

## Pennsylvania Tavern Association

Amy Christie, Executive Director

Good morning. I would like to thank you, Chairman Santoni, and the Oversight Gaming Committee members for allowing the Pennsylvania Tavern Association to voice our thoughts and concerns on House Bill 1317 in front of you today. My name is Amy Christie and I am the Executive Director of the association.

The Pennsylvania Tavern Association has longed to be able to host gaming in our establishments for many years. Private clubs have been gaming since 1988, the Off Track Wagering sites have been running in the Commonwealth since the early 90's, and most recently the casinos were opened in Pennsylvania. We would like to express our sincere appreciation to Chairman Santoni for recognizing the small tax-paying businesses that have been in operation since prohibition ended in the early 1930's and our need to be able to fairly compete with our industry counterparts.

We would also like to express our gratitude for the opportunity to not only be able to have our small businesses be able to offer our patrons gaming but to have our stake in the industry to go to such a worthy and noble cause, the Tuition Relief Act. In a time of economic crisis, the strides the Chairman has taken, in conjunction with the Governor, will not only help ensure that our Commonwealth youth be able to receive a higher education, the Tuition Relief Act will also ensure that our Commonwealth will be able to retain educated persons which will result in better job opportunities, more expendable incomes, and more consumer spending in the Commonwealth.

The Pennsylvania Tavern Association is proud to be a part of this venture. We have spent many years studying this issue and would like to work with this committee to ensure that the actions we take with this program are a success for all of us, but especially for the countless numbers of Commonwealth children that will be the direct beneficiaries of your upcoming decisions regarding this bill. The people of the Commonwealth are also very supportive of this venture according to the recent Quinnipiac poll showing a whopping 68% approval for video-gaming machine revenue to aid the Tuition Relief Act.

House Bill 1317, known as the Tuition Relief Act, in its' current form, is a very well intended piece of legislation, unfortunately we believe that the current language of the bill will prohibit the Tuition Relief Act from becoming a viable resource for the youth of Pennsylvania. According to the Governor's announcements about this program, the Commonwealth will need \$500 million dollars annually, 50% of revenue generated from video-

gaming, to subsidize higher education for at least 100,000 eligible college students. After researching House Bill 1317 and researching other states that collect revenue from video-gaming in licensed establishments, we have learned that this bill is modeled after Oregon. Which has the smallest percentage of licensees that are willing to participate in the program.

After discussing the program extensively with Bill Perry, the Vice President of Government Affairs for the Oregon Restaurant Association, and negotiator between licensees and the Oregon Lottery Commission, the department in charge of running the program, the PTA is able to point to several aspects of House Bill 1317 that would severely hinder the Tuition Relief Act in Pennsylvania. The following proven flaws in the Oregon model would need to be corrected in House Bill 1317 in order for the program to run successfully in the Commonwealth.

#### Implementation of the Program:

- The amount of dollars the Oregon program brought in as net machine income for 2008 was \$895,000,000.00. This amount is before machine repairs, maintenance, or the administration costs to implement and run the program. At this point, the state is spending 46% of this number to actually run the program, and that is not including the largest expense of buying or leasing the machines, which cost an average of \$18,000.00 each. House Bill 1317 states that only 25% of net machine income will be needed to run this program.
- Implementation of the program delayed placements of the machines in licensed establishments for approximately 9 months per machine in Oregon. House Bill 1317 states that there would be dollars available for Tuition Relief for fall 2009.
- House Bill 1317 also gives full reign of the program to the Department of Revenue. The bill states that a licensee must apply to be in the program and that the Secretary of Revenue may refuse to issue a license for the machines. The Secretary would be the person determining items of a licensed establishment such as if the establishment is in good standing with the PLCB but that term "good standing" is not defined in the bill. Also undefined in the bill but left to the complete

discretion of the department Secretary is the “financial fitness, responsibility, and security of the applicant and the applicant’s business.” Other items that would probably prohibit most private clubs and some licensees from even participating is the clause that states applications would be denied by the Secretary if the applicant has been convicted of illegal gambling which in Pennsylvania includes NASCAR and NFL pools.

- Another troubling item in the bill that lay fully in the hands of the Department Secretary is the statement that the Secretary shall consider the “volume of expected number of plays on a video lottery terminal at the licensed establishment.” There is absolutely no basis or definitions in the bill that would allow anyone but the Department of Revenue to know exactly how that determination is made. Our members would be the best to determine if their establishments would be able to carry one to five machines based on their clientele and the costs that they would have to incur to be able to host the machines at all

#### Dollars and Cents, Encouraging Participation in the Program:

- Less than 40% of all licensees participate in the Oregon program due to the added costs that participating in the program add to their small business which includes the cost of installing and paying monthly bills for a phone line per each machine, installing security systems, the dramatic increase in health and liability insurance and workers compensation.
- Another deterrent for licensees to participate is the shrinking percentage they receive for hosting the machines in their establishments. The licensees in Oregon began the program receiving 33% and due to the state needing more funds to maintain the program, the percentage has fallen to 23%. Factoring in the 5% the licensee spends out of their reimbursement in order to participate in the program, they are collecting 18% for placing the machines in their establishments.

Right now House Bill 1317 calls for licensees to receive 25% which would realistically be only 20% following this model.

- A glaring problem in the language is that the owner of the licensed establishment agrees under this bill to have sufficient funds available at the licensed establishment to pay out anticipated prizes. This would be a hardship for many licensees as we are in an economic crisis while suffering from a recently passed smoking ban. If a licensee has three of these machines and each machine pays out the stated top prize of \$600.00 two times in one weekend, the licensee would have to have \$3600.00 on hand in their licensed establishments. To complicate matters, the bill makes no mention of when the licensee would be reimbursed by the Department of Revenue or how often. Respectfully, I am unaware of any small businesses that would be able to agree to this kind of business deal.
- On top of the previously discussed costs that a licensee would pay to participate in the program would be the fees to the licensee to host these machines described in House Bill 1317. The bill states that the nonrefundable applicant fee of \$500.00 and a nonrefundable annual license renewal fee of \$100.00. In addition to these fees will be an annual fee to the licensee of \$500.00 per machine or "other amount as determined by the secretary." Again, there is no definition or basis stated in the bill that would determine the increase or amount of increase of the annual fee to the licensee that is already at \$500.00 annually per machine.
- As I pointed out earlier, the licensees hosting these machines are allotted 25% of the revenue generated. They are also required to pay annual fees and nonrefundable application and license fees. They will also not be protected from their local municipalities from taxing the 25% even further. The cost to hold entertainment permits are already \$1000.00 yearly in Pittsburgh for licensees that have pool tables, juke boxes, pinball, etc.

As I stated in the beginning of this testimony, the Pennsylvania Tavern Association is grateful to the Chairman to be finally considered to able to offer gaming to our patrons the same as our industry counterparts and to be included in such a worthy program as Tuition Relief. We strongly believe that the items that we have pointed out in this testimony should be legislated in statute in order to encourage participation in the program and to also implement the program swiftly without unnecessary interruption.

On a personal note, my family loves the idea of this program being implemented in Pennsylvania. My own brother was able to attend pre-med in a state that offered him a full scholarship based on revenue that included video-gaming. He went on to complete medical school. He is now an anesthesiologist and has remained in the state that helped him achieve his academic goals.

The above items in House Bill 1317 must be addressed in order for the program to maximize its' potential revenue and to truly aid the future generation of Pennsylvania citizens. We strongly believe that the items that we have pointed out in this testimony should be legislated in statute in order to encourage participation in the program rather than left to the a state department's prerogative and to ensure the program runs lucratively and swiftly. The payback to the state will be higher paying jobs, better opportunities, more economic growth and more spending in Pennsylvania that will protect the Commonwealth economy for all of its' residents.

Thank you for your time and we will be glad to answer your questions and work with you in the coming weeks to grow this wonderful cause in to a Pennsylvania success.