

Senate Community, Economic and Recreational Development
Committee Hearing
Internet Gaming & Changes to Title 4
June 17, 2015
Testimony of Kevin F. O'Toole, Executive Director,
PA Gaming Control Board

Good morning Chairman Ward, Chairman Wiley and members of the 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 joined today by five (5) employees of the Board, each of whom hold key leadership positions. They will provide testimony this morning and be available for questions from the Committee. We are pleased to have the opportunity to discuss Internet Gaming and other potential changes to Title 4, the Pennsylvania Race Horse Development and Gaming Act.

Before discussing potential modifications to Title 4 which would assist the casino industry in maintaining viability and promoting responsible growth, I would first like to offer a few observations.

The Gaming Act, first enacted in 2004, provided a remarkable road map for the implementation of legalized gaming in the Commonwealth. Over the past 10 years, the Gaming Control Board has enacted regulations to implement legalized gaming activity in the Commonwealth. These regulations were put in place to assure that the primary purpose of the Gaming Act is met; that is, to protect the public and assure the integrity of gaming. Those regulations, along with the provisions of the Gaming Act, provided a very strong regulatory and statutory foundation for the oversight of the casino industry.

Gaming at the 12 casinos in Pennsylvania has provided and continues to provide a significant amount of revenue to the Commonwealth. The Pennsylvania gaming industry as a whole is still vibrant although the eastern gaming market has become extremely competitive.

Bearing in mind that the first temporary facility opened in November of 2006, just less than 9 years ago, the industry is beginning to reach a stabilized period. For the first 11 months of this Fiscal Year, table games revenue is up 5.73% and slot machine revenue is up .51%. Overall revenue is up 1.76% and it appears quite likely that total revenue for FY 2014/2015 for the casino industry in Pennsylvania will exceed \$3 billion dollars for the 4th consecutive Fiscal Year. It is probably safe to say that the industry will not see the explosive growth of years past and it will probably also not see any staggering decline in revenues.

The Gaming Control Board has taken the opportunity to assess where the regulation of gaming can be accomplished in a less restrictive or more efficient manner without sacrificing the stated goals of the Gaming Act. To that end, over time the Board has amended a number of regulations to improve efficiencies and lessen the burden of regulation where it can be done to improve processes overall and will continue to do so.

Turning to Senate Bill 700 and Senate Bill 900, I will address some of the policy and regulatory issues contained in these bills which implicate the Board's powers and duties.

First, the Board supports changing license renewals from a three year term to a five year term. This change is appropriate at this time and will benefit the casino operators without affecting our ability to properly regulate

the industry. Suitability is ongoing and a licensee always has the burden of notifying the Board of any material change to their suitability to hold a license. Thus, moving from a three year to a five year renewal period will lessen costs without sacrificing oversight.

Second, regarding the use of independent testing labs, the Board recognizes that current language under Title 4 appears to impinge upon the Board's options in this area, specifically for slot machine testing. As such, the Board does support amendments in this regard to provide the Board with the discretion to utilize independent testing labs. This would improve current practices while at the same time ensure that the Board's lab continues its significant role in overseeing compliance with slot machine standards and the approval process. Because gaming jurisdictions vary, the Board does not support simply adopting another jurisdiction's standards which may differ from Pennsylvania's standards of fairness and integrity.

Third, if the General Assembly authorizes Internet gaming, the Board is confident that this activity can be effectively regulated.

As we all know, Internet gaming is very dependent on technology - technology which is cutting edge and ever evolving. Technology seems to "upgrade" at an ever increasing rate of speed and what is new today is old tomorrow. Accordingly, the Board will have to be able to be flexible to respond to technological changes. A key tool in the regulation of iGaming will be the authority to adopt temporary regulations. Currently, under the table games chapter of the Gaming Act, the Board's ability to adopt temporary regulations for the rules of new table games does not expire. This recognizes the importance of being able to offer the latest table games to gaming patrons

in the Commonwealth. This will be as critically important in the context of Internet gaming as new online games are developed in the future.

I note that Senate Bill 900 does not include a provision for the Gaming Control Board to negotiate interstate agreements with other gaming jurisdictions. Currently, New Jersey, Nevada and Delaware are the only states to offer Internet gaming. Each regulatory body in those states has been granted the authority to negotiate interstate agreements. I would ask that the Senate consider extending this ability to the Board.

As to underage gaming, self-excluded and excluded individuals gaining access to Internet gaming accounts, I would simply say that security measures will never be foolproof. There will always be a bad parent or a sophisticated person who wants to undermine the system. Our mandate would be to assure that this is largely limited and when we catch these individuals that there is a punishment that acts as a deterrent. I would also offer that Internet gaming has been available in New Jersey, Nevada and Delaware for almost two years and the security involved in their gaming systems seems to be working. I would envision a system in Pennsylvania to be similarly successful.

In regard to Internet gaming and the potential for money laundering, as you know, the Pennsylvania Gaming Control Board is not a law enforcement agency so any suspected crime, such as money laundering, would be immediately referred to the Attorney General or the Pennsylvania State Police. In addition, every gaming entity who may be licensed to provide Internet gaming understands that instances of money laundering can affect their license not only in Pennsylvania but in other gaming jurisdictions as well. Licensees will aggressively monitor and pursue through law enforcement any suspected instance of money laundering.

To conclude my remarks, the Pennsylvania Gaming Control Board has very capable and experienced gaming regulators serving and working for the Board. If the General Assembly and the Administration authorize this expansion of gambling activity, we will be ready to initiate and enforce sound regulatory principles to implement Internet gaming in an efficient and thorough manner.

Thank you.