



Pennsylvania Gaming Control Board



Testimony for Wednesday, May 26th, 9 a.m.

*Public Hearing on Gaming Budgets and Table Games Implementation
Senate Community, Economic and Recreational Development Committee*

Good morning Chairman Earll, Chairman Fontana and members of the Committee. I am Greg Fajt, Chairman of the Pennsylvania Gaming Control Board, and joining me today is our Executive Director, Kevin O'Toole, along with Commissioners Ray Angeli and Ken McCabe who are seated in the audience. We are pleased to have the opportunity to provide you with an overview of our budget request as well as an update on the implementation of table games.

Starting a new agency from scratch is an extremely difficult task, particularly when that agency is charged with regulating a highly complex industry such as gaming. So while Kevin and I are here to testify, it must be noted that the successful implementation of gaming to date is in large part due to the work of my fellow Commissioners and others before me as well as our employees who labor behind the scene.

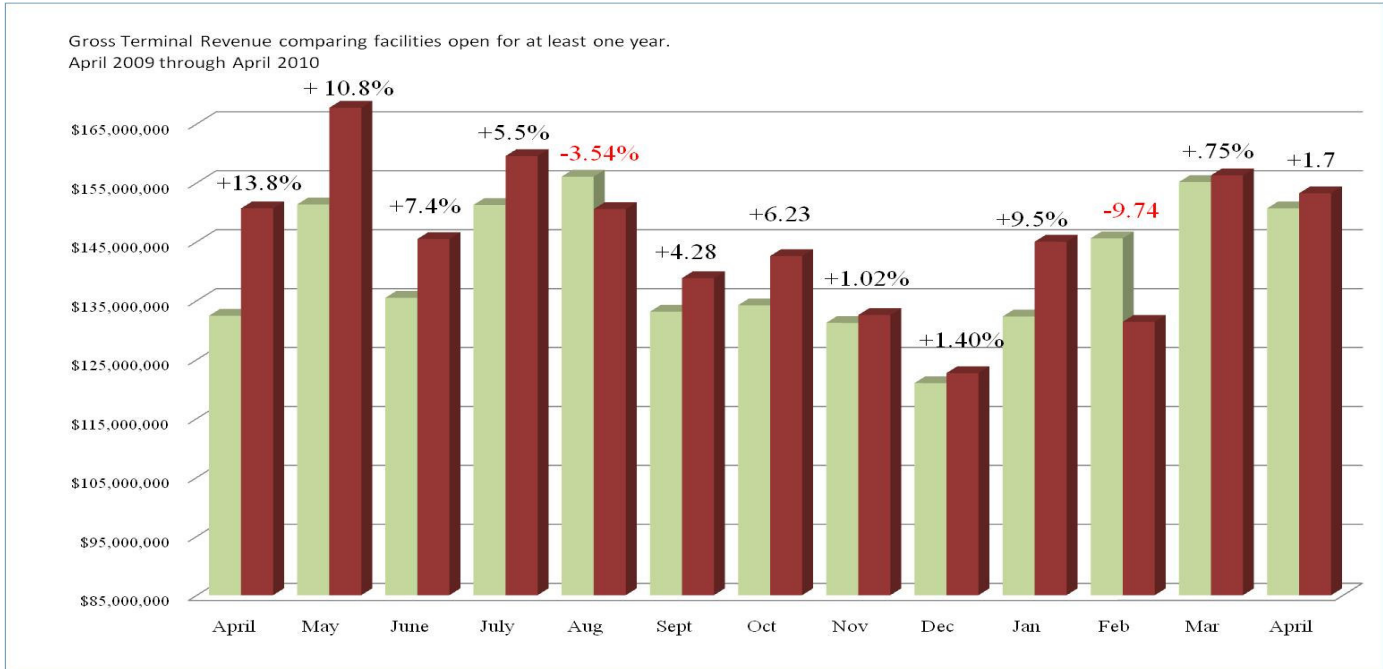
It is hard to argue with the fact that gaming in Pennsylvania has been an overwhelming success. Of the 14 licenses originally authorized under the Gaming Act, 12 have been awarded, 9 licensees are open for business, and a 10th is scheduled to commence operations in Philadelphia on September 22nd of this year. An 11th facility, the Valley Forge Convention Center, may open by the end of next Fiscal Year subject to a ruling by the Supreme Court, and a 12th facility, Foxwoods, currently holds the other license that the Board has awarded, though the Board's Office of Enforcement Counsel has filed a complaint recommending the revocation of Foxwoods' license. As the Foxwoods matter may come before the Board, I cannot discuss this matter any further.

As for the remaining 2 licenses yet to be awarded, the Board is currently reviewing 4 applications for a 2nd Category 3 license and hopes to award the license before year's end, and the remaining Category 1 racetrack facility license remains in pending status, with Valley View Downs having applied for the license and currently working to secure financing for their project.

Gaming has grown and thrived since its inception, delivering significant economic benefits to our citizens in the process. Recently, The American Gaming Association released their annual report -- *2010 State of the States* -- which indicated that Pennsylvania experienced the largest year over year increases in tax revenues, consumer spending, and, perhaps most importantly, gaming jobs in 2009 when compared to other casino states.

Since the first casino opened in Pennsylvania, gaming has generated \$3.63 Billion in tax revenue to the Commonwealth. Last year, Pennsylvania saw a 21.6% increase in tax revenue from the play of slot machines when compared to 2008, producing \$1.1 Billion in tax revenue. Amazingly, the success isn't simply due to more facilities coming online. In fact, as the chart on page 3 of our testimony illustrates, revenues at casinos open a year or more have increased in all but 2 of the last 13 months despite some terrible weather this past winter and our lingering national recession.

Where has this tax revenue gone? Though I won't go into every last dollar, the highlights are as follows: through the end of April 2010, \$2 Billion has been designated for property and wage tax relief, \$617 Million has gone into the PA Race Horse and Development Fund, \$319 Million has gone toward local share, \$270 Million has been generated for the PA Economic Development and Tourism Fund, and \$125 Million has been delivered for volunteer fire companies and ambulance services.



While the generation of tax revenue has been critical in this economy, the creation of jobs has perhaps been even more important. To date, licensees have hired 8,213 employees, and that doesn't include the approximate 8,000 construction jobs that were created to build the facilities. Nor does it include the 4,446 casino jobs that the casinos anticipate hiring with the implementation of table games. I always tell people, name another industry that will have created over 12,600 jobs in the last 5 years – you don't have to think hard, because there aren't any.

In addition, an often overlooked economic benefit that gaming has delivered to Pennsylvania is the ripple effect that casinos produce on their local economies. Though casinos are billion dollar corporations, they recognize the importance of working with, and not against local businesses. In 2009, the total spend on vendors by licensed facilities was approximately \$887 Million dollars. Often these dollars go to mom and pop businesses that provide local products and services to the casinos, resulting in a tremendous benefit to the areas surrounding casinos as well as Pennsylvania as a whole.

Last but not least, it must be noted that Pennsylvania's licensees have worked diligently to create a diverse work environment that fully capitalizes on the abilities,

skills and potential of all of the Commonwealth's residents. 94% of the casino employees are Commonwealth residents and there has been a concerted effort to ensure minority and women owned business participation in the area of construction and non-construction contracting.

Table Games Implementation Overview

Obviously the number 1 question we receive on a continual basis is specific to table games. We recognize that the General Assembly has entrusted the implementation of a major public policy initiative to us and I can tell you with great confidence that we will accomplish this task in an orderly process. One of the main architects of this process is sitting to my right. Kevin has done a great job as our Executive Director, and we are fortunate to have someone with his experience leading the implementation of this major responsibility.

Thus far, I'm happy to report that the Board has made significant progress toward ensuring that our casinos open table games sometime in July after Independence Day. Of course, that assumes that all of our facilities are ready to commence table game operations at that time. We have hired additional on-site staff in order to ensure that we have the appropriate number of personnel to regulate table games. Our employees are in the process of receiving training from an industry expert, George Joseph, in order to educate them on identifying and preventing cheating scams so that we protect the Commonwealth's tax revenue.

The Board received 10 petitions for table game certification shortly after the passage of the table games legislation. In less than 3 months, the Board conducted 10 public input hearings in 10 different municipalities and the Board received and approved each of the 10 petitions at public meetings, with the last 2 approvals occurring yesterday for the Rivers and Sugarhouse casinos.

Board staff has been incredibly efficient in planning and implementing the process to go live with table games. First and foremost our staff has brought before the Board for approval temporary regulations for 17 banked table games and 5 different variations of non-banked poker games. The Board has also approved temporary regulations for surveillance requirements, table game equipment standards, standards for electronic and fully automated electronic table games, and table game internal controls.

The Board has approved 8 table game manufacturers and collected \$400,000 in table game manufacturer fees for the General Fund. The Board's staff has approved gaming chips, playing cards and dice for all casinos. Additionally, our staff is presently reviewing table game layouts for subsequent approval.

We are also monitoring all construction and renovation projects to ensure that slot operations are being conducted in a normal manner with little or no interruptions. The Board's Slot Lab has been expanded to accommodate the testing of table game devices and software associated with fully automated electronic table games.

The Board has also fully complied with all gaming reforms enacted by the General Assembly in Act 1 of 2010. Our efforts in this regard are as follows:

1. We coordinated the effort to comply with §1211(a.3) to post on our website travel expense reimbursements on a monthly basis for the PGCB, DOR, PSP and the AG.
2. We worked closely with the Department of Education and the Department of Labor and Industry to publish curriculum guidelines and minimum proficiency standards for training of dealers.
3. We worked with the Secretary of Agriculture and the Racing and Harness Commissions to meet with each of the Category 1 licensees to discuss a plan to comply with §1211(a.2) of the Act.
4. We coordinated the efforts to comply with §1509 of the Act which deals with the prevention and treatment of compulsive and problem gambling along with

drug and alcohol addiction. We met with representatives of the Department of Health and other agencies, we organized subcommittees and we prepared and disseminated a draft strategic plan.

5. We also have posted on our website new guidelines and a new application form for the submission of Local Law Enforcement Grants pursuant to §1408(c) of the Act.

As I have said before, table game regulation is significantly different than slot machine regulation. First and foremost, table games require the manual observance of a significant number of cash transactions each and every day. Whether watching a dealer and pit supervisor drop a cash box or observing the money count in the count room, it is critical that we have staff on the floor and in the mix at the casinos. A licensed facility has internal controls that serve as their Bible as to the manner, shape and form that are required to be followed. Our Casino Compliance Representatives are the eyes and ears of the Board and they ensure that the licensees follow these rules and regulations on a daily basis. To this end, we allocated a substantial portion of our supplemental appropriation and this year's budget request to hiring 3 additional Casino Compliance Representatives per facility, bringing us to 10 CCRs per facility.

Budget Overview

Despite being called upon to implement a major new initiative, the Board has kept its budget request for this Fiscal Year to a 9.7% increase, or \$37.018 million in total. Though we have thus far and will continue to implement table games as efficiently as possible, we do need more resources to strictly and effectively regulate table games. To that end, the inclusion of a supplemental appropriation for the Board in the table games legislation has been helpful to our efforts to implement table games.

Though we received a supplemental appropriation, we continued our efforts to find ways to be more efficient regulators by being good stewards of the money that has been appropriated to us. We have been able to reduce our operating budget by spending

less money than anticipated in areas such as travel, consulting services and table games training. Additionally, because the later than anticipated enactment of table games legislation pushed back the assumed start date for many new table games hires and because we have delayed filling vacancies on non-table games positions, we spent less money than we anticipated this fiscal year on personnel. All told, I'm happy to report that our efforts to control costs and the later than expected start date of table games hires has resulted in an estimated \$2.6 million surplus this fiscal year, which we will lapse back against the loan that funded our budget this year.

While we are estimating a surplus this fiscal year, we still need an increase in our budget for next fiscal year in order to cover full year funding for our table games personnel, as well as new personnel associated with the opening of the Sugarhouse and Valley Forge casinos. However, we are hopeful that we can implement table games with fewer personnel than we originally anticipated, though it is too early to put a definitive number on how many less personnel may be needed. Therefore, because our need for flexibility remains, given the fact that table games operations haven't commenced yet, our budget request remains at \$37.018 million for FY 2010-11 at this time.

Finally, I wanted to provide you with an update regarding the status of our negotiations with AFSCME, and the Hay Group's job evaluation report. I am pleased to inform you that we have continued to meet with AFSCME and members of the rank and file professional unit which has resulted in an agreement that passed just yesterday. This agreement includes the PGCB in the Master Agreement with other Commonwealth agencies represented by AFSCME, and will ensure we stay consistent with those other agencies with regard to mandatory subjects of bargaining including hours, wages, benefits and working conditions.

The agreement also places all union eligible PGCB classifications onto the Commonwealth's union pay scale and provides for a 2.25% pay increase upon signing of the agreement, as well as the 4% general pay increase effective October 1, 2010 already in the AFSCME Master Agreement. The placing of the union eligible employees onto

the Commonwealth's union pay scale was accomplished using the recommendations contained in the Hay Group's job evaluation report. Although we are still considering the details and options for implementation of the Hay Group's job evaluation report as it relates to the non-union classifications at the agency, I would like to share some summary data with you.

First, the Hay Group concluded that the PGCB was 13% above the market median for compensation in the public sector market, and that initial compensation decisions were made based on start-up needs and the timeline in which we needed to get up and running. However, the Hay Group recommended that in order to appropriately recruit, attract and retain the leadership necessary to make the PGCB successful, we should target a compensation structure that is a blend of public and private sector markets.

The Hay Group's report further concluded that the higher salaries in the agency are very much linked to tenure and longevity. In fact, the data indicates that, in aggregate, individuals hired within the last 3 years were at or below the market median for the blended market. This is evidenced by the fact that the average salary of Board staff has decreased every year since 2006. The current average salary of staff as of May 14, 2010 is \$57,222 (299 employees) compared to \$60,352 (215 employees) on this date three years ago and \$64,169 (155 employees) four years ago. This means our average salary is 10.8% lower than four years ago and 5.2% less than three years ago. While this demonstrates that we have seriously looked at our compensation practices over the years, we will continue to be mindful of appropriate compensation as we hire and replace individuals.

Again, thank you for providing us with the opportunity to address the Committee this morning. I would like to pass this along to our partners at PSP and DOR to provide you with their testimony. Afterwards, Kevin and I are happy to answer your questions.