



**TESTIMONY BY ERIC SCHIPPERS, SR. VICE PRESIDENT, GOVERNMENT
RELATIONS FOR PENN NATIONAL GAMING, INC. BEFORE THE HOUSE
FINANCE COMMITTEE IN SUPPORT OF HB 194, THE BILL TO LEGALIZE AND
REGULATE SPORTS GAMING IN OHIO
May 23, 2019**

Good morning Mr. Chairman and Members of the Finance Committee, my name is Eric Schippers and I am the Senior Vice President of Public Affairs and Government Relations for Penn National Gaming. Based in Wyomissing, Pennsylvania, Penn National is the nation's largest regional gaming operator, with 41 facilities in 19 jurisdictions throughout the United States and more than 30,000 employees.

In Ohio, Penn National operates four of the 11 licensed gaming facilities, including Hollywood Casino Columbus, Hollywood Casino Toledo, Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course. We're proud to have invested more than \$1 billion in our facilities in this state and to employ more than 2,000 local employees.

Joining me today is Scot McClintic, Vice President of Sportsbooks for Penn Interactive Ventures, which is a subsidiary of Penn National that oversees our company's online and retail sports wagering and iGaming operations.

We are honored to be here this morning to testify in support of HB 194, with a few noted exceptions, which I'll discuss in a moment. First, I want to express our appreciation to Representatives Greenspan and Kelly for all their hard work in trying to bring sports wagering to Ohio. We believe legal sports betting has the potential to provide a meaningful shot in the arm to Ohio's gaming industry and to provide a new revenue stream to help fund important state programs and services. If successful, Ohio would join nearly a dozen other states that have moved to authorize sports betting in the wake of the May 2018 U.S. Supreme Court decision striking down the Professional and Amateur Sports Protection Act, or "PASPA." Penn National currently operates sports books in three of those new jurisdictions, including Mississippi, states bordering Ohio – Pennsylvania and West Virginia – and will soon be taking bets in Indiana and Iowa. We've long offered sports wagering at our three Nevada casinos. In total, Penn National currently has sports books at 11 of our 41 properties.

As the nation's largest regional gaming operator, Penn National has been deeply involved in many of the Legislative deliberations involving sports betting across the country, and we've seen what can be described as "best practices" when considering this issue, which we respectfully offer for your consideration this morning as it relates to HB 194.

First, there has been much discussion about what an appropriate tax rate and license fees should be for sports betting. It's important to remember that Sports betting is a very low margin business. On an average \$100 wager (or "handle"), \$95 goes back to the bettors,

with the casino receiving \$5 (or “hold”). From that remaining \$5 we must then pay a federal excise tax, state tax, and an array of operating expenses: technology, labor, marketing, etc., resulting in approximately \$1 in actual revenue.

As a result, sports wagering should more be appropriately described as an amenity to an existing gaming facility, not a significant revenue driver in-and-of- itself. For example, while the state of New Jersey produced \$320 million in wagers in February, the state’s sports book operators made just \$12.7 million – a 3.9% hold. In fact, MGM, Harrah’s, and Tropicana lost money that month. That is not uncommon in this volatile sector of our business. In fact, Tiger Wood’s dramatic win at The Masters resulted in the biggest loss ever for sportsbook operator William Hill.

However, the advent of regional sports betting has provided an opportunity to draw in new customers to our facilities. As a result, we have seen an uptick in new visitation and new demographics of customers coming to our casinos. Sports betting has directly and indirectly generated an increase in table play, hotel stays, and the purchase of food and beverages that is strengthening the overall gaming tax revenue for these states. In sum, a tax rate higher than the 10% offered in this bill would make it very difficult for us to strike the right balance between capital investment and profitability. For instance, while we do operate a sportsbook in Pennsylvania, which has one of the highest tax rates on sports betting in the world, our investment was de minimis in the state and as a result we haven’t been able to maximize the revenue potential for either our business nor the state.

Second, we believe it is critical that the operation of sports betting be limited to licensed casino and racetrack operators. Ohio’s gaming operators have invested billions of dollars in their brick-and-mortar establishments in this state and are major drivers of job creation and economic activity in our host communities. We have well-established, rigorous compliance and responsible gaming protocols in place to ensure a safe wagering environment for consumers.

For example, in addition to comprehensive and stringent state gaming regulations, as licensed casino and racino operators, we provide extensive federal anti-money laundering (commonly referred to as “AML”) training programs. Since 1985, commercial casinos have been defined as “financial institutions” under the Bank Secrecy Act (BSA). As such, we have in place sophisticated customer identification procedures, which includes customer diligence and reporting of suspicious transactions, as well as the utilization of state-of-the-art security and surveillance systems.

To highlight the risk to small, non-gaming operators, we recently had a customer in Pennsylvania arrive at our casino with a backpack containing \$100,000 in cash to place a three-game parlay bet. We quickly ran all the requisite background checks and it turns out this individual was simply a wealthy private equity investor who prefers to bet in cash, so we took his bet. Can you imagine him arriving at the door of a small fraternal organization looking to place that action? And what would happen if he won? That might be a tough day for the Elks Club. I know it would have been a tough day for us. Fortunately, he lost on the first game of the bet.

Third, I’d like to briefly discuss the importance of including the ability to wager on a mobile device. According to the American Gaming Association, the black market off-shore sports betting industry is, at minimum, a \$150 billion-dollar business. These illegal bookmakers

are no longer lurking in back alleyways – they’re online and taking bets from Ohioans today. If the state chooses to ignore this reality and limit this opportunity to only in-person betting, it not only will be rewarding the illegal offshore operators, it will be leaving significant tax revenue on the table. In states where mobile sports wagering is legal, more than two-thirds of all bets placed in the state are done so online. As an example, in New Jersey approximately 80% of wagers on sporting events were placed via a mobile or desktop device, and we expect this trend to continue in other states that offer mobile sports wagering. We remain adamant that the most effective way to maximize sports betting revenue for the state is to offer sports wagering both in-person and from mobile devices.

Fourth, and finally, as it relates to the professional sports leagues, we appreciate their position in the legalization debate. We applaud their interest in ensuring the integrity of their respective sport, with or without legal sports wagering. However, sports leagues should have no role in overseeing betting operations or the integrity of sports wagers and their plea for official league data mandates are an unnecessary money grab after their cry for integrity fees have fallen on deaf ears.

According to recent studies, the four major sports leagues will earn a collective \$4.2 billion from legal sports betting. The day PASPA was repealed, Mark Cuban, owner of the Dallas Mavericks and a member of the Shark Tank TV show famously exclaimed that the value of his franchise doubled overnight.

On the issue of integrity, the gaming industry is willing and able to do its part to address the issue. Penn National is a charter member of the Sports Wagering Integrity Monitoring Association (“SWIMA”), which facilitates sharing of information related to unusual or suspicious betting activity among regulated U.S. sports betting operators. Funded entirely by membership companies at no cost to taxpayers, SWIMA members share suspicious wagering information with gaming regulators and, when appropriate, state and federal law enforcement. This communal effort, modeled after the European sports wagering monitoring group ESSA, will help identify potential fraud and other illegal or unethical activity, resulting in the effective execution of risk management and compliance protocols, and provide strong consumer protections.

With that, I’d like to thank you for the opportunity to provide testimony this morning and we would be happy to answer any questions you may have.