

**House Gaming Oversight Committee
Kevin F. O'Toole, Executive Director
Pennsylvania Gaming Control Board
March 21, 2016**

Good morning Chairman Payne, Chairman Kotik and members of the House Gaming Oversight Committee. My name is Kevin O'Toole and I serve as the Executive Director of the Pennsylvania Gaming Control Board. I am pleased to be here to testify on proposed legislation that would consolidate regulatory oversight of the lottery and small games of chance within the Pennsylvania Gaming Control Board.

First of all, I would like to thank the Committee for the consolidation proposal because it shows confidence in the Gaming Control Board's ability to regulate gaming activity. It is appreciated by the members of the Board and my staff to see our agency recognized in such a positive way.

However, consolidating regulatory oversight of the lottery and small games of chance within the Gaming Control Board may not be a good fit. While the lottery is technically housed within the Department of Revenue, it ostensibly acts independently as a business. The management structure reports to an Executive Director who has the responsibility to make daily operational decisions based on what maximizes revenue both to the lottery and the Commonwealth. Decisions are made at Lottery on a day to day basis regarding what products to sell, what products to discontinue and what types of advertising would be most effective to attract customers.

Lottery is a unique arm of state government that operates within a business model with the objective to maximize revenue so profits can benefit senior citizens and the Commonwealth. If Lottery were to be under the oversight of our seven (7)

member Gaming Control Board, presumably day-to-day management decisions such as adding and dropping games, marketing decisions and other operational decisions would be required to go through a quasi-judicial approval process. That would not be the most nimble or efficient model to oversee Lottery operations.

All gambling need not and should not be considered equal and that justifies different models of regulatory oversight. The purpose of implementing a strong regulatory Gaming Control Board with transparent and public decisions is the need to shine light on the Commonwealth's regulation of the commercial casino industry, which history has shown, that without strong regulation, can veer off the right path.

The Lottery, on the other hand, is constructed differently and its gambling products of tickets and drawings are much narrower than gambling activity at casinos. Within this narrow scope of gambling, the Lottery benefits from the agility of a single executive director making monetary and marketing decisions daily that benefit the lottery and the Commonwealth's seniors through maximizing profits.

Turning to the Small Games of Chance Act, our analysis is somewhat different but the conclusion is the same. Consolidating this type of gambling activity into the full jurisdiction of the Gaming Control Board does not fit well into the current regulatory construct of the Board. As you know, tavern gaming affects the Board in regard to an applicant's background check. Once our background check is completed, it is then passed off to the LCB to make a licensing decision. If a license is awarded, the LCE is then responsible to enforce compliance. If the

Board were to be tasked with licensing, regulating and enforcing SGOC implementation throughout the Commonwealth, the Board would need to significantly increase staff.

Additionally, so long as Tavern Gaming maintains its current gambling products of pull tabs, drawings and raffles with appropriate limits on the cost of a pull-tab or entry to a drawing and limits on maximum wins, the Gaming Control Board's model of regulation is not the right fit for small games of chance. If legislative authorization for VGTs at bars and taverns were to be granted, however, the proper Gaming Control Board regulatory role in that environment would be worth considerable further evaluation.

The decision of who should regulate certain types of gambling within the Commonwealth is unquestionably one for the General Assembly to make. If the General Assembly were to task the Board with the regulation of all forms of legal gambling in the Commonwealth, that would produce significant administrative and policy challenges. Among other things, the way the Board is funded would certainly have to be modified to ensure that the casinos do not foot the bill for all regulation of gaming in the Commonwealth. The decision-making process of the Board – adhering to the qualified majority requirement —would also have to be examined for necessary changes.

Thank you for your time and I would be glad to take any questions the Chairmen or committee members might have.