



## **Skill Games in Pennsylvania**

PA Senate Democratic Policy Committee Hearing  
Radnor Township Municipal Building  
August 23, 2023 | 11:00 AM

---

### **Background Documents Submitted by PENN Entertainment, Inc.**

---

1. *Patriot News / PennLive* Editorial: **Gambling in Pennsylvania Needs the Strong Oversight Only Casinos Can Guarantee**, July 29, 2023 – Pages 2-4.
2. *The Philadelphia Tribune*, Op-Ed by State Representative Steve Kinsey: **How Video Gambling Profits Off Communities of Color**, October 23, 2020 – Page 5.
3. *TribLive*, Op-Ed by Chris Soriano, Chief Compliance Officer for Penn Entertainment: **Ban ‘Skill Games’ That Threaten Public Safety and PA’s Gaming Integrity**, August 15, 2023 – Pages 6-7.
4. American Gaming Association Fact Sheet, **The Unregulated Market in Pennsylvania**, July 2023 – Pages 8-12.
5. *Casino.Org*, **Pennsylvania Skill Games Caused Store Clerk Murder, Victim Family Claims**, November 17, 2022 – Pages 13-14.
6. **Survey of News Reports: Skill Games and Criminal Activity in Pennsylvania (2018-2023)**, August 16, 2023 – Pages 15-20.
7. **Statement with Respect to Skill Games: Delivered by PENN Entertainment to the Pennsylvania Gaming Control Board in Connection with a Petition to Reduce the Number of Slot Machines at Hollywood Casino at Penn National Race Course**, November 10, 2021 – Pages 21-22.
8. **Testimony of Pennsylvania Casino Industry Representatives to the House Gaming Oversight Committee Regarding So-Called Games of Skill**, June 10, 2019 – Pages 23-26.
9. ProPublica Illinois and WBEZ Chicago Public Radio, **The Bad Bet: How Illinois Bet on Video Gambling and Lost**, January 16, 2019 – Pages 27-45.



## **Gambling in Pennsylvania needs the strong oversight only casinos can guarantee | PennLive Editorial**

Updated: Jul. 29, 2023, 3:36 p.m. | Published: Jul. 29, 2023, 8:10 a.m.



The American Gaming Association wants "games of skill" like these banned in Pennsylvania and throughout the nation. Photo by Charles Thompson.

By PennLive Editorial Board

The American Gaming Association makes a strong case for why Pennsylvania should ban “skill” machines and get them out of restaurants, bars, convenience stores, American Legion halls or anywhere outside of casinos.

They argue the machines are multiplying like rabbits, and there's no real skill required to play them. It's a misnomer, they insist. The machines are just another way to gamble, and they're taking customers away from casinos whose tax dollars fill state coffers.

Without the money casinos bring to the state, there would be a whole lot less tax revenue to fund local economic development projects or provide property tax relief for Pennsylvania residents. Casino tax revenue also supports Pennsylvania's horse racing industry.

Last year, Pennsylvania's casinos sent the commonwealth \$2.1 billion in taxes, according to data compiled by the Pennsylvania Gaming Control Board (PGCB). It says that's the highest gaming tax revenue of any state in the nation.

Pennsylvania casinos employ more than 20,000 people and support countless nonprofits that provide invaluable services in our region. There can be no argument about the importance of the gaming industry in our commonwealth nor about the fiscal imperative of protecting it.

But there are also cogent arguments on the other side of this debate.

Bill Kokos, owner of the Sierra Madre Saloon in Hampden Twp., wrote in an opinion piece on PennLive that the machines in his restaurant have allowed him to increase revenue. People play the games, stay in his restaurant longer, and spend more money. Plus, he gets a cut of every dollar they put in the machines. That has allowed him to hire more people, increase their pay and provide them medical and dental benefits.

He says without the money the "skill" games bring in, his largesse would not be possible. It's the same story for many other businesses and nonprofits.

Calobe Jackson, in his 90s, described in an op-ed to PennLive how the Ephraim Slaughter American Legion Post 733 has benefited from the gaming machines in their hall. They now have enough money to give away toys and food at Christmas and help needy children in the Harrisburg community.

He argues the skill games are just the latest iteration of bowling, pinball machines and video games that have lined their walls in the past, all efforts to earn money to support their club's civic service.

But today's gaming machines pay out money, unlike the pinball machines and video games of the past. And that makes them another way to gamble, which our society says must be strongly regulated.

We are compelled to agree with the American Gaming Association that these machines are gambling devices, and they should be subject to the same stringent regulations that casinos must follow.

But the American Gaming Association wants them banned for two reasons:

To protect the revenue of their members, which also guarantees millions in tax revenues.

To protect the community, including children and vulnerable adults.

These are compelling arguments.

Many of these machines are in areas of stores and public venues where they are unsupervised. And the businesses that host them do not face the same stringent rules casinos have to follow. With all police have to do to patrol city streets, monitoring hundreds of games in stores throughout the state is the last thing they need to worry about.

We sympathize with business owners like Kokos and respected community leaders like Mr. Jackson who say they are open to state regulation. But, with great respect to their arguments, accepting the strong regulation needed is easier said than done.

Many of the gaming machines are located in areas of stores where they are unsupervised. The American Gaming Association is right, the machines are magnets for young people as well as for vulnerable people with gambling addictions. Casinos face hefty fines if they don't prevent the wrong people from accessing their machines. Such fines could bankrupt a small business or nonprofit.

While small business may agree to abide by the rules, it would be difficult and costly for them to guarantee the same protections as those at casinos – trained staff to monitor machines; detailed accounting of payouts; and, most of all, security to enforce the regulations. The machines are profitable now because many business owners simply line them up against a wall and look the other way.

Gambling can ruin people's lives, destroy families, and corrupt minors. If we're going to depend on it for tax revenues, we need to do all we can to make sure it's strongly regulated. Children and the most vulnerable must be protected.


We see only casinos being able to offer those assurances for our communities today.

<https://www.pennlive.com/opinion/2023/07/gambling-in-pennsylvania-needs-the-strong-oversight-only-casinos-can-guarantee-pennlive-editorial.html>




# The Philadelphia Tribune


America's Oldest, Continuously Published Newspaper owned and operated by African-Americans  
is published every Tuesday, Wednesday, Thursday, Friday and Sunday by The Philadelphia Tribune Company, Inc.



Christopher J. Perry Sr.  
Founder and Publisher 1884-1921



E. Washington Rhodes  
Editor and Publisher 1922-1970



AANIC

Robert W. Bogle  
President/CEO

Alonzo Kittrels  
Director of Administrative Services

Michael LeVere  
Director of Circulation

John Holmes  
Chief Financial Officer

Donna Clark  
Director of Communications and Special Projects

Irv Randolph  
Managing Editor

John Mason  
Director of Advertising

Bruce Johnson  
Director of Art & Design

Allen Mailman  
Director of Technology and Digital Operations

Editorial

President Donald Trump arrives to speak at a campaign rally at Middle Georgia Regional Airport on Oct. 16 in Macon, Ga. — AP PHOTO/EVAN VUCCI

# Trump still trying to play down virus

President Donald Trump is seeking to play down the coronavirus as he seeks a second term.

Trump said people are tired of hearing about the pandemic and he seeks to minimize the threat of the virus that has killed more than 215,000 Americans and complicated his chances of winning another four years in the White House.

“The light at the end of the tunnel is near. We are rounding the turn,” Trump told supporters last Friday at an event in Fort Myers, Florida. “Don’t listen to the cynics and angry partisans and pessimists.”

Trump is playing down the virus as coronavirus infections are spiking in Europe and public health officials are raising alarm that the infection rate in the U.S. is climbing toward a new peak. Despite his recovery from the coronavirus, Trump has spread misinformation about the virus, undercut the nation’s leading infectious disease expert and returned to shunning mask use.

Olivia Troye, a former aide to the task force who has emerged as a Trump critic, says that doctors spoke to the president about their concerns that the country could face a surge of cases in the fall and winter.

“That’s why it so completely reckless of him, after having COVID himself, to turn around this week and double down on taking the mask off and parading around like it’s not a necessary thing, calling himself immune,” she said. “He’s

doubling down on misinformation that has been coming out of his mouth for the entire tenure of this pandemic.”

At his NBC News town hall last week, Trump was asked whether he should have known better than to announce his nomination of Judge Amy Coney Barrett to the Supreme Court with a Rose Garden ceremony and indoor reception where few guests wore masks and social distancing was non-existent.

He responded by incorrectly citing a Centers for Disease Control and Prevention study to falsely suggest that mask wearing doesn’t mitigate the spread of the virus. The study did not say that.

After first lady Melania Trump revealed that their son, Barron, had tested positive for the coronavirus, Trump used his child’s health scare and recovery to try to make the case that the virus is no big deal for young people.

“It happens. People have it, and it goes,” Trump said at a rally in Iowa. “Get the kids back to school.”

Trump has repeatedly sought to undermine Dr. Anthony Fauci, the nation’s top infectious disease expert.

“He’s a nice guy so I keep him around, right?” Trump said at a rally in North Carolina, adding of the non-partisan Fauci: “He’s a Democrat. ... He’s [New York Gov. Andrew] Cuomo’s friend.”

While campaigning, Trump and his team often go without masks. He defends

his decision to go mask-less by saying that doctors tell him he isn’t shedding virus anymore and he remains “immune” for at least four months.

Public health experts say that by refusing to wear masks, Trump and his advisers are missing an opportunity to model behavior that is essential to keep the rest of America safe.

There is also reported tensions on the task force between Trump’s science adviser, Dr. Scott Atlas, who is not an expert in public health or infectious diseases, and the other professional scientists who view Atlas as promoting dangerous theories around “herd immunity” and resisting more aggressive calls for Americans to wear face masks.

The head of the World Health Organization has warned against the idea that herd immunity might be a realistic strategy to stop the pandemic, dismissing such proposals as “simply unethical.”

At a media briefing on Monday, WHO Director-General Tedros Adhanom Ghebreyesus said health officials typically aim to achieve herd immunity by vaccination. Tedros noted that to obtain herd immunity from a highly infectious disease such as measles, for example, about 95% of the population must be immunized.

“Herd immunity is achieved by protecting people from a virus, not by exposing them to it,” he said.

# Barrett’s nomination is point of no return

“The Supreme Court doesn’t have an army, and it has no power of the purse. Its power comes from the fact that the public accepts its decisions, even when it disagrees with them. The Supreme Court has of course always been a political institution, but if it’s going to retain its public legitimacy it can’t be seen as simply another wing of partisan politics. Supreme Court nominations have become far too politicized, but packing the Supreme Court weeks before a presidential election is different in kind. It’s not simply another stress test for our institutions — there’s a real risk it will break them. That is genuinely scary — not just for the Supreme Court, but for the basic functioning of our country and the rule of law.”

— Alice Bannon, managing director, Brennan Center’s Democracy Program.

The Trump administration and Senate leadership have spent the last four years cramming the Supreme Court and lower federal courts with ideologues intent on eradicating hard-fought civil rights and constitutional gains of the past few decades.

They’ve made no effort to respect the racial and gender diversity of our nation. Nearly 90% of his nominees to lifetime judicial appointments have been white and 76% of them are men — a reversal of a 30-year trend toward more diversity on the federal bench and an erosion of judicial legitimacy that is unprecedented in recent American history.

The confirmation of Amy Coney Barrett to the United States Supreme Court will mark the point of no return for the independence of the federal judiciary.

While Judge Barrett may qualify by training and experience, she was nominated by the President because she passed a litmus test for judges

likely to severely limit or overturn the Affordable Care Act, civil rights and voting rights, and women’s reproductive freedoms enshrined in Roe v. Wade and successor cases. Among the first cases a new justice will face involves a demand by the Trump Justice Department to repeal the ACA in its entirety, along with election challenges that could determine whether the president who appointed her is re-elected.

Trump has said the quiet part out loud. He makes no secret of the fact that he expects the Court to decide these election lawsuits in his favor and strike down the law that provides health care to millions of Americans during a deadly pandemic.

This administration inherited more than 100 federal court vacancies because during President Obama’s second term the Senate abandoned its Constitutional role in the lower court confirmation process — just as it did by refusing to consider President Obama’s nomination of Merrick Garland to the Supreme Court.

This administration has now appointed, and the Senate has confirmed, more than 200 life-tenured judges. Americans are, right now, in the process of electing a new president. Never has the Senate confirmed a new Supreme Court justice during a general election that will decide the presidency. The undemocratic rush to confirm this justice is part of a scheme to create a conservative supermajority on the Court that could overturn the will of a majority of Americans for decades to come.

What do African Americans have to lose with a super majority of conservative extremists on the Court? Monday’s appalling ruling by the U.S. Circuit Court of Appeals in Texas is a prime example of how rank partisanship has infected the federal courts, obliterating any pretense of judicial objectivity and the rule of law. The three-judge panel — all appointed by this administration and confirmed along political party lines — upheld the governor’s decision to create a single ballot collection site for each county, including a single site for 5 million voters in a landmass larger than Rhode Island.

If the Supreme Court can sanction this kind of political manipulation, there are no limits on the rampant voter suppression we can expect in November’s election and years beyond.

The contempt this administration and Senate leadership have for the will of the voters and the Constitutional responsibilities of Congress is nothing short of breathtaking.

Even as a growing majority of citizens have loudly voiced their demand for racial and economic justice, firm enforcement of civil and individual rights, and the security of health care under the Affordable Care Act, Judge Barrett’s lifetime appointment to the Supreme Court represents a trampling of those demands.

History will not look favorably on what the Senate leadership appears poised to do. There is one last chance for them to honor their oath of office and the will of the American People and reject the nomination of Amy Coney Barrett.

Marc H. Morial is president and CEO of the National Urban League.

Supreme Court nominee Amy Coney Barrett is sworn in during a confirmation hearing before the Senate Judiciary Committee on Oct. 12. — AP PHOTO/PATRICK SEMANSKY, POOL

# How video gambling profits off communities of color

Stephen Kinsey

As community activists and public officials call for a change in how resources are provided to communities of color throughout the Commonwealth, some members of the state legislature are still looking into policies that exploit low-income and minority neighborhoods.

The most recent example is the fast-tracking of legislation that would create thousands of mini casinos and slots parlors on every street corner in cities across the state. This is simply a proliferation of gambling that historically targets poor and largely minority communities.

My colleagues and I on both sides of the political aisle are working hard to address policies that rethink how we fund and operate policing in our communities and how we can better reinvest public tax dollars back into programs that lift up minority neighborhoods. This

includes investments in public education, economic development and health care.

But, as the General Assembly finally begins to address the systemic issues and inequities that plague communities of color, some in the legislature are pushing for expanded gambling that will have major consequences in our neighborhoods.

Even as the eyes of the world have been opened to the injustices and inequities facing people of color, a coalition of out-of-state video gambling companies is looking to expand their predatory practices and bring tens of thousands of video gambling devices into bars, restaurants and grocery stores. These machines disproportionately impact minority communities. The companies that operate them know this and simply don’t care.

Regardless of your stance on gambling in general, there is no doubt that video gambling termi-

nals, or VGTs as they are so quaintly called, are predatory against low-income and minority communities. These aren’t anecdotal stories, but proven facts. There is significant statistical evidence that shows just how exploitative these companies are and how they target marginalized communities.

To see the drastic and devastating impacts of video gambling on low-income and minority families, just look at Illinois, which in 2013 expanded its gambling array to include 30,000 VGTs throughout the state. Not only was the bet on VGTs bad for Illinois’ economy, in a report from 2019 by a joint effort between ProPublica Illinois and the Chicago Sun-Times, an analysis of demographical and Illinois Gaming Control Board data showed that VGTs were concentrated in low-income, minority areas of the state. In the report, ProPublica said:

“Devices can be found in Berwyn but not Oak Park, Wauke-

gan but not Lake Forest, Harvey but not Palos Park. In fact, as the average income level of a municipality decreases, the average number of machines increases.”

So, let’s dig a little deeper and talk about the demographics of the Illinois communities ProPublica highlights in their expose:

Gambling machines are found in Berwyn, which has a population made up of about 70% Black and Hispanic residents. But there are no machines in Oak Park, which has a population that is roughly 68% white.

Machines were placed in Waukegan, where just over 70% of the population are people of color. No machines are found in Lake Forest, which is nearly 88% white.

Video gaming terminals are in Harvey, where the population of Black residents is over 75%. And, you guessed it, no machines in Palos Park — almost 93% white.

The fight against injustice and

inequality is not solely about reforming government’s perception relating to police practices and aggression toward communities of color. It’s also about lifting our communities up and creating a level playing field so that Black and brown citizens have the same opportunities to achieve, succeed and thrive as much as their white counterparts.

But the consistent and often unnoticed predatory policies that are disproportionately levied on minority neighborhoods, like payday lending companies, “stop and go” liquor establishments, and now bars, restaurants, convenience stores and groceries offering slot machine-style gambling machines, speak to a much larger systemic attitude toward poor, minority citizens.

Stephen Kinsey represents the 201st District in the Pennsylvania House of Representatives.





## Chris Soriano: Ban 'skill games' that threaten public safety and Pa.'s gaming integrity

Chris Soriano | Tuesday, Aug. 15, 2023 11:00 a.m.



In my role at PENN Entertainment, I am charged with ensuring our company meets the appropriately high standards required to earn and retain a gaming license in every jurisdiction in which we operate. At our four properties across the commonwealth, we aren't simply running casinos — we are providing an experience where entertainment, safety, fairness and responsibility are inextricably and necessarily linked. At our casinos, every spin of the wheel or pull of the lever is underpinned by the highest levels of scrutiny, security and regulation.

Securing a gaming license in Pennsylvania is no small task. It requires a thorough vetting process of every aspect of our company, and it's an inspection that only the most transparent and responsible organizations can pass.

And that's the way it should be.

However, a disturbing trend has taken root in Pennsylvania. There has been a surge in unregulated so-called "skill games" scattered throughout local communities. Commonly found in gas stations, convenience stores and taverns, these machines fool customers by looking and acting like legal slot machines. But they operate without the stringent

regulations and commitments to integrity that form the backbone of legal gaming in Pennsylvania.

“Skill game” machines do not undergo any independent testing to ensure fairness for players. Because of this, we suspect that for every dollar bet by players, unregulated machines keep an estimated 25 cents, compared to 7.7 cents kept by regulated slot machines in Pennsylvania. And that’s only if unregulated operators pay customers’ winnings at all.

The consequences of allowing these machines to operate unfettered extend beyond just customers. They also impact every community in Pennsylvania that relies on the more than \$2.2 billion in state taxes paid annually by the legal gaming industry to fund critical local projects. According to American Gaming Association estimates, these so-called “skill games” — which skirt taxation by operating outside the law — cheat the commonwealth out of more than \$1 billion in state tax revenue each year.

But now skill game operators have found allies in Harrisburg that seek to wipe the slate clean and provide special treatment for legalizing these machines, including taxing them at a massive discount (16% of gaming revenue vs. 54% paid by the legal gaming industry). Moreover, operators of these machines will not be required to meet the same high standards of integrity, responsibility and security as legal casino operators.

There is no shortage of additional evidence as to why this is the entirely wrong approach.

For one, these machines tragically put Pennsylvanians in danger. In December 2020, a 50-year-old store clerk in Hazleton was murdered by a regular player of the shop’s skill games who robbed the store of \$14,000 — cash he knew would be on hand because of the machines’ presence.

And before assuming the governor’s office, then-Attorney General Josh Shapiro charged two individuals with robberies of 25 different skill games throughout the Philadelphia area that totaled more than \$100,000. Agents seized numerous firearms from these individuals that Shapiro said were purchased with money they robbed from the unregulated machines.

For the safety of Pennsylvania residents and communities, state legislators must act to stop the proliferation of skill games, not legalize them. Pennsylvania should unequivocally ban these machines, provide law enforcement with the resources to remove them, and ensure that all legal gaming stakeholders in the commonwealth are held to the same high standards of transparency, fairness, regulation and taxation. That is how we continue Pennsylvania’s tradition of maintaining a strong, safe legal gaming industry.

Chris Soriano is chief compliance officer for PENN Entertainment.

<https://triblive.com/opinion/chris-soriano-ban-skill-games-that-threaten-public-safety-and-pa-s-gaming-integrity/>

# The Unregulated Market in Pennsylvania

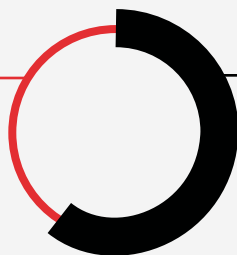
*So-called “skill” machines harm Pennsylvania consumers and communities while undermining the benefits, integrity and reputation of the legal gaming industry.*

UNREGULATED MACHINES GENERATE AN ESTIMATED  
**\$1.9B IN REVENUE ANNUALLY.**

**61%** OF GAMBLING MACHINES  
ARE UNREGULATED.

**25,746**

Legal Gambling  
Machines in 2022



**41,121**

Unregulated  
“Skill” Machines

UNREGULATED MACHINES CHEAT  
THE COMMONWEALTH OUT OF

**\$1.05B**

IN STATE TAXES ANNUALLY.\*

\*Based on estimated revenue being taxed at the same rate as regulated machines.

*Unregulated machines take advantage of customers—for every dollar bet by consumers, regulated machines in Pennsylvania keep **7.7 cents**, while unregulated machines keep **25 cents**.*



“Skill” machines prey on vulnerable customers, do not adhere to anti-money laundering standards, lack consumer protections, and are often tied to criminal activity including drug trafficking and violent crime.

**IT'S TIME TO PROTECT PENNSYLVANIANS  
AND BAN “SKILL” MACHINES.**



# The Facts on Unregulated “Skill” Machines



The American Gaming Association estimates there are more than 580,000 unregulated gray machines in the United States. The proliferation of these so-called “skill-based” machines puts consumers at significant risk and undermines the benefits, integrity and reputation of the regulated gaming environment.

Manufacturers of these machines peddle myths to evade the law, take advantage of small businesses, and endanger consumers. Learn the truth about unregulated “skill” machines.

## MYTH: “SKILL” MACHINES AREN’T GAMBLING.

**FACT:** Any consumer who plays on an unregulated “skill” machine puts money into the machine for the chance to win more money. This falls squarely within the dictionary definition of gambling, “the practice of risking money or other stakes in a game or bet.” Stringent regulatory obligations are applied to slot machines and other casino games to protect consumers who are putting money at risk. **Unregulated machine manufacturers are simply playing word games to get around the law and regulatory enforcement.**

## MYTH: “SKILL” MACHINES ARE FAIR.

**FACT:** Based on state regulatory data for similar machines, the operator win percentage on unregulated gambling machines is significantly higher than legal casino slot machines. **For every dollar bet by consumers, regulated machines keep seven cents on average, while unregulated machines keep nearly 25 cents.**

## MYTH: THE ONLY SOLUTION IS TO REGULATE AND TAX “SKILL” MACHINES.

**FACT:** Unregulated machine manufacturers are brazenly asking for legitimacy after years of skirting the rules. **The fact is unregulated machine manufacturers cannot meet the high bar for casino gaming licensure and regulation.** They lack know your customer protocols, adherence to anti-money laundering standards, any consumer protections including self-exclusion and vetting and training of employees—areas where the legal, regulated industry invests hundreds of millions of dollars annually. While many jurisdictions are looking for novel revenue sources, allowing these machines to continue will only reward bad behavior, erode investment made by regulated entities, and expose consumers to unnecessary risks.

## MYTH: UNREGULATED MACHINES SUPPORT SMALL BUSINESSES.

**FACT:** Convenience stores and other small businesses have proven for decades that they can be successful without relying on revenue from unregulated gambling devices. **Importantly, the risks of these machines present – to both consumers and the businesses that house them – significantly outweigh the marginal revenue they produce.** Unregulated gambling creates substantial safety vulnerabilities for employees and liability exposure for businesses where these machines are located.

- ♦ According to news reports, criminals in Virginia recently stole or attempted to steal unregulated machines from six different 7-Eleven stores, and, tragically, a Pennsylvania convenience store clerk was murdered in 2020 by a customer who was aware of the money on site to pay winnings from the unregulated machines.
- ♦ One of the named defendants in a federal class action lawsuit recently filed in Missouri includes a business that owns gas stations and convenience stores across the state which house these machines, underscoring the potential legal risks associated with this activity.

The legal gaming industry values our partnerships with legislators, regulators and law enforcement which ensure consumer safety and bolster support for our communities across the country. **Eliminating the illegal gambling marketplace in the United States requires active engagement at all levels of government and the AGA welcomes your participation.**

# Sizing the Illegal and Unregulated U.S. Gambling Market



A [recent study](#) commissioned by the American Gaming Association offers the most comprehensive look at the size and scope of the illegal and unregulated gambling market in the U.S. The study examines illegal sports betting and iGaming wagering as well as unregulated “skill” machines that have proliferated across America.

Policymakers, law enforcement and businesses must work together to shut down illegal and unregulated gambling and protect your constituents. Take action by clarifying state gaming laws to close loopholes, empowering state and local law enforcement, and engaging federal partners to stop illegal gambling.

## A HALF-TRILLION DOLLAR MARKET

- Americans gamble **\$511 billion** every year with illegal and unregulated sportsbooks, iGaming websites and deceptively nicknamed “skill games” in bars, liquor and convenience stores, truck stops and other locations.
- Americans bet nearly **\$64 billion** with illegal online sportsbooks and bookies; **\$338 billion** with illegal online casinos; and **\$109 billion** on more than **580,000** unrelated gaming machines.
- A stunning **40 percent** of all gaming machines in the U.S. are unregulated and unlicensed.

## SIPHONING BILLIONS IN TAX REVENUES FROM STATES AND COMMUNITIES ACROSS AMERICA

- Because illegal gambling operators pay no taxes, states and communities lose an estimated **\$13.3 billion** annually in tax revenues.
- By shutting down the illegal market and encouraging legal, regulated wagering, states could potentially double the tax revenue collected from gaming to **\$25 billion** from \$13.5 billion in 2022.

## TAKING ADVANTAGE OF CONSUMERS

- Illegal and unregulated operators prey on vulnerable customers and offer no commitment to responsible gaming.
- Unsuspecting customers are lured with the ease of access illegal operators can offer because they pay no taxes and don’t invest in meeting strict regulatory and licensing standards.
- **Seven out of 10** gamblers want to bet legally, but many are deceived by unlicensed, offshore websites that pose as legal operators.

## AT A GLANCE: SCALE AND SCOPE OF ILLEGAL, UNREGULATED MARKET

UNREGULATED MARKET	ESTIMATED HANDLE	ESTIMATED REVENUE	ESTIMATED STATE TAX LOSS
<b>SPORTS BETTING</b> (Bookies + Offshore)	\$63.8B	\$3.8B	\$700M
<b>ONLINE SLOTS &amp; TABLE GAMES</b>	\$337.9B	\$13.5B	\$3.9B
<b>UNREGULATED MACHINES</b>	\$109.2B	\$26.9B	\$8.7B
<b>TOTAL</b>	<b>\$510.9B</b>	<b>\$44.2B</b>	<b>\$13.3B</b>

# The Benefits of Regulated Gaming Machines



AMERICAN  
GAMING  
ASSOCIATION®

Regulated gaming provides player protection, fosters stakeholder integrity, combats illegal activity, and generates much needed revenue for state funded programs.

## REGULATED GAMING MACHINES



### RESPONSIBLE GAMING

Responsible gaming programs that prevent minors from wagering, encourage consumers to play responsibly, and provide awareness of services available for problem gambling assistance.



### LICENSING AND BACKGROUND INVESTIGATIONS

Licensing and background investigations of business entities, corporate officers, and key employees.



### CONSUMER PROTECTION

Regulatory authority that will resolve consumer concerns and reinforce game play fairness.



### GAME TESTING

Rigorous internal controls and independent laboratory testing of gaming machines.



### SECURE GAMING EQUIPMENT

Operators support the security of machines through a regulatory shipping notification and control process for shipments into a state, out-of-state, and intrastate.



### ANTI-MONEY LAUNDERING PROTOCOLS

Federal anti-money laundering compliance including currency transaction reporting and suspicious transaction reporting to prevent funds from supporting illicit or unlawful activity.

## ILLEGAL & UNREGULATED GAMING MACHINES





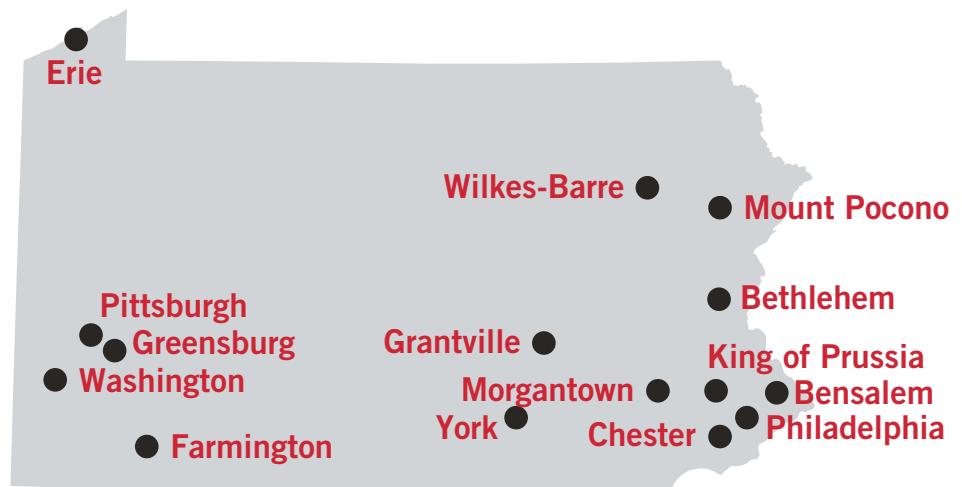
# Gaming by the Numbers: Pennsylvania



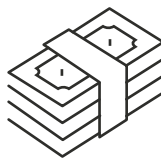
AMERICAN  
GAMING  
ASSOCIATION®

Pennsylvania is home to commercial gaming operators that support jobs for more than 33,000 Pennsylvanians and \$2.48 billion in tax revenue annually for all levels of government. Gaming tax revenue provides property tax relief to residents, funds local economic development projects, and supports Pennsylvania's horse racing industry.

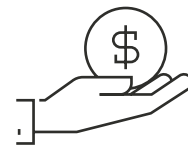
**16**  
Casino Gaming  
Locations\*



**33,171**  
Jobs Supported



**\$6.34 Billion**  
Annual Economic Impact



**\$2.48 Billion**  
Tax Impact

# Pennsylvania Skill Games Caused Store Clerk Murder, Victim Family Claims

Posted on: November 17, 2022, 06:58h. Last updated on: November 18, 2022, 03:17h.

Philip Conneller, @casinoorgphilc



Jafet Rodriguez, left, was captured on security video just before he allegedly shot Ashokkumar Patel in cold blood. He escaped in a dark Jeep Grand Cherokee, right. (Image: Luzerne County DA)

On the night of December 12, 2020, in Hazelton Pennsylvania, a known local drug dealer, Jafet Rodriguez, entered Craig's Food Mart, according to Luzerne County prosecutors.

Dressed in a red sweatshirt, black gloves, and a black face mask with white skull teeth, Rodriguez shoved the clerk, Ashokkumar Patel, 50, into a closet and allegedly shot him in cold blood.

He proceeded to rob the store of more than \$14,000, prosecutors claim, before fleeing into the night. Patel, a father of three, had been in the job for just one week. He managed to crawl to the phone to call 911 but died before he was connected.

Now, Patel's family are suing the store's owners and the company that supplied them with controversial skill-gaming machines, Georgia-based Pace-O-Matic.

They claim the presence of these "illegal" machines turned Craig's Food Mart, a gas station convenience store, into an "unsafe mini casino." Albeit one that operated without the security measures that are expected of legal gaming operations.

### **'Killing Machines'**

Rodriguez, who was arrested in January 2021, was a regular player of the store's gaming machines, according to the lawsuit. That's how he knew there would be a large amount of cash on the premises, kept for instant cash payouts, and virtually no security, the lawsuit states.

There was no onsite private security, or even a bullet-proof shield or enclosure separating the employee from customers. Patel was mopping the floor when Rodriguez arrived, and totally vulnerable, according to his attorneys.

"Without the safety procedures and regulations, such as those at a licensed, regulated, taxed casino, violent criminals have identified these locations as soft targets with large amounts of cash," said the family's attorney Larry Bendesky in a statement.

"These illegal gambling devices have a long and nefarious history in our Commonwealth's criminal justice history as magnets for violent criminals looking for an easy score," he added. "As a result, the combative, controversial industry that refers to these devices as 'skill games,' and their partners at gas stations and other small businesses unequipped to handle these operations, needs to be held accountable for what in this case was clearly a killing machine."

The Patels' lawsuit includes claims of gross negligence and strict product liability that resulted from Patel's death. It seeks compensatory damages, punitive or exemplary damages, interest and costs.

### **Are Skill Games Illegal?**

The lawsuit also argues Pace-O-Matic's gaming machines are illegal, which is currently a moot point in Pennsylvania and the subject of ongoing litigation.

Pace-O-Matic and other suppliers argue their games can't be defined as slots or illegal gambling games because the element of skill involved outweighs the element of luck. That's because the machines employ skill-based features, such as bonus games that require players to memorize intricate patterns.

In 2019, Commonwealth Court Judge Patricia McCullough ruled Pace-O-Matic's games fitted the definition of slots as described in Pennsylvania's Gaming Act. But she also determined the company was not in violation of the Act because it was not applicable to unlicensed slot machines, just the licensed and regulated variety.

Somewhat unhelpfully, she declined to be drawn out on whether the machines constituted "illegal gambling devices."

<https://www.casino.org/news/pennsylvania-skill-games-caused-store-clerk-murder-says-victim-family/>



**Survey of News Reports:  
Skill Games and Criminal Activity in Pennsylvania (2018-2023)**

The General Assembly has been contemplative and deliberate in its expansion of gambling in the Commonwealth. After the passage of the Pennsylvania Race Horse Development and Gaming Act (the “Gaming Act”) in 2004, the General Assembly waited six (6) years before it expanded gaming to include table games in 2010. *See* Act of Jan. 7, 2010, P.L. 1, No. 1. After an additional seven (7) years – and substantial debate – the General Assembly expanded gaming again with the passage of Act 42 in 2017. In that process, the General Assembly considered many options and proposals for expanded gaming, including some that would have led to distributed gaming where gambling machines would appear on every “Main Street” in every town across Pennsylvania. *The General Assembly, however, rejected that approach.*

Instead, the Legislature specifically declined to allow gambling devices in a limitless number of locations, whether the games are determined by chance, skill or both. Instead, following past practice, the General Assembly intentionally limited the expansion of gaming primarily to highly regulated, monitored and controlled environments including, among other things, the placement of slot machine-like Video Gaming Terminals (“VGTs”) at licensed truck stop locations, the development of up to ten Category 4 casinos, and the authorization of interactive gaming. In doing so, the General Assembly adopted the same cautious, pragmatic, safe and pro-consumer approach found in the original Gaming Act.

Notwithstanding these clear legislative choices, illegal skill games are surfacing in locations where the General Assembly had previously unequivocally elected not to allow gaming, including bars, clubs, convenience stores, gas stations, grocery stores, restaurants and retail strip malls. *Predictably, with the absence of the controls, monitoring and regulatory oversight present at our licensed facilities, a “wild west” / lawless environment has followed and these illegal gambling devices have routinely attracted the sort of serious criminal and other negative activity that the General Assembly specifically sought to avoid.* News websites across the Commonwealth are replete with headlines describing the regular occurrence of criminal mayhem. Representative incidents occurring within the last 6 years are as follows:

- May 3, 2018, Wellsboro & Duncan Twp., Tioga County and Coudersport & Abbott Twp., Potter County: ***“Police offer reward for info in string of gambling machine thefts.”***<sup>1</sup>
- April 26, 2019, Wyomissing, Berks County: ***“NJ trio charged in thefts from gaming machines in Berks.”***<sup>2</sup>

---

<sup>1</sup> [https://www.tiogapublishing.com/potter\\_leader\\_enterprise/police-offer-reward-for-info-in-string-of-gambling-machine-thefts/article\\_100eaa5a-4ee0-11e8-bec7-677a3cb7004e.html](https://www.tiogapublishing.com/potter_leader_enterprise/police-offer-reward-for-info-in-string-of-gambling-machine-thefts/article_100eaa5a-4ee0-11e8-bec7-677a3cb7004e.html)

<sup>2</sup> [https://www.wfmz.com/news/area/berks/nj-trio-charged-in-thefts-from-gaming-machines-in-berks/article\\_de3dea4b-8f0f-5013-98f1-55ee7d0fddcd.html](https://www.wfmz.com/news/area/berks/nj-trio-charged-in-thefts-from-gaming-machines-in-berks/article_de3dea4b-8f0f-5013-98f1-55ee7d0fddcd.html)

- July 3, 2019, Altoona, Blair County: ***“Police: City man stole from skill game.”***<sup>3</sup>
- December 29, 2019, Williamsport, Lycoming County: ***“Police: bolt cutters used to steal from game of skill machine.”***<sup>4</sup>
- August 21, 2020, Kenhorst Borough, Berks County: ***“Berks County DA seizes nearly 60 skills, gambling machines from illegal gambling parlor.”***<sup>5</sup>
- November 27, 2020, Bensalem, Bucks County: ***“Robbers Use Sledgehammer On Machine At Bensalem Store: Police.”***<sup>6</sup>
- January 30, 2021, Philadelphia County: ***“Sledgehammer, not skill, behind wave of Pa. ‘games of skill’ thefts: cops.”***<sup>7</sup>
- February 17, 2021, Philipsburg, Centre County: ***“Police: Philipsburg man suspect in theft of \$23K from area skill games.”***<sup>8</sup>
- February 26, 2021, Clearfield, Clearfield County: ***“Three Charged for Alleged Involvement in \$5,400 Theft from PA Skills Machine.”***<sup>9</sup>
- March 2, 2021, Reading, Berks County: ***“Frustrated by a video skill machine, customer pulls gun on clerk, demands money, Reading police say.”***<sup>10</sup>

---

<sup>3</sup> <https://www.altoonamirror.com/news/local-news/2019/07/police-city-man-stole-from-skill-game/>

<sup>4</sup> [https://www.northcentralpa.com/news/crime/police-bolt-cutters-used-to-steal-from-game-of-skill-machine/article\\_19ab6a04-2a84-11ea-a1cf-a7d850201dc5.html](https://www.northcentralpa.com/news/crime/police-bolt-cutters-used-to-steal-from-game-of-skill-machine/article_19ab6a04-2a84-11ea-a1cf-a7d850201dc5.html)

<sup>5</sup> [https://lancasteronline.com/news/local/berks-county-da-seizes-nearly-60-skills-gambling-machines-from-illegal-gambling-parlor/article\\_0a7a8d10-e3cc-11ea-bbc8-abe5a480625.html](https://lancasteronline.com/news/local/berks-county-da-seizes-nearly-60-skills-gambling-machines-from-illegal-gambling-parlor/article_0a7a8d10-e3cc-11ea-bbc8-abe5a480625.html)

<sup>6</sup> <https://patch.com/pennsylvania/bensalem/robbers-use-sledgehammer-machine-bensalem-store-police>

<sup>7</sup> <https://www.pennlive.com/crime/2021/01/3-accused-of-targeting-pa-games-of-skill-machines-with-sledgehammers-to-steal-cash-cops.html>

<sup>8</sup> <https://www.wearecentralpa.com/news/local-news/police-philipsburg-man-suspect-in-theft-of-23k-from-area-skill-games/>

<sup>9</sup> <https://gantnews.com/2021/02/26/3-charged-for-alleged-involvement-in-5400-theft-from-pa-skills-machine/>

<sup>10</sup> [https://www.readingeagle.com/news/crime/frustrated-by-a-video-skill-machine-customer-pulls-gun-on-clerk-demands-money-reading-police/article\\_3605b2d8-7b8a-11eb-99ac-2b7ee0251907.html](https://www.readingeagle.com/news/crime/frustrated-by-a-video-skill-machine-customer-pulls-gun-on-clerk-demands-money-reading-police/article_3605b2d8-7b8a-11eb-99ac-2b7ee0251907.html)

- May 13, 2021, New Castle, Lawrence County: ***“Pittsburgh man arrested after 2 armed robberies in New Castle” (Officers responded to reports of a robbery at Pennsylvania Skill Games on Wilmington Road. Witnesses said the man responsible had a gun and green laser.)***<sup>11</sup>
- July 7<sup>th</sup> 2021, Houtzdale, Clearfield County : ***“Houtzdale Man Sentenced for PA Skills Machine Break-ins, Thefts.”***<sup>12</sup>
- November 27, 2021, Williamsport, Lycoming County ***“Man charged for stealing more than \$4,000 from game of skills machine at city laundromat.”***<sup>13</sup>
- February 23, 2022, Philadelphia, Philadelphia County: ***“Philadelphia convenience store operators fed up with increased crime: They have to be stopped” (Thieves hacked away at the games of skill machines, trying to get to the money box as the store clerk watched in horror and disbelief).***<sup>14</sup>
- March 29, 2022, Cresson, Cambria County: ***“Three men jailed in alleged theft of skills machines money, police say.”***<sup>15</sup>
- April 7, 2022, Philadelphia, Philadelphia, County: ***“Wanted: Suspects for Commercial Robbery in the 26th District” (Pennsylvania Skill Slot Machine Smashed Open with Hammer).***<sup>16</sup>
- April 20, 2022, Ephrata, Lancaster County: ***“Lancaster County thieves steal \$17,000 from skill machines.”***<sup>17</sup>

---

<sup>11</sup> <https://www.wkbn.com/news/local-news/pittsburgh-man-arrested-after-2-armed-robberies-in-new-castle/>

<sup>12</sup> <https://gantnews.com/2021/07/22/houtzdale-man-sentenced-for-pa-skills-machine-break-ins-thefts/>

<sup>13</sup> [https://www.northcentralpa.com/news/crime/man-charged-for-stealing-more-than-4-000-from-game-of-skills-machine-at-city/article\\_85b57e9e-4d30-11ec-aa01-ef7972d37ca4.html](https://www.northcentralpa.com/news/crime/man-charged-for-stealing-more-than-4-000-from-game-of-skills-machine-at-city/article_85b57e9e-4d30-11ec-aa01-ef7972d37ca4.html)

<sup>14</sup> <https://6abc.com/philadelphia-theft-convenience-stores-robbery-suspects-police-delays/11590826/>

<sup>15</sup> [https://www.tribdem.com/news/local\\_news/three-men-jailed-in-alleged-theft-of-skills-machines-money-police-say/article\\_1f08803e-af86-11ec-9fc9-f38695088156.html](https://www.tribdem.com/news/local_news/three-men-jailed-in-alleged-theft-of-skills-machines-money-police-say/article_1f08803e-af86-11ec-9fc9-f38695088156.html)

<sup>16</sup> <https://blotter.sites.phillypolice.com/2022/04/wanted-suspects-for-commercial-robbery-in-the-26th-district-video-3/>

<sup>17</sup> <https://www.abc27.com/local-news/lancaster-county-thieves-steal-17000-from-skill-machines/>



- August 11, 2022, Muncy Creek Township, Lycoming County,: ***“PSP attempt to identify suspect in theft from PA skills machine.”***<sup>18</sup>
- August 19, 2022, Somerset Township, Somerset County: ***“Pa State Police investigating a burglary at roof garden market; two unknown male actors had used a large rock to break the glass front door and subsequently damage a PA Games of Skill machine to steal the interior cash box.”***<sup>19</sup>
- August 21, 2022, Radnor, Delaware County Police Blotter: ***“Theft – On Sunday, Aug. 21, at approximately 10:14 p.m., employees at the 7-Eleven store, 301 E. Lancaster Ave., reported their skill machine was smashed, and the cash box was stolen.”***<sup>20</sup>
- August 23, 2022, Philadelphia, Philadelphia County: ***“Video shows ax-wielding man trying to break into 7-Eleven 'games of skill' machines.”***<sup>21</sup>
- October 24, 2022, Upper Darby, Delaware County: ***“Employees tied up and pushed around smoke shop; We believe the guy was trying to gain access to the skill machines there, police superintendent say.”***<sup>22</sup>
- November 4, 2022, Pittston, Luzerne County: ***“Commander accused of funneling thousands from American Legion”***( According to police, William Timek, the 59-year-old Commander/Treasurer for Post 477 in Pittston, has been charged with stealing approximately \$6,790.08 from Pennsylvania Skill Machines).<sup>23</sup>
- November 11, 2022, West Whiteland Township, Chester County: ***“Police Investigating Burglary at Exton Smoke Shop”*** (Three perpetrators forced their way into the business and damaged several skills machines in an attempt to steal money).<sup>24</sup>

---

<sup>18</sup> <https://fox56.com/news/local/psp-attempt-to-idenitfy-suspect-in-theft-from-pa-skills-machine>

<sup>19</sup> <https://www.crimewatchpa.com/crimestoppers/316/cases/pa-state-police-investigating-burglary-roof-garden-market-somerset-township-somerset>

<sup>20</sup> <https://www.mainlinemedianews.com/2022/08/27/radnor-police-reports-car-windows-smashed-on-lancaster-avenue/>

<sup>21</sup> <https://6abc.com/philadelphia-pa-gambling-machines-7eleven-west-passyunk-avenue/12154654/>

<sup>22</sup> <https://www.delcotimes.com/2022/10/24/smoke-shop-robbed-upper-darby/>

<sup>23</sup> <https://www.pahomepage.com/news/crime-courts/commander-accused-of-funneling-thousands-from-american-legion/>

<sup>24</sup> <https://www.mychesco.com/a/news/social-issues/crime/police-investigating-burglary-at-exton-smoke-shop/>

- November 12, 2022, Hazelton, Luzerne County : ***“Pennsylvania Skill Games Caused Store Clerk Murder, Victim Family Claim.”***<sup>25</sup>
- November 14, 2022, Exton, Chester County: ***“Suspects targeting skill machines are stealing cash in several Pa. counties.”***<sup>26</sup>
- November 16, 2022, Philadelphia, Philadelphia County: ***“Landmark Wrongful Death Lawsuit Links Illegal Slots to Convenience Store Clerk Murder.”***<sup>27</sup>
- November 30, 2022, Cressona, Schuylkill County: ***“3 Sought in Theft of Nearly \$20K from Gaming Machines.”***<sup>28</sup>
- January 11, 2023, Halifax, Dauphin County : ***“State Police: Two suspects steal nearly \$12,000 from game of skill machine in Dauphin County.”***<sup>29</sup>
- January 17, 2023: Schuylkill Haven, Schuylkill: ***“Thieves Steal Large Amount of Cash from Skill Machines in Schuylkill County.”***<sup>30</sup>
- January 6, 2023, Harrisburg, Dauphin County: ***“AG Shapiro announces arrests of 2 men involved in multiple robberies of Pennsylvania skill gaming machines.”***<sup>31</sup>

---

<sup>25</sup> <https://www.casino.org/news/pennsylvania-skill-games-caused-store-clerk-murder-says-victim-family/>  
See also: <https://www.timesleader.com/top-stories/816128/da-suspect-in-fatal-shooting-walked-into-store-armed-and-ready>

<sup>26</sup> <https://www.fox29.com/news/suspects-targeting-skill-machines-are-stealing-cash-in-several-pa-counties>

<sup>27</sup> <https://www.smbb.com/news-article/patelwrongfuldeath/>

<sup>28</sup> [https://www.wfmz.com/news/area/poconos-coal/3-sought-in-theft-of-nearly-20k-from-gaming-machines/article\\_a1b97406-70de-11ed-85e4-674aad099ca7.html](https://www.wfmz.com/news/area/poconos-coal/3-sought-in-theft-of-nearly-20k-from-gaming-machines/article_a1b97406-70de-11ed-85e4-674aad099ca7.html)

<sup>29</sup> <https://www.fox43.com/article/news/crime/state-police-theft-halifax-township-skill-machine/521-becc1191-3168-4de3-9e90-4eab61a29d16>

<sup>30</sup> <https://www.skooknews.com/2023/02/thieves-steal-large-amount-of-cash-from.html>

<sup>31</sup> <https://www.attorneygeneral.gov/taking-action/ag-shapiro-announces-arrests-of-2-men-involved-in-multiple-robberies-of-pennsylvania-skill-gaming-machines/>

- February 15, 2023, Shippenville, Paint Township, Clarion County: “***The Jackpot Jacker: Shippenville man Charged in Three Separate PA Skills Game Thefts.***”<sup>32</sup>

The incidents reported above clearly demonstrate that skill games are creating a lasting and wholly unnecessary crime wave across the Commonwealth. Most alarmingly, we can see that these incidents are becoming more violent and frequently involve blunt instruments and firearms. The solution is obvious. Skill games must be removed from Pennsylvania’s streets and all physical gaming activity should be restricted to those highly secure, regulated, monitored and controlled environments that the General Assembly intended: licensed casinos and VGT locations.

---

<sup>32</sup> <https://www.exploreclarion.com/2023/02/15/the-jackpot-jacker-shippenville-man-charged-in-three-separate-pa-skills-game-thefts/>



### **Statement with Respect to Skill Games**

We understand that the Board is interested in understanding whether the proliferation of illegal and *so-called* legal skill games is having an adverse impact on the Commonwealth's brick and mortar casinos and causing the casinos to seek reductions in their respective slot counts.

While there are a number of factors that impact slot count at a casino – including the effects of the pandemic and the 2017 expansion legislation that authorized on-line and other gaming offerings – Penn National contends that skill machines have undoubtedly contributed to slot count reductions being necessary.

Why do we say this? As defined in the Gaming Act, skill games are a type of slot machine. The widespread distribution of slot machines outside of casinos is known as distributed gaming. And as a result of the experience in Illinois – where widespread distributed gaming (approximately 37,000 machines in 7,200 locations) launched in 2012 – it is well-established that between 2013 and 2019 casino GGR declined nearly \$200 million. This, in turn, caused the Illinois casino gaming industry to shed 1,461 jobs or 19% of its pre-distributed gaming workforce. Distributed gaming further caused casino valuations to deteriorate and capital investment and growth to materially diminish. In one case, the value of an Illinois casino fell by 33% (\$180 million to \$120 million) over a ten year period (2011 to 2021).

Logically speaking, this should come as no surprise. If slot machine patrons can play at the local bar, tavern or convenience store and avoid a trip to the casino, they will. Of course that comes at a serious and real price to the casino operators themselves, and to the Commonwealth, which is unable to collect its 52% tax rate on legal, casino slot machine revenue.

In addition to the cannibalization of regulated and highly taxed casino gaming revenue (as I previously noted), the proliferation of skill games across the Commonwealth has other adverse effects that must also be recognized.

First, unregulated skill games undermine and undo public confidence in the integrity of gaming. The public cannot be reasonably expected to make a distinction between licensed, regulated slots machines and their unregulated counterparts. This is especially true when some skill games operators attempt to position their machines against or in the vicinity of Pennsylvania Lottery terminals, and/or in other cases utilize official sounding names and monikers on their equipment (i.e. such as incorporating the name "Pennsylvania" on the device).

Second, there are no responsible gaming or underage gaming limitations and protocols in place in the establishments where skill games are available. This is a very real problem as we have seen time and time again photos of children in close proximity to and in some cases playing skill game machines.

Finally, as set forth in this summary that I am handing up for your review, skill games are creating a lasting and wholly unnecessary crime wave across the Commonwealth. The simple fact is this: putting slot machine type devices (like skill games) and associated ticket redemption equipment filled with cash in unprotected spaces is not a smart idea. That is exactly why the Pennsylvania General Assembly – exercising wise public policy choices – has on multiple occasions rejected the distributed gaming concept. Without question, the best and safest place for slot machine type

devices to operate is in a highly regulated casino environment that maintains multiple layers of monitoring and security, including: (i) an on-site State Police presence, (ii) PGCB casino compliance personnel, (iii) casino security agents, and (iv) extensive video surveillance.

**BEFORE THE HOUSE GAMING OVERSIGHT COMMITTEE**  
**TESTIMONY OF PENNSYLVANIA CASINO INDUSTRY**  
**REPRESENTATIVES REGARDING SO-CALLED GAMES OF “SKILL”**

Chairman Marshal, Chairman Conklin, and Members of the Committee, good morning. My name is Adrian King, and I am an attorney at the law firm of Ballard Spahr. I appear before you today on behalf of my client, Penn National Gaming, Inc., and its two Pennsylvania casinos: Hollywood Casino at Penn National Race Course (located in Grantville, Dauphin County), and Meadows Racetrack and Casino (located in North Strabane Township, Washington County). With me here today are my colleagues Mark Stewart from the law firm of Eckert Seamans – representing Parx Casino in Bensalem Township, Bucks County – and Bill Downey from the law firm of Brownstein Hyatt Farber Schreck – representing Harrah’s Philadelphia Casino & Racetrack in Chester, Delaware County.

As many of you may know, on May 2, 2019 all of Pennsylvania’s thirteen (13) casinos joined together in an “Industry Letter” to House and Senate Leadership urging the General Assembly to enact legislation expressly declaring that so-called “skill” games are unlawful. Through your staff, we provided the Committee with copies of the letter and I will not go through all of the topics and information addressed therein. But I will provide you with a summary of the letter’s key points:

**1. Skill Games are Illegal When Operated Outside a Licensed Gaming Facility**

Through Act 42 of 2017, the General Assembly specifically defined skill games as slot machines. There can be no dispute that the only legal place to operate a slot machine is in a licensed casino. As a result of Act 42, the trial court decision upon which skill games

proponents rely is no longer relevant or of any legal effect – just like any other court decision that is effectively reversed after the Legislature changes the law.

## **2. Skill Games are an Illegal Expansion of Gaming**

The rampant proliferation of skill games throughout the Commonwealth constitutes an illegal expansion of gaming and is fundamentally inconsistent with the express intent of the General Assembly. Specifically, in connection with the passage of Act 42, the General Assembly considered many options and proposals for expanded gaming, including some that would have led to gambling machines on every Main Street in every town across Pennsylvania (i.e. a full Illinois-style roll out of VGTs). The Legislature, however, rejected that approach, specifically declining to allow gambling devices in a limitless number of locations, irrespective of whether the games are determined by chance, skill or both.

## **3. Illegal Skill Games Siphon Revenue from the Commonwealth**

Illegal skill games do not generate any gaming tax revenue for the Commonwealth and, in fact, quite literally steal revenue from the General Assembly's top priorities of property tax relief and support for senior citizens. The proliferation of skill games cannibalizes existing legal gaming revenue of the Commonwealth's licensed casinos and, as you are already well aware, has undermined the financial condition of the Pennsylvania Lottery. The significant harm caused by skill games is widespread:

- Since 2006, legalized casino gaming has contributed more than \$12 billion in gaming tax revenues to the State Treasury. As the Commonwealth is the 54% stakeholder in casino slot machine revenues, it risks the biggest loss from the decline in gaming revenue caused by illegal skill games.
- In addition, gaming facilities in the Commonwealth directly employ nearly 18,000 people, approximately 90% of whom are Pennsylvanians and many of whom are union members. Every measure should be taken to shut down illegal gambling, like skill games, which threaten these employees and their family-sustaining jobs.



- Local companies and small businesses, which typically sell approximately \$230 million of goods and services to Pennsylvania casinos each year, will have a vital source of business put at risk, and senior citizens and homeowners will feel the pain of reductions in gaming revenue that would otherwise have gone toward property tax relief and rent rebate programs.
- Finally, county and local governments will also feel the ripple effects from decreased local share revenue as a result of illegal skill games, diminishing funds for first responders, human services programs, transportation and infrastructure improvements, and other economic development projects.

#### **4. Illegal SGs Provide None of the Public Protections of Legalized Gaming**

Beyond the damage done to the Commonwealth and its programs, skill games pose substantial risk of harm to the public. When the General Assembly authorized limited gaming in the Commonwealth, it did so with the primary objective of protecting the public. Skill games, however, afford the public none of the protections of legalized gaming contemplated by the General Assembly and imposed on all other forms of legalized gaming.

- No responsible gaming safeguards are in place to protect the public, such as a self-excluded list available to compulsive and problem gamblers.
- No precautions or restrictions are in place to prevent underage gambling on skill games by minors. Indeed, the placement of some skill games appear designed to encourage underage gambling.
- Businesses that manufacture and sell skill games, and those that host and offer them for play to the public, are not regulated in any way or required to complete a background investigation and demonstrate that they, and their principals, are of good character, honesty and integrity. No investigation is conducted to ensure their prior activities, criminal record, reputation, and associations do not pose a threat to the public interest.
- Skill games operations do not comply with anti-money laundering regulations, designed to protect against organized crime and efforts by terrorist groups.
- Skill game devices are not independently tested or verified, like slot machines are, nor are patrons assured of any quantum of fairness with respect to the play of the game or the payout odds.

- Skill games deceptively resemble Lottery machines and traditional slot machines, often confusing customers into believing the games are legitimate and regulated machines.
- Skill games are placed in locations without the presence of police, security officers or regulators to oversee operations, resulting in a heightened risk of crime and public safety issues. The illegal skill games promise of “Play Here, We Pay Here” is an enticing invitation to criminals looking to make a quick score – a scenario that just occurred this April when three (3) men stole money from illegal skill game machines in a Hamburg convenience store.

In conclusion, skill games are bad for Pennsylvania, bad for senior citizens, bad for problem gamers and most significantly, bad for children. They are out-of-control and must be removed from the Commonwealth. While under Act 42 skill games are already deemed illegal, proposed legislation such as Representative Hahn’s HB 1407, Representative Neilson’s HB 931, or Senator Tomlinson’s SB 710, should be approved by this Committee since the provisions contained therein will strengthen existing law by making it a criminal offense for anyone to knowingly make, assemble, maintain, lease or sell skill games.

We appreciate the opportunity to appear before you today and are happy to answer any questions that you may have.

# The bad bet: How Illinois bet on video gambling and lost

- By [Jason Grotto](#), [Sandhya Kambhampati](#) | ProPublica Illinois, and [Dan Mihalopoulos](#) | WBEZ Chicago
- on January 16, 2019 4:05 am



Illinois now has more locations to legally place a bet than Nevada does. More than 30,000 video slot and poker machines are in operation at restaurants, truck stops, fraternal organizations and storefront parlors across Illinois. Here, customers gamble at Huck's, a truck stop in downstate Mount Vernon. | Whitney Curtis / ProPublica Illinois

With the last streaks of daylight fading on a mild October evening, the cars pulled up in waves at Piero's Italian Cuisine, an old-school Las Vegas hotspot known for its osso buco.

Cadillacs with tinted windows. Taxis and rideshares. A black Bentley limousine and a white minivan. Men and women emerged, most casually dressed, there for the first of a series of posh, private events hosted by the video gambling industry during the 2018 Global Gaming Expo, North America's largest gambling trade show. They included gambling executives, lobbyists — and about a dozen Illinois lawmakers.

The politicians had flown to Las Vegas to learn about the latest developments in the gambling industry and to discuss its expansion in Illinois, including proposals that would license six new casinos in the state, legalize sports betting and increase the wagering limit on video gambling machines. The plans, lawmakers have said, would brighten the state's gloomy financial picture without having to raise taxes or cut spending.

It wouldn't be the first time Illinois has placed a big bet on gambling. Nearly a decade ago, state lawmakers legalized video gambling. Today, more than 30,000 video slot and poker machines operate outside casinos here, more than any other state in the country.

The machines, which legislators said would generate billions of dollars in revenue for the cash-strapped state, are spread over 6,800 establishments, dotting highways and towns from Winnebago County in the north to Alexander County in the south. Step outside the borders of Chicago, where video gambling remains illegal, and you will see feather flags, billboards and neon signs advertising video slots and poker in bars and restaurants, truck stops and storefront gambling parlors.

Illinois now has more locations to legally place a bet than Nevada.

But the meteoric rise of video gambling has proven to be little more than a botched money grab, according to a ProPublica Illinois investigation of a system that has gone virtually unchecked since its inception. Based on dozens of interviews, thousands of pages of state financial records and an [analysis of six years of gambling data](#), this unprecedented examination found that, far from helping pull the state out of its financial tailspin, the legalization of video gambling accelerated it and saddled Illinois with new, unfunded regulatory and social costs.



This is a collaboration between [ProPublica Illinois](#) and [WBEZ Chicago](#), co-published with the Chicago Sun-Times. It's the first story in an occasional series "The Bad Bet," investigating video gambling in Illinois.

**RELATED:** [How the analysis was done](#)

Video gambling companies have exploited the deeply flawed legislation to reap hundreds of millions of dollars in profits, while the cities and towns that bear the brunt of the social costs related to gambling receive a fraction of those proceeds.

At every key point, state officials made decisions that undercut taxpayers and helped the companies that market video gambling. Lawmakers accepted a far smaller share of the profits



than what's charged in other states, giving the companies a much larger piece. They went forward with the program assuming the machines could be installed in Chicago — they couldn't. They ignored the inevitable regulatory and social costs. And they did not anticipate the extent to which video gaming would cut into casino profits, which are taxed at a higher rate. The net effect: People in Illinois gambled a lot more, but most of the additional money ended up in the coffers of the companies behind video gambling.

As states and cities across the country consider gambling expansions to stabilize wobbly finances, Illinois' experience with video gambling stands as a cautionary tale, a lesson that has become even more urgent since the U.S. Supreme Court in May opened the door to the spread of legalized sports betting.

Illinois lawmakers from both parties passed the Video Gaming Act in 2009 with little debate and unrealistic revenue projections. They did so during the depths of the worst financial crisis since the Great Depression, promising that video gambling would help fund a \$31 billion building program to create jobs and upgrade the state's infrastructure.

Within months of the law's passage, the state began borrowing hundreds of millions of dollars against the anticipated revenue. Bond documents claimed video gambling machines would raise \$300 million each year to help cover the debt payments.

It wasn't until 2017, eight years after the legalization of video gambling, that the state came close to collecting that amount. By then, video gambling had brought in less than \$1 billion to pay the bond debt — \$1.3 billion short of what lawmakers anticipated.

But the costs of video gambling had already exacted a heavy toll on the state.

## • **Video gambling booms, promised windfall falls short**

*Since Illinois legalized video gambling in 2009, tens of thousands of machines have been installed all over the state, except in communities where local ordinances prohibit them, such as Chicago. By hitting "play" below, you can watch the revenue generated by the machines grow over time and how those revenues failed to meet the projections of legislators.*

As gambling moved outside casinos, tax revenue earmarked for state schools funding dropped, resulting in a \$70 million decline in education funding between 2013 and 2017.

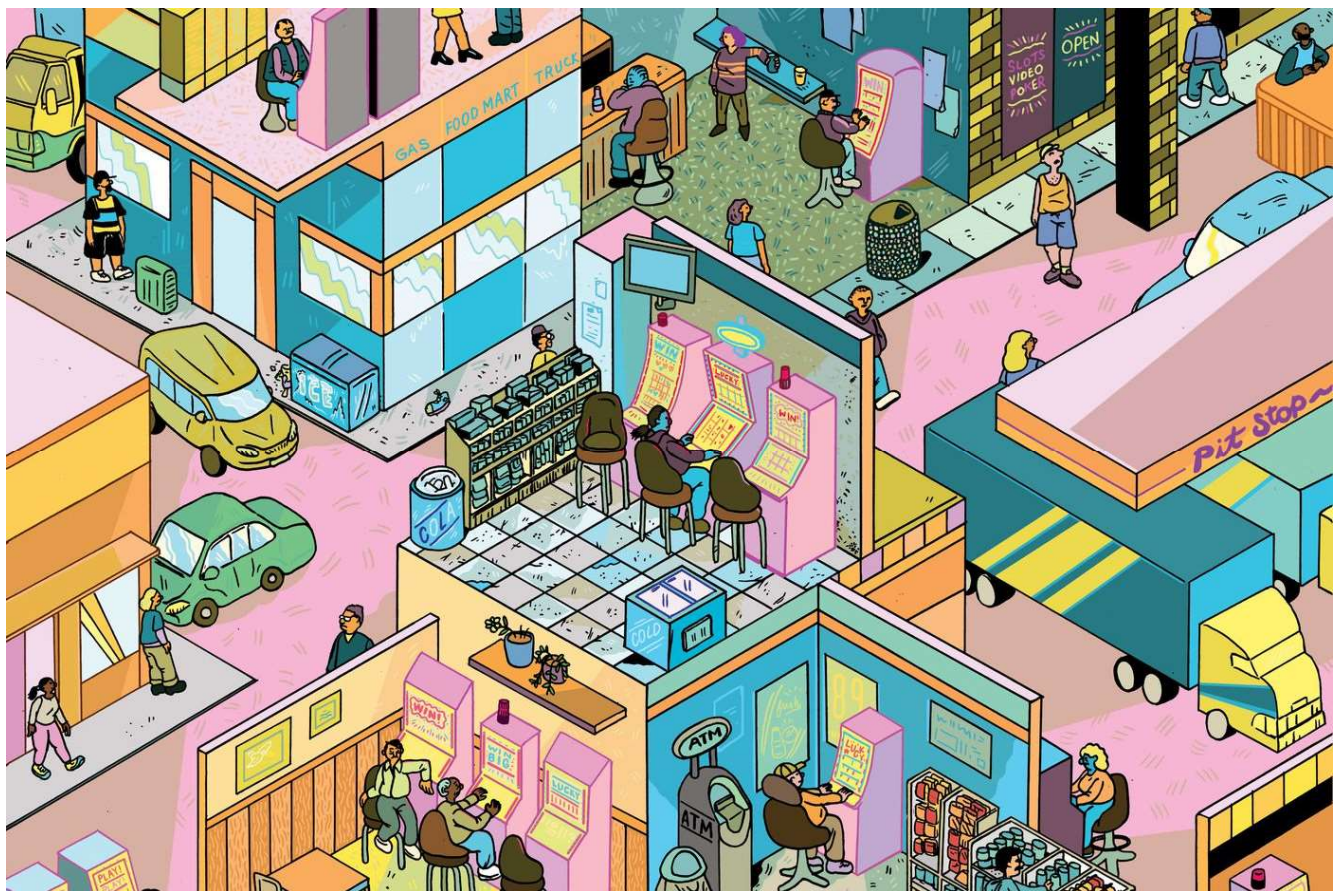
The regulatory expenses for video gambling proved far higher than anticipated, forcing the state to divert \$83 million from casino taxes to support the work of the Illinois Gaming Board, run by five part-time members.

In recent years, the gaming board has been plagued by accusations of questionable conduct, including bid-rigging and violations of the state's Open Meetings Act. Current board officials

said their legal issues stem from conflicting, often vague statutes and that there never was any intent to violate the law.

Not surprisingly, problem gambling has become a major issue in Illinois, affecting hundreds of thousands of people, with little response from Springfield. Numerous studies from around the world have found that access and density of gambling options drive addiction. Yet Illinois is one of only two states with legalized video gambling — the other is West Virginia — that has never conducted research to measure the prevalence of gambling addiction.

Despite pledges to increase funding for addiction services to match the massive growth in gambling outlets, the state spends less than it did before legalizing tens of thousands of algorithm-driven machines so adept at making people play faster and longer that they have earned nicknames like “electronic morphine” and “the crack cocaine of gambling.”



Video gambling machines have become so adept at making people play faster and longer that they have earned nicknames like “electronic morphine” and “the crack cocaine of gambling.” | David Alvarado / ProPublica Illinois

More often than not, these machines are found in lower-income communities, according to a ProPublica Illinois analysis of demographic and gaming board data. Devices can be found in Berwyn but not Oak Park, in Waukegan but not Lake Forest, in Harvey but not Palos Park. In fact, as the average income level of a municipality decreases, the average number of machines increases.

The companies that own and operate the machines, called terminal operators, have reaped nearly \$2 billion in revenue since video gambling went live in September 2012. Recently, that largess has become concentrated in a handful of companies, with the top five terminal operators controlling nearly 50 percent of the video gambling market, according to internal gaming board reports.

The companies have made those profits in no small part because their trade group, the Illinois Gaming Machine Operators Association — which picked up the tab for the Las Vegas dinner — wrote the Video Gaming Act. The group declined to comment for this story.

The General Assembly passed the legislation without scrutinizing the details, including the low tax rate on the machines. At 30 percent, with 25 percent going to the state and 5 percent to local governments, it's much lower than most other states with video gambling. In West Virginia and South Dakota, video gambling is taxed at 50 percent. In Oregon, where the state owns and operates video gambling machines through the state lottery, the tax rate is 73 percent. Pennsylvania, which recently legalized video gambling but hasn't yet gone live, has set a tax rate of 52 percent.

Even casino gambling here is taxed at a higher rate, with a progressive formula that can reach as high as 50 percent.

- **States where video gambling is legal outside of casinos**

*SOURCE: State gaming agencies, Census Bureau. NOTE: Data on the number and location of machines in Pennsylvania is not yet available. That state only recently legalized them, and no machines had gone live by the time of publication. | David Eads / ProPublica Illinois*

State and local politicians have benefited from video gambling. In 2010, the year after the Video Gaming Act was passed, the industry's lobbying arm contributed \$131,205 to political campaigns, five times the amount of its contributions the previous election cycle. The group's donations total more than \$830,000 since 2009. One company, Effingham-based J&J Ventures, has contributed an additional \$600,000 to state and local races, the most of any terminal operator, according to an analysis of state campaign contribution records.

Video gambling has been a boon for bars, restaurants, truck stops and some fraternal organizations as well, providing additional revenue that has undoubtedly helped proprietors and created or maintained service industry jobs. But while some individual businesses have made money from video gambling, the municipalities that have welcomed it haven't fared as well.

That's because the Video Gaming Act allocates just 5 percent of the revenue from the machines to local governments, even though they shoulder the bulk of the social costs related to gambling. Since 2012, the roughly 1,000 towns, cities and counties with video gambling have received \$283 million in tax revenue, according to an analysis of gaming board data.

A ProPublica Illinois review of financial records shows that even in towns saturated with video slot and poker machines, the devices in most cases accounted for roughly 1 percent to 3 percent of local revenue in 2017.

Rockford, for example, brought in nearly \$1.6 million in tax revenue from the machines that year, more than any other local government. That amounted to about 1.3 percent of the city's \$129 million in general revenue, according to financial data submitted to the comptroller's office.

In 2013, 63 percent of the state's population lived in communities that banned the industry, mirroring statewide polls that repeatedly showed a solid majority of residents were opposed to it. By 2017, industry lobbying efforts and tight local finances had flipped the percentages so that 63 percent of the state's population lived in communities with video gambling.

Despite the broken promises of video gambling, some lawmakers are pushing for another big bet on the industry, with some members of the General Assembly eyeing an expansion vote in the early days of Gov. J.B. Pritzker's administration. Many Chicago politicians also want to open the city to gambling. All of the front-runners in the city's Feb. 26 mayoral primary support some version of a casino, and some want to bring in video gambling as well.

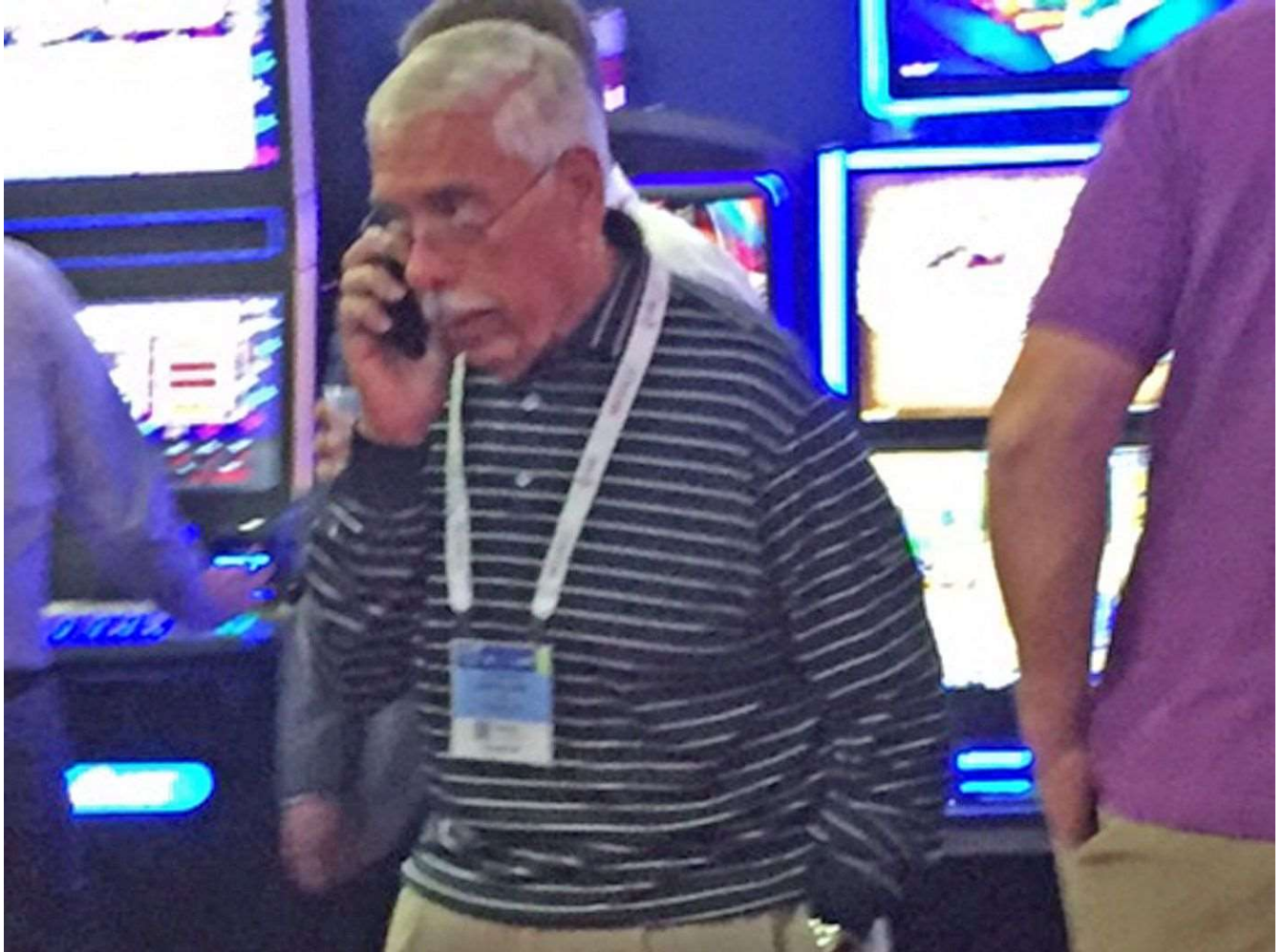
That's why the crowd gathered at Piero's in October, enjoying dinner at the iconic, white-tablecloth restaurant featured in the Martin Scorsese mobster film "Casino." Among them was the co-owner of the industry's primary lobbying firm, which shepherded the Video Gaming Act through the legislature in 2009: Joseph Berrios, former chairman of the Cook County Democratic Party and the longtime county assessor until being voted out of office last year.

Berrios is an ally of House Speaker Michael Madigan, the lead sponsor of the Video Gaming Act in the House before ceding that role to state Rep. Lou Lang, D-Skokie. Lang was a staunch gambling proponent before he resigned from the General Assembly this month.

As Berrios stepped from the cab that October night, wearing a white *guayabera*, he paused for a moment before entering the restaurant.

"We're an industry running strong," Berrios said. "After January, we're going to be looking at a bunch of things to make us a lot stronger and a lot better."





Then-Cook County Assessor [Joe Berrios was in Las Vegas in October 2017](#) on behalf of the Illinois Gaming Machine Operators Association, one of the clients of his lobbying firm. | Provided photo

- **A rushed new law**

On the afternoon of May 21, 2009, the crowd packing the gallery overlooking the ornate Illinois House chambers, with its gilded ceiling and crystal chandeliers, became so raucous that Rep. Art Turner, the Chicago Democrat presiding over the session, issued an admonishment.

“I’d like to ask if we could tone down the noise and also remind the guests in the gallery that we do not allow clapping and shouting,” Turner reprimanded the gambling supporters and labor leaders who had gathered to watch the final vote on a bill to generate revenue for a \$31 billion spending plan, dubbed Illinois Jobs Now!

Less than 48 hours earlier, a five-page proposal tinkering with an obscure provision of estate tax law had morphed into the 280-page bill now before the House. Included in the revenue-generating legislation was the Video Gaming Act, the largest gambling expansion in Illinois since the creation of the state lottery in 1974. Lawmakers were counting on video gambling to generate nearly a third of the revenue for Illinois Jobs Now!

It was a critical period for the state and its politicians.

For more than a decade, Illinois' fiscal issues had prevented the General Assembly from funding infrastructure projects.

The 2010 election loomed, and the state was reeling amid the worst economic downturn since the Depression. Unemployment had reached double digits. Homes were being foreclosed. Public sentiment across the country had soured on incumbents, giving rise to the Tea Party movement and making politicians from both parties skittish.



Illinois Senate President John Cullerton, D-Chicago, introduced the Illinois Jobs Now! bill. It passed the General Assembly with strong bipartisan support. | Ashlee Rezin / Sun-Times

Months earlier, Gov. Rod Blagojevich had been arrested on corruption charges and impeached, becoming the fourth Illinois governor since the 1970s — both Democrat and Republican — to be indicted.

Supporters of the gambling law told their colleagues it would help fund the \$31 billion building program to create jobs while repairing roads, constructing schools and completing other infrastructure projects across the state.

Illinois Jobs Now! gave incumbents positive news to run on.

Introduced by Senate President John Cullerton, D-Chicago, the bill represented a rare display of bipartisanship in Springfield, with Republican leaders signing onto the proposal as lawmakers heaped praise upon one another for working across party lines.

The bill passed both chambers by large margins.

Along with legalizing video gambling, the bill increased sales taxes on a host of products, including candy and liquor, while boosting fees for vehicle licenses and registrations. Bond documents show that legislators projected \$1 billion overall in annual revenue, with \$300 million coming from video gambling.

The gambling industry had spent years lobbying to legalize video gaming, but opponents — a coalition made up largely of church leaders — had managed to block previous efforts. This time, the lobbyist for anti-gambling forces learned of the bill only that day, leaving opponents just an hour before the measure was introduced.

The Illinois Gaming Board, the state agency tasked with regulating the new industry, didn't receive much more notice. It had learned about the legislation the week before — even though the law would increase the complexity of its work and exponentially expand the number of entities it oversees without providing additional funding or staff to do it.

“We were not consulted prior to its passage, so we had no knowledge of what was in the bill,” said Aaron Jaffe, a former state legislator and Cook County circuit judge who was then the board's chairman.

Madigan declined a request for an interview. Cullerton could not be reached. Tom Cross, the House minority leader when the Video Gaming Act was passed, said he voted for it but is not a staunch supporter of video gambling.

“It's not something that I think is good for the state,” Cross said.

Former Senate Minority Leader Christine Radogno, who was part of the leadership team that negotiated the Illinois Jobs Now! legislation, said lawmakers should have spent more time examining the video gambling industry.

“Certainly, in hindsight, it should have been studied more,” she said in an interview. “My personal assessment is that it seems like a very lonely and unhealthy thing to be doing. I have no doubt that it preys on problem gamblers and vulnerable people.”



Though former Gov. Pat Quinn previously had denounced video gambling as “a bad bet,” he reversed course and signed the Video Gaming Act into law on July 13, 2009. | Rich Hein / Sun-Times

Gov. Pat Quinn, who had taken office less than six months earlier, after Blagojevich’s impeachment, had previously denounced video gambling as “a bad bet.”

Running for re-election, Quinn reversed course and signed the bill into law on July 13, 2009.

In a recent interview, Quinn said the need to stimulate Illinois’ economy during a historic economic downturn trumped his reservations about video gambling. He added that he insisted on an “opt-out” clause that would allow municipalities to block video gambling in their towns.

“I wasn’t particularly excited about video gambling,” he said. “It’s very hard to get legislators to vote for funding. I had to make a decision, and it was imperative to get people back to work.”

- **Unintended consequences, immediate shortfalls**

The speed and lack of planning that marked the legalization of video gambling created a cascading series of unintended consequences that continue to plague the state today.

The legislature assumed video gambling would be up and running within a year of the bill’s passage, to quickly begin generating revenue. Instead, it took three years.



The liquor industry, which bristled at the tax increase for alcohol also contained in the bill, tied up the legislation in court, claiming the General Assembly had violated the state constitution by passing multiple substantive measures in a single bill. Regulatory hurdles also contributed to delays.

And lawmakers had counted on tens of thousands of machines being installed in Chicago to meet their revenue projections. But they somehow failed to take into account a century-old ordinance that banned gambling in the city without a referendum, which then-Mayor Richard M. Daley never embraced.

The General Assembly borrowed against the projected revenues anyway. Within a year, Illinois had issued nearly \$2.5 billion in general obligation bonds — loans backed by state revenues — before it had received a single penny from video gambling.



Video gambling has popped up in shops all across Illinois, including at [Rosalie's Lucky 7 Cafe](#) in Niles. | David Kasnic / ProPublica Illinois

By the time video gambling machines were turned on and players could start betting, in September 2012, the state had borrowed more than \$5 billion. Debt payments reached about \$340 million that year. Yet video gambling brought in just \$30 million to cover them. The shortfalls meant the state had to draw from other sources.

With the budget already running massive operating deficits, the failure of video gambling to generate projected revenues exacerbated the state's fiscal woes. Credit rating agencies began



downgrading Illinois' debt. That increased borrowing costs, as pension payments and unpaid bills butchered the state's balance sheet.

The state's financial picture became so bleak it borrowed more than \$1 billion between 2010 and 2013 to cover debt payments for capital projects that had been completed years earlier, spending future tax dollars to pay old bills — plus interest.

“The way the General Assembly constructed the capital program, by relying on video gambling revenue that failed to materialize, accelerated the state's financial crisis,” said Laurence Msall, president of the nonpartisan Civic Federation, a government research organization.

Though lawmakers said money from video gambling and other new taxes and fees for Illinois Jobs Now! would fund \$31 billion in building projects, those revenue streams have accounted for \$10.5 billion in spending.

Video gambling revenue, plus other taxes and fees included in the law, was supposed to go into a special fund to pay down debt from Illinois Jobs Now! Legislators even passed a separate measure that required it. But records from the state comptroller's office show that through 2017, just over half of the \$4.8 billion collected in the capital projects fund actually went to cover the debt for Illinois Jobs Now!

Legislators wrote other laws to divert more than \$600 million to pay down debt for an earlier building program, Build Illinois, which was supposed to be covered by sales tax revenue. An additional \$1.5 billion went directly to the general fund, which is used to pay for the state's day-to-day operations.

The legalization of video gambling also triggered another shift in the state's revenues, one that led to a drop in education funding. While the bulk of video gambling revenue goes to fund Illinois Jobs Now!, most of the state's casino revenue flows into the Education Assistance Fund, which provides grants to public elementary and secondary schools, colleges and universities for building projects and other expenses.

But when video gambling became legal, gamblers no longer had to travel to the state's 10 casinos to place a bet. Between 2013 and 2017, state revenue from casinos in Illinois declined 15 percent, from \$462 million to \$393 million, as income from video gambling machines grew nearly 900 percent, from \$30 million to \$300 million, state records show.

The cannibalization of casino revenue contributed to a 22 percent decline in the amount of money going to the Education Assistance Fund between 2013 and 2017, leaving fewer dollars for the state's struggling schools.

- **Video gambling cut into school funding from casinos**

*As video gambling has spread across the state, it has cut into casino wagering and, as a result, led to a drop in education funding from gambling.*

*SOURCE: Illinois Office of the Comptroller, “Detailed Annual Report of Revenues and Expenditures, 2017 figures from Illinois State Comptroller’s Ledger System. NOTE: Figures are adjusted for inflation using the January 2017 consumer price index — the most recent available data. | David Eads and Katlyn Alo / ProPublica Illinois*

In fact, video gambling has caused the overall percentage of gambling industry profits going to the state to fall. That’s because the state levies a progressive tax on casinos that can reach as high as 50 percent. The more casinos make, the higher their tax rate.

Video gambling is taxed at a flat rate of 30 percent regardless of how much the industry makes. As more gamblers turned to video slots and poker, the state’s cut of gambling profits dropped.

In 2007, when casino revenue peaked at \$1.9 billion, the industry paid about \$819 million in taxes — a rate of 42 percent. By 2018, revenue from casinos and video gambling brought in \$2.8 billion, up 42 percent, but the state’s share of the money was \$891 million, up just 9 percent.

Much of the growth in gambling revenue came as the country began one of the longest economic expansions in U.S. history and as video slot and poker machines saturated the state, more than tripling between 2013 and 2018.

Researchers say it is unwise to count on gambling revenue to remain steady over time because it is a form of discretionary spending. That’s especially true if the economy slows.

“You cannot count on revenues from gambling; they are highly volatile and often deteriorate quickly,” said Lucy Dadayan, a senior research associate with the Urban-Brookings Tax Policy Center at the Urban Institute who has spent years examining state and local gambling revenue around the country. “If we hit another recession, then definitely gambling revenue is going to be one of the first to be hit hard.”

- **Regulators underfunded, overwhelmed**

Before the introduction of video gambling, the Illinois Gaming Board’s duties were limited to licensing and regulating the state’s 10 casinos. Each casino has a cap of 1,200 “positions” — the number of places to make a bet inside, including slot and poker machines.

Six years later, the board oversees more than 30,000 additional positions, the equivalent of 25 more casinos. And those positions are scattered across more than 6,800 locations in nearly every corner of the state.

Yet when the General Assembly passed the Video Gaming Act, it set aside no money for additional staff or resources to implement the law and oversee the industry.

Jaffe, then the chairman of the gaming board, 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.”



Illinois Gaming Board members Steve Dolins (from left), Don Tracy, Dee Robinson and Hector Alejandro at a board meeting in Chicago on Dec. 12. | Max Herman / ProPublica Illinois

Long before a handful of legislators and lobbyists decided it was time to legalize — and tax — video gambling, the industry had been thriving illegally.

For decades, bars, restaurants, bowling alleys and fraternal organizations housed video slot and poker machines billed as “simulated gambling devices.” Most had amusement tax stamps from the state revenue department and didn’t pay out. Instead, the machines produced printed slips showing how much was “won” or “lost.”

But the machines were widely known to be used for illegal gambling, with payouts coming from envelopes of cash stashed under the table or behind the bar. In most cases, operators split profits 50-50 with establishment owners, just as they do under the Video Gaming Act.

Known as “gray” machines, for their nebulous legal status, video gambling had long been associated with Chicago-area organized crime. Less well known were the tight-knit groups of amusement companies from other parts of the state that ran “gray” machines while providing establishments with jukeboxes, pool tables and other coin-operated devices.

Lobbyists for these amusement operators drafted the Video Gaming Act, according to industry insiders and lawmakers, creating licensing guidelines and determining how profits would be divided among operators, establishments, local governments and the state.

Those operators also began entering into video gambling contracts with their existing clients well before the board could set up a regulatory structure or conduct the thousands of investigations needed to make licensing decisions.



Aaron Jaffe, a former state legislator and Cook County judge, was chairman of the Illinois Gaming Board when the General Assembly legalized video gambling. | AP

AP

Once the law passed, the gaming board was given the task of sorting out these relationships while attempting to keep unsavory operators — including those with ties to organized crime — out of the industry.

The board estimated it would need a staff of 350 to do the job, according to internal agency reports. Yet the number of workers has never topped 286 and has dipped as low as 233 in the past three years, even as the industry has grown. At one point, the board had a single lawyer to help regulate what has become a highly litigious industry.

Often, the board must face off against companies that have more resources, time and expertise than the state. One reason for the lack of resources: The Video Gaming Act fails to provide enough money to cover the regulatory costs.

The law designates 75 percent of licensing and administrative fees to pay for investigators and attorneys to vet licensing applications as well as write and enforce rules. But those fees are much lower than other jurisdictions. Pennsylvania, for example, charges \$25,000 to apply for a terminal operator's license. The price in Illinois: \$5,000.

The owners of licensed establishments, such as bars and restaurants, pay just \$100 annually to maintain a license and, until December, paid nothing at all to apply for it, even though the board expends extensive resources on licensing decisions. Last month, legislators passed a law instituting a \$100 application fee.

"We clearly have some fees that are shockingly low," said Illinois Gaming Board Chairman Donald Tracy, a Springfield attorney appointed by Gov. Bruce Rauner in 2015. "Why would you do that if you're trying to get revenue for the state? I guess you have to go back and ask who drafted this legislation. If it's gaming lobbyists, maybe that explains why the fees are so low."

Lang, the Skokie Democrat who sponsored the bill, overestimated how much fees would bring in, telling fellow lawmakers they would provide \$4.5 million a year for regulatory expenses. Instead, fees have never generated more than \$3.4 million. Lang did not respond to a request for comment.





Former state Rep. Lou Lang, D-Skokie, was a staunch proponent of gambling, including video gambling. In early January, he resigned his House seat to join a lobbying firm. | Ted Schurter / The State Journal-Register via AP

Even if the administrative fees had met projections, regulating video gambling has turned out to cost far more. Legislators never studied how much it would cost to regulate video gambling, even though board members say the industry now makes up the vast majority of the agency's work.

In 2013, the first full year of legalized video gambling, state financial reports show, the board spent \$15 million regulating the industry. Those costs reached \$17 million by 2017. Yet fees set aside for regulatory expenses averaged just \$2.9 million during that time, leaving a shortfall of more than \$83 million over five years.

Filling in the funding gap: casino revenue. Yet casino revenue has been in decline. That, coupled with the state's budget woes, caused the gaming board's budget to fall by more than 6 percent between 2013 and 2017 despite rapid growth in the number of video gambling machines and locations around the state.

“My view is that there should be some kind of professional study to review the licensing fees and the taxes, and I have suggested that,” Tracy said.

What’s more, a month before the Video Gaming Act passed, Quinn signed an executive order removing the board from being under the Illinois Department of Revenue, making it a standalone agency.

Jaffe, then the board chairman, had requested the move, arguing that the Revenue Department’s control of the gaming board slowed hiring and other moves the board wanted to make. But when he made the request, Jaffe was unaware the board’s responsibilities would soon greatly expand.

One of state government’s largest agencies, the Revenue Department provided oversight and supplemented policy decisions with an army of analysts, lawyers and technical experts.

Without that support, an underfunded agency overseen by five part-time board members — who receive \$300 a meeting — found itself regulating a sprawling industry with little supervision. The vague law and its weak administrative rules made licensing and contract decisions seem arbitrary, leading to a series of missteps.

In at least two cases, the board reversed decisions to permanently bar people from the industry whom it deemed unfit, after court challenges claimed the moves exceeded the board’s authority.

A ProPublica Illinois review of meeting minutes and interviews with two board members, including Tracy, found the board’s former administrator entered into a legal agreement with a video gambling operator from Louisiana without board knowledge or approval. The former administrator, who left his position in March after 16 years, declined to comment.

And in May, a Cook County circuit judge, hearing a lawsuit, ruled that the board violated the Open Meetings Act by improperly going into a closed session, then misrepresented what happened in meeting minutes.

ProPublica Illinois has filed a Freedom of Information Act lawsuit seeking a recording of the closed session at the center of that case.

In a written statement, Tracy disputed the judge’s ruling but said the board has changed its procedures for going into closed session. He also said conflicts between the Video Gaming Act and the Open Meetings Act have made the board vulnerable to lawsuits from the well-funded industry.

“We have a statute that is somewhat sparse, to be kind,” Tracy said in an interview. “And we’re talking about high-stakes licenses that have tremendous potential value. As a result, when we say no, we get sued.”

In another lawsuit, a Cook County judge froze an exclusive state contract to test video gambling machines and ordered the board to reconsider the contract after evidence suggested gaming

board staff gave preferential treatment to a New Jersey-based company. The contract was rebid, though Tracy denied that the board had shown preferential treatment.

The board's government attorneys often have little expertise in gambling litigation compared to the industry's more experienced, high-priced lawyers, Tracy said.

"There's just so much money in this industry," he said. "We are litigating against people with the very best lawyers, companies that can put unlimited amounts of time into these cases and spend hundreds of thousands of dollars litigating against us."

- **Another push to expand gambling**

The rush to legalize video gambling in hopes of generating quick, painless revenue battered the state's finances, left unfunded social and regulatory costs and exposed the gaming board to a barrage of legal challenges.

None of that has stopped some members of the General Assembly from pushing yet another massive gambling expansion bill as they continue to forage for ways to bring in revenue without raising taxes or cutting spending.

In the more than nine years since the Video Gaming Act passed, the influence of the industry has only increased. And lawmakers seem ready to make many of the same mistakes. At hearings last fall on a new gambling expansion bill, there was no discussion about whether the gaming board can handle a larger workload and little acknowledgement of the social costs of gambling.

Now, as newly sworn-in legislators open the 101st General Assembly, with a rookie, billionaire governor who was a longtime investor in Elgin's Grand Victoria Casino, here's what lies on the table: sports gambling, six new casinos and, for the video gambling industry, higher wagering, bigger payouts and even more machines.

*Jason Grotto and Sandhya Kambhampati are ProPublica Illinois reporters. Dan Mihalopoulos is a reporter for WBEZ Chicago.*

**CONTRIBUTING:** Jerrel Floyd