

Testimony before the House Gaming Oversight Committee
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Chairman Marshall, Chairman Conklin, and members of the committee, thank you for the opportunity to meet with you today to discuss “Pennsylvania Skill Games” and the drastic toll these illegal machines are taking on older Pennsylvanians. I’d like to start my testimony by putting the impact of these illegal machines into context. At the current saturation rate, these devices, which are falsely advertised as “Games of Skill,” result in the annual loss of approximately \$138 million to the Pennsylvania Lottery. These are lost sales that could help generate funds for the critical senior programs and services that are funded by the Lottery. Instead, we are facing direct and effective competition from illegal Games of Skill — gambling machines that have undercut the public purpose of state-sanctioned games available through the Lottery.

So how is this happening? To understand the issue, we first have to consider what Games of Skill are and what they look like. At first glance, these machines may resemble Pennsylvania Lottery machines and give the impression they are sanctioned by the commonwealth, but neither is the case. Rather, they are video gambling machines that use various reel spins and graphical themes to interact with the user. Put simply, the machines are unsanctioned slot machines that are being operated in violation of Pennsylvania law, according to the Pennsylvania State Police.

What we’re seeing is these illegal machines are having a profound impact on our business for many reasons. Currently, more than one in five lottery retailers are offering at least one Games of Skill machine. Additionally, in the past year, the number of Lottery retailers that operate Games of Skill machines has increased by more than 100 percent. To make the matter worse, these machines are often deliberately placed near our products, confusing players who may think they’re playing a Pennsylvania Lottery game. In reality, they’re playing an illegal Games of Skill machine without knowing the difference.

To provide further context, one must also consider that Games of Skill have made it difficult to recruit Pennsylvania Lottery retailers to offer the Lottery’s monitor games, which include Keno and Xpress Sports. Retailers that operate Games of Skill often tell our Lottery sales representatives that they receive a larger commission from these illegal gambling machines. As a result, Lottery retailers are opting against adding Keno and Xpress Sports.

Here’s why that’s important: After being authorized by Act 42 of 2017, Keno and Xpress Sports were launched in 2018 to help the Lottery expand its products portfolio and remain competitive in an increasingly competitive business environment. Our goal is to stay vigilant in launching new products that our players want so that we can continue to generate funds for vital senior programs. Games of Skill are undoubtedly proving to be a significant source of competition when it comes to ensuring these new products are successful.

I would also like to take this opportunity to stress the importance of the Pennsylvania Lottery and its mission. We remain the only state lottery to direct all proceeds to programs that benefit older Pennsylvanians. Since ticket sales began in 1972, our Lottery has contributed more than \$29 billion to fund property tax and rent rebates, transportation, care services, prescription assistance, and local services

including senior centers and meals. In the 2017-18 Fiscal Year, the Lottery generated more than \$1 billion to support older Pennsylvanians for the seventh consecutive year.

However, funding for these important programs and services are being threatened every day by illegal Games of Skill. We also know that there is the potential for hundreds of millions of dollars in future harm if these machines remain a competitor to the Lottery in the retail environment. That's why we need to take action to protect the Lottery and prevent further damage to older Pennsylvanians. We can do that by supporting proposed legislation such as House Bill 913, proposed by Representative Ed Neilson and Senate Bill 710, proposed Senator Tommy Tomlinson. Both bills would address illegal Games of Skill and protect funding for senior programs. House Bill 931 strengthens the Crimes Code for law enforcement to confiscate illegal gambling devices and skill machines, while Senate Bill 710 further strengthens the existing law by making it a criminal offense for anyone to knowingly make, assemble, maintain, lease or sell Games of Skill. We feel strongly that Senator Tomlinson's and Rep. Neilson's respective legislative proposals will crack down on these illegal machines and preserve hundreds of millions of dollars that help seniors afford prescriptions, transportation, meals and more.

Thank you for the opportunity to provide testimony on behalf of the Pennsylvania Lottery. I look forward to answering your questions.