

PENNSYLVANIA STATE POLICE
STATEMENT TO THE HOUSE OF REPRESENTATIVES
GAMING OVERSIGHT COMMITTEE

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Presented by
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Good morning, Chairman Santoni and distinguished members of this Committee. My name is Major John Lutz, and I serve as the Director, Bureau of Liquor Control Enforcement (BLCE). With me today is Captain Thomas Butler, Director of Operations, and Captain Patrick Gebhart, Director of Administration for BLCE.

I would like to extend my thanks to the House of Representatives, Gaming Oversight Committee, particularly Representatives Dante Santoni and Curt Schroder for the opportunity to participate in these hearings. Prior to answering your questions, I have a short opening statement that provides a quick overview on the issue of illegal video gambling devices in Pennsylvania.

The State Police have estimated that approximately 17,000 or more illegal video gambling devices (VGDs) are currently in operation throughout the state. These devices generally consist of two types of machines - video poker and video slot, with slot machines being more popular statewide. The vast majority of these machines are located inside licensed liquor establishments. Most of these illegal machines are owned by vending machines companies who, in addition to the illegal devices, also provide other legal machines such as cigarette machines, juke boxes, and pool tables. There are literally hundreds of vendors located throughout Pennsylvania engaged in this business.

The outcome of playing illegal video gambling devices is based entirely on chance. There is no skill involved. The percentage of "winning combinations" is preset via a circuit board inside each machine, and generally ranges from 55-80 percent. Players have no idea of the payout percentage set for any particular machine. If a player wins, the manager or bartender is responsible for paying out the winnings. The "credits" on the machine are then "knocked off" or played off. The proprietor also prepares a "payout slip" to keep track of the winnings paid out. An employee of the vendor usually visits each establishment on a weekly or bi-weekly basis to "empty" the machine, at which time the proprietor is reimbursed for payouts. Most machines are equipped with internal accounting devices, which serve as a means for the vendor to verify the winnings. After payouts are reimbursed, the profits are split between the vendor and proprietor, based upon their business agreement. Often the split is 50-50, although it can range from 40-60 percent for either side.

Conservatively, one machine receiving an average amount of play can generate \$600 or more in profits per week, which would then be split between the vendor and proprietor. Machines receiving heavy play can generate much more. In practice, a bar or club having four or five machines can make several thousand dollars per week. The big winner is the vendor who, depending on the size of his territory, can make well into the millions of dollars per year in untaxed revenue through this criminal enterprise.

While these machines are labeled "For Amusement Only," the Bureau has never observed a machine in a licensed establishment that was not used for gambling purposes. We are sometimes asked why these machines continue to flourish, particularly in certain regions of Pennsylvania. The first reason is that investigations into illegal video gambling devices tend to be resource intensive, from the undercover operation used to observe payoffs through obtaining search warrants and transporting and inspecting machines for knock-off and internal accounting devices. Furthermore, the vast majority of enforcement actions taken by BLCE are conducted through the Administrative Law Judge, where the penalties are relatively light and provide little or no deterrent for the licensed establishment. Finally, most district attorneys, with their offices already busy prosecuting more serious crime, are unwilling to prosecute illegal video gambling devices criminally. Even when a significant criminal case is made against a vendor, the penalties are usually relatively light.

That said, in fairness to the men and women in BLCE, I would like to clear up one misconception regarding illegal video gambling devices. BLCE has not turned a blind eye towards this violation and consistently has, and continues to take appropriate enforcement action when illegal machines are observed. Towards that end, in 2008 BLCE initiated 48 criminal prosecutions, issued 174 administrative citations, and seized 537 illegal video gambling devices from licensed establishments in the Commonwealth. Furthermore, BLCE is currently in possession of over 2600 illegal video gambling devices being stored in property rooms across the state, either in conjunction with active investigations or awaiting a court order authorizing destruction, at an overall cost in excess of \$100,000.00 per year. Unfortunately our experience has shown that illegal machines are usually replaced very quickly after they are seized, by either by the same vendor or a competing vendor.

The State Police believe HB1317 sets forth an effective plan to provide regulation to an underground industry that heretofore has flourished in Pennsylvania. With the additional enforcement provisions of this legislation and the legal alternative it offers to licensed establishments and their patrons, we believe it will result in the removal of illegal machines in Pennsylvania and an end to the criminal enterprise that currently exists.

I will now answer any questions you may have.