all  
2 Pennsylvanians.

3           The Lutheran Advocacy Ministry in Pennsylvania  
4 believes that a fair and equitable system of taxation  
5 should be the foundation of revenue for governmental  
6 operations. Needed public services should be funded by a  
7 system of taxing its citizens according to their income  
8 and not according to their willingness to participate in  
9 gambling and gaming activities. Thank you, Mr. Chairman.

10           CHAIRMAN GANNON: Thank you, Reverend Hoover.  
11 Thank you for joining us today and presenting your  
12 testimony.

13           REVEREND HOOVER: My pleasure. Thank you.

14           CHAIRMAN GANNON: Since we are running behind  
15 schedule I've changed the next witness to be Tony  
16 Milillio. He has been gracious enough to say he would  
17 testify at the end of the lunch break. So what we'll do  
18 now is we'll break for lunch and we'll be back here  
19 sharply at 2:00 and begin taking testimony and our first  
20 witness will be Mr. Milillio.

21           (Recess was taken from 1:15 until 2:00 p.m.)

22           CHAIRMAN GANNON: The House Judiciary  
23 Committee recess is over. We'll move forward and the next  
24 witness on the agenda is Tony Milillio, President of the  
25 Council on Compulsive Gambling. Welcome, Mr. Milillio and

1 thank you for being here today to offer testimony.

2 MR. MILILLIO: Thank you.

3 CHAIRMAN GANNON: You may proceed.

4 MR. MILILLIO: Thank you. Chairman,  
5 Committee, and all those in attendance at the hearing, as  
6 President of the Council on Compulsive Gambling of  
7 Pennsylvania, a 501-C3 non-profit organization  
8 incorporated in our state in 1984, for the past 13 years  
9 we have been involved in helping compulsive gamblers and  
10 their families. We are affiliated with the National  
11 Council on Compulsive Gambling whose headquarters are in  
12 Washington, D.C., that include 29 other states with  
13 councils such as ours.

14 We provide statewide programs, public  
15 education, professional training, facilitate treatment and  
16 research as well as providing a statewide toll-free  
17 hotline for those seeking help or information. We also  
18 have a 30-second public service announcement in  
19 television-ready format and we are developing criteria for  
20 certification of counselors to work with compulsive  
21 gamblers.

22 In the past two years we have held two  
23 gambling behavior conferences, one in the Harrisburg area  
24 and the other in the Philadelphia area. We are also  
25 recognized nationally for our expertise. The Nebraska

1 Council asked us to provide a two-day day training for  
2 health professionals in their state. We did this in March  
3 of 1997. A Detroit councilman requested our guidance  
4 concerning future gaming in their city.

5           The Ohio State Lottery called us and said that  
6 they support their council's statewide helpline and put  
7 that number on every lottery ticket. They wanted to ask  
8 for any other suggestions that we may have to be more  
9 helpful with compulsive gambling in their state. The  
10 Virginia state lottery asked for help with their  
11 lottery-funded state hotline.

12           Toronto, Canada, asked our council to present  
13 a workshop at an upcoming conference they're holding in  
14 June of 1997. We have cooperated with the New Jersey  
15 Council in developing peer groups in schools concerning  
16 compulsive gambling. We also share literature that we  
17 have developed, including our 30-second spot, with other  
18 states.

19           Pennsylvania is about the only state in our  
20 region that does not provide some sort of funding for  
21 programs such as these. We are neither for or against  
22 gambling. We do feel, and have always felt, that the  
23 people have a right to decide what type of entertainment  
24 they want and how they want to spend an evening. It is  
25 their choice.

1           Chuck Kline of our state lottery in addressing  
2 a hearing such as this on March 28th of 1996 stated that 2  
3 to 7 percent of our citizens are addicted to gambling.  
4 This also means that 93 to 98 percent of our population  
5 can gamble sociably or do not gamble at all. They can  
6 gamble responsibly and enjoy a day or evening out. Our  
7 concern is the 2 to 7 percent of those citizens who become  
8 addicted to gambling.

9           We already have families, including children,  
10 being destroyed by the addiction of gambling. I have had  
11 to sit with too many mothers whose children committed  
12 suicide due to their gambling addiction. This number can  
13 be helped and future numbers can be lessened with proper  
14 public education and awareness which can result in  
15 productive prevention.

16           We of the council will cooperate with state  
17 and local agencies as well as schools and colleges and the  
18 gaming industry, while training health field professionals  
19 in properly assessing and treating compulsive gamblers  
20 that present for help.

21           I want this committee to know also that all of  
22 the racing industry in our state have jointed in our  
23 efforts. This includes Philadelphia Park, Penn National,  
24 Ladbroke and the Pennsylvania Thoroughbred Horsemen's  
25 Association. Others that have supported the efforts of

1 our council are Epic Horizon, Caesar's, Harrah's, Mirage,  
2 Grand Casinos and Foxwoods in Connecticut. They are  
3 actively asking for and following suggestions made by our  
4 council.

5           We have heard the statement that slot machines  
6 are the "crack of gambling." As true as this statement  
7 is, let's look a little further. A grandmother who  
8 embezzled over a hundred-thousand dollars from her church  
9 to play the lottery, was this not her crack? The mother  
10 of two girls who embezzled \$187,000 from the Montgomery  
11 County Prison system to play the lottery, this was her  
12 crack. The 16-year-old boy who gambled and lost \$20,000  
13 in one weekend on sports betting; again, was this not his  
14 crack?

15           I could go on and on, but I think the message  
16 is clear. Public education, professional training and  
17 having statewide resources available is of utmost  
18 importance for the citizens of our state.

19           The perception of gambling is one of the  
20 problems, not the gambling itself. For instance, Drexel  
21 University held a full-blown casino night with  
22 non-alcoholic drinks for their students. When I called  
23 them they saw no problem with our young adults holding  
24 dice in one hand and a drink in the other. Or the middle  
25 school in Philadelphia who implemented a pilot program of

1 teaching their children math by playing football games on  
2 a computer -- sponsored by the NFL. A grandmother who  
3 would not buy a 13-year-old grandchild a bottle of scotch  
4 or a bag of cocaine but may have no problem putting a  
5 lottery ticket in their birthday card or Christmas  
6 stocking. One of the hottest selling items at Christmas  
7 time is the hand-held casino-type games.

8           Compulsive gambling is different than alcohol  
9 and drugs and must be treated differently. The American  
10 Medical Association included compulsive gambling in their  
11 DSM-III in 1980 and updated this definition in the  
12 DSM-IV.

13           All the statements made today are focused on  
14 bringing compulsive gamblers out of the darkness and  
15 sharing hope to all those unaware of this addiction. Last  
16 year over 7,000 citizens of Pennsylvania called for help  
17 with a gambling problem. This number will continue to  
18 climb and we must be prepared for the future.

19           We are very limited on how much we are able to  
20 do addressing these issues. It is frustrating knowing  
21 that we have the knowledge and the ability to possibly  
22 prevent, treat and educate, but funding stops us from  
23 doing what we do best. We want to be able to cover the  
24 entire state and develop programs more helpful and  
25 productive to our citizens. The success rate of those



1 less than one percent who seek treatment is very high. We  
2 need to do more in the way of letting people know there is  
3 help.

4           We together can slow the progress of  
5 compulsive gambling in our state. We must joint hands --  
6 the council, the gaming industry, and the state  
7 government. Together we can prevent many of our citizens  
8 from destroying themselves and their families, their  
9 employers and from becoming a burden to society. Help us  
10 help our citizens.

11           We thank you for your time and attention. We  
12 are open to any questions now or call our statewide  
13 hotline. We are always available 24 hours a day, seven  
14 days a week. Thank you very much for your time.

15           CHAIRMAN GANNON: Thank you very much, Tony.  
16 I appreciate your coming here today and offering  
17 testimony.

18           Representative Caltagirone.

19           REPRESENTATIVE CALTAGIRONE: I appreciate your  
20 testimony. When I arrived I did get a brief preview of  
21 some of the other earlier testimony today. One of the  
22 things that I'm interested in knowing -- we in fact do  
23 deal with each piece of legislation authorizing  
24 traditional forms of gambling. Would you be in favor of  
25 setting aside a percentage of whatever traditional forms

1 of gambling would occur in this state for the cause that  
2 you advocate?

3 MR. MILILLIO: I certainly agree with setting  
4 aside a certain amount for education, prevention and  
5 treatment of those people that present for treatment and  
6 for help. In the past it has been introduced in bills and  
7 at the very last minute stripped away so there was no  
8 funding. I hope that doesn't happen this time.

9 REPRESENTATIVE CALTAGIRONE: Okay. I just  
10 want to go public in indicating that I think we would be  
11 fools not to admit that there's a problem with people that  
12 do get addicted to gambling. I worked with a number of  
13 people and organizations and it can be a problem that if  
14 there is additional forms of legalized gambling in this  
15 Commonwealth. I for one feel strongly that there has to  
16 be a dedicated percentage of those profits that would go  
17 back to the addiction of that so that can be treated. I  
18 just want to let you know that I wanted it on the  
19 record. Thank you. Thank you very much, Mr. Chairman.

20 I had some legislation that I introduced  
21 dealing with what we call mental health  
22 nondiscrimination. One of the things that I learned, the  
23 medical community has now what you call  
24 obsessive-compulsive behavior which they've now determined  
25 is really an organic brain dysfunction as opposed to a

1 mental illness.

2           And with that frame of reference, what I'm  
3 asking do you see any or many or few instances where this  
4 compulsive gambling is really not a manifestation of  
5 gambling but really a manifestation of some type of  
6 obsessive-compulsive behavior? In other words, this is  
7 how that disease is channeled. Some folks who have this  
8 disease clean all the time, some of them wash their hands  
9 all the time. There are very bizarre behavior patterns.

10           And what I'm asking is is this one of the  
11 channels, it's not the gambling per se, but it's an  
12 underlying disease, the obsessive-compulsive behavior, and  
13 that the gambling is really a function of that disease as  
14 opposed to the disease itself? Do you understand what I'm  
15 trying to say?

16           MR. MILILLIO: Yes, I do. And I'll try to  
17 answer the question to my ability. As I mentioned in my  
18 testimony, the DSM-IV and III previous was recognized by  
19 the American Medical Association and it wasn't under the  
20 heading of alcohol and drugs. It was -- compulsive  
21 gambling is under the heading of impulse disorders.

22           I think one of the answers to your question is  
23 that every indication, ever manifestation of this problem  
24 is almost like an alcohol or a drug addict. So I guess  
25 there's not a clear-cut answer for every individual. It

1 starts out as an impulse disorder and eventually develops  
2 into what I call full-blown addiction and is treatable.

3           REPRESENTATIVE CALTAGIRONE: I don't want to  
4 oversimplify and make light, but I know and I've seen the  
5 studies of the obsessive-compulsive behavior other  
6 than -- I have no idea how it fits into the gambling.  
7 That's why I'm asking you the question. But where they've  
8 had people that were diagnosed with obsessive-compulsive  
9 disorder and have gone to treatment for years and very,  
10 very little improvement and with the new medication that's  
11 coming out as a result of the research that's being done  
12 and now the medical community recognizing that these are  
13 not mental illnesses but brain disorders, that they've  
14 seen 75, 80 percent improvement within a very, very short  
15 period of time with the medication.

16           Have you ever seen anything like that with  
17 someone who had a gambling -- a compulsive gambling  
18 problem where instead of treating it as an addiction or as  
19 a gambling problem, treat it as a symptom of an actual  
20 brain disorder and treat the disorder and then the  
21 compulsion to gamble either went away or was greatly  
22 reduced? I'm simply asking have you ever seen that?

23           MR. MILILLIO: Oh, absolutely. In fact that's  
24 why the assessment is so, so important because a certain  
25 percentage if you don't -- if you don't look at the

1 chemical imbalance or that disorder, then you'll never  
2 stop the gambling. So you must look at that. In certain  
3 individuals you must look at that.

4 I think one of the differences though  
5 is -- and I know what you're trying to get at -- one of  
6 the differences, no other compulsive disorder has the high  
7 that gambling has. And there's an escape and there's a  
8 self-medicating and it's much different than purely  
9 looking at it as an impulse disorder.

10 But again that percentage that does  
11 purely -- which came first, the chicken or the egg? If  
12 you don't look at that, then you're not doing a service to  
13 those presenting for help.

14 CHAIRMAN GANNON: Representative Walko.

15 REPRESENTATIVE WALKO: Thank you, Mr.  
16 Chairman. I just want to get a little more factual. You  
17 indicate that Philadelphia Park, Penn National, Ladbroke  
18 and the Pennsylvania Thoroughbred Horsemen's Association  
19 have joined you in your efforts, and what specifically  
20 have they done?

21 MR. MILILLIO: Okay. If you look through  
22 the -- in November of 1996 in Philadelphia we held our  
23 second gambling gig or conference at the Adams Mark Hotel  
24 and we didn't even have to call Ladbroke. They  
25 volunteered their help to educate. Philadelphia Park

1 joined. Without their help this conference would have  
2 probably never taken place.

3           We had school counselors, we had state police,  
4 we had therapists from all over the state come to this  
5 conference, and they walked away and the letters we've  
6 gotten from them is that they're going to use this  
7 knowledge in their schools and in their profession.

8           REPRESENTATIVE WALKO: Thank you.

9           CHAIRMAN GANNON: Thank you very much, Tony,  
10 for coming today and offering your testimony. We  
11 appreciate it very much.

12           Our next witness is Vince Breglio, President  
13 of RSM, Inc.

14           MR. BREGLIO: Thank you, Mr. Chairman, members  
15 of the committee.

16           CHAIRMAN GANNON: Welcome, Mr. Breglio. You  
17 may proceed.

18           MR. BREGLIO: Thank you. I'm delighted to be  
19 here this afternoon, and I actually will be wearing two  
20 hats today. I represent a unique combination of two  
21 firms, my own, Research Strategy Management, which is a  
22 Republican polling organization, and a second firm headed  
23 by Peter Hart which is a Democratic polling organization.

24           From time to time when an issue demands a  
25 balance that can only be brought by combining two

1 different political perspectives to make sure we're dead  
2 straight on the issue, Peter and I have combined and  
3 worked together to produce joint studies. Here in the  
4 state of Pennsylvania we have done two such projects  
5 within the last 13, 14 months. One a year ago in March,  
6 and a second one this March, 1997. Both focused on the  
7 issue of gaming and gambling.

8           I would like to share with you the things  
9 which we have learned. We've now talked to over 1400  
10 Pennsylvanians, adults, registered voters, folks that we  
11 have managed to interview by telephone for roughly 20 to  
12 25 minutes each person. We've asked them a large number  
13 of questions regarding their attitudes towards various  
14 issues in the state, and more specifically towards  
15 gambling issues.

16           The remarkable thing about both studies is how  
17 similar they really are. The first study, done more than  
18 a year ago, now leads us to conclude that things looked  
19 very solid for gaming here in the State of Pennsylvania.  
20 The second study confirms those initial findings.

21           Despite the fact that the two studies were  
22 taken about a year apart and that the questions asked were  
23 slightly different because the emphasis on the second  
24 study was slightly different from the emphasis in the  
25 first, the basic conclusions remained the same. And there

1 are five points, five things that I think that we have  
2 learned from this experience that I'd like to share with  
3 you this afternoon.

4           First of all, Pennsylvanians, the majority of  
5 them are comfortable with gambling. Most Pennsylvanians  
6 have some personal experience with gambling. Eight out of  
7 ten have experienced the lottery, seven out of ten have  
8 been to a casino, six out of ten have been to an Atlantic  
9 City casino, and six out of ten have been to a race track.

10           Now, the interesting point regarding these  
11 data that in other studies and other places than  
12 Pennsylvania when similar questions have been asked, we  
13 find that the numbers who have personally experienced  
14 these various forms of gaming run some eight to ten points  
15 below what they do here in Pennsylvania.

16           So our conclusion, again based on those  
17 studies, is that most Pennsylvanians have some personal  
18 experience with gaming.

19           Our second conclusion is that a strong  
20 majority of the Pennsylvania electorate is really quite  
21 open-minded about gaming here in the state and they're  
22 willing to consider each proposal for expanding gambling  
23 on its merits.

24           Indeed what we find again in both studies is  
25 that approximately three out of ten persons that we talked



1 to claimed that they are in favor of all kinds of  
2 gambling, those which are currently available to them in  
3 Pennsylvania, as well as those that might become available  
4 in the future. Another five out of ten Pennsylvanians say  
5 that they take the position on gambling which is neither  
6 for it nor against it, per se, but they would make up  
7 their mind on the basis of the issue when given the type  
8 of gambling and the circumstances of that gambling for  
9 their consideration.

10           The interesting thing in both studies is that  
11 even among those people who are clearly opposed to all  
12 forms of gambling, some two out to ten Pennsylvanians, a  
13 majority of those who are so strongly opposed believe that  
14 the issues, the gaming issues, should be put to a vote of  
15 the people for the people's determination of how they  
16 should be dealt with.

17           Our third conclusion has to do with addressing  
18 the population of Pennsylvania regarding gambling. When  
19 given information, or maybe the lack of information, on  
20 the nature and type of gambling and its circumstances, you  
21 find that the voters are very split in terms of their  
22 support for new forms of gambling here in the state.  
23 Those who support it tend to be younger, they tend to be  
24 men, they tend to be blue-collar workers, they tend to be  
25 Catholics, Democrats and residents of Allegheny County.

1 Those who are opposed to it tend to be older, women, they  
2 tend to be upscale, white-collar workers, born-again  
3 Christians and Republicans.

4           So there's a very interesting division that  
5 exists when you give a generic question on gambling,  
6 expanding gambling in the state.

7           The fourth conclusion, and again this is based  
8 on both studies, when more information is provided, even  
9 just identifying the type of gambling that we're talking  
10 about, support for it increases.

11           For example, when we identified four different  
12 types of gambling specifically by name, charitable  
13 gambling, riverboat casinos, slot machines at the state's  
14 race tracks and so forth, three out of four of those  
15 specific types of gambling received approval from a  
16 majority or more of the state's voters.

17           And, lastly, the final point that I would like  
18 to make before I address any questions that you might have  
19 has to do with a very specific ballot proposal which we  
20 tested. In general what we found is that the more  
21 information voters in Pennsylvania had regarding gambling,  
22 the more positive their response. The less information  
23 they had, the less positive their response.

24           So giving them a very specific alternative to  
25 consider and then asking them whether they would support

1 it or not, we found that a strong majority support the  
2 following proposal -- let me read it to you verbatim:  
3 Suppose there were a proposition on the ballot that was  
4 limited to approving riverboat casino gambling on  
5 Pennsylvania's waterways. The term riverboat gambling  
6 means that all gambling would take place on a limited  
7 number of riverboats that would either cruise the  
8 waterways or stay permanently docked. The riverboat  
9 casinos would be located only in communities in which a  
10 majority of voters in that area approved and would be  
11 regulated by a state commission appointed by the governor.

12 To that proposal nearly six out of ten said  
13 they would be likely to vote for such an issue if it were  
14 put to them in an election. Again, and not unexpectedly,  
15 you might conclude the strongest support comes from men  
16 under 30, Catholics, Democrats and residents of Allegheny  
17 County.

18 When we asked people the basis of their  
19 support, what were the reasons they felt positive about  
20 supporting this initiative, three issues emerged, three  
21 concerns or three things that came to mind for the people  
22 who we talked to.

23 First of all, job and economic growth; second  
24 was education; and third was taxes. And basically in a  
25 nutshell, those who are supporting this proposition as

1 tested in the surveys identified one or several of those  
2 three topics as their principal reason for supporting that  
3 particular issue.

4           In summary, what we take away from these two  
5 pieces of research is simply that Pennsylvanians are  
6 comfortable with gaming, the majority having experienced  
7 it firsthand, a strong majority of Pennsylvanians are open  
8 to the question of gaming to be addressed by the voter at  
9 the ballot booth, and that finally as they are given  
10 specific information regarding the type and circumstances  
11 of the gambling issue that they, a majority of them at  
12 this point in time, are supportive of expanding gambling  
13 here in the state.

14           And with that I will take your questions.

15           CHAIRMAN GANNON: Thank you, Mr. Breglio.  
16 Representative Clymer.

17           REPRESENTATIVE CLYMER: Thank you, Mr.  
18 Chairman, and, Mr. Breglio, for being with us today. When  
19 you give them information about the issue of gambling, do  
20 you go in and give them information about the number of  
21 people that could be addicted to gambling, say -- which  
22 you have to know -- that when this occurs that there could  
23 be people who are going to become addicted, that they  
24 could lose their households, they could lose their  
25 businesses, they could become very dysfunctional as

1 citizens, there's a possibility of suicides that could  
2 occur?

3           It seems that what you give them is that,  
4 well, here it is, how do you feel about it. But, you  
5 know, it's like playing Russian roulette, there's a chance  
6 that -- a chance something could happen bad to you. How  
7 do you feel about that?

8           That's the first part and I have another one.

9           MR. BREGLIO: Actually, we do present both  
10 sides of the argument. There are social costs, there are  
11 moral costs associated with gambling, and one would be not  
12 doing their job if you didn't introduce those into the  
13 mix. And indeed they were introduced. Every participant  
14 they were given as the negative side of gambling some of  
15 the very issues you just raised. So they did have those,  
16 they were placed in context, and they responded as I  
17 suggested even given that information.

18           REPRESENTATIVE CLYMER: The thought is again  
19 that I perceive is, well, this is economic development. I  
20 think I seem to sense that's the way the questions are  
21 being presented. And you tell them that this is not a  
22 jobs issue because there's a -- as you say, yes, there are  
23 jobs created, other jobs could be lost and will be lost,  
24 and independent studies have indicated that some states  
25 who have this casino gambling, it's a deficit for them,

1 it's not a positive and that tourism does not occur? Are  
2 all those ramifications given in this study that you have  
3 presented?

4 MR. BREGLIO: We actually took each argument,  
5 each positive argument -- economic growth, the jobs,  
6 tourism, lower taxes, and we tried to produce the  
7 counterargument to that positive so that people had both  
8 points of view to consider.

9 REPRESENTATIVE CLYMER: You know, one of the  
10 reflections, Mr. Chairman -- I guess comments is that even  
11 the people who patronize Atlantic City, and I have over  
12 the last two years talked to many of them, one of the  
13 things that they've said is we don't want that in  
14 Pennsylvania. I mean they go to Atlantic City and they  
15 gamble, but even those people who gamble have said to me  
16 we don't want this -- we don't want that blueprint that  
17 they have in Atlantic City, with all its problems across  
18 the ocean -- across the land to Pennsylvania. We don't  
19 want all that, all of the problems.

20 We recognize, you know, that the other  
21 problems you may not deal with is that when you have  
22 gambling this is only the beginning of an expansion.  
23 Historically that's what they've shown in other states.  
24 It's just when you say that would you be content with  
25 casino gambling or certain kinds of gambling do you

1 explain to them that additional gambling could follow,  
2 that this is just one phase, there's a second and a third  
3 and a fourth phase that's going to be coming up and  
4 they'll be asking for far more than what they're getting?

5 MR. BREGLIO: I'm sure you'll find people who  
6 offer a point of view similar to the one you just voiced.  
7 I think what you have to recognize is that there's an  
8 equal number on the other side who will argue that they're  
9 disappointed the revenue is lost to New Jersey. And that  
10 takes -- and provides a counterpoint. So, yeah, there is  
11 certainly no question about both sides being present out  
12 there.

13 REPRESENTATIVE CLYMER: And could you give to  
14 the Chairman the information that you used in those polls?  
15 Personally I'd be very interested in looking at the  
16 questions that were asked.

17 MR. BREGLIO: We'll be happy to address any  
18 specific questions you have and provide you with as much  
19 information as we can. This study was done for  
20 Pennsylvanians for Economic Growth and Gaming  
21 Entertainment. It's a proprietary study obviously. But  
22 certainly, any specific question you have, we will see  
23 that you get some answers to it.

24 REPRESENTATIVE CLYMER: What I'm asking  
25 specifically is that we see the questions, Mr. Chairman,

1 to be very clear what I want.

2 CHAIRMAN GANNON: What I'm hearing though is  
3 that this is proprietary information.

4 MR. BREGLIO: But any question which I've  
5 discussed here today, we'll be happy to show you the exact  
6 wording of the question.

7 CHAIRMAN GANNON: Okay. If you want  
8 to -- have a specific question on the issues, if you drop  
9 me a note and we can maybe work it that way.

10 MR. BREGLIO: That would be fine.

11 CHAIRMAN GANNON: Representative Masland.

12 REPRESENTATIVE MASLAND: Just to follow up on  
13 Representative Clymer's request, I would make the same  
14 request. Let me specifically request information with  
15 respect to, number one, the findings in which you said the  
16 majority are comfortable with gambling, and, number two,  
17 where it said that the majority are open-minded and will  
18 consider each new proposal on its merits. I would  
19 appreciate receiving the questions that were asked and any  
20 narrative that was given before the specific question was  
21 asked on that.

22 And I think I guess my next question kind of  
23 leads into that. You made five points. In your fourth  
24 point you mentioned that three out of the four types of  
25 gambling expansion received a majority of support. But



1 you didn't say which three out of four and which one did  
2 not receive the majority of support. Could you give us  
3 that now? Or do you need to request clearance from PEG?

4 MR. BREGLIO: I don't think so. Basically the  
5 four types which received support are increases in  
6 charitable gambling, riverboat casinos and slot machines  
7 at the state's race tracks. The one form that did not  
8 receive a majority of support were -- was video poker  
9 machines at local bars.

10 REPRESENTATIVE MASLAND: Thank you. Last  
11 question. Just one brief comment and that is with respect  
12 to your initial findings in which you stated that two  
13 studies were done one year apart and there was no great  
14 discrepancy shown between them. I don't find that  
15 surprising.

16 Now, as to whether the numbers are hard, fast  
17 and true as you represent them is another question.  
18 That's why we need to look at the questions. But the fact  
19 that there's no difference in one year doesn't surprise me  
20 at all.

21 We had a hearing on this same subject matter a  
22 year or so ago at which Mike Naven (Phonetic), professor  
23 at the Dickinson School of Law at Carlisle gave some  
24 lengthy testimony regarding the history of gambling and  
25 its approval or disapproval by the electorate. And

1 basically he shows there are trends it goes through. It  
2 does swing up and it does swing down. And as to whether  
3 we are on an upswing now or getting ready for a downswing  
4 is a another matter to be determined.

5 But the fact that you find similar results  
6 within one year doesn't surprise me at all. Five years  
7 down the road, and we may very well be discussing this  
8 then, that's another subject. Thank you.

9 CHAIRMAN GANNON: Representative Walko.

10 REPRESENTATIVE WALKO: Mr. Breglio, you refer  
11 to the findings with regard to Allegheny County?

12 MR. BREGLIO: Yes.

13 REPRESENTATIVE WALKO: You refer to the  
14 findings and with regard to Allegheny County, I'm a  
15 Allegheny Countian and I meet all the criteria except I am  
16 over thirty. In any case, would specific findings from  
17 Allegheny County be available? I'd be curious.

18 MR. BREGLIO: The answer is yes. The  
19 questions we discussed here, we can give you findings for  
20 Allegheny County and other parts of the state.

21 REPRESENTATIVE WALKO: I would appreciate  
22 that.

23 CHAIRMAN GANNON: Representative Manderino.

24 REPRESENTATIVE MANDERINO: Thank you, Mr.  
25 Chairman. Both studies, same client; right?

1 MR. BREGLIO: Yes.

2 REPRESENTATIVE MANDERINO: Okay. I just  
3 wasn't sure. And this is not a request for you. I very  
4 much understand your position, but -- I forgot the name of  
5 your group -- I'd like to get their permission to read the  
6 entire question and answer series in its total.

7 I do have another question with regard to the  
8 exact wording of the referendum that you tested. Would  
9 you indulge me to read that one more time?

10 MR. BREGLIO: Certainly. Suppose there were a  
11 proposition on the ballot that was limited to approving  
12 riverboat casino gambling on Pennsylvania's waterways.  
13 The term riverboat gambling means that all gambling would  
14 take place on a limited number of riverboats that would  
15 either cruise the waterways or stay permanently docked.  
16 The riverboat casinos would be located only in communities  
17 in which the majority of voters in that area approve and  
18 would be regulated by a state commission appointed by the  
19 governor.

20 REPRESENTATIVE MANDERINO: I counted three  
21 uses of the word gambling and an additional two you use  
22 the word casino which I find very specific.

23 Going back to your comment that the more  
24 specific and clear about what you're asking, the better.  
25 Have you had any opportunity to review the form of the

1 question of the -- that is being proposed both in the bill  
2 that we're looking at before us and do you have any  
3 comment with regard to that wording?

4 MR. BREGLIO: No, ma'am, I have not seen that  
5 wording. I can only tell you that in general in other  
6 situations where I've worked on propositions or  
7 specifically in this situation where we've watched  
8 people's attitudes change as more information was given to  
9 them, I would say clarity is very important. You can't  
10 put a proposal forward where yes means no and a no means  
11 yes or any other way is trickery for the voter. And,  
12 secondly, the more information you give about the specific  
13 nature of the gambling, the better off you become in terms  
14 of the support generated.

15 REPRESENTATIVE MANDERINO: In your surveys  
16 when you ask questions, do you use the word gambling or do  
17 you use the word gaming?

18 MR. BREGLIO: Gambling.

19 REPRESENTATIVE MANDERINO: You use gambling.  
20 Do you find that -- have you ever tested the two terms and  
21 do you find that the general populace gives a more  
22 specific and clearer definition to the understanding of  
23 the word gambling than with the word gaming?

24 MR. BREGLIO: We actually have used both words  
25 I must confess somewhat interchangeable. What we don't

1 have is the qualitative research you're suggesting. I  
2 find it most interesting. We probably should have that  
3 but don't.

4 REPRESENTATIVE MANDERINO: Thank you. Thank  
5 you, Mr. Chairman.

6 CHAIRMAN GANNON: Representative Caltagirone.

7 REPRESENTATIVE CALTAGIRONE: Thank you. Kind  
8 of intrigued with the insertion the description of  
9 Democrats and Catholics. I dare say that if that pretty  
10 well hold true they'll be party switching and religious  
11 switching on the floor of the House with the makeup of the  
12 players that we have right now.

13 You did indicate though that two of the ten  
14 that were polled were anti-gambling and the majority  
15 of --

16 MR. BREGLIO: Yes, sir.

17 REPRESENTATIVE CALTAGIRONE: The majority of  
18 those 2 percent or whatever that figure is -- was what?

19 MR. BREGLIO: Two out of ten are opposed to  
20 gambling in all forms. But even that two out of ten,  
21 those who represent the strongest opposition group, a  
22 majority of that group support the idea of putting the  
23 issue in front of the voters for their vote.

24 REPRESENTATIVE CALTAGIRONE: Your -- the  
25 numbers that you used was how many people that you're

1 finding polled in Pennsylvania?

2 MR. BREGLIO: Fourteen hundred plus.

3 REPRESENTATIVE CALTAGIRONE: What counties,  
4 small, medium, large?

5 MR. BREGLIO: No, sir. There was a  
6 probability proportionate to size sample which means that  
7 every county was represented in proportion to its size,  
8 contribution to total population of the state. So the  
9 largest counties had the largest portion of the survey,  
10 the smallest counties had the smallest portion of the  
11 survey. But every county was represented by some  
12 interviewing.

13 REPRESENTATIVE CALTAGIRONE: With 67 counties,  
14 of course, Philadelphia and Allegheny being the largest,  
15 approximately how many polled in those two counties would  
16 represent these numbers that you used in the study?

17 MR. BREGLIO: I can give you the exact number  
18 if you'd like me to look it up. But my recollection is  
19 it's over a hundred in each place.

20 REPRESENTATIVE CALTAGIRONE: Over a hundred in  
21 each. What about the other breakdown of ethnicity, you  
22 know, race, the other interesting factors that go into the  
23 polling? All of us use polling here. We wouldn't be here  
24 if we didn't have that kind of polling.

25 MR. BREGLIO: Well, again, not only was it a

1 probability proportionate to size sample, it was also a  
2 random sample which means that it would collect the  
3 various combinations of ethnicity, age, gender, etc.,  
4 reflected in the population itself. So it is a reflection  
5 in microcosm of the population, and in the analysis of the  
6 data we have attempted to break out the most relevant  
7 groups age, gender, race, etc., for analysis.

8 REPRESENTATIVE CALTAGIRONE: How many  
9 questions or how many battery of questions were asked?

10 MR. BREGLIO: Roughly 60 questions.

11 REPRESENTATIVE CALTAGIRONE: Sixty. And of  
12 those -- your doing that in depth of questioning of a  
13 person, did they in fact, with people that you have  
14 polled, answer all 60 or did it vary according to --

15 MR. BREGLIO: The vast majority, eight, nine  
16 out of ten will answer all the questions. A few,  
17 something between 10 percent, 15 percent, will refuse to  
18 answer some questions such as income. But most everyone  
19 answers all the questions.

20 REPRESENTATIVE CALTAGIRONE: I'm also  
21 interested in, as the other members here today on the  
22 panel heard, to that kind of -- that we would have the  
23 opportunity to be able to review that information because  
24 I think it's very relevant to the questions that we're  
25 dealing with with this piece of legislation. Thank you.

1                   CHAIRMAN GANNON: Representative Clymer.

2                   REPRESENTATIVE CLYMER: Thank you, Mr.  
3 Chairman, but Representative Caltagirone answered my  
4 question.

5                   CHAIRMAN GANNON: The sample that you used,  
6 did you determine whether not that group was likely to  
7 vote? Were they likely voters or were they just a random  
8 sampling of citizens?

9                   MR. BREGLIO: No. The -- we determined that  
10 they indeed had been voters in the past, and we were able  
11 to identify those most likely to vote in the future based  
12 on age, education, other demographics, combined with their  
13 past behavior. So we were able to identify likely voters.

14                  CHAIRMAN GANNON: I just find it interesting  
15 that your analysis of the results that the more clearer  
16 the question, the more favorable the response. I was  
17 trying -- do you think that's fair? You know, the way you  
18 answered it is slightly -- well, if it's clear then we  
19 make the question -- I noticed Representative Manderino  
20 brought out the use of the word gambling and the word  
21 casino that you found that support went up when the  
22 question was more specific?

23                  MR. BREGLIO: Yes. I think you have to deal  
24 with the issue of gambling when it is not defined takes on  
25 a somewhat ominous tone for some folks. When it is



1 defined, particularly in terms of entertainment which they  
2 had experienced before, and we know in Pennsylvania that a  
3 sizable number have been to Atlantic City casinos and been  
4 to casinos and other places or been to race tracks, that  
5 it now has a familiar ring, they understand what you're  
6 talking about and they are on much firmer basis when they  
7 respond. So the more clarity you provide them, the  
8 stronger the positive and affirmative response.

9           CHAIRMAN GANNON: Now, I think I know the  
10 answer to this question, do you think it's more fair than  
11 not to ask a more specific question?

12           MR. BREGLIO: I think that it would be a  
13 mistake to ask a very, very specific question without  
14 having gone through the exercise that we did, which was to  
15 start very generically with very -- virtually no  
16 specifics, then gradually narrow the funnel so that we  
17 gave some specifics and then finally we gave a very  
18 specific question.

19           At that point you can give -- the person has  
20 an opportunity to react as they would in the context of a  
21 campaign. It's typical in a campaign setting people begin  
22 with very little information, just hearsay almost, and  
23 they base their feelings on that. And then as more  
24 information becomes available, those feelings change.

25           Just ask Bill Clinton. He took the health

1 care proposal to the American people. It's a part of  
2 political life. And so what we did was try to in a  
3 microcosm, very symbolic way, replicate that process. And  
4 what we found and what we conclude is that the more  
5 specificity, the more strongly positive the response.

6 CHAIRMAN GANNON: Did you -- did you have  
7 any -- I didn't know the answer to the question. Did you  
8 have any situation where that you reversed the order of  
9 the questions at any time or were the questions only asked  
10 in the same sequence?

11 MR. BREGLIO: The questions were always asked  
12 in the same sequence except a couple of questions we asked  
13 with a -- something called a split sample, which is you  
14 ask one half the sample the question worded one way and  
15 another half of the sample a question worded another way.

16 CHAIRMAN GANNON: Where in the order was the  
17 question on the referendum?

18 MR. BREGLIO: The specific proposal that I  
19 read to you?

20 CHAIRMAN GANNON: Yes.

21 MR. BREGLIO: At the end. And again it's part  
22 of the funneling process. You start generic and then you  
23 gradually narrow the field until you get down to a very  
24 specific proposal they can react to.

25 CHAIRMAN GANNON: Do you have any instances

1 that -- I guess the answer is no where you asked the  
2 referendum question first?

3 MR. BREGLIO: The answer is no.

4 CHAIRMAN GANNON: Because I see from what I'm  
5 hearing here is that when you were doing the survey you  
6 went through an educational process with the individual  
7 you were talking to?

8 MR. BREGLIO: That's correct.

9 CHAIRMAN GANNON: So by the time you got to  
10 the sixtieth question they pretty much had a good feeling  
11 of what the survey was about, you had ferreted out their  
12 views on certain issues? I mean I don't think you were  
13 trying to control them, but at least you got them to the  
14 surface and then you asked that question.

15 MR. BREGLIO: That's correct.

16 CHAIRMAN GANNON: And a specific question.  
17 That's all I have. Thank you very much, Mr. Breglio, for  
18 being here today and offering this information and  
19 testimony to this committee.

20 Our next witness is Mr. William Keisling, Jr.,  
21 Board Member of Common Cause. Welcome, Mr. Keisling.

22 MR. KEISLING: For the record the Jr. was my  
23 grandfather. I'm the fourth which is why I don't use it.

24 CHAIRMAN GANNON: Well, somebody used it.

25 MR. KEISLING: I think my great-great

1 grandfather used it.

2 CHAIRMAN GANNON: You may proceed.

3 MR. KEISLING: Thanks for having us here  
4 today. I think I know -- it's nice to see some of you on  
5 the committee face to face. I think I know some of you  
6 like I know my own family members I don't see enough.

7 We at Common Cause Pennsylvania are opposed to  
8 the expansion of gambling in Pennsylvania. We've  
9 concluded that gambling is incongruous with good  
10 government, for a variety of reasons.

11 Studies repeatedly show that financial gains  
12 of gambling to a community are almost always smaller than  
13 promised by the gaming industry, and that the resulting  
14 added cost of infrastructure and social programs outweigh  
15 the small income generated.

16 One report by Maryland Attorney General J.  
17 Joseph Curran details the increase of crime associated  
18 with gaming industries. Compulsive gamblers often turn to  
19 crime to get their money back, or to get more money to  
20 gamble. Prostitution, loan sharking, theft and violent  
21 crime increase. In South Dakota misdemeanors and felonies  
22 jumped 69 percent the Attorney General of Maryland  
23 reports.

24 There are more surprising findings showing the  
25 costs to the fabric of society. Again in South Dakota,

1 one local DA reports, with two to three months of gaming  
2 legalization, a main street typical of any small town was  
3 converted to a four-block strip of small casinos. Gone  
4 were the clothing and the shoe and the hardware and the  
5 grocery stores. Many of the necessities of life were no  
6 longer available in our town.

7           There are high and hidden costs. Deadwood,  
8 South Dakota, had no money to make the immediate,  
9 necessary improvements to its water and sewage systems,  
10 parking facilities, and law enforcement. The municipal  
11 government decided to seek revenue bonds to develop the  
12 infrastructure. It pledged the proceeds from future  
13 gaming taxes to pay off the bonds. As a result "if the  
14 citizens of Deadwood today wanted to get rid of casino  
15 gambling, they could not without going into total  
16 bankruptcy. They are inextricably linked to gambling."

17           Maryland's attorney general cautions, once in  
18 place, casinos exert powerful influence over political,  
19 social and economic life of the state.

20           Philadelphia City Council President John  
21 Street issued a report which agrees. The economic gains  
22 for new riverboat ventures are almost always overestimated  
23 and do not adequately consider the offsetting and  
24 difficult to measure social costs.

25           The New York Times in an August 25, 1996

1 article adds, "National trends feeding the bankruptcy  
2 courts, experts say, include the spread of casino gambling  
3 into almost every corner of the country."

4           We at Common Cause Pennsylvania are naturally  
5 concerned that the expansion of gambling in Pennsylvania  
6 encourages new sources of large and corrupting political  
7 donations.

8           We believe government should not be funded by  
9 the uncertainties of gambling, but on hard work and solid  
10 planning.

11           In the movie, *It's A Wonderful Life*, Jimmy  
12 Stewart's character awakens to find a good town turned  
13 into a garish strip of gin joints and gaming halls, only  
14 because the good people were no longer there to stand up  
15 and say no to big money. It's a waking moment today in  
16 Pennsylvania. We are at risk of losing our rich and  
17 distinct heritage. Let them have Las Vegas and Atlantic  
18 City. We'll keep Pennsylvania a special commonwealth  
19 predicated on decency, tolerance, individual rights and  
20 responsibilities guided by the best of human nature, not  
21 shackled by the worst. The world cries out for the true  
22 Pennsylvania, a commonwealth dedicated to the betterment  
23 of all.

24           And if could conclude, I'd just like to say  
25 that I think it's appropriate to note that today's the

1 50th anniversary of the Marshall Plan. General Marshall  
2 said that the plan was not aimed not so much for or  
3 against any faction or country, but to give hope of a new  
4 day. This gambling plan in Pennsylvania represents -- we  
5 were talking before earlier about manifestations -- I  
6 believe this gambling plan represents a manifestation of a  
7 debilitating disease in our state's politics.

8           Pennsylvanians and Americans cry out for a new  
9 politic and way of life that will stir our hearts and  
10 rekindle an authentic patriotic faith in our future.  
11 Gambling is not a part of that future, and it's at odds  
12 with it. Thank you.

13           CHAIRMAN GANNON: Thank you, Mr. Keisling.  
14 Thank you for being here today and offering your  
15 testimony.

16           MR. KEISLING: Thank you very much.

17           CHAIRMAN GANNON: Our next witness is Mr.  
18 Michael Geer, President of the Pennsylvania Family  
19 Institute. Welcome, Mr. Geer.

20           MR. GEER: Thank you, Mr. Chairman. I  
21 appreciate the opportunity. Good afternoon. My name is  
22 Michael Geer, and I am President of the Pennsylvania  
23 Family Institute, a non-profit research and education  
24 organization based in Harrisburg that focuses on policies  
25 and cultural trends that impact families.

1           Much like when a road or a factory is built,  
2 an environmental study -- impact study is required. The  
3 Pennsylvania Family Institute does what might be described  
4 as family impact studies when new policies or cultural  
5 trends develop.

6           At the Pennsylvania Family Institute we are  
7 also fond of saying that every issue is a family issue,  
8 whether we're talking about jobs, taxes, economic  
9 development, divorce reform, education, because all of  
10 these things affect the well-being of families. So too is  
11 the case with the proposed expansion of gambling here in  
12 the Commonwealth.

13           I also serve as a volunteer with  
14 Pennsylvanians Against Gambling Expansion, a statewide  
15 coalition of individuals, organizations, churches and  
16 community groups that have united in opposition to the  
17 expansion of gambling in Pennsylvania. We are united in  
18 our goal, but diverse in outlook; we have differing  
19 reasons to oppose the expansion of gambling, but  
20 singleness in purpose -- and that is to protect our  
21 commonwealth and its families, its communities and  
22 businesses from the devastation that arrives with  
23 casino-style gambling.

24           Thank you for the opportunity to testify here  
25 today. And I will begin first by addressing the question



1 of a referendum on the expansion of gambling in  
2 Pennsylvania. While this may seem like a very simple  
3 issue, it is not.

4           For the record, in spite of what some polls  
5 may currently say, I am confident that if an honest and  
6 fair referendum question is presented to the people of  
7 Pennsylvania on the issue of expanded gambling in  
8 Pennsylvania, whether through slot machines at race  
9 tracks, riverboat casinos or video poker machines at bars  
10 and taverns, I am confident that the citizens of our state  
11 will say no.

12           Such has been the trend across the United  
13 States. It was true in almost every jurisdiction that  
14 held a referendum in 1996; it was true in our neighboring  
15 24 of 25 jurisdictions that held either referendums or  
16 where legislation was up to expand gambling, 24 out of 25  
17 places the people or the legislators said no.

18           It was true in our neighboring state of Ohio  
19 last fall, which has demographics very similar to  
20 Pennsylvania, and it was true in Florida in 1994 which  
21 like Pennsylvania has a very senior -- a high level of  
22 senior citizen population. In fact voters in Florida and  
23 Ohio said no at exactly the same ratio, 62 to 38 percent,  
24 and in Ohio not a single county voted in favor of allowing  
25 riverboat casinos in their state. Despite the fact that

1 the opponents of gambling were outspent by more than ten  
2 to one in those referendums in that state.

3           So I am confident that given a fair question  
4 and a fair referendum, that Pennsylvanians will follow  
5 those examples. So you might say why not just let's get  
6 on with it and let the voters decide. Well, that's where  
7 the things get complicated.

8           First of all, referenda on gambling issues  
9 have proven to be very expensive. In Florida, the  
10 gambling industry spent more than \$17 million to win on  
11 the ballot in the Fall of 1994. They lost. Casino  
12 companies who were working in Florida paid petition  
13 workers \$2.25 for each signature they collected to put  
14 pro-casino proposals on the ballot there at a total of  
15 almost \$3 million just for that effort. At the time the  
16 Miami Herald reported that many of those signatures were  
17 forgeries and included the names of people who were dead.  
18 The rejection rate of signatures was higher than election  
19 officials there had ever seen. In one county it ran as  
20 high as 55 percent.

21           I'm going to take a little aside here and just  
22 simply say that whenever you see the gambling interests,  
23 the casino interests involved in elective politics or  
24 working with lobbyists or working in these kinds of  
25 things, that it is not unusual to see this kind of

1 corruption take place.

2           Gambling opponents in Florida were outspent  
3 more than ten to one and still emerged victorious.  
4 Similar ratios applied in the Ohio campaign with the  
5 gambling lobbyists spending \$10 million in their losing  
6 efforts. The airwaves were clogged with ads. Other  
7 important issues on the ballot and races on the ballot in  
8 that election were virtually lost in the shuffle.

9           Why should we go through an expensive and  
10 divisive campaign that will divert money from other very  
11 important causes, when the legislature should as a  
12 representative and deliberative body have the will to  
13 stand up to the gambling lobby and say no on behalf of the  
14 people? Casino-style gambling is currently illegal in  
15 Pennsylvania thanks to the wisdom of past legislators;  
16 let's confirm their wisdom by keeping it illegal.

17           Secondly, there are serious questions about  
18 whether Pennsylvanians can be provided with a fair and  
19 just referendum scenario. The Governor is calling for a  
20 non-binding referendum and there are many legal experts  
21 who would say that only a non-binding referendum will  
22 withstand scrutiny under the Pennsylvania Constitution.

23           But there are serious problems with a  
24 non-binding referendum. First of all, it's non-binding.  
25 The people of Pennsylvania will only be participating in a

1 beauty contest, a multi-million-dollar one at that, and  
2 even if they say no at the ballot box, they may still see  
3 the expansion of gambling happen in their state.

4           The talk around Harrisburg and in the halls of  
5 this legislature, are that a statewide referendum would be  
6 voted down likely statewide, but then a move would be  
7 launched to allow for slots or riverboats or video poker  
8 in those few jurisdictions where the vote may have been in  
9 favor of the gambling. This would be a travesty of  
10 justice and severely undermine the trust of the people in  
11 their government; and yet there are many here in this  
12 capital city who say this is a very likely scenario.

13           So today we would like to see the Governor and  
14 every legislator who calls for a non-binding, statewide  
15 referendum to publicly commit in writing that they will  
16 abide by the will of the statewide electorate if such a  
17 referendum takes place. So far we have no written or  
18 spoken commitment.

19           Non-binding general referendums also put the  
20 people at a disadvantage in that the gambling proponents  
21 can dodge every critique and charge that is made against  
22 their proposal. With a non-binding referendum the  
23 opponents of gambling expansion might charge that the  
24 gambling would cause a specific increase in crime, or give  
25 too much power to a small governing board, or whatever,

1 and all the gambling promoters would have to respond is,  
2 well, we'll write the enabling legislation to make sure  
3 that won't happen.

4           This is not good government, it is not just,  
5 and the people should be able to know the specifics of  
6 what they will permit and not permit.

7           And that brings me to the proposals for a  
8 binding referenda, such as those in the Levdansky and  
9 Tomlinson amendments. Leaving the specifics of those  
10 bills aside for the moment, let me reiterate that there  
11 are many legal scholars and experts who say that a binding  
12 referendum such as that tied to the aforementioned  
13 legislation is not constitutional in Pennsylvania and  
14 would be struck down. So we face a very real scenario  
15 that if such legislation were to pass, it might then be  
16 taken to court where the referendum portion of the bill  
17 would be struck down, leaving only the enabling portion of  
18 the law intact and, presto, we will have giant racinos at  
19 four sites in Pennsylvania.

20           So what do I propose? The best course is to  
21 look at the examples of Florida and New York, Ohio and so  
22 many other states and to simply say no right now. Let's  
23 not put our state through this.

24           Since, however, we have pending referendum  
25 legislation, I should mention what types of restrictions

1 we should have on that referendum question. First of all,  
2 if it's binding, we should have non-severability language  
3 so that the scenario that I just described does not occur.  
4 It is in a non-binding referendum, then it should be very  
5 specific regarding sites, the size of establishment,  
6 regulations and enforcement, etc. And as I mentioned  
7 before, the people of Pennsylvania deserve commitments  
8 from the Governor and the legislators that they will abide  
9 by the will of the people.

10 In the case of binding or non-binding  
11 referenda, there should be a time limit of at least five  
12 years before a gambling referendum can again be on the  
13 Pennsylvania ballots. The casino promoters have shown  
14 that they have very deep pockets and often fight and win  
15 wars of attrition beating down the will of the people with  
16 relentless, repeated campaigns that contain misinformation  
17 and overstated promises.

18 You should not allow the people of  
19 Pennsylvania to be subjected to this. And quite frankly,  
20 I've talked to policy leaders here in the state and  
21 legislators who have told me that they will vote for a  
22 referendum just to let this issue get off -- get these  
23 people off their backs, get the lobbyists out of their  
24 offices. Well, if you have a referendum that does not  
25 have a time limit for when another referendum can come

1 back, they will not be off your backs, they will not be  
2 off the backs of the people of Pennsylvania, and you'll be  
3 going through this the next year and the next year and the  
4 next year until this war of attrition is won.

5           So give it at least a five-year limit if  
6 you're going to vote for a referendum, which I think  
7 again, as I've said, you should simply say no to the  
8 expansion of gambling.

9           You should also attach legislative language  
10 that bolsters or perhaps I should say creates reasonable  
11 reporting requirements and guidelines on contributions  
12 made in the referendum campaigns. I spoke of the millions  
13 of dollars spent on these campaigns by the gambling  
14 cartel. The people of Pennsylvania deserve to know who's  
15 trying to buy their vote; and whose interests those people  
16 really have in mind.

17           Currently the Election Code has no limits, no  
18 limits, and virtually no reporting requirements related to  
19 contributions made in a referendum. So we could have  
20 outside corporations that are not part of this state or  
21 necessarily even this country spending money to buy ads on  
22 television, clogging the Pennsylvania airways trying to  
23 buy the votes of Pennsylvania voters.

24           The people deserve to know who these  
25 contributions are made by, and if it's constitutional,

1 they deserve to have campaign spending limits. No  
2 corporation can make contributions to your campaigns as  
3 state legislators of this type. There should be certain  
4 guidelines and restrictions related to this.

5           Now, since the events of recent weeks here in  
6 the General Assembly have caused this hearing to be open  
7 to broader issues regarding gambling, and I thank Chairman  
8 Gannon for that, let me briefly touch on three issues of  
9 concern.

10           The first relates to this proposal to fund  
11 public education with gambling dollars. Indeed, I  
12 understand that the gambling lobby has been calling or  
13 writing school board members across our state encouraging  
14 them to lobby their legislators on behalf of gambling  
15 legislation. Anything for money I guess.

16           Well, I'd be happy to provide any legislators  
17 or reporters this file of clippings on the negative impact  
18 that so-called Slots for Tots or Gambling for Education  
19 programs have had. Thankfully in places like Ohio the  
20 major education organizations understood this and rose up  
21 against the casino proposals in their state. Virtually  
22 all of the major education organizations in the state of  
23 Ohio took a public stand in opposition to the expansion of  
24 gambling in 1996, and their proposal had similar proposals  
25 to the Levdansky and the Tomlinson bills to fund education



1 with dollars.

2                   Here in Pennsylvania I know that the  
3 organizations such as the PSEA are seriously looking at  
4 this issue, and I hope they'll see, based on what has  
5 happened elsewhere, that this is a bad way to fund  
6 education and that it hurts, not helps the schools.

7                   Florida Governor Lawton Chiles has boiled down  
8 his sentiments to one word when analyzing what lottery  
9 revenues has meant for public education there. He called  
10 it a fraud as far as enhancing education is concerned.  
11 And you'll find similar quotes from Florida and from  
12 Georgia and from California and from Ohio and other states  
13 that have used gambling dollars to fund education.

14                   What happens is that the gambling money simply  
15 replaces some of what had previously been appropriated by  
16 the legislature for education, and yet the public thinks  
17 because of massive ad campaigns and billboards that use  
18 school children to encourage people to gamble their money  
19 away saying that their money will help education, that  
20 makes the people think that education is being -- is awash  
21 in cash, that there's so much money coming from these  
22 casino dollars that they don't have to worry about tax  
23 appropriations or spending bills or anything of the sort.

24                   And so what has happened in all of these  
25 different states and jurisdictions is that the gambling

1 money simply supplants what had been previously  
2 appropriated in local bond issues or by the General  
3 Assembly and so it's a net wash or even a loss for public  
4 education. And yet the people are less likely to see any  
5 tax increases or any other funding efforts go for public  
6 education and schools and children are hurt. Not to  
7 mention the message it sends to young people our schools  
8 are trying to infuse with an honest hard-work ethic.

9           This is not a positive message to send to  
10 young people, and quite frankly studies at Harvard  
11 University and other places have shown that gambling is  
12 the fastest growing addiction among young people today and  
13 I'm appalled that those who drafted the initial  
14 legislation, the Levdansky amendment and the Tomlinson  
15 amendment, would have 18 year olds gambling. Thankfully  
16 I've heard that there are efforts to say 21, but 21 is  
17 still too young. We shouldn't have it in the state at  
18 all.

19           Now to the issue which is foremost on the  
20 minds of Pennsylvanians, and this is crime. Rather than  
21 cite a litany of statistics which I would gladly provide  
22 to you, let me just read some quotes from leading law  
23 enforcement officials:

24           When we stop and think about whether we should  
25 expand gambling the conclusion that we should reach is no.

1 That's from the Attorney General of Massachusetts, the  
2 President of the National Association of Attorneys General  
3 and a native of Pennsylvania.

4           Maryland Attorney General J. Joseph Curran in  
5 his report *The House Never Loses and Maryland Can't Win,*  
6 *Why Casino Gaming is a Bad Idea* said: Violent crime and  
7 drugs are destroying some of our communities and  
8 threatening others.

9           Our criminal justice system is bursting at the  
10 seams. A decision to legalize casino gambling would be a  
11 deliberate public policy decision that would make this  
12 crisis worse. That simply makes no sense. Once we let  
13 casinos in, there is no going back. It is addictive -- as  
14 addictive to governments as it is to people. If we ever  
15 allow ourselves to become dependent on a relatively small  
16 percentage of casino profits we would be allotted, we  
17 would never be able to give it up.

18           Just an aside here, the allotment for public  
19 education that would come from the Levdansky or the  
20 Tomlinson bills would amount to less than 2 percent of the  
21 funding of the average per pupil's funding for education  
22 in Pennsylvania. Less than 2 percent. And that is their  
23 estimates which would have 3,000 slot machines or gambling  
24 devices at every race track in Pennsylvania and would  
25 cause Pennsylvanians to lose -- or mostly Pennsylvanians,

1 a large majority of Pennsylvanians to lose one-and-a-half  
2 billion dollars a year at those establishments.

3           Casinos will result in more Floridians and  
4 visitors being robbed, raped and assaulted and otherwise  
5 injured. Casinos are not worth the gamble.

6           Let's for the sake of an exercise here put  
7 Pennsylvanians in the place of Floridians. Casinos will  
8 result in more Pennsylvanians and visitors being robbed,  
9 raped, assaulted and otherwise injured. Casinos are not  
10 worth the gamble.

11           I have been Michigan's Attorney General for  
12 more than 30 years and there has never been an issue that  
13 has disturbed me any more than the proliferation of  
14 gambling in our state. That's the Attorney General of  
15 Michigan.

16           Attorney General of Maine: I consider the  
17 expansion of legalized gambling to be one of the most  
18 serious issues of the '90s. From both a law enforcement  
19 perspective and a matter of social policy, such an  
20 expansion would be very harmful to the state. The history  
21 of gambling in America is replete with tragic examples of  
22 criminal involvement, ruined lives and tarnished  
23 cultures.

24           New York State Attorney General Robert Abrams:  
25 Many people see only the allure and glitter of legalized

1 gambling and are blind to the economic and social costs.  
2 Gambling carries with it an enormous potential for the  
3 increase in crime and public corruption and the gambling  
4 addiction can cripple people's lives and destroy their  
5 families.

6           We don't want this for Pennsylvania. In a  
7 joint statement from the Attorneys General from five New  
8 England states and New York said this: Gambling expansion  
9 is coupled with a high price tag which gambling proponents  
10 ignore at their own state's peril. Gambling is not the  
11 economic cure-all it purports to be. Rather gambling is a  
12 costly roll of the economic dice which can come up  
13 snake-eyes.

14           We have come together in a united  
15 front -- these again are attorneys general from five New  
16 England and New York -- New England states and New  
17 York -- we have come together in a united front to counter  
18 the gambling industry's tactics of playing neighborhood  
19 states against one another. Based on the experience of  
20 our states and others we give our warnings concerning  
21 expanded gambling: Increased gambling will lead to  
22 increased crime.

23           Increased gambling will require a substantial  
24 increase in governmental spending to fight crime in the  
25 related gambling industry. The long-term economic

1 benefits of gambling are tenuous at best. Gambling is a  
2 regressive tax which preys on the working poor. Increased  
3 gambling increases potential corruption.

4           Those are not my words. Those are the words  
5 of attorneys general in those states.

6           Pennsylvanians need not look far to see the  
7 public corruption that comes from gambling, and we are  
8 hopeful that our top law enforcement officials in our  
9 state will be as bold as these have been from these other  
10 states.

11           And finally let me briefly talk about the  
12 economic development promises made. I understand that it  
13 was stated by a previous testifier at the hearing this  
14 morning that information from people like Professor Robert  
15 Goodman and Earl Grinols are biased. Even though Earl  
16 Grinols, for example, was a chief economist for the  
17 Presidential Council on Economics in the Nixon  
18 Administration and Robert Goodman was funded by the Ford  
19 Foundation and the Aspen Institute for his study and came  
20 in with no bias at all.

21           But I simply ask who would you trust more,  
22 studies funded by the gambling industry which we heard  
23 about this morning or those funded by private foundations  
24 like the Ford Foundation or by public universities or city  
25 governments?

1           But since there is that question, let me just  
2 read a few quotes from the gambling industry leaders and  
3 their consultant in some brief moments of honesty.  
4 Clifton Henry, an economic development consultant for  
5 several casino companies and cities involved in gambling  
6 development said in a 1994 meeting to Pittsburgh city  
7 planners when they were considering riverboat casinos, he  
8 said, what we're doing with casinos is just rearranging  
9 dollars. And the people who usually win quite frankly are  
10 the casino operations. The people who lose are the  
11 cultural activities in the city, the eating, the drinking  
12 establishments in other parts of the cities, even  
13 automobile dealers and retail stores, etc. There's  
14 absolutely no gain in terms of the economic impact from  
15 gamblers who are located within the immediate trade area  
16 of 50 miles.

17           And all of these proposals here in  
18 Pennsylvania would likely gather the substantial and vast  
19 majority of their gamblers from the local area and from  
20 the state of Pennsylvania.

21           Henry Gluck, CEO of Ceasear's World, in 1994  
22 before a New York State Senate Subcommittee said he saw  
23 little chance that casino expansion into local markets  
24 would do more than simply recirculate the local money.  
25 The potential to attract outside dollars said Gluck, truly

1 applies only to a few major cities in the United States.  
2 Those major cities already have the casinos. It's Las  
3 Vegas and Reno.

4           Stephen Perskie, Senior Vice President and  
5 General Counsel of Players International, said the  
6 capacity to really make a significant impact on a  
7 community for the good from gambling is going to be very  
8 small.

9           Steve Wynn, who heads a large gambling  
10 corporation, when they were pressing to have casinos to be  
11 put in Bridgeport, Connecticut, said, there is no reason  
12 on earth for any of you to expect for more than one  
13 second -- he was talking to business leaders in  
14 Bridgeport, Connecticut -- no reason for any of you to  
15 expect for more than one second that just because there  
16 are people here they're going to run to your store or  
17 restaurant or bar. It is illogical to expect that people  
18 who won't come to Bridgeport and go to your restaurants or  
19 stores today will go to your restaurants or stores just  
20 because we happen to put a building there.

21           And Donald Trump said, people will spend a  
22 tremendous amount of money at the casinos -- no question  
23 about that -- the race track operators say they'll get 1.5  
24 billion spent at their places every year -- a tremendous  
25 amount of money will be spent at the casinos, money that



1 they would normally spend on buying a refrigerator or a  
2 new car. Local businesses will suffer because they'll  
3 lose customer dollars to the casino.

4           Almost invariably what these men described has  
5 been the track record of other communities that have  
6 bitten the lure of casino gambling, but for those  
7 communities and those states it appears to be too late to  
8 turn back. For us here in Pennsylvania it is not too  
9 late, and I encourage this committee and the General  
10 Assembly of Pennsylvania to say no to the expansion of  
11 gambling in Pennsylvania.

12           CHAIRMAN GANNON: Thank you, Mr. Geer.  
13 Representative Clymer.

14           REPRESENTATIVE CLYMER: I don't have any  
15 questions at this time, Mr. Chairman. I thank Mike Geer  
16 for being here this afternoon and for being such an  
17 informative, very educational testimony.

18           CHAIRMAN GANNON: Representative Masland.

19           REPRESENTATIVE MASLAND: Thank you, Mr.  
20 Chairman. Just a couple things. I think your discussion  
21 about the referendum, the pros and cons, is very apt and I  
22 think that it points to some facts that you presented  
23 earlier on about the other witnesses and also some of the  
24 facts that I had received from the polls that I did in my  
25 district a little over a year ago where I asked people two

1 questions.

2           Some people were asked the question would you  
3 support a referendum on riverboat gambling. I asked the  
4 question would you support riverboat gambling, and 75  
5 percent said no. I also asked the question whether they  
6 would support a referendum on this issue and over 50  
7 percent said yes.

8           Now, I tend to believe that most people in my  
9 district probably support the concept of referendum in  
10 general, philosophically that is, and probably a much  
11 higher percentage than 54. That 54 probably is very much  
12 the boat that I'm in where, well, I support referendum in  
13 general, I'm really not sure I want to see this referendum  
14 because of what it might say. And I would like to believe  
15 that you're correct that the result would be that people  
16 across the state would resoundingly say no but -- and then  
17 again you pointed out the key question is the form of the  
18 question.

19           If it's worded fairly, then I think the  
20 results would be fair as well. The problem is getting  
21 that wording. And I know in the bill, as Representative  
22 Manderino said, there was some discussion when -- I think  
23 it was Representative Maranek's amendment was placed in  
24 Representative Brunt's bill so that we ultimately had some  
25 hearings to discuss this, which I'm glad we're doing here.

1 There was a lot of questions on how that was worded.

2 Do you have any comments on the current  
3 wording?

4 MR. GEER: Well, on that specific piece, I  
5 have not looked at it since probably shortly after that  
6 was amended into that bill so I don't have it in front of  
7 me.

8 Yeah, I thought that, number one, the  
9 inclusion of all those different types of gambling in  
10 there made it very confusing and it was sort of a triple  
11 question. I mean it was like if my son came to me and  
12 said can we go to McDonald's, go to an Orioles game and  
13 buy a new car and I say yes or no. What am I saying yes  
14 or no to? Maybe I'd like to go to McDonald's but don't  
15 want to buy a new car. And so I think --

16 REPRESENTATIVE MASLAND: Or go to the Orioles.

17 MR. GEER: Yes. So on that basis, I mean that  
18 question I think was almost close to being absurd. And I  
19 looked at that and thought I can't imagine that such a  
20 question would end up on the ballot in Pennsylvania, but I  
21 could be surprised I guess.

22 REPRESENTATIVE MASLAND: Well, I think you're  
23 correct. I think there was a lot of discussion as to  
24 whether or not it was worded appropriately and how it  
25 could be changed. Obviously the committee changed that,

1 but my feeling was at least let's start discussing this  
2 issue. And I'm glad we're having this hearing today, and  
3 I want to commend the chairman for this opportunity to  
4 speak again -- once again on this issue.

5           The last thing I want to say is that I do  
6 agree that we should have some type of time limit on these  
7 type issues. I think that we've done that legislation in  
8 the past with respect to whether or not a community  
9 switches to a home rule charter. For instance, if they  
10 have a referendum on a home rule charter and it fails,  
11 they can't go back to it for another three to five years.  
12 I forget the specific language on it, but it strikes me if  
13 there is a referendum it ought to be something like that.

14           MR. GEER: If I just may add my thanks also to  
15 this committee and to its chairman for holding these  
16 hearings and for pressing for hearings. As you all know,  
17 this issue was on a very fast track and it's very  
18 disappointing for those of us who are very concerned about  
19 the future of Pennsylvania to see such a weighty issue  
20 being debated in the wee hours of the morning with very  
21 little public debate, etc.

22           So I'm pleased at this and I still hope that  
23 the members of the legislature will consider this issue  
24 over a longer period of time. I understand that this  
25 morning that there was some suggestions about proposing

1 some -- a study be done on what specifically would happen  
2 in Pennsylvania, a commission study that would perhaps be  
3 funded by money from the State Legislature that would not  
4 be biased to take a greater look at this issue. Because  
5 we don't invite other industries into our state, we  
6 don't -- especially industries, you know, if there's going  
7 to be a landfill put in or a radioactive nuclear site or  
8 whatever put in the state. Significant deliberation takes  
9 place, and because this issue has so many ramifications, I  
10 hope that that deliberative process will continue.

11           REPRESENTATIVE MASLAND: I just want to add  
12 one more comment to this. Another thing you mentioned was  
13 the disclosure factor, which I think is significant, in  
14 terms of how much money is being spent on the one hand to  
15 wage the referendum campaign. I think that that is a  
16 legitimate question. It is something that would not in my  
17 opinion infringe on anybody's First Amendment right for us  
18 to know how they're trying to sway the votes one way or  
19 the other.

20           I think that that's legitimate and that really  
21 goes hand in hand with an issue that I'm hoping will be  
22 coming up before Representative's Clymer's committee that  
23 is this summer with respect to lobbyist disclosure  
24 reforms. Many people know this, but I think that the  
25 facts speak for themselves, in 1995 those lobbyists who

1 were working on various gambling or gaming issues on  
2 behalf of those issues reported total expenditures of  
3 \$1200 in 1995. We had one hearing and this room was  
4 packed, folks, it was wall to wall. I had never seen so  
5 many lobbyists in this room. I imagine just the hourly  
6 fee for that day was \$1200.

7 I think that points to a deficiency in our  
8 lobbyist laws as well. I think that's pretty much another  
9 side of the same coin.

10 MR. GEER: I agree with that. On the day that  
11 the Levdansky Amendment was being considered by the House,  
12 I venture to say that the dinner tab that evening was  
13 probably \$1200 for the lobbyists who were involved in that  
14 issue there were so many.

15 REPRESENTATIVE MASLAND: Thank you, Mr.  
16 Chairman.

17 CHAIRMAN GANNON: Representative Manderino.

18 REPRESENTATIVE MANDERINO: Really just one  
19 question following up on what Representative Masland asked  
20 you, and that goes to the issue of the form of the  
21 question. Having understood all of your testimony and  
22 your concerns about referendums in general -- and I want  
23 to get to that point -- having said and understood all  
24 that, we have before us House Bill 295. Is that the bill  
25 number? And then we also have the Levdansky Amendment too

1 where there are two proposed forms of questions vis-a-vis  
2 put to the voters vis-a-vis gambling in Pennsylvania.

3 My invitation to you is to share with us or to  
4 share with me in particular, because I'm sitting here  
5 sketching out all different sort of forms of the question  
6 as I listen to the testimony, is based on your expression  
7 of confidence that if it's an honest and fair question  
8 people will reject it, I would really welcome your version  
9 of honest and fair question drafted to address the  
10 questions proposed in those two amendments.

11 MR. GEER: Well, I'm not fully prepared to  
12 give you specific language at all, so I guess what I would  
13 say to you is my comments here will be off the top of my  
14 head.

15 REPRESENTATIVE MANDERINO: You know, I didn't  
16 expect you to know right now. But I would ask that you  
17 give it some thought and share with me at a later point  
18 what you think that would be. I mean I've got certain  
19 ideas that I asked the last person, I don't think the word  
20 gaming is actually an honest way to put the issue. I  
21 think you call gambling gambling and it's much clearer. I  
22 think there are things like that that if you get a lot of  
23 different input you can see where people are having  
24 problems or not having problems with the fairness or the  
25 integrity of the questions. So that's really what I'm

1 asking for.

2           MR. GEER: Your mention of gaming, I heard it  
3 once said that if it's just a game, why don't they give  
4 the money back at the end. I mean it's -- gambling is  
5 what it is. So I appreciate that. I guess, first of all,  
6 I don't think that it's likely to have a legitimate fair  
7 question that lumps all of these different forms of  
8 gambling into one thing.

9           I understand that there's tremendous pressure  
10 to do that because of the different competing gambling  
11 interests that want their particular form of gambling  
12 legalized. I mean there -- it's quite obvious that  
13 there's a small group of people who own race tracks who  
14 just want their casinos, and then there are the people  
15 that have the bars and taverns and so forth. I'm not  
16 saying anything you don't know.

17           I don't think that the language in that bill  
18 that you talked about -- is that bill number 190 -- that  
19 is a legitimate way to ask a question and to lump all of  
20 those things together.

21           I just don't think -- it sort of relates back  
22 to what I said to Representative Masland. It's like  
23 asking three different questions. Somebody might  
24 like -- somebody might say, well, yeah, slot machines at  
25 race tracks is okay because that's a limited area and I



1 can support that, but the video poker I can't and  
2 riverboats, etc. So I don't think we can come up with  
3 that.

4           And that's going to be a tough thing for the  
5 legislature. I think your easiest out in that is to  
6 simply say no to it all because these pressure  
7 groups -- and it's not citizen action groups, it's money  
8 special interests who will continue to press for their  
9 thing and they're going to press for all three of those  
10 things.

11           So I think if you look at the language that  
12 was in I think the Tomlinson bill, the original Levdansky  
13 bill I think which dealt just with one specific issue was  
14 still tilted in support of the gambling industry because  
15 it had language -- and I don't have it in front of  
16 me -- that said because this is happening in other states,  
17 therefore, should we have it here. That kind of language  
18 said that there is slot machines legalized in Delaware and  
19 West Virginia, something to that effect, that, you know,  
20 PR firms have told the gambling industry that that's a  
21 good thing to use to have this competition among the  
22 states to try to make this happen. And that's pretty much  
23 what they're trying to do in advance of this issue.

24           But I don't think there should be that. I  
25 think a simple, straightforward question that specifically

1 says what would be allowed, and again I think that the  
2 enabling legislation tied to it in a binding format is the  
3 best. I still have a question as to whether that's  
4 constitutional and whether or not given what's in the  
5 Levdansky bill would be struck down and we'd end up with  
6 the thing.

7           And so if it is constitutional, if there's  
8 some way that it is constitutional where you have a  
9 non-severability clause in there, then I think the people  
10 deserve to have a referendum question tied to  
11 substantive legislation so that they can say -- so that  
12 in the debate you can say, well, we think that gambling  
13 might be good, but this commission that they set up to  
14 regulate it is stacked in favor of the gambling industry  
15 and we think that's bad public policy and we're going to  
16 vote no.

17           Because there are lots of corollary issues,  
18 not just should we have gambling or not, but should we  
19 have this type of gambling, regulated in this fashion with  
20 stakes set at this level, with this many slot machines,  
21 etc.

22           I mean when New Jersey -- the gambling  
23 officials in New Jersey passed regulations related to how  
24 the casinos were operated, they specifically wrote in  
25 their law only a certain percentage of floor space can be

1 given over to slot machines. Because they knew the casino  
2 industry would want close to a hundred percent slot  
3 machines because they're so lucrative and they take so few  
4 people to operate. It just takes somebody handing out  
5 drinks and making change and somebody to plug the machine  
6 in. And so they said only a small percentage can be  
7 devoted to this because we want job producing things to  
8 happen in casinos.

9           Now, in subsequent years they've gone  
10 back -- the casino companies and have gone back and said  
11 we need more floor space. That's one of the reasons why  
12 we're appalled at the suggestion of 3,000 video gambling  
13 devices at one race track. That's just, you know,  
14 so -- I'm going off the subject. So the bottom line is  
15 that I would like to see the fairest way to do this for  
16 the people of Pennsylvania and it may not be a way that  
17 you can do it -- in which case then we should just say  
18 no -- is to have a binding referendum that is tied to  
19 specific legislation dealing with one form of gambling.

20           That's the only way you can get a legitimate  
21 answer I think from the people in Pennsylvania. That's  
22 the way it's been done in other states. In Ohio, in  
23 Florida, in Michigan, in all of these states that have had  
24 these referendums, it's one thing. They don't throw these  
25 masses -- you know, shotgun shots out at people and say

1 pick one you like.

2 CHAIRMAN GANNON: Representative Caltagirone.

3 REPRESENTATIVE CALTAGIRONE: No questions.

4 CHAIRMAN GANNON: The referendums in Florida  
5 and Ohio, were they non-binding --

6 MR. GEER: Binding.

7 CHAIRMAN GANNON: They were binding?

8 MR. GEER: Yes.

9 CHAIRMAN GANNON: Did they have enabling  
10 legislation tied to them or --

11 MR. GEER: I can't address the Florida one  
12 specifically because I just don't know the facts on that.  
13 In Ohio the referendum language did not have specific  
14 enabling legislation attached to it but had very specific  
15 language about what would be allowed and not allowed. So  
16 I think that after that referendum would pass the bill  
17 would have to be written.

18 CHAIRMAN GANNON: So if it had passed, it  
19 would be a mandate for the legislation?

20 MR. GEER: Right. Enact legislation using  
21 these particular guidelines.

22 CHAIRMAN GANNON: I'm going to ask you an  
23 unfair question. You don't have to answer it, but just  
24 the thought occurred to me while you were talking to  
25 Representative Manderino, if you had a type of a game

1 where you paid an entrance fee to get into the game and  
2 then there was a prize, the prize was announced  
3 beforehand, it was \$500, and the game -- and as many  
4 contestants as are willing to pay the entrance fee, say it  
5 was ten dollars, and then the contestants began to play  
6 cards. They play poker and each time you won a hand of  
7 poker you were awarded points based on the hand that you  
8 had. And then at the end of this series of plays, that  
9 player with the high number of points would win \$500 grand  
10 prize and the players -- second highest would win \$200  
11 prize. Would you consider that gambling as opposed to  
12 gaming? Because you made a distinction there. And I know  
13 it's not a fair question.

14 MR. GEER: I mean the reason the  
15 distinction -- if I might do an aside here -- the reason  
16 the distinction is important is that in Louisiana where  
17 they have legalized casinos now and other forms of  
18 gambling their constitution prohibited gambling. And the  
19 way their legislature got around that was by changing the  
20 name to gaming. And so it's the same thing.

21 So if -- we can call it gaming if you'd like,  
22 but I think, you know, it's a distinction without a  
23 difference. But it's used by the gambling industry. They  
24 must think that it sells better with people because they  
25 all use it. So we have Penn National Gaming Corporation,

1 all this stuff.

2           Quite frankly, I don't know fully how to  
3 answer your question. It sounds like gambling I guess. I  
4 don't know whether that's legal in Pennsylvania or not  
5 legal.

6           And I'm not a prohibitionist. I'm not going  
7 to say that it's been the mission of the Pennsylvania  
8 Family Institute or me personally to shut down the state  
9 lottery or to prevent people from going to Atlantic City  
10 or going to Las Vegas or wherever they may go or to  
11 Ontario or to shut down small games of chance.

12           We have, you know, helped people who don't  
13 want off-track betting sites in their communities because  
14 we think that people should rule their community, have a  
15 say as to whatever's happened in their community. But  
16 we're not a prohibitionist organization. The Pennsylvania  
17 Family Institute I'm speaking for.

18           But what has been proposed in these  
19 referendums and in the bills -- in this legislation is a  
20 massive expansion of legalized gambling in our state, and  
21 based on an honest study of what has happened in other  
22 states we don't think that's wise.

23           And so on that basis alone there's sufficient  
24 reason to spend time producing reports, and hopefully you  
25 have gotten copies of this, The Case Against Casino

1 Gambling, which we sent to every member of the  
2 legislature. There's sufficient reason based on what we  
3 have seen in other states to say that we shouldn't have it  
4 here.

5           Now, whether you have that kind of an effort  
6 of there's a raffle at a church to give away a Cadillac or  
7 whatever may be the case, it's not, you know, oh, my gosh,  
8 people are gambling, but rather, oh, my gosh, this is bad  
9 public policy because crime comes with it, and I don't  
10 want to see more people raped in Pennsylvania, I don't  
11 want to see more parents commit suicide and leave their  
12 kids with nothing, I don't want to see more people waste  
13 their children's college education, I don't want to see  
14 restaurants and other businesses in our state cannibalized  
15 by this kind of effort.

16           And on that basis alone we stand in opposition  
17 to the expansion of gambling.

18           CHAIRMAN GANNON: Thank you very much, Mr.  
19 Geer, for being here today and offering the testimony and  
20 information to the committee.

21           MR. GEER: Gladly.

22           CHAIRMAN GANNON: Our next witness is Kay  
23 McKenna, Gambling Specialist of the League of Women Voters  
24 of Pennsylvania. You may proceed.

25           MS. MCKENNA: We thank the committee for

1 holding the hearings on HB 295 and granting the League's  
2 request to testify. Your letter dated May 23rd helps you  
3 broaden beyond the three referenda questions contained in  
4 Bill 295.

5           We'd like to speak about both the proposed  
6 ballot question and the issue surrounding the legalization  
7 of new kinds of gambling in Pennsylvania.

8           Regarding the wording of the three referenda  
9 in HB 295, we feel strongly that all three questions  
10 should be changed from the current form as in question one  
11 which reads: Shall Pennsylvania adopt legislation to  
12 provide a mechanism by which counties through local option  
13 may permit a licensed and regulated system for riverboat  
14 gaming, to the following form: Shall Pennsylvania adopt  
15 legalization to permit riverboat gambling in Pennsylvania?  
16 Shall Pennsylvania adopt legislation to permit licensed  
17 and regulated slot machines at horse racing tracks? Shall  
18 Pennsylvania adopt legislation to permit gambling devices  
19 at taverns (assuming that the term adequately describes  
20 the establishments with legal liquor licenses that the  
21 sponsors of this bill intend).

22           We feel this form of the question should be  
23 used in all three instances because all citizens in  
24 Pennsylvania deserve an opportunity to comment on the  
25 substance of the legislation, which needs to be regulated



1 by the State. The other form merely asks them if the  
2 locality should decide.

3           Now, who would answer no to such a question?  
4 Of course, it would only seem fair. But nevertheless they  
5 would not have an option -- a chance to comment on whether  
6 or not they approve or disapprove of the state adopting  
7 this new form of gambling if they didn't live in one of  
8 those localities.

9           So the impact of any of these three proposed  
10 measures would reach beyond the counties in which they're  
11 physically located and should be -- and should it be a  
12 positive or negative impact. Revenue gained or ultimately  
13 lost by our state affects all the citizens and all the  
14 citizens would have the opportunity to gamble at these  
15 many established sites. We prefer that the Assembly use  
16 the accurate term, gambling, not gaming, because we know  
17 it's not shuffleboard that's being proposed.

18           Now, regarding the substance of the proposals,  
19 the committee has already heard from the League that we  
20 don't consider the expansion of legal gambling to be sound  
21 economic or social policy. In the instance of race track  
22 gambling, it seems patently obvious that new customers  
23 would be coming to the track, not to view the horse races,  
24 but to gamble, as they would now have land-based casinos  
25 at four sites in the state.

1           Clearly the proposal to permit gambling  
2 machines at taverns tremendously increases the numbers of  
3 Pennsylvanians who will have very easy access to the  
4 opportunity to gamble away salaries, mortgage and rent  
5 money.

6           When you calculate the revenue from taxes and  
7 licenses, don't forget to subtract the cost of lost  
8 productivity, families who lose their breadwinner's money,  
9 embezzlement and theft by folks who never thought of  
10 stealing before, additional law enforcement costs, social  
11 services, addiction counseling costs and all those  
12 unbought tickets to Flyers, Phillies, Eagles, Steelers and  
13 Pirates games.

14           Ask Jerry Bell of the Minnesota Twins what  
15 happened to their gate after casinos came to Minnesota.  
16 It only takes a very small percentage of thousands of new  
17 gamblers who become addicted to cost the state millions of  
18 dollars.

19           In summary, we don't feel that the gambling  
20 industry offers our citizens the easy new revenue they  
21 have been wooed to expect by the gambling industry, and in  
22 the instance of HB 295, the referenda as currently stated,  
23 do not offer a direct, clear opportunity for all the  
24 voters to register their opinions on the three kinds of  
25 gambling mentioned in the referendum.

1           We thank you very, very much. And if you do  
2 want to call Jerry Bell, I will give you his number.

3           CHAIRMAN GANNON: Thank you. Representative  
4 Walko? Representative Manderino.

5           REPRESENTATIVE MANDERINO: Thank you, Mr.  
6 Chairman. Very briefly. I think it's significant the  
7 fact that you read HB 295 and thought it was three  
8 separate referendums --

9           MS. MCKENNA: Three separate questions.

10          REPRESENTATIVE MANDERINO: When it was  
11 actually drafted to be one question that the voters would  
12 answer one yes or no to. So I take it from your testimony  
13 that you would have -- you didn't even imagine that  
14 possible and that's why you --

15          MS. MCKENNA: Right.

16          REPRESENTATIVE MANDERINO: You thought it was  
17 three separate questions? And I think that's telling us  
18 something.

19          MS. MCKENNA: Well, that's even worse.

20          REPRESENTATIVE MANDERINO: Would it be correct  
21 for my -- and I do think they're very specific  
22 suggestions, here's what I took it as and I want to make  
23 sure I'm accurate. One, you think it should be three  
24 separate questions on each type of form of expansion of  
25 legalized gambling?

1 MS. MCKENNA: Oh, definitely.

2 REPRESENTATIVE MANDERINO: Two, you think that  
3 the question should be a question to statewide voters just  
4 on that form of gambling and not on whether to let each  
5 locality decide whether they want that form of gambling,  
6 but --

7 MS. MCKENNA: That's right.

8 REPRESENTATIVE MANDERINO: In essence by  
9 eliminating the local option language, you want a straight  
10 out question on should Pennsylvania expand gambling with  
11 riverboats, should Pennsylvania expand gambling to taverns  
12 and race tracks?

13 MS. MCKENNA: And race tracks.

14 REPRESENTATIVE MANDERINO: So you were taking  
15 the local option part out of the question?

16 MS. MCKENNA: Yes. That is not to say that we  
17 don't feel that localities shouldn't have the opportunity  
18 to establish stricter regulations than even the state  
19 would provide should gambling become legalized. We do  
20 indeed. That is part of our position. While we  
21 disapprove of the expansion in general, should it  
22 become -- should any form become legalized, localities  
23 should have the option. However, the wording of the  
24 question previously really focused on the local option.

25 REPRESENTATIVE MANDERINO: Correct.

1 MS. MCKENNA: Whether or not the voter wants  
2 the locality to have complete control. Well, really there  
3 are two things wrong with that. This is a state-regulated  
4 industry and all the state's citizens should therefore  
5 have a say in it. And for that reason and for the second  
6 reason that any kind of gambling does affect all of the  
7 citizens, they all can go and gamble, they all can be  
8 affected by the results, the positive or the negative  
9 results. They either stand to gain or lose revenue, they  
10 stand to possibly have dear family members to become  
11 addicted, etc. It won't be confined in results to the  
12 borders of those counties in which it exists.

13 REPRESENTATIVE MANDERINO: And finally your  
14 third suggestion, which is one that I made earlier too,  
15 and I'll -- we're on the same wavelength, is the word  
16 gambling clearer and more clearly --

17 MS. MCKENNA: Absolutely.

18 REPRESENTATIVE MANDERINO: -- understood by  
19 the people than the word gaming?

20 MS. MCKENNA: I don't think the word gaming is  
21 an accurate portrayal. Gambling is a word that has very  
22 specific meaning regardless of the type of gambling and  
23 everyone understands what it is. You have a very small  
24 chance of winning a very large amount usually. In a game  
25 you win or lose the game, but there's usually not money

1 involved. And so it's a bit of a lie I think to use the  
2 word gaming instead of gambling, and I think that's the PR  
3 reason that it has been so widely used by the industry.

4 REPRESENTATIVE MANDERINO: Thank you, Mr.  
5 Chairman. Thank you.

6 CHAIRMAN GANNON: Representative Caltagirone.

7 REPRESENTATIVE CALTAGIRONE: Thank you. I  
8 wanted to ask a couple of the previous speakers this  
9 question. I guess I know -- I'm just curious, you're the  
10 individual who represents the League, would you be in  
11 favor of revoking any of the current gambling, legalized  
12 gambling, the forms that we have, whether small games of  
13 chance or the state lottery or the tracks that are in  
14 existence today?

15 MS. MCKENNA: Our current position on gambling  
16 which was set up basically originally in 1984 does not  
17 take any position on games of small chance and it doesn't  
18 advocate the repeal of any existing kind of gambling,  
19 including the lottery or betting or horse races, etc.

20 We don't seek through this position to roll  
21 back the clock. That's another issue we think. We just  
22 feel that we don't want to see it expanded.

23 REPRESENTATIVE CALTAGIRONE: Thank you.

24 CHAIRMAN GANNON: Representative Walko.

25 REPRESENTATIVE WALKO: No questions.

1 CHAIRMAN GANNON: Thank you very much for  
2 being here today to offer your testimony on behalf of the  
3 League. We appreciate it.

4 MS. MCKENNA: Well, thank you for having us.

5 CHAIRMAN GANNON: Colleen Puckett, Chair  
6 Coalition of Philadelphia Neighborhood Associations could  
7 not be with us today, but on behalf of that association  
8 she will be offering written testimony to the committee.

9 MS. MCKENNA: I brought that, sir.

10 CHAIRMAN GANNON: Did you give it to the  
11 staff?

12 MS. MCKENNA: Yes, I did. I do have a copy of  
13 it if you want to hear it. I'm not a representative of  
14 theirs. It was convenient for me to bring it.

15 CHAIRMAN GANNON: I would prefer that a  
16 representative of the association present the testimony.

17 MS. MCKENNA: All right.

18 CHAIRMAN GANNON: Additionally, the  
19 Pennsylvania Tavern Association representative had asked  
20 to present testimony. However, our schedule was such that  
21 we could not fit them in, and they've indicated that they  
22 will be offering written testimony to the committee.

23 With that our next witness and final witness  
24 is Dick Gmerek, Esquire, with Maley, Williamson, Hayden &  
25 Gmerek, and John Swiatek, President Ladbrooke Racing

1 Corporation.

2                   Welcome, Mr. Gmerek. Welcome, Mr. Swiatek.

3 Thank you for being here today, and you may proceed when  
4 you're ready.

5                   MR. SWIATEK: Thank you, Chairman Gannon. My  
6 name is John Swiatek, and I am vice president of  
7 operations for Ladbroke Racing Corporation. Today I am  
8 joined by our legislative counsel, Dick Gmerek. I want to  
9 thank you and the committee for giving me the opportunity  
10 to testify.

11                   Over the years the House Judiciary Committee  
12 has always given Ladbroke Racing and the Pennsylvania  
13 horse racing industry a fair hearing for our position on  
14 the many issues, and I want you to know that we appreciate  
15 that fact.

16                   A year ago Ladbroke President John R. Long and  
17 I last testified before the committee. We told the  
18 committee how Ladbroke and the entire racing industry has  
19 grown in Pennsylvania thanks to progressive laws crafted  
20 and passed by the General Assembly.

21                   Let me review some of the pertinent facts that  
22 we presented when we last testified before this committee.  
23 Ladbroke first invested in Pennsylvania by purchasing The  
24 Meadows harness track in Washington County in 1989.  
25 Later, because of enlightened legislation, we developed



1 off-track betting facilities in New Castle, Greensburg,  
2 Johnstown, Moon Township, Harmar Township, and West  
3 Mifflin. Each facility employs an average of 100 people,  
4 thus a total of 600 new jobs were created by the addition  
5 of these six off-track betting facilities in Western  
6 Pennsylvania, thereby doubling the number of employees we  
7 had in Pennsylvania.

8           Our growth also was stimulated in 1993 by the  
9 introduction of full-card simulcasting where races from  
10 tracks throughout the United States and Canada are beamed  
11 live to our facilities, while Ladbroke's Meadows' races  
12 are seen in 30 outlets or more throughout the states.

13           We've also developed a television network with  
14 Pennsylvania cable companies that reaches up to two  
15 million households in the states.

16           In total Ladbroke has invested nearly \$75  
17 million in Pennsylvania and we employ directly 1100  
18 people. Our racing system supports a vast network of  
19 horse owners, trainers, care givers, as well as the farms  
20 where the horses are bred and the feed is grown, plus an  
21 array of ancillary businesses such as food and beverage  
22 purveyors, communications equipment suppliers and many,  
23 many more.

24           Until this year we've drawn up to 1.3 million  
25 people to our facilities every year. By way of

1 comparison, that's more than attend Steeler football and  
2 Pirate baseball.

3           On a statewide basis, the horse racing  
4 industry is responsible for 35,000 jobs in Pennsylvania,  
5 \$576 million in annual personal income and an annual  
6 economic output of \$752 million.

7           By allowing the industry to have off-track  
8 wagering facilities, full-card simulcasting, thousands of  
9 jobs were created, hundreds of millions in capital  
10 investment was invested, and more taxes have been paid to  
11 the Commonwealth. Our industry pays pari-mutuel tax,  
12 sales tax, property tax, and our employees pay a wide  
13 variety of state and local taxes as a result of their  
14 employment.

15           Our business is like many others. In order to  
16 survive in the long run, you must change and revise your  
17 business. However, our business is dissimilar to other  
18 businesses in that for us to change or revise our  
19 business, we must come to you, the General Assembly. In a  
20 manner of speaking you are our board of directors.

21           So why am I here? I am here to tell you today  
22 that all of the Pennsylvania racing industry is in  
23 jeopardy. The operations and the jobs in Pennsylvania's  
24 four race tracks, the jobs at the 17 OTB facilities, the  
25 jobs of those who train and care for horses, the farms

1 that support our industry, all is in jeopardy because of  
2 the introduction of slot machines at race tracks in  
3 Delaware in January of 1996 and in West Virginia in July  
4 of 1996. Their introduction has had a devastating impact  
5 on our industry.

6           Here are the facts about slot machines in West  
7 Virginia and Delaware that I thought you should know:  
8 100 slot machines were installed at Mountaineer in  
9 Wheeling this past summer. They have generated over \$200  
10 million of play in the first quarter of 1997 alone.  
11 Twenty-six hundred slot machines were installed at  
12 Delaware Park, Dover Downs and Harrington in Delaware. We  
13 also understand they are seeking legislation to double the  
14 number of machines. They have already generated over \$600  
15 million in play in the first quarter of 1997.

16           The state of West Virginia has invested over  
17 \$800,000 in tourism funds to finance a promotional program  
18 for their tracks directed at Western Pennsylvania. These  
19 promotions are in the form of newspaper ads, direct mail,  
20 television and a 30-minute infomercial that airs  
21 continually on numerous Western Pennsylvania cable  
22 systems.

23           A vast majority of the customers at Delaware  
24 and West Virginia tracks are from Pennsylvania. We know  
25 this, we've been there, as have the newspaper and

1 television media.

2           So from a trend of regular and consistent  
3 growth, Ladbroke's operations today are experiencing  
4 regular and consistent decline.

5           For example, our handle at the Meadows  
6 Racetrack is off 31 percent from a year ago. Across the  
7 state, Philadelphia Park has suffered even greater  
8 declines. Plus, Philadelphia Park has a horse supply  
9 shortage as more and more stables move to Delaware for  
10 bigger purses as a result of slots. It's a fairly simple  
11 choice if you're a horse owner and trainer, do I race my  
12 horse at Philadelphia Park where purses average \$75,000 a  
13 day or do I go to Delaware Park where the purses average  
14 \$200,000 a day.

15           I know that every member of the committee  
16 understands that the industry cannot absorb these declines  
17 for a very long time without taking action. Already the  
18 Meadows has eliminated our parking department staff, cut  
19 purses, and further reductions are imminent.

20           As you know the racing industry strongly  
21 supports legislation for slot machines at the Pennsylvania  
22 race tracks following a successful statewide referendum.  
23 In addition, we support legislation which defines location  
24 of the slots, enforcement, number of machines and how the  
25 tax revenue for slots will be distributed to education,

1 economic development, volunteer fire companies, the PACE  
2 prescription program and farmland preservation amongst  
3 others. Pennsylvanians would then be casting their vote  
4 knowing the details of the legislation which will assist  
5 them in their decision.

6           This is a critical issue. The longer the  
7 impact continues, the more difficult it will be to rescue  
8 our operations. The entire horse racing industry,  
9 breeders, owners, trainers, track operators,  
10 veterinarians, labor unions and more stand united to move  
11 forward with a campaign that will allow slot machines at  
12 the four race tracks. This is a restrictive expansion of  
13 gaming, but is essential for the industry to survive.

14           In conclusion, our industry cannot wait. Look  
15 at what's happened in the year since we last addressed  
16 this committee. With your help we can reverse the trend  
17 and save Pennsylvania jobs related to our racing system.  
18 Thank you.

19           CHAIRMAN GANNON: Thank you very much, Mr.  
20 Swiatek. Representative Manderino.

21           REPRESENTATIVE MANDERINO: Thank you, Mr.  
22 Chairman. I just want to put on record -- you don't  
23 necessarily have to respond because we don't have the  
24 Levdansky Tomlinson proposal in front of us and I didn't  
25 realize that you would be testifying so I didn't bring it.

1 But I know that during the course of whatever public  
2 debate has happened so far on that particular proposal a  
3 couple of problem areas that people have had been brought  
4 to light, and there's been some public discourse about  
5 whether or not people were amenable to change.

6           One of them we talked about today would be age  
7 of gambling, and another one that the Governor is not  
8 talking about is the number of machines.

9           But I had two other particular concerns with  
10 the legislation that I'm going to take the opportunity to  
11 briefly articulate because I haven't heard anybody  
12 articulate these two concerns as yet. And one dealt with  
13 the definition of the type of machine that would be used.

14           Now, I understand that in drafting the  
15 definition of the machines as electronic machines -- I was  
16 trying to get to this issue that we heard earlier  
17 testimony about where most slot machines or line display  
18 machines used to use the electronics and I understand  
19 that.

20           But I very strongly feel that the way the  
21 definition is now it is much broader than just limiting  
22 the line display machines which is what everyone leads you  
23 to believe in the verbal discussion is all that's meant to  
24 be proposed for race tracks. And I think that it opens  
25 the door for any kind of mechanical -- or any kind of

1 electronic video type of gambling whether it's poker,  
2 blackjack, keno or whatever new game you might imagine in  
3 the future.

4           So I would ask you to take a look at that and  
5 maybe talk to me later about that definition.

6           The second area, and this is where I really  
7 wish I had the language that very much disturbs me and I  
8 don't have the language in front of me, but you'll have to  
9 trust me that how I read it and argue with me later about  
10 this is what it really says, in describing when the slots  
11 can operate at a race track there was a limiting language  
12 that kind of said something to the extent of not  
13 withstanding whether or not races actually run, as long as  
14 you still pay a purse to the owners of the race track you  
15 can operate the slot machines. Which to me meant we can  
16 just have a race track, keep a paddy open, even if there's  
17 never any horses in it, pay the owners off and operate the  
18 land-based casino.

19           Now, I'm not suggesting that that was your  
20 intent. I'm just suggesting that as the language of the  
21 bill reads now that that is a possibility.

22           So if you would take a look at those two areas  
23 of the proposed legislation, with my word -- how I think  
24 they can be interpreted -- and make some suggestions for  
25 tightening those two areas I'd appreciate it.

1 MR. SWIATEK: I think the clause that you're  
2 referring to is more of a disputes resolution between the  
3 race track and the horsemen. The bill is very specific.  
4 It's about live racing, providing funds for live racing  
5 and it even takes the existing racing law and puts it into  
6 this amendment to make sure that the race tracks will  
7 conduct live racing. So those same thresholds and those  
8 same issues were raised with full-card simulcasting. They  
9 also appear in this.

10 So it's about -- take, for instance, Ladbroke.  
11 We have to race like 205 live race days and at least eight  
12 race days per day. And, you know, when it's all said and  
13 done, you know, we looked at our business and racing is  
14 the center plate of it. And so when we're putting a race  
15 card together, it's about putting a card that has, you  
16 know, quality races and enough races too because the  
17 customers come to see live racing.

18 Those things won't change. This should only  
19 enhance live racing by allowing -- for instance,  
20 Philadelphia Park has a purse problem. They can't compete  
21 with Delaware. They have fields that are four and five  
22 horse fields that aren't competitive for Pennsylvania  
23 racing. This will only help them to generate additional  
24 purse dollars to compete with Delaware.

25 A second point I would make is that over the



1 past five or six years the breeding industry has grown to  
2 be a tremendously strong industry and this will help to  
3 maintain that. Here in Pennsylvania, you know, we're  
4 proud to say that we have the world's largest horse  
5 breeding farm, and that's Hanover Shoe Farm. And they're  
6 the types of things that we want to keep. That's our  
7 heritage.

8           So this really has been -- the bill has had a  
9 lot of input and Senator Tomlinson has made sure of that  
10 and certainly Representative Levdansky, they wanted to  
11 make sure that it's a bill that works for the industry,  
12 and I'm happy to say that the entire racing industry is  
13 behind it.

14           There's not one piece of the industry that  
15 doesn't support the bills that are out there from the  
16 labor unions, to the breeders, to the trainers, to the  
17 drivers, to the jockeys. And so, you know, I think this  
18 is probably the first time that we've come all of us to  
19 the Legislature with a really 100 percent effort behind  
20 this bill. And that also gives you an idea how critical  
21 it is to our business too because usually at a time of  
22 need the group will coalesce to come forward.

23           MR. GMEREK: I would just say for the sake of  
24 Representative Manderino, at the track itself one can be  
25 18 years of age and so there's a difference between that

1 and the machines -- as well as for the number of machines.  
2 It's our understanding that in the bills that are out  
3 there the idea was that 3,000 would be the limit, to limit  
4 the number of machines. And there have been those that  
5 have suggested that there should be no limit where we see  
6 states like Delaware now passing legislation to double the  
7 number of machines that they have at their race tracks.  
8 So I just want to address those two points.

9           REPRESENTATIVE MANDERINO: And as I've stated,  
10 those are points that I've heard others discuss. The two  
11 other points that I mentioned are ones that I have heard  
12 no public discussion about as of yet and were particular  
13 concerns of mine because I do not doubt at all what is  
14 intended and I also don't doubt the enthusiasm and support  
15 of all the affected parties and interest to support the  
16 bill.

17           But I do know from past experience that what  
18 people think they're supporting and how the language is  
19 actually drafted are not always one and the same thing.  
20 So I want to make sure that the language is drafted to  
21 reinforce what people think they are supporting which is  
22 something that is going to keep not only the horse racing  
23 industry, the tracks themselves -- excuse me -- alive and  
24 economically healthy, but all of the ancillary  
25 agri-business agricultural, horse breeding and other

1 spin-off industries involved as well.

2 MR. GMEREK: I think Mr. Swiatek said it, but  
3 just reemphasize so everybody knows the intent of the  
4 bills that are out there are very clear, you must have  
5 live racing in order to operate the machines, not the  
6 other way around.

7 REPRESENTATIVE MANDERINO: Okay. Then maybe  
8 we need to look at the language and see if there is some  
9 way that it can be reworded so that it hasn't hurt your  
10 intent but also closes where I see a potential loophole.

11 CHAIRMAN GANNON: Representative Caltagirone.

12 REPRESENTATIVE CALTAGIRONE: Thank you, Mr.  
13 Chairman. I guess it's true if you stay around this  
14 business long enough everything comes full cycle. And  
15 having put in ten years doing this on the agricultural  
16 committee prior to the 11 years on the House Judiciary,  
17 total of 21, I don't know if were you around when OTB came  
18 into existence

19 MR. GMEREK: Yes, we both were.

20 REPRESENTATIVE CALTAGIRONE: The same  
21 arguments, by the way, that I'm seeing today were  
22 absolutely used at that time, almost identical. I am  
23 curious about this piece that was sent to every member of  
24 the General Assembly. Was this piece produced in  
25 Pennsylvania or was it produced in Washington, D.C.?

1 MR. SWIATEK: When you say produced, I'm  
2 not sure --

3 REPRESENTATIVE CALTAGIRONE: Did it come from  
4 a Washington, D.C., public relations --

5 MR. SWIATEK: Oh, no. We used a local public  
6 relations firm. We use Blatner and Brunner out of  
7 Pittsburgh.

8 REPRESENTATIVE CALTAGIRONE: Did any of the  
9 tracks, the other tracks employ or collectively did you  
10 employ any Washington, D.C., public relations firms that  
11 you know of?

12 MR. SWIATEK: Not that I'm aware of. I know  
13 Philadelphia Park's firm is out of Philadelphia.

14 REPRESENTATIVE CALTAGIRONE: How about Penn  
15 National?

16 MR. SWIATEK: I'm not sure who they're working  
17 with.

18 REPRESENTATIVE CALTAGIRONE: Is there a  
19 Washington, D.C., public relations firm involved in --

20 MR. SWIATEK: I can tell you this piece that's  
21 in front of you, Philadelphia Park and Ladbrooke Race Track  
22 in Pennsylvania were the primary copies for that. We  
23 developed it.

24 REPRESENTATIVE CALTAGIRONE: If we were to go  
25 back, take the OTB, trying to get it through because the

1 same case is being talked about, I don't buy the notion  
2 that specific parts of the state that have OTB parlors are  
3 doing a paultry job in taking in dollars because the facts  
4 speak differently as to how well they're doing. The  
5 industry itself, as I understand what you're doing, and I  
6 appreciate competition with what's going on in Delaware,  
7 but I think the truth of the matter is basically  
8 economics. You see opportunity here to make additional  
9 profits for your corporations.

10           Nobody faults you for that. But we're also  
11 having a problem in Atlantic City with casinos taking tons  
12 and tons of our senior citizens down there on buses every  
13 single day, every single week, along with others, and we  
14 certainly lose a vast amount of money to New Jersey and  
15 Atlantic City in particular because of what's going on  
16 with that.

17           I was intrigued on page seven of your  
18 testimony you indicated following a successful statewide  
19 referendum which would support the legislation for the  
20 slots what would necessarily have to follow. Suppose it  
21 isn't successful, what do you plan to do?

22           MR. SWIATEK: Well, obviously if we can't get  
23 slots -- and I guess I'd go back just a little bit to  
24 answer that. Through July of last year our business was  
25 moving along quite successfully. I think our facilities

1 were up 6 to 7 percent through July, and then when the  
2 slots came to the West Virginia race tracks it was an  
3 immediate impact. You know, I put in there the number  
4 from 31 percent impact on the Meadows which has been the  
5 most severe. But our Moon Township OTB facility has been  
6 impacted 17, 18 percent, and each of the other facilities  
7 are down in the double digits with the exception of  
8 Johnstown which is actually up 2 percent this year. But  
9 it's a simple fact, it's out of the market. You know,  
10 it's not in the Western Pennsylvania-West Virginia market.

11           But I would say if it doesn't pass, I mean we  
12 have no choice but to look at how to streamline our  
13 business and become smaller. And I think the industry  
14 itself at that point is definitely in jeopardy because we,  
15 over the past several years, because of enlightened  
16 legislation, because of off-track betting, because of  
17 full-card simulcasting, we built Pennsylvania into one of  
18 the top racing states. You know, we brought all the top  
19 standardbred horses to our state to stand and so we feel  
20 it's quite a strong industry. That's all in jeopardy.  
21 You know, you'll see the state purses going down, and the  
22 purses are already going down in the state.

23           For me, you know, it's difficult for me to  
24 understand how slot machines have that much appeal. They  
25 don't to me, but, you know, I guess I'm sort of the odd

1 duck out there. I enjoy a challenging game that takes a  
2 lot of mental exercise. But people enjoy it and we've  
3 seen our business leave and in those cases we have no  
4 choice but to slim down to a state that works, if there is  
5 such a state.

6 MR. GMEREK: Representative Caltagirone, just  
7 to emphasize -- reemphasize John's testimony, you know,  
8 the argument that, well, you seem to keep coming back to  
9 the Legislature. But there's two reasons for that. One's  
10 what John just said and that is when you all gave us the  
11 tools to compete with the OTB and simulcasting, they  
12 turned Pennsylvania into one of the top five racing states  
13 in the country, the envy of most of the other states in  
14 the country, and the states emulated what Pennsylvania has  
15 done.

16 But at the same time John said in his  
17 testimony you are our board of directors. When the guy  
18 across the street or this guy -- in this case the guy  
19 across the border, state border, decides to alter what he  
20 or she does, we cannot just do what they have done. We  
21 need to come to you because we are a highly regulated  
22 industry. And that's why we come back before you when  
23 there's a threat to the existing business which relates to  
24 the existing employment that we have.

25 REPRESENTATIVE CALTAGIRONE: I also suggest if

1 this legislation would happen by chance to get approved by  
2 referendum and the enabling legislation would follow, I  
3 for one would make absolutely certain that there are all  
4 types of safeguards, checks and balances in a gaming  
5 commission that will very closely regulate that type of  
6 operation because I think it's in the best interests of  
7 the citizens of this Commonwealth.

8           MR. SWIATEK: I would -- I mean I would agree  
9 with that and support that. You know, our company is  
10 licensed throughout the country and throughout the world.  
11 There's nothing more important than our company, than our  
12 perception and our integrity, and that's something that  
13 every day before I start my workday I need to think about,  
14 is this of the integrity that our company relies on. It's  
15 the foundation of how we built our business.

16           REPRESENTATIVE CALTAGIRONE: A previous  
17 witness testified to problems of gambling addiction and in  
18 your testimony, of course, in the draft of legislation  
19 that's presently both in the House and the Senate, I don't  
20 recall any money would be dedicated to that particular  
21 problem.

22           What are your comments on that? And what  
23 would you say could or should be done, and would you  
24 dedicate an actual percentage of your profits to deal with  
25 that issue? Because we know it's an issue here.



1 MR. SWIATEK: In our bill there is \$100 I  
2 believe -- in Senator Tomlinson's bill it's a hundred  
3 dollars I believe per machine that would go to help with  
4 compulsive gambling. Then I think Representative  
5 Levdansky made an adjustment. But I think the number may  
6 be 150.

7 But, you know, there certainly is compulsive  
8 behavior is in many businesses, whether it's shopping or  
9 it's playing slot machines or racing. But the two leading  
10 forms of compulsive gaming in our state are sports  
11 betting. Which is illegal, which offers credit. Our  
12 business -- our current business is strictly debit  
13 betting, betting on the cash that you have along with slot  
14 machines so I think there's a lot of similarities.

15 So the number one form of -- addicting form of  
16 any type of game is sports betting which is illegal and  
17 second is the lottery.

18 And, you know, certainly we don't want anybody  
19 that has a problem. As I stated we have 1.3 million  
20 people that go through our facilities. Most of them come  
21 to our facilities for entertainment. The small percentage  
22 of people that have problems, we don't want them there.  
23 We want to help them as a matter of fact, and we've worked  
24 with your earlier speaker, Tony Milillio, and, you know,  
25 we've really -- we want to deal with that.

1           And so that is an issue to us and -- but, you  
2 know, people have compulsive behaviors for a  
3 number -- it's a small percentage. I look at this bill as  
4 a jobs bill. I mean it's about the 35,000 people and  
5 that's the part of it that I see, live and breathe, you  
6 know, everyday, of which I'm one of them.

7           REPRESENTATIVE CALTAGIRONE: There's also  
8 another side to this issue as you well know. I've seen  
9 the testimony given here indicating that there is a  
10 problem that is real because of this type of industry.  
11 I'm asking you today would you support a percentage of the  
12 profits to go towards the addiction problem that is sure  
13 to follow if this were approved in referendum?

14           MR. SWIATEK: We support money being put  
15 aside, whether it's through a percentage or a fixed dollar  
16 amount like as in the existing legislation. Certainly we  
17 do. I mean we want to deal with any issues that arise  
18 from our business.

19           MR. GMERЕК: And I would just emphasize as  
20 John has said, both pieces that Representative Levdansky  
21 as well as Senator Tomlinson, there is a machine tax, if  
22 you will, of a hundred dollars or a hundred and fifty  
23 dollars dedicated to compulsive gambling which we not only  
24 strongly support but we advocate.

25           MR. SWIATEK: And I think, if I'm not correct,

1 I think that would be the first moneys that come toward  
2 compulsive gambling besides contributions through  
3 companies like ours and other foundations.

4           REPRESENTATIVE CALTAGIRONE: There was also  
5 testimony given today which I think was really on target,  
6 specifically addressing the issue of slots and the number  
7 of jobs that could be created. Comparing that to Atlantic  
8 City, knowing full well that floor situation that you're  
9 talking about 3,000 slots per track, four tracks, 12,000  
10 slots, I think the maximum it has right now in Delaware is  
11 700 I believe. And of course they're going back to the  
12 legislature in Delaware to try to increase that -- double  
13 that.

14           I understand that. But we know in this  
15 hearing today that there are not going to be so many new  
16 jobs created when you plop 3,000 slots down in the track.  
17 We just know that there's not going to be that many new  
18 jobs created. We're talking about modest investment of  
19 maintaining those machines other than the electric cost  
20 and maintenance and people coming in and cleaning them  
21 out. I don't know what other costs are going to be  
22 associated with those face assets. If you bring  
23 in -- what percentage of profits is made on a machine? I  
24 know you know.

25           MR. SWIATEK: I mean it depends on the final,

1 you know, format of the legislation. It depends on the  
2 capital investment. So there's a lot of factors that need  
3 to be taken into consideration.

4           The only thing that I can tell you is that the  
5 slot machines when they were put into Delaware, they  
6 created 1100 jobs. And that is a fact. So that's  
7 something we can look at.

8           From my company's standpoint -- I'm not sure  
9 if you've visited any of our facilities -- my company is  
10 about first class and anything we do has to be done right.  
11 And so if you walk into one of our OTB facilities today,  
12 you find ceramic tile, you find brass, you find glass, you  
13 find the finest finishes, and anything we would do that  
14 would add on to our business like slot machines, we would  
15 make a significant investment. So it's something that we  
16 could all feel proud of.

17           Because, you know, like I'm here today to ask  
18 my board of directors for additional approvals to do  
19 other -- you know, other add-ons to our business to remain  
20 competitive, I know that some time down the road, whether  
21 it's five, seven, ten years, I don't know, but I will be  
22 coming back to you, and I know the most important thing  
23 for me as a company is to come back with something that's  
24 done right, that's done successful.

25           And that's what I can promise you from

1 Ladbroke, that whatever we do, we'll make our state proud  
2 and our company proud and that's my commitment.

3           REPRESENTATIVE CALTAGIRONE: Do you happen to  
4 know what the percentage is on -- Delaware's payout is on  
5 their machines right now?

6           MR. SWIATEK: You know, I don't have that in  
7 front of me, but I know they're in the 90 percent range.  
8 And when the legislation was constructed by Senator  
9 Tomlinson I know it was evaluated, what's happening in  
10 neighboring states because we need to be competitive.

11           So I think the percentage is like 87 percent  
12 to 95 percent. But there's a proviso that if need be the  
13 commission could allow more to be paid back to the  
14 customers because we know that when it's all said and done  
15 we need to remain competitive with Delaware, with West  
16 Virginia, and for Eastern Pennsylvania, New Jersey.

17           So they're paying out 95, 96 percent, for us  
18 to keep Pennsylvanian people in Pennsylvania, we  
19 need -- we know that we need to remain competitive.

20           MR. GMERER: Representative Caltagirone, I  
21 would also add that if in fact there's going to be an age  
22 differential, which we would support, between the track  
23 and the slots, that it would seem as though there's going  
24 to be necessary construction to separate those machines  
25 from the rest of the racing. So right there is a lot of

1 construction type jobs.

2           And then as John said, we would just relate to  
3 what's happening in Delaware, once the construction is  
4 complete, the machines are inserted, what the job  
5 situation was in Delaware as compared to Pennsylvania.

6           REPRESENTATIVE CALTAGIRONE: How do you rate  
7 the employees?

8           MR. SWIATEK: Well, what we have --

9           REPRESENTATIVE CALTAGIRONE: I'm talking  
10 employees now once the construction would be done, out of  
11 the way, then the employees full time I would assume?

12           MR. SWIATEK: Yes. What we've done, we've sat  
13 down with the union. Our primary union is Local 137 which  
14 represent our tellers, our admissions, our parking, and we  
15 have a general understanding of the health care, a 401K  
16 plan. We haven't got as far as the wage scale, but we pay  
17 our employees well now at our existing facilities and, you  
18 know, certainly that would be contemplated.

19           Also, HERE, which represents our food and  
20 beverage employees at the race track is also involved with  
21 the legislation.

22           REPRESENTATIVE CALTAGIRONE: They're not --

23           MR. SWIATEK: No, not at all. Not at all. We  
24 have people that -- race families working at our  
25 establishments.

1                   REPRESENTATIVE CALTAGIRONE: Thank you.

2                   CHAIRMAN GANNON: I asked this before and I'll  
3 ask it again. I'm a little intrigued by this legal  
4 maximum that a track owner would pay out on a slot  
5 machine. I understand that. But the bill that was  
6 introduced by Representative Tomlinson -- I should say  
7 Senator Tomlinson and the House had a somewhere between 80  
8 minimum or 85 minimum. I don't recall.

9                   MR. SWIATEK: I think Dick can answer that.

10                  CHAIRMAN GANNON: Representative Levdansky's  
11 bill. My question is this. Why would you ask the  
12 Legislature to place a cap on the maximum that would be  
13 paid out as opposed to letting market conditions determine  
14 what would be paid out of what would be the payout of your  
15 machines? Assuming that that became the law you would  
16 have competition among the four tracks in Pennsylvania and  
17 then competition in the surrounding states if they had  
18 track slots at the track. Why not simply let market  
19 forces determine what would be the payback to the  
20 customers?

21                  MR. SWIATEK: I believe that's what we were  
22 trying to get at. I think probably the most important  
23 part of what was there was I think the 87 percent is the  
24 minimum payout and there was a limit. And knowing that we  
25 were going to be competing against New Jersey, we asked

1 that there could be a way to, you know, expand the maximum  
2 payout so that we could effectively compete.

3 I mean, you know, that's certainly up to you,  
4 the General Assembly, to dictate. But quite frankly, with  
5 the Pennsylvania racing law there's a flexibility related  
6 to retention rate in which we can go back to the  
7 commission and adjust it as the market changes and that's  
8 been quite helpful and I think that same type --

9 CHAIRMAN GANNON: Well, maybe I didn't make my  
10 question clear. I can understand the minimum as a matter  
11 of protecting the customers from never getting any paid  
12 back at all so we put in a law setting a minimum that  
13 you're going to pay back on a machine, say 87 percent.  
14 And without any -- the maximum is up to you. You own the  
15 machines, you want the customer to come in and play that  
16 machine, you want to make a profit on it.

17 Why would you ask the Legislature to put into  
18 law any regulation or commission opinion to put into law  
19 there's a maximum we ever have to pay out is 95 percent  
20 when the payout wasn't actually violating the law?

21 MR. SWIATEK: Well, actually I believe it was  
22 at our request that there was a provision put in to allow  
23 us to go beyond that. So that we could pay -- I mean we  
24 want that flexibility. We want to be able to compete. I  
25 don't want to be coming back to you a year from now or a



1 year and a half because we need to pay out more.

2 I think when it comes to the legislation, the  
3 more flexibility that we build in to compete with our  
4 neighboring states, I think the better off we are. And  
5 that's one of those provisions, if we need to pay out 97  
6 percent to compete, then we need to pay out 97 percent to  
7 compete.

8 CHAIRMAN GANNON: Is it fair to say -- I think  
9 this was mentioned earlier -- in Pennsylvania you cannot  
10 bet on horses with credit?

11 MR. SWIATEK: Correct.

12 CHAIRMAN GANNON: Track owners cannot issue  
13 credit to its customers to play the horses?

14 MR. SWIATEK: It's strictly debit betting.

15 CHAIRMAN GANNON: How about checks, are you  
16 authorized to accept checks from a customer to pay off  
17 bets?

18 MR. SWIATEK: Well, we -- yeah, we will accept  
19 checks. We really try to stay away from that. We have  
20 debit machines in all of our facilities. We will cash  
21 checks for horse owners, for people that work within the  
22 business.

23 CHAIRMAN GANNON: I'm talking about the  
24 customer off the street.

25 MR. SWIATEK: You know, we really try to stay

1 away from it. We really have a fairly rigorous check  
2 cashing policy. That's why we have debit machines in all  
3 of our facilities so they can work off of their own debit  
4 accounts. We really try -- we don't want to be in that  
5 business. We want to be in the business of providing  
6 gaming facilities and racing facilities.

7 CHAIRMAN GANNON: Has the racing industry to  
8 your knowledge made regulatory review recommendations?

9 MR. GMEREK: Not to my knowledge.

10 MR. SWIATEK: No. Not that I'm aware of.

11 CHAIRMAN GANNON: That's all I have. And I  
12 want to thank you for coming, Mr. Swiatek, and also, Mr.  
13 Gmerek, and presenting testimony to the committee. I  
14 appreciate your taking time from your schedules to be with  
15 us today.

16 MR. SWIATEK: We appreciate presenting to you.  
17 Thank you.

18 CHAIRMAN GANNON: Just for public notice, the  
19 meeting for tomorrow is cancelled as far as public  
20 hearings is concerned and with that, this meeting of the  
21 House Judiciary Committee public hearings on House Bill  
22 295 is adjourned.

23 (Whereupon, the hearing was concluded at 4:25  
24 p.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings, and that this copy is a correct transcript of the same.

Pamela L. Packer (JP)

Pamela L. Packer

Court Reporter-Notary Public