



TESTIMONY BY ERIC SCHIPPERS, SENIOR VICE PRESIDENT, PUBLIC AFFAIRS & GOVERNMENT RELATIONS FOR PENN NATIONAL GAMING, BEFORE THE SENATE GENERAL GOVERNMENT AND AGENCY REVIEW COMMITTEE IN SUPPORT OF SB 111, THE BILL TO LEGALIZE AND REGULATE SPORTS GAMING IN OHIO

November 6, 2019

Good Afternoon Chairman Schuring, Vice-Chair Rulli, Ranking Member O'Brien, and members of the 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 states and more than 28,000 employees.

Here in Ohio, Penn National is proud to operate 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've invested more than \$1 billion in our facilities and employ more than 2,000 local employees.

I am honored to be here this morning to testify in support of SB 111. Ohio is one of 41 states that has considered legalized sports betting in the wake of the 2018 U.S. Supreme Court decision striking down the Professional and Amateur Sports Protection Act, or "PASPA." Nineteen of those states have gone on to approve sports betting and we sincerely hope Ohio will become lucky number 20.

The repeal of PASPA came at an opportune time for the gaming industry. Across the country, regional casinos continue to face increased competition and cannibalization from ongoing gaming expansion both within our states and across the border in neighboring states. The gaming industry has also been continuing to try to find ways to attract a newer, younger demographic to complement our existing customer database.

We have found that in the six states in which we're currently operating sports betting that it has become an effective new customer acquisition tool, particularly when we are able to offer mobile wagering. And while sports betting is a low margin, highly volatile

business, we've seen an incremental boost of nearly 10% to our food and beverage offerings and as much as a 15% increase in our table games operations at our brick-and-mortar facilities from these new customers, which obviously strengthens the overall gaming tax revenue for those states.

In looking at SB 111, we believe the bill checks all the right boxes to make a sports betting operation successful. Those include having:

- A reasonable tax rate;
- Limited to existing gaming licensees;
- Mobile wagering

First, there has been much discussion about what an appropriate tax rate and license fees should be for sports betting, with some claiming that the tax rate contained in SB 111 is too low. However, those arguing for an unreasonably high tax rate clearly don't understand the economics of sports betting. On an average \$100 wager (or "handle"), \$95 goes back to the bettors, with the casino receiving \$5 (or "hold"). We must then pay a federal excise tax, state tax, and an array of operating expenses: betting data, data analytics, labor, marketing, etc., resulting in approximately \$1 in actual revenue.

As a result, sports wagering should be more 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 \$273 million in wagers in June, the state's sports books made just \$9.7 million – a 3.6% hold. In fact, the Borgata, Hard Rock, and Tropicana's online books all lost money that month. Our Hollywood Casino at Charles Town Races just outside of Washington, D.C., lost \$1.6 million on the World Series due to all those diehard Nationals' fans taking an early season chance on their team.

Second, we believe it is critical that the operation of sports betting be limited to existing licensed gaming 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 are required to undergo 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 reporting suspicious transactions while further regulating, supervising and monitoring anti-money laundering operations.

Operating such a complex security system is expensive and extremely labor intensive. We spend millions of dollars annually on surveillance equipment, surveillance personnel, and security officers at each of our properties to maintain a safe and secure environment for our customers.

Third, I'd like to emphasize the importance of having 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 Ohio citizens today. If the state chooses to close its eyes and limit this opportunity to only in-person betting, it will be the illegal offshore operators who stand the most to gain. In states where mobile sports wagering is legal, more than two-thirds of all bets placed in the state are done so online. And, from a responsible gaming standpoint, we actually know more about our customers who register for accounts online than those who play at our casino but don't sign up for a player's card.

In closing, I'd like to take the opportunity to address the demands of the professional sports leagues who would like for you to mandate the use of "Official League Data." You may recall that throughout much of last year, the Leagues were pushing for "integrity" or "royalty fees." Importantly, not a single state that has legalized sports betting included such fees in their statutes. Undeterred, the leagues quickly pivoted to the "Official League Data" mantra. As you know, sports betting has been legal in Nevada for the last 50 years without the requirement of "official league data." Today, most, if not all, of the leagues have already sold their data to the major data suppliers like Sportradar and BetGenius whom we are already compensating for the data feeds they provide our sports books. The request then for a mandate for "Official League Data," which encompasses an additional fee, is in reality an attempt by the Leagues to charge us twice for the same data.

Having said that, we continue to engage in promising commercial deal talks with the Leagues as there are viable uses for specialized, proprietary in-game data -- such as how fast a puck is traveling or who had the hardest slap shot -- to grow interest in sports wagering. However, these deals shouldn't be Legislatively mandated at what third parties declare to be "commercially reasonable" terms. What may be "commercially reasonable" to the leagues – who face no competition – may be

inconsistent with the thin margin reality of sportsbook operators in a hyper competitive environment.

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