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Gambling Man

*After years of effort,
Gov. Edward G. Rendell
happily preps Pennsylvania
for a slot machine future*

BACCARAT STRATEGIES
KIOSK TECHNOLOGY UPDATE

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Gov. Rendell signs House Bill 2330 and Senate Bill 100, clearing the way for slot gaming in Pennsylvania.



A vision realized

As a staunch supporter of gaming, Pennsylvania Gov. Ed Rendell helped open the door for what could become the nation's third-largest gambling market

BY ANDY HOLTSMANN

Before being elected Governor of Pennsylvania in 2001, Edward G. Rendell tried, on two separate occasions as Mayor of Philadelphia, to convince the state to legalize gaming.

To Rendell, and many other pro-gaming supporters, gaming in Pennsylvania simply made sense—from an entertainment and tourism perspective for the state's cities, as a way produce revenue for the state, and as a means for saving the state's struggling horse tracks.

In his first attempt in 1991, he visited then-Gov. Robert Casey to, in his own words, "plead with him to support limited expansion of riverboat gaming."

"I was trying to create an image of Philadelphia as a great destination city with history and art and culture and restaurants—a place with so many things to do, including gaming. I wanted to fill out the roster of activities for all

potential visitors," Rendell told *Casino Journal*. "I got turned down flat. Gov. Casey was just anti-gambling."

Rendell's second attempt presented itself when Gov. Tom Ridge had said he was open to gambling during his 1998 gubernatorial campaign. Once Ridge became governor, Rendell tried again.

"We believe we might have had the votes, but at the last second, Gov. Ridge said he wanted a statewide referendum. We were willing to do a county referendum, but a statewide referendum was a killer. So at the end, we didn't get the support from the governor that we needed," he said.

Now it's Rendell who sits in the governor's chair, and on July 5 he signed into law House Bill 2330 and Senate Bill 100, which will allow for up to 14 casinos/racinos in the state, with the possibility of housing up to 61,000 slot machines.

Rendell predicted that by 2006 or 2007, the casinos/racinos could produce as much as \$1 billion in gaming taxes for the state.

The legislation also has also opened doors for casino companies and slot manufacturers alike to reap a financial windfall, and for horse tracks to recoup much-needed business they lost to competing tracks in neighboring states that have already added slot machines.

"Pennsylvania has the potential to become the third-largest slot machine market in the country behind Nevada and California," said Chuck Brooke, vice president of new market development for International Game Technology, who added that interest in slot manufacturers' offerings has spiked since Rendell took office. "It's significant new market potential."

A winning plan

But the path toward state acceptance of expanded gaming was anything but easy for Rendell and casino proponents. Indeed, as evidenced by events described above, opposition to increased gaming was active and alive in the Keystone State. How was Rendell able to overcome the gaming naysayers?

Past failures made Rendell realize that in order to get a gaming bill passed in his state, it would have to be linked to a simple economic proposition his constituents could relate to and support. After much debate, Rendell decided his best chance lay with tying expanded gaming directly to a reduction of property taxes.

"I looked at everything at the time and decided that property tax relief was the one that could make it work," Rendell said. "I also decided, looking at the political terrain, that the only way we were going to get property tax relief was with expanded gaming. The Legislature had no real appetite for real tax reform, which might have meant cutting the property tax dramatically, but raising the income tax. If we wanted to get property tax reform, gaming was the only way."

Rendell also utilized other economic arguments to help the bill's passage. For instance, he often brought up the fact that out of the state's 12.4 million residents, one in twelve—or about 1 million—were leaving the state to gamble, taking with them more than \$3 billion a year.

"I think we've addressed (opponents

"When [Rendell] was campaigning, one thing he would do is stand in downtown Philadelphia where the Atlantic City tour busses would pick up players. It was a great place to meet a lot of voters in one place. It also gave him a graphic representation of how many people were going out of state to gamble."

—Chuck Brooke,
vice president of new
market development, IGT

of the gaming bill) by saying that not having gambling in the state has not stopped most Pennsylvanians who want to gamble from gambling," Rendell said. "There are casinos in Atlantic City, there are casinos in New York State, there are slots at racetracks in West Virginia and slots at racetracks in Delaware. The point I consistently made is that we're not stopping Pennsylvanians from gambling at all."

Brooke called Rendell's vision for gaming in Pennsylvania "realistic."

"When he was campaigning, one thing he would do is stand in downtown Philadelphia where the Atlantic City tour busses would pick up players. It was a great place to meet a lot of voters in one place. It also gave him a graphic representation of how many people were going out of state to gamble," Brooke said.

Jan Jones, vice president of govern-

ment relations, Harrah's Entertainment, served with Gov. Rendell on the advisory committee for the Conference of Mayors when she served as Mayor of Las Vegas. She said he has always been straightforward and focused about his reasons for wanting gaming in Pennsylvania.

"I think he's [handled the issue] with great legislative acumen. He campaigned on slots at tracks. He understood that giving people reductions on property tax is what his constituents were looking for, so he tied the new revenue from slot machines to that. He kept focused. He didn't go all over the place, he knew what he wanted—slots at tracks. The slot parlors were the result of legislative discussions and agreements.

"He was patient," Jones added. "There is no bill that happens without starts and stops. At the end, he got what he felt was best for his constituents."

Building infrastructure

Under the bill, Pennsylvania is expected to issue conditional or temporary licenses to operate slots at four existing racetracks. Among them: The Meadows in Washington County and Philadelphia Park, where Triple Crown contender Smarty Jones trained. Rendell expects those tracks to begin slot operations by early 2005.

By fall of 2005, operators are expected to begin applying for the remaining 10 licenses—three for casinos at new >>

Membership drive

Pennsylvania is in the process of creating a Gaming Control Board to oversee the expansion of gaming in the state. The board will consist of seven members; three appointed by Gov. Ed Rendell, the remaining four selected by House and Senate Democrats and Republicans. As of mid-September, six people had been selected for the board. They include:

- Mary Digiacommo Colins — A trial judge from the city of Philadelphia retiring from the bench to serve on the board (appointed by Rendell).
- Sanford Rivers — Pittsburgh resident who was vice president at Carnegie Mellon University. He also served for over a decade as a NFL referee (appointed by Rendell).
- Chip Marshall — CEO of Temple Medical Systems, who is staying with the company but will have a reduced workload for approximately 18 months so he can concentrate on the Gaming Control Board (appointed by House Republicans).
- Robert McCabe — Agent in charge of the FBI office in Pittsburgh (appointed by Senate Republicans).
- Jeff Coy — A member of the Democratic House leadership who resigned to become a member of the commission (appointed by House Democrats).
- William Conaboy — A lawyer and businessman from the northeast part (Scranton) of the state (appointed by Senate Democrats).

—Andy Holtmann

PHOTO BY PATRICIA A. McQUEEN



Tracks like Philadelphia Park could start slot operations sometime in early 2005.

racetracks, five for stand-alone slot parlors and two for existing resort hotels.

According to reports in Northeastern Pennsylvania *Times-Reader*, 48 percent of the profits will go to licensees and 34 percent of the profits will go to the state coffers. Rendell said that 11 percent of the net will go to horsemen (owners, trainers, breeders etc.), while 4 percent is split between local and county governments, and 5 percent will be set aside for state economic development.

"It's a great thing for states to do," Rendell said. "We believe we can produce somewhere around \$1.5 billion for economic development."

While excitement is brewing for gaming to get underway, Rendell said the state's first priority is to have sound infrastructure in place to govern, regulate and control gaming.

The state is already at work creating a gaming control board and six of the seven members—Rendell had one additional appointment to make as of this writing—are in place (see sidebar).

"The caucus leaders have appointed good people to the board. I've used my appointments not only for quality, but for diversity. I think we have a good board shaping up. The next job is to get a good staff in place to support the board," Rendell said.

The board will use a \$7.5 million state loan to fund initial operations. That

amount will ultimately be repaid by casino operators, who will also pick up the tab for the board's estimated \$15 million in annual costs. Each licensee is also required to contribute \$5 million to fund the workloads and staffing requirements of the board and state police.

In addition, Rendell said the state will set aside \$2.5 million annually to fund treatment programs for compulsive gamblers.

"With us not having gambling before and our people gambling in other states, they are ineligible for treatment programs. The West Virginia, Delaware and New Jersey treatment programs require those seeking treatment to be a resident of those states," Rendell said. "We're taking it very seriously and we're saying that it will actually be better for families because they are gambling now and if they fall prey to addiction, they've had nowhere to go. They will now."

Independent approach

Meanwhile, on the regulatory front, Rendell said he would like to emulate how the New Jersey Casino Control Commission and Division of Gaming Enforcement polices gaming.

"They've done a fine job of keeping out organized crime and running a tight ship," he said.

But that doesn't mean he wants to follow the New Jersey regulatory

roadmap to a tee. For example, right now in New Jersey state civil servants or employees can own up to 1 percent interest in a gaming operation. Rendell issued an executive order that none of the state's employees could have any ownership interest in gaming facilities.

The gaming legislation also offers some unique regulatory challenges, such as the insistence that all slots be controlled by a central system, thereby making Pennsylvania the largest gaming market with such a requirement, according to IGT's Brooke.

"It's very much in the model of West Virginia, where a central computer will be linked to all the machines to provide an audit function for the state. Other states that follow that model—

Delaware, West Virginia, Oregon, South Dakota—there are far fewer machines on such a system," he said.

The state has hired at least three gambling consultants to help choose and implement the statewide system.

An open market

System issues aside, the passage of gaming legislation is welcome news to casino companies that already have a vested interest in the state. Penn National Gaming owns two tracks there—the Penn National Racecourse in Grantville and the Pocono Downs racetrack near Wilkes-Barre. Harrah's Entertainment meanwhile, just completed a deal in which it acquired a 50 percent stake of the planned Chester Downs racetrack along the Delaware River in Chester.

Both companies will be looking to expand gaming operations at their respective facilities, while a host of other gaming companies are looking at acquiring one of the coveted licenses.

"There was a rush (of interested parties) almost from the time I became governor, Rendell quipped. "People knew I was pro-gaming and the general theory was that if everyone could get their act together, with a pro-gaming governor in place, these things would happen."

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Gambling Developments in the States, 2004

Reacting to significant budget restrictions and general economic difficulties in the last few years, many states have looked to expanding gambling as a way to increase state revenue and stimulate economic development. Responses to the trend of gambling expansion from lawmakers and citizens vary widely. Some studies seem to indicate an increasing tolerance of gaming as an acceptable form of entertainment among U.S. citizens. This is especially true when the question is presented as a choice between gambling expansion and tax increases. At the same time, studies on the effects of gambling on communities and individuals continue to encourage those who oppose gambling expansion including law-

makers, private organizations and individual citizens.

The following chart contains information on state gambling developments that have occurred during 2004. Both proposals for change to state gambling laws and actual changes are included. Like all legislative proposals, the eventual enactment of these bills is dependent on a number of different factors and difficult to predict. The inclusion of the following bills in this chart is not meant to imply an estimate on the likelihood of their enactment.

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State	2004 Gambling Developments
ALABAMA	Failed: Constitutional amendment to repeal state's ban on lotteries and full-fledged casinos. Failed: Electronic bingo at the state's four racetracks.
ALASKA	Failed: Single casino in Anchorage. Failed: Taxation of gambling on cruise ships.
CALIFORNIA	Enacted: A bill creating new state compacts with five Indian Tribes in California. Agreeing to pay into two state revenue streams, the tribes may now operate an unlimited amount of slot machines and are guaranteed exclusive rights to slots operations in the state. Proposed: The Governor has negotiated a revenue sharing compact, subject to legislative approval, with five more Indian Tribes. Among these compacts, the deal reached with the Lytton Band of Pomo Indians would allow for a 5,000 slot machine casino in San Pablo. Proposed: Ballot initiative that would require Indian Tribes operating casinos to share 25 percent of their revenue with the state. If any tribe refused to comply five tracks and 11 card rooms would be allowed a total of 30,000 slot machines at locations including suburban San Francisco and Inglewood. Proposed: Ballot initiative that would require 9 percent of tribal casino revenue be shared with the state. Limits on the kinds of games tribes can operate as well as limits on the number of casinos and slot machines on tribal land would be removed. This proposal also would extend the current 20-year gaming compacts to 99 years. Proposed: Reduce the share of lottery revenue dedicated to fund education from 34 percent to 25 percent.
DELAWARE	Proposed: Two new slot casinos. Proposed: Racetracks required to turn over unclaimed winnings to the state.
DISTRICT OF COLUMBIA	Failed: Petition drive to include a question on the legalization of slot machines on the November ballot.
FLORIDA	Proposed: Constitutional initiative will be placed on November ballot to allow two specified counties to hold referenda on allowing slots at their respective racetracks. Failed: Regulation of gambling arcades. Failed: Allow charities, religious and veteran's groups to sell lottery-style bingo tickets.
GEORGIA	Failed: Online lottery.
ILLINOIS	Proposed: 3,200 slot machines added to each of the state's five horse racing tracks. Bars, taverns and social service clubs—three machines each. Proposed: Riverboat casino expansion.
INDIANA	Failed: House Bill 1188 would have allowed 1,000 electronic pull-tab machines at each of the state's horse tracks and 1,500 at betting parlors.
IOWA	Enacted: Comprehensive gambling bill that allows the introduction of table games at racinos, ends cruise requirements for riverboat casinos, and allows the gaming commission to issue an unlimited number of casino licenses. This bill also prohibits a riverboat casino in downtown Des Moines.
KANSAS	Implemented: "eScratch"—an online lottery game. Failed: At least three different proposals with various combinations of casinos, slots at tracks, slots at fraternal organizations and slots at other locations such as bowling alleys and driving ranges.
KENTUCKY	Failed: A bill providing for a statewide vote on a constitutional amendment allowing expanded gambling at existing racetracks.
LOUISIANA	Proposed: Relax food revenue percentage requirements for restaurants wanting to install video poker machines. Failed: New video poker truck stops must be located within 1,000 feet of federal highway.
MAINE	Enacted: A bill that provides for the implementation and regulation of slots at racetracks. A ballot initiative allowing slots at racetracks was passed by voters in November, 2003. This bill creates the Gambling Control Board and Advisory Council, and establishes a racino revenue distribution formula.
MARYLAND	Failed: 11,500 video lottery machines at four horse racing tracks, 4,000 at two stand-alone facilities along the Interstate 95 corridor.

State	2004 Gambling Developments
MICHIGAN	Enacted: House Bill 4612, increases the state wagering tax on Detroit Casinos from 18 to 24 percent. Failed: Video Lottery Terminals at racetracks. Proposed: Ballot proposal amending the state constitution to prohibit new forms of gambling without voter consent.
MINNESOTA	Failed: Allow racetrack to add casino. Failed: Allow existing card club to increase the maximum number of tables from 50 to 100.
MISSOURI	Failed: August ballot proposal expanding legal riverboat casino locations beyond the Missouri and Mississippi rivers.
NEBRASKA	Enacted: Bill allowing ballot measure question on constitutional amendments to allow two casinos in the state. The question will appear as on the November ballot as Amendment 3. Proposed: Competing ballot proposal allowing two casinos to be built in Omaha and up to 4,900 slot and video poker machines in bars and keno parlors. Proposals will appear on the November ballot as initiatives 417, 418, 419 and 420.
NEW JERSEY	Enacted: A bill gradually rolling back an existing 4.25 percent tax on complimentary benefits given by casinos to high wagering guests.
NEW YORK	Implemented: Video lottery machines in at least two racetracks. Proposed: Video lottery terminal parlor in the proposed downtown convention center in Albany. Proposed: Eight new facilities for video lottery machines. Failed: Video lottery machines on ferries between Rochester and Toronto. Failed: Proposal to expand the availability of the video numbers game "Quick Draw" to more restaurants and taverns by removing food sale percentage requirements in current legislation.
NORTH CAROLINA	Proposed: Change the regulatory duties associated with video poker machines from local sheriffs to state agents. Proposed: Ban on video poker machines.
NORTH DAKOTA	Implemented: State joins Powerball.
OHIO	Proposed: A bill for a state constitutional amendment that would allow a riverboat gambling franchise in each of the cities of Cincinnati and Cleveland. Failed: Bill that would put ballot question of a constitutional amendment allowing 2,150 video lottery machines at each of Ohio's seven racetracks to voters.
OKLAHOMA	Enacted: Senate Bill 553 allows electronic bingo terminals at three racetracks. Proposed: Ballot proposal to authorize state lottery will appear on the November general election ballot as State Questions 705, the Oklahoma Education Lottery Act, and 706, the Education Lottery Trust Fund.
PENNSYLVANIA	Enacted: Legislation allowing up to 61,000 slot machines at seven racetracks, five slots casinos and two resorts. Proposed: Video poker and keno machines in bars, taverns and restaurants.
RHODE ISLAND	Failed: A bill for a state-wide referendum on allowing Indian Casino for Narragansett tribe in greater Providence area. After a legislative override of the Governor's veto of the bill, the state Supreme Court ruled that the proposed ballot question violated the state constitution.
TENNESSEE	Implemented: Tennessee Lottery began operations in January 2004. State also became 26th lottery nationwide to join Powerball. Enacted: Limited charitable gaming now allowed. Failed: Warning labels of gambling addiction possibility on lotto tickets and at distribution points of gambling addiction.
TEXAS	Failed: Up to 40,000 video lottery terminals at seven existing tracks.
WASHINGTON	Proposed: A ballot proposal allowing non-Indian casino gambling in the state will appear on the November ballot. Initiative 892 would allow bowling alleys, bars, taverns and mini-casinos to operate the same number of slot machines as Indian tribes are currently authorized—over 14,000. Proposed: Ballot initiative that would allow electronic scratch ticket machines at charities, restaurants, taverns, bowling allies, tracks and card rooms.

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The state's tracks saw that opportunity as well and began preparing almost immediately. In April, Robert W. Green chairman of Greenwood Racing Inc., which owns Philadelphia Park, told the *Bucks County Courier Times* the track wanted to begin building temporary facilities for slots that could be up to three football fields in length.

"We see it as being part of a major entertainment complex that would cover a significant part of the property, and the slot machine element would be just one of dozens of entertainment options," Green said. "Restaurants, theaters, clubs—basically every kind of entertainment there is."

But that also doesn't mean Pennsylvania is going to jump into all forms of gambling. Rendell said he didn't expect a recent legislative proposal for video poker and keno in bars and taverns throughout the state to carry.

"I think we're going to go very slowly in Pennsylvania. I think before there's any other expansion of gambling, people are going to want to see how this works," he said. "Now if Delaware and West Virginia chose to go to table games, would that put pressure on us to do the same? Probably, but we'll cross that bridge when we get to it."

Expanded thinking

But what about the impact gaming would have on nearby markets that have thrived from Pennsylvania gamblers? Rendell said gaming could have impacts on tracks in Delaware and West Virginia.

"If you go to the Mountaineer track in West Virginia and you counted up the license plates, you'd find that well over 50 percent—usually 70 to 80 percent—of them would be from Pennsylvania," he said.

As for Atlantic City, Rendell said he doesn't think slots in Pennsylvania will affect that market much. Harrah's Jones agrees.

"Atlantic City is on the verge of becoming a real resort destination. With the Borgata, the reinvestment in other properties, the reinvestment in The Boardwalk, you're starting to see Atlantic City transition into a gaming destination where people want to come and stay. That really allows Pennsylvania to actively focus on the drive-in market—people coming for the day or a night out," she said. "I think it



Rendell with thoroughbred champ Smarty Jones.

will be great for Pennsylvania and I don't think it will have an impact on Atlantic City. The two different models of gaming work very well together."

Indeed, instead of harming casinos in other states, some believe that Pennsylvania's acceptance of expanded gaming may ultimately pressure more states to adopt casino-style facilities as well.

"Gov. Rendell is very straightforward and honest and stuck with his policy," said Brooke. "Gov. (Robert) Ehrlich was the same way in Maryland and so was Gov. (Kathleen) Sebellius in Kansas during the 2002 gubernatorial campaign. In fact, it was the first time that gaming was a definitive issue between the two Pennsylvania candidates. Everyone knew Rendell was for it and that (GOP candidate Mike) Fisher was against it."

"So there's three pro-gaming candi-

dates who were elected governor and have put forth gaming bills. It's just that two of the three haven't seen their bills passed yet."

Gaming expansion and related issues are also adorning the ballots of several states this month (*see chart, page 16*). Among them: three controversial and heated competing proposals in California—two that could expand Indian casinos and one that would allow slots at card rooms; proposals in Nebraska that would allow for two casinos, and slots in bars; and a proposal for the first commercially-owned (non-Indian) casino in Washington.

Brooke said developments like Pennsylvania's passage of gaming, could place additional pressure on states like Ohio, which is bordered on three sides by gaming states—Pennsylvania, Illinois and West Virginia.

"I think eventually, almost every state in the union will have some form of gambling," Rendell said. "And eventually, that will mean that states will hold their own population bases—unless they are good convention or tourist destinations as well. Then they will get boosts in other ways. Philadelphia could stand to benefit from that, Pittsburgh as well on a smaller level, and Erie, which is just about to build a new convention center near the racetrack there. It will be very vibrant for Erie's coastline in terms of economic development, and the state as a whole." **CJ**

"I think he's [handled the issue of expanded gaming] with great legislative acumen. He campaigned on slots at tracks. He understood that giving people reductions on property tax is what his constituents were looking for, so he tied the new revenue from slot machines to that. He kept focused."

— Jan Jones, vice president of government relations, Harrah's Entertainment