



## Commonwealth of Pennsylvania - House of Representatives Gaming Oversight Committee

### Public Hearing on the Impacts of the Covid-19 Pandemic on Pennsylvania's Casino Industry and the Industry's Financial Outlook for the Future

February 24, 2021

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#### Written Testimony of:

Harrah's Philadelphia – Hollywood Casino at Penn National Race Course – Lady Luck Casino Nemacolin – Live! Casino & Hotel Philadelphia – Live! Casino Pittsburgh – The Meadows Racetrack & Casino – Mohegan Sun Pocono – Mount Airy Casino Resort – Parx Casino – Presque Isle Downs & Casino – Rivers Casino Philadelphia – Rivers Casino Pittsburgh – Wind Creek Bethlehem

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Honorable Chairs and Members of the House Gaming Oversight Committee:

We, the above-listed casinos, thank you for the opportunity to appear before this Committee today to offer our testimony regarding the extent of our industry's suffering throughout the COVID-19 pandemic and our fiscal outlook moving forward. Unfortunately, it goes without saying that, nationwide, the gaming industry was among the most negatively impacted sectors of the American economy, with revenues across all gaming jurisdictions falling by 31.3% in calendar year 2020.<sup>1</sup> That 31.3% represents \$30 billion in lost revenue when compared to 2019. To our knowledge, only the passenger airline industry fared worse last year.

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<sup>1</sup> See, e.g. <https://www.americangaming.org/resources/aga-commercial-gaming-revenue-tracker/> February 17, 2020 (last visited February 21, 2021).

In Pennsylvania, last year's fiscal results were similarly awash in red ink. Statewide, Pennsylvania casinos saw revenues plunge by 22%, taking in a total of \$759 million less than in 2019.<sup>2</sup> Mitigation Orders issued by the Department of Health closed our casinos for extended periods on *two separate* occasions in 2020 – totaling approximately one-third of the days in which they would have ordinarily operated.

But, as bad as those overall losses are, the figure tells only part of the story. The impacts of the pandemic and the mitigation efforts were particularly devastating to our bricks and mortar facilities. At our physical casinos, we suffered losses in slot machine and table game revenue of 43% and 44%, respectively.<sup>3</sup> These losses equated to a drop in bricks and mortar casino revenue of more than \$1.4 billion compared to 2019, and the associated cash flow, a large portion of which is used to service debt and reinvest in our properties, also evaporated. In addition, with our land-based operations being the primary source of our job creation and vendor spend, these losses had a tremendous ripple effect on our team members, business partners and local communities.

Only the robust performance of our internet-based iGaming and sports wagering products allowed us to limp into 2021 with an aggregate revenue downturn of less than \$1 billion. As the recipient of substantial portions of our revenue, including nearly 57% of slot machine revenue, the Commonwealth has felt every dollar of these losses with us.

Compounding the difficulty of last year's fiscal performance, furloughs and layoffs also devastated our workforce that, prior to the pandemic, numbered nearly 18,000 employees, approximately 90% of which were Pennsylvania residents. By June 30<sup>th</sup> of last year, that number had fallen to just 9,883 people.<sup>4</sup> Returning those employees to work has unfortunately been a gradual process and reopening Pennsylvania's casinos was not the end of the financial harm caused by the pandemic. Not by a longshot.

Although our casinos began reopening in June of last year, due to additional restrictions imposed by the City of Philadelphia, the last casino was not able to restart gaming operations until July 17<sup>th</sup>. Even upon "reopening," however, being open does not look like it did before the coronavirus pandemic. Occupancy limitations, social distancing and other protocols mandated by the Department of Health have meant a gradual return to business and financial health. Further, limitations on the service of alcohol, on interstate travel and other guest experiences have inflicted additional harm on our businesses, and placed us at a competitive disadvantage when compared to casinos in surrounding states with less restrictive pandemic rules.

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<sup>2</sup> See, e.g., <https://triblive.com/local/westmoreland/pennsylvania-casinos-saw-revenue-drop-by-759-million-in-2020-state-reports/> (last visited February 21, 2021).

<sup>3</sup> *Id.*

<sup>4</sup> See PGCB Gaming Diversity Report 2019-2020, [https://gamingcontrolboard.pa.gov/files/communications/2019-2020\\_Gaming\\_Diversity\\_Report.pdf](https://gamingcontrolboard.pa.gov/files/communications/2019-2020_Gaming_Diversity_Report.pdf) (last visited February 21, 2021).

Meanwhile, compliance with those same mandates has necessitated that we invest additional millions of dollars into our facilities to implement the required protocols. We proudly report that our industry has been a leader and innovator in making sure that our businesses are safe for our employees and our patrons.

Setting the struggles of the previous 12 months aside, the gaming industry has made an unprecedented investment in Pennsylvania. Collectively, since the passage of the Gaming Act in 2004, our casinos have paid more than \$1.1 billion to the Commonwealth in licensing fees and have generated over \$17 billion in gaming tax revenue. We have also invested tens of billions of dollars to build, renovate, maintain and expand our casinos. And we have generated tens of thousands of direct and indirect jobs, and supported too many local businesses to count.

Just a few years ago, the General Assembly approved a major expansion of gaming in Pennsylvania when it enacted Act 42 of 2017. We did not ask for that expansion. But, when asked by the state to generate an additional \$200 million to help the Commonwealth's budget woes, we stepped to the plate and once again increased our investment in Pennsylvania, paying the Commonwealth nearly \$400 million in licensing fees and generating new sources of recurring tax revenue from iGaming, sports betting and the Category 4 casinos. Importantly, by enacting Act 42 (which is still not fully implemented), the General Assembly reaffirmed its decision from 2004 that restricting gaming to highly regulated and licensed casinos is the best way to ensure the integrity, safety and financial security of the Commonwealth and its citizens.

Pennsylvania is now on track to have 18 casinos across the state, with five new Category 4 casinos in the works. The Category 4 casinos produced \$137 million in license fees and will generate hundreds of millions of dollars in construction spending and hundreds of additional direct jobs for Pennsylvanians. Indeed, Live! Casino Pittsburgh, the first Category 4 casino to open in November 2020, delivered on these promises despite and in the face of the Covid-19 pandemic. Our industry is unquestionably a tremendous economic driver in this State.

That having been said, our industry made the forgoing investments in the Commonwealth in reliance on Pennsylvania's gaming laws and landscape – and in the reasonable belief that, as a nearly 57% stakeholder in our business, the Commonwealth would be a good faith partner. However, much of where we go from here as an industry will depend on the actions of the General Assembly and this Committee in the very near term.

With our fiscal prospects for the future far from assured, we are shocked and dismayed that the General Assembly is again considering an expansion of gaming to include both broad-based Video Gaming Terminals ("VGT") throughout the State and the legalization of tens of thousands of currently illegal skill game slot machines that are illicitly operated outside of our licensed facilities. Just three years ago, the General Assembly rejected similar proposals to put slot machines on every Main Street in the Commonwealth, determining that such broad-based gaming expansion would have had a devastating impact on both Pennsylvania's casinos and the Pennsylvania Lottery. Never has this been more true than it is today.

We submit that there will never be a “right time” to flood Pennsylvania with slot machines, placing them in every willing business with (and even without) a liquor license. The COVID-19 pandemic has caused unprecedented economic damage and uncertainty in Pennsylvania. Our casinos have borne the full brunt of that harm. The industry has barely had a chance to catch its collective breath from the worst year in its existence. Now is not the time to install its direct competitor in the form of VGTs and other distributed gaming options.

Whether gaming expansion takes the form of permitting thousands more video gaming terminals (“VGTs”) or legalizing so-called “skill games,” the real winners in the equation would be VGT and skill game special interests, who have made no investment in Pennsylvania and created no jobs here, but stand to benefit from entering Pennsylvania’s tightly regulated and highly successful gaming industry through the side door and without paying the requisite cover charge.

Expanding VGTs to liquor licensees (as some bills have proposed) would result in as many as 85,000 gambling machines being added to the state – more than five times the current number of slot machines in *all* of Pennsylvania’s casinos *combined*. Similarly, legalizing (and thereby rewarding) the currently illegal skill game slot machines that are prevalent in bars, convenience stores, gas stations and other businesses would cause tremendous damage to our industry and the more than 18,000 Pennsylvanians we are proud to employ when at full capacity.

A rerun of expansion proposals like last session’s Senate Bill 1256 would negatively affect the Pennsylvania Lottery and every taxpayer. Expanding VGTs or legalizing skill games would put at risk all of the following benefits that Pennsylvania’s casinos have delivered like clockwork for the last 15 years:

- Nearly \$1.5 billion in annual gaming tax revenue to the State;<sup>5</sup>
- \$500 million in annual spending at Pennsylvania businesses for goods and services;
- Nearly \$150 million in annual Local Share Assessment payments to Counties, Municipalities, public safety agencies, volunteer fire companies, community based non-profits and other recipients;
- Over \$140 million in annual support for economic development and infrastructure projects;
- A return to our nearly 18,000 pre-pandemic direct living wage jobs;
- Over 17,000 indirect jobs; and

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<sup>5</sup> This figure does not include the \$310.5 million in license fee and auction revenue received by the Commonwealth in 2018-2019 in connection with the 2017 Gaming Expansion Act.

- Nearly \$2 billion in annual wages, benefits and tips associated with the referenced direct and indirect jobs.

The Pennsylvania Lottery has also publicly testified about the dramatic losses it would experience as a result of additional gaming expansion. In 2017, the Lottery projected that broad-based VGT expansion would cost the state nearly \$600 million/year in funding for programs supporting older Pennsylvanians. More recently, the Lottery testified that it estimates losing more than \$300 million in scratch-off sales in just two years due to the proliferation of illegal “skill games.”

We encourage this Committee to study the State of Illinois’ VGT experiment, where lawmakers approved legislation to add VGTs across the state. In 2012, the taxes imposed on the Illinois casinos generated \$548 million. Since the advent of VGTs, this amount fell to \$454 million in FY 2019, representing **a seven-year decline of 17.2%** with the state collecting almost \$100 million less in tax revenue. Those losses approach 30% when the Chicago area (the city does not allow VGTs) is excluded. In fact, Illinois’ independent, bipartisan Commission on Government Forecasting and Accountability has concluded that the operation of VGTs in that state is the **largest driver of losses in casino revenue.**

In addition to the devastating financial impact, Illinois lawmakers and others recognized after the fact that it is just not possible to properly regulate and supervise these machines. Aaron Jaffe, former Chairman of the Illinois Gaming Board, has said he opposed video gambling, in no small part because he felt there was no way to regulate the industry. “It’s just too big of a job,” Jaffe said. “In order to regulate it, you need a bigger board and more people. **It’s absolutely ridiculous to think you can do a proper job with the resources available.**” *ProPublica*, The Bad Bet (January 16, 2019).

Testimony by the Pennsylvania State Police has raised similar concerns regarding the impact of illegal skills games in communities across our state. These “games” entice children to gamble and are ripe for corruption, according to the PSP. All skills games, no matter the manufacturer, are slot machines – period – and under Pennsylvania law the operation of slot machines is permissible only in licensed, regulated, and supervised casinos. Whether skill games or VGTs, a retreat of proposals like last session’s Senate Bill 1256 will inflict this same harm on every community in the state if it becomes law.

We recognize that bars, taverns, clubs and restaurants have been hit hard by the pandemic because, again, we have suffered along with them. We want these businesses to succeed – but giving them casino gaming is not the recipe for that success. It does not have to come at the expense of our industry.

It is crystal clear that gaming expansion is not designed to aid bars, restaurants and clubs. Indeed, the Pennsylvania Licensed Tavern and Beverage Association has issued a 14-point plan to aid its members, and not a single provision involves expanded gambling. We support that 14-point plan. Instead, gaming expansion is designed to help VGT and skills games operators who will only suck revenue out of Pennsylvania for the benefit of out-of-state interests, and will not make

any meaningful investment in our State. They will not create close to 20,000 jobs. They will not pump \$500 million a year into businesses across this state. And most importantly, they will not generate over \$1.5 Billion in tax revenue for Pennsylvania.

Rather than consider yet another major expansion of gaming, we urge you to work with liquor licensees to help them take advantage of the opportunities that have already been provided. The Legislature offered these businesses and clubs tavern gaming, but it was shunned as too expensive and requiring too much oversight. The Legislature, again, offered legal gaming options, like Keno and Xpress Sports that would benefit the Pennsylvania Lottery, in Act 42 of 2017. However, the vast majority of liquor licensees have yet to take advantage of these tools – with less than 5% of licensees offering these new games.

In closing, we respectfully submit that the Commonwealth should support the economic engine that is its casino gaming industry. Working together, we can restore \$1.5 billion in annual tax revenue for the Commonwealth, get thousands of Pennsylvanians back to work, and provide a lifeline to hundreds of local and small businesses that transact with our casinos.

We ask for your support on this critically important issue. We look forward to building on our successful partnership with the Commonwealth, and growing our investment in Pennsylvania in the months and years to come. However, we can only do so if Pennsylvania acts like a partner, and creates a stable and rational environment for that investment.

On behalf of our businesses and our thousands of Pennsylvania team members, thank you for considering our testimony.