

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION,
LLC

PUBLIC INPUT HEARING

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BEFORE: DAVID M. BARASCH, CHAIRMAN
Richard G. Jewell, Obra S. Kernodle, IV,
Sean Logan, Kathy M. Manderino,
Merritt C. Reitzel, Dante Santoni, Jr.,
Members
Sue Leighton, representing Secretary of
Revenue, C. Daniel Hassell; Fred
Strathmeyer, representing Russell Redding,
Secretary, Department of Agriculture;
Jennifer Langan, representing Joseph M.
Torsella, State Treasurer

HEARING: Wednesday, May 2, 2018
10:00 a.m.

Reporter: Cynthia Piro-Simpson
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1 LOCATION: Pennsylvania Gaming Control Board
2 Strawberry Square Complex
3 2nd Floor
4 Harrisburg, PA 17101

5 WITNESSES: Dan Ihm, John Newman
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A P P E A R A N C E S

OFFICE OF CHIEF COUNSEL

R. DOUGLAS SHERMAN, ESQUIRE

Chief Counsel

STEVE COOK, ESQUIRE

Deputy Chief Counsel

OFFICE OF ENFORCEMENT COUNSEL

CYRUS PITRE, ESQUIRE

Chief Enforcement Counsel

DUSTIN MILLER, ESQUIRE

Senior Enforcement Counsel

BENJAMIN FERRELL, ESQUIRE

Assistant Enforcement Counsel

SARAH KOLESAR, ESQUIRE

Assistant Enforcement Counsel

ASHLEY GABRIELLE, ESQUIRE

Assistant Enforcement Counsel

MICHAEL ROLAND, ESQUIRE

Assistant Enforcement Counsel

TAMARA HAKEN, ESQUIRE

Assistant Enforcement Counsel

PA Gaming Control Board

P.O. Box 69060

Harrisburg, PA 17106-9060

Counsel for the Pennsylvania Gaming Control Board

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A P P E A R A N C E S (cont.)

MICHAEL D. FABIOUS, ESQUIRE
Ballard Spahr, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
Counsel for Mountainview Thoroughbred Racing
Association

ALSO PRESENT:

KEVIN O'TOOLE, Executive Director
SUSAN HENSEL, Director
DANETTE BIXLER-GEORGE

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P R O C E E D I N G S

CHAIRMAN: Good morning, everyone.

I'm David Barasch, Chairman of the Pennsylvania Gaming Control Board. As always, I ask people to put their cell phones on silent, so I ought to do that, too.

Today with - with us today, Fred Strathmeyer, representing Russell Redding, Secretary, Department of Agriculture. Jen Langan, representing Joe Torsella, the State Treasurer. And then our newest addition to the Board Sue Leighton representing Secretary of Revenue Dan Hassell.

Welcome, Sue, and thank you all for coming. A quorum of the Board being present, I'll call the proceedings to order. First order of business is the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE RECITED

CHAIRMAN: Today we have a public hearing pertaining to Mountainview Thoroughbred Racing Association's Petition to Modify the Gaming Floor at the Hollywood Casino at Penn National Race Course.

Everyone's here. I just, again, remind everyone who's going to speak today to make

1 sure they state and spell your name for the court
2 reporter prior to your presentation. And
3 additionally I would direct that all non-attorney
4 witnesses or potential witnesses please stand at
5 this time to be sworn.

6 COURT REPORTER: Raise your right
7 hands, please.

8 ---
9 (WHEREUPON, WITNESSES SWORN EN MASSE)

10 ---
11 CHAIRMAN: Thank you. Petitioners can
12 proceed.

13 ATTORNEY FABIUS: Good morning,
14 Chairman, Commissioners, ex-officio members. Thank
15 you for having us.

16 My name is Michael Fabius from the law
17 firm Ballard Spahr, representing Penn National Race
18 Course, as we seek your approval of a gaming floor
19 modification by removing 315 slot machines. With me
20 today are to my left, Dan Ihm, Vice President and
21 General Manager.

22 To - to his right is John Newman, Vice
23 President in Casino Operations. And to John's right
24 is Alex Hvizda, Compliance Manager at Penn National
25 Race Course.

1 Broadly speaking we're here today
2 because the demand for the slot machines on the
3 gaming floor at Penn National does not reach the
4 supply of the slot machines at the gaming floor.
5 And we can save some expenses in the maintenance and
6 operation of those slot machines by removing 315
7 machines without a meaningful impact in the - in the
8 performance of slot revenue.

9 Before I turn you over to Dan to give
10 some of the data underlying that conclusion, I just
11 want to thank the staff for reviewing all of the
12 calendar year 2017 slot revenue performance. You
13 have in your papers a report from FIU, the - the
14 findings of which we're in material agreement with.
15 So, with that I will turn it over to Dan.

16 MR. IHM: Good morning, Chairman.
17 Good morning staff. Good morning, Commission. My
18 name is Dan Ihm, I-H-M, Vice President, General
19 Manager of Hollywood Casino at Penn National Race
20 Course. So, we have a very short presentation that
21 we'd like to present this morning. And it's
22 regarding the reduction of our gaming floor of 315
23 slot machines.

24 So, as I go into this, I'm just going
25 to give a brief history, kind of where - where we

1 are. And then we can kind of get into some of the
2 rationale, the reasoning behind the 315 game
3 removal.

4 So, if we go back into 2010, 2010 was
5 our highest gross terminal revenue year. We did a
6 little over \$253 million during that time frame.
7 Over the course from 2010, we've seen that gross
8 terminal revenue decline for many reasons, market
9 saturation, market condition changes.

10 So, in the last - last couple of years
11 we've actually seen more of a stabilization in gross
12 terminal revenue. We've been producing around \$209
13 million in - in revenue. So, what I would like to
14 do is kind of talk a little bit about opening 2008.

15 So, in 2008 we started the operation
16 with a little under 2,500 slot machines. Currently
17 today presently we're at 2,317 machines. And again,
18 part of that reduction has just been based on the
19 fact that our gross terminal revenue has declined
20 since 2010. So, as we get into the slide deck,
21 we'll be talking a little bit about the removal of
22 the 315 games. But I want to just make a note now
23 and I'm sure we'll say it many times today.

24 That we believe that the 315 game
25 removal will not have a negative impact on our gross

1 terminal revenue. So, with - with that said, I'll
2 turn it over to John.

3 MR. NEWMAN: Good morning, Chairman,
4 Commissioners and Staff. My name is John Newman,
5 N-E-W-M-N-N - I'm the - it's, N-E-W-M-A-N, I'm
6 sorry. Yes, Vice President of Casino Operations at
7 Hollywood Casino Penn National Race Course.

8 I just want to talk briefly about what
9 we do at Hollywood Casino, in terms of how we
10 operate our business in terms of investments and
11 also our marketing initiatives for - for Hollywood
12 Casino. When you look at our investment specific to
13 slot capital, since 2009 we've invested \$34 million
14 in slot capital alone.

15 \$30,000,000 of that, which was
16 approximately 1,300 new slot cabinets, were
17 purchased during that period of time, as well as an
18 additional \$4 million or about 1,500 slot
19 performance conversions were completed during that
20 period of time as well. So, we do regularly invest
21 quite a bit of money in - in capital and
22 refurbishing of our slot product.

23 That includes \$1.2 million in budgeted
24 capital for 2018, which we're right now in the
25 process of completing as well.

1 And along with the new cabinets and
2 conversions, we also continue to look at upgrading
3 our furniture and - and fixtures within the slot
4 area. So, that's part of our investment as well on
5 the gaming floor.

6 From the promotional perspective, we
7 stay very busy. Annually we spend about \$3 million
8 in our budget to promote the property as well as the
9 slot product, including drawings, giveaways. We do
10 run tournaments, we host VIP parties, all part of
11 our goal to promote the product and property and to
12 bring our guests into the property. We also hold
13 slot premiers.

14 A slot premiere is nothing more
15 than -. Well, it's a - it's what we call an
16 unveiling of the slot machines. So, we - when we
17 install new slot machines on the floor, what we do
18 is we invite our guests in, a select group of
19 guests, that come in and we'll ask them to be the
20 first to - to - to play the slot machines.

21 So, we'll have those areas roped off.
22 We'll invite guests in and it's a great opportunity
23 for guests to interact amongst themselves and also
24 get the opportunity to play a brand new machine on
25 the gaming floor.

1 One of the - we've had three of those
2 so far this year. One of them we're proud to say we
3 introduced the new Incredible Technology slot
4 machine, which is brand new to the Pennsylvania
5 market. We were the first to market at Hollywood
6 Casino this year with that product.

7 And all these unveilings went very
8 well for us and are great opportunities for us to
9 promote that product. Along with that, we also do a
10 little segment, what we call Hot Slots with Jeff.

11 Jeff is - Jeff Burns is our Slot
12 Operations Manager. And he does a neat little
13 video, where he'll do informative videos or we will
14 team with marketing and we'll put links to those
15 videos onto social media. And it really gives our
16 guests an opportunity to take a look at what's going
17 on, on the gaming floor, in terms of new product and
18 maybe some instructional videos as well. And there
19 is a link I think. Michael, maybe we can just -

20 ATTORNEY FABIUS: We have one - one
21 short video here.

22 MR. NEWMAN: - play that.

23 ATTORNEY FABIUS: We'll - we'll give
24 you a flavor of -.

25

1 (WHEREUPON, VIDEO WAS PLAYED.)

2

3 MR. NEWMAN: So I hope you can see
4 through this - this little demonstration of - of
5 what we've done in terms of our capital investment.
6 And also the promotions and marketing efforts that
7 we - we try very hard on a regular basis to make
8 sure our floor is fresh. And that our guests are
9 aware of a product that we - that we offer for them.
10 Thank you.

11 MR. IHM: So, -. This is Dan Ihm
12 again, I-H-M. So, what I want to talk a little bit
13 about now is the oversupply and the underutilization
14 in terms of our occupancy for our current game floor
15 selection.

16 So, on the slide, you'll see on the
17 left, that represents 2017. This is our top five
18 highest average hourly coin-in. So, this is - this
19 is - these all happen to be on Friday. This is by
20 hour. So, we're looking at just a seven o'clock
21 time frame or an eight o'clock time frame.

22 So, you can see on our highest coin-in
23 days, which are a little over a million dollars on
24 all those days, the highest occupancy on our gaming
25 floor or utilization was a little over 72 percent.

1 So, what really that says is around three out of
2 every ten slot machines on the gaming floor were not
3 being utilized, or approximately 700 games, during
4 that peak period. And again, these are the five
5 highest peak coin-in hours that we've had throughout
6 the entire year of 2017.

7 On the right, which is really more of
8 an average, gives you an idea of - the first - the
9 first graph is weekday, which is a Wednesday, which
10 is our highest weekday. Occupancy, we run around a
11 little over 15-percent occupancy on average on
12 Wednesdays.

13 Yes?

14 CHAIRMAN: Define occupancy, please.

15 MR. IHM: It's people playing
16 machines, people sitting at the games, so whether
17 it's rated or unrated.

18 CHAIRMAN: Thank you.

19 MR. IHM: On week - weekends, which is
20 a Saturday, our highest occupancy average is a
21 little over 30 percent. And then if you look at
22 more broad-based, annually, for 2017 our entire
23 floor for the year, we average a little - a little
24 over 18-percent utilization or occupancy during that
25 time frame.

1 So, if we want to go into the next
2 slide, talk a little bit about the - the request for
3 the reduction of the 315 games. These 315 games are
4 the oldest, least performing and least desired of
5 machines on our floor.

6 So, to give you a little bit of stats,
7 those 315 games on average, they're about
8 seven-and-a-half years old. They - on average,
9 their occupancy is about 6.25 percent and their
10 performance is around \$600 coin-in. That's per day.
11 Win per unit on those games are around \$70. Win per
12 unit per game, which is well below the house average
13 that we have on our floor, which is around -
14 approximately around \$250.

15 So, they are - they are in the bottom
16 quartile of our performance on our entire gaming
17 floor. So, by removing these 315 games, I wanted to
18 point out some of the effects.

19 So, we - first of all, as I indicated
20 earlier in my conversation, we do not believe by
21 removing these games -. Because of all of these
22 characteristics being the age of the game, but more
23 importantly the coin-in per day and also the lack of
24 occupancy, 6.25 percent. They're just - they're
25 just not desired games on the floor, and they're not

1 being utilized.

2 We believe that staffing levels will
3 not be changed by removing these 315 games. We have
4 no changes in surveillance.

5 We are still and will remain the
6 seventh highest slot machine provider in the State
7 of PA for the property. And that will bring us to
8 2002 slot machines after the removal of the 315.

9 And then as - as Michael indicated
10 earlier in the opening remarks, we will see some -
11 some cost savings. We estimate around \$75,000 per
12 year. But again, it's really not - that's not the
13 reason for the removal of the games. The removal of
14 the games is really just to right-size our property.

15 We believe not only will we not see a
16 decrease in any gross terminal revenue from the
17 removal, because they're just not being played, but
18 we also do have other like cabinets and other like
19 themes throughout the property. So, if there was a
20 certain player that liked a specific game and it was
21 being removed, one of these 315, we believe that we
22 have plenty of other product on the gaming floor
23 that are very similar to the games that they were
24 playing. Some exactly the same games they were
25 playing, just in a different location.

1 So, -. So, we don't - we don't feel
2 like we'll be losing any - any revenue. We feel
3 like those players - the minimum number of players
4 that play these games will just find another
5 resource or another game to play on the floor, so we
6 don't see any loss of terminal revenue.

7 So, John - so, -. So, what John's
8 going to - going to do is just show you kind of a -
9 before we open up for questions, kind of show you a
10 brief of what the gaming floor looks like with -
11 with the full 2,317. And also look at what's the
12 gaming floor going to look like afterwards.

13 And again, by the removal - by
14 right-sizing the floor, we also feel like it could
15 provide more comfort level to our guests by opening
16 up some aisles and creating some more space, which
17 in turns might even create more gross terminal
18 revenue by increasing time on device just because
19 it's a more comfortable environment. So, John.

20 MR. NEWMAN: John Newman again,
21 N-E-W-M-A-N. Thank you. I apologize in advance.
22 The - the floor plans here are rather small, but I
23 just wanted to give you, for reference purposes, the
24 next few slides would show you -. The first slide
25 actually would be the current gaming floor as it

1 stands right now.

2 On that current gaming floor you would
3 see some - very small little blocks highlighted in
4 red and also in green or the magenta. Red would be
5 - those locations which we'd be removing from the
6 floor. And then green locations are just smaller
7 reconfigurations within those areas as well. And on
8 the second page actually would show the gaming floor
9 with those locations completely removed.

10 To Dan's point, in a lot of cases
11 these locations are - are in tight areas as they are
12 right now, so by removing those locations we'd be
13 able to free up and have our guests be able to
14 egress through those areas a lot more efficiently
15 than they are now and create a more comfortable
16 environment.

17 Upon approval, should we get approval
18 to do that, we'd expect that this project would take
19 us approximately 120 days to complete. And the
20 reason for that is we wouldn't want to go on the
21 gaming floor and cause a lot of disruption to where
22 it might impact our guest in a negative manner.

23 One thing we've learned over many
24 years is that disruption is not good for business.
25 So, we want to take this project and do it in a very

1 orderly fashion with minimal guest interruption.
2 And for that reason we would believe it would take
3 us approximately up to 120 days to complete that.
4 Thank you.

5 ATTORNEY FABIUS: Thank you, Dan,
6 John. Before we close our presentation and take
7 your questions, I just thought it's helpful to try
8 and encapsulate a sense of scale. And if - you
9 know, Dan spoke this before on slide five.

10 If we look at these five highest peak
11 hours, you know, the occupancy rate, you know,
12 ranges from 68 to 72. If you just take that and on
13 call at 70 percent. Seventy (70) percent of the
14 current slot count, 2,317 with my lawyer math is
15 1,622 slot machines.

16 So, there's about 700, which Dan said
17 extra. We're seeking to remove less than half of
18 that. If you approve the petition and we - we
19 reduce our slot count to 2,002, you take that same
20 number, 1,622 slot machines, 1,622 out of 2,002 is
21 81-percent occupancy.

22 That number tells me two things.
23 First of all, there's too many slot machines on the
24 floor right now. And secondly, there's - there's
25 still room for growth.

1 There's still - we have every
2 intention and every incentive to do - to do what we
3 can to fill that remaining 20 percent and try and
4 take that 81 to 90 on a peak, you know, hour. And
5 we know that, you know, that's important to our
6 business purpose to - to maximize our slot machine
7 revenue.

8 And we also recognize the importance
9 to the Commonwealth, to the Gaming Control Board and
10 to the Racing Commission to maximize slot revenue,
11 particularly the Racing Commission. Because we know
12 the portion of the tax revenue supports the racing
13 industry, supports the racing activities at Penn
14 National.

15 So, that remains a priority to us, but
16 we do feel that there's sufficient capacity, even
17 after the removal, to serve that need and - and
18 maximize the revenue. So, with that we'll take any
19 questions from the Board and from OEC, if they have
20 any.

21 CHAIRMAN: At this point I'll turn to
22 Enforcement Counsel for any presentation or
23 questioning you have.

24 ATTORNEY HAKEN: All right.

25 Good morning, Chairman, members of the

1 Board. Tamara Haken, H-A-K-E-N, with the Office of
2 Enforcement Counsel (OEC). We do have several
3 questions for the Petitioners at this time.

4 What do you -? When do you anticipate
5 full completion of the modification you mentioned,
6 120 days? When, date-wise, would you anticipate
7 that completion occurring?

8 MR. NEWMAN: Depending on when we
9 actually got the - the approval we would expect to
10 start this in mid-May.

11 ATTORNEY HAKEN: Okay.

12 MR. NEWMAN: And it would be 120 days
13 for completion at that - from that time.

14 ATTORNEY HAKEN: Do you anticipate
15 this change affecting minimum staffing schedules at
16 all?

17 MR. NEWMAN: No, we do not.

18 ATTORNEY HAKEN: Okay.

19 Will the modification require any
20 electrical wiring changes, where there are vacated
21 spots?

22 MR. NEWMAN: There will be vacated
23 spots, but we'll have to have our Facilities
24 Department make sure that they cover the receptacle,
25 poles, pull back all the network wiring. And then

1 place carpeting - well, patches of carpeting. In a
2 lot of cases those - the carpet's already under the
3 base. Obviously, it's just a matter of folding the
4 carpet back over and we'd be good to go there. Yes.

5 ATTORNEY HAKEN: Okay.

6 Are any progressive slot machines on
7 the list to be terminated?

8 MR. NEWMAN: There are a few. I don't
9 know exactly how many there are, though.

10 ATTORNEY HAKEN: And I want to confirm
11 that you are aware that you must submit all the
12 necessary information and documentation to the
13 Bureau of Casino Compliance in regards to
14 transferring progressive liability?

15 MR. NEWMAN: Absolutely, yes.

16 ATTORNEY HAKEN: I want to confirm on
17 the record that the slot reduction is not requested
18 to make room for any additional table games at
19 Hollywood Casino?

20 MR. IHM: That's correct.

21 ATTORNEY HAKEN: And also, nor is it
22 to lessen the burden in Mountainview's overall slot
23 complement in order to accommodate its Category 4
24 facilities in the future?

25 MR. IHM: That's correct.

1 ATTORNEY HAKEN: OEC has no further
2 questions at this time.

3 And the OEC does not have a formal
4 presentation. However, it should be noted that we
5 filed an Answer to the present amended and restated
6 Petition to Modify Gaming Floor and the Answer
7 included a Financial Investigations Unit Summary
8 Report attached as an exhibit, which outlines and
9 provides an analysis of the financial implications
10 of the request of slot machine reduction.

11 Our assessment of this matter
12 indicates that there are no substantial issues, and
13 the slot machines being removed are among the
14 poorest performing slots on the Hollywood Casino
15 floor. As a result, Petitioner's request in this
16 instance is reasonable and within the appropriate
17 confines of the Act.

18 Should the present modification to the
19 gaming floor be approved by the Board, OEC requests
20 that the Board make any such approval subject to the
21 conditions set forth in OEC's Answer, in order that
22 we may continue to monitor the change as it moves
23 forward to ensure full compliance with the Act and
24 all applicable regulations.

25 Subject to those conditions set forth

1 in the pleadings, OEC has no objection to the
2 amended and restated petition of Mountainview
3 Thoroughbred Racing Association to modify their
4 gaming floor in the manner described.

5 CHAIRMAN: Thank you.

6 ATTORNEY HAKEN: We'll be happy to
7 take any questions.

8 CHAIRMAN: Do you have any response at
9 this point, anything that the Counsel -

10 ATTORNEY FABIUS: No, -

11 CHAIRMAN: - said?

12 ATTORNEY FABIUS: - no response to
13 anything that OEC said.

14 CHAIRMAN: I'm going to open this up
15 to questions, but I have just some myself.

16 Two clarifying questions, which may
17 clear up some of the underbrush. You make the point
18 that you're removing the oldest games and release
19 well-performing games. I would expect nothing else,
20 but since in some - in a way that's bit of a red
21 herring.

22 The question I've got is, have you
23 considered replacing these poor-performing games
24 with better-performing games? Why is the assumption
25 to getting these poor-performing games off the floor

1 because their seven years old and all the rest of it
2 helps, as opposed to replacing those games with the
3 latest and greatest games?

4 MR. IHM: Well, I'll - I'll touch on a
5 little bit and let my colleagues respond more. But
6 I - I think the answer is simply, it's just an
7 oversupply issue. We don't have the demand for
8 those games.

9 So, as John indicated, we are doing
10 what you proposed. We spent - last year we spent
11 \$1.3 million, this year another \$1.3 million on
12 bringing in new cabinets and new game themes.

13 So, we are replacing games, as you
14 indicated throughout the year. But again, this is
15 just a -. This is just a lack of demand, lack of -.

16 CHAIRMAN: Well, quite honestly, I
17 asked the question, I knew the answer. But I would
18 think if anybody happened to be watching this,
19 they'd be going, well, if they're - what other games
20 would you pull off, your high-performing games?
21 Obviously, you're going to take the least-performing
22 games off. And I just want you to make a clear
23 statement here -

24 ATTORNEY FABIOUS: Yes.

25 CHAIRMAN: - that what's really going

1 on here is you have plenty of updating of your
2 games. These are the ones that, you know, they're
3 first - it's like triage. It's the first ones to
4 go.

5 Right?

6 ATTORNEY FABIUS: Yep. Absolutely.

7 CHAIRMAN: And the other thing is, in
8 terms of locations of where games are being pulled
9 from this - this Board is very aware of the
10 occasional controversy about smoking and nonsmoking
11 areas of the floor.

12 Would somebody speak to how that's
13 going to be handled here?

14 MR. IHM: Yeah. So - so, with the -
15 with the movement of the games, there will be no
16 changes as to the footprint, in terms of square
17 footage that we allow for gaming for smoking versus
18 nonsmoking. So, currently and then after the
19 removal will stay the same in terms of square
20 footage.

21 So, right now we have - 45 percent of
22 our floor in terms of square footage is smoking.
23 The other 55 percent is nonsmoking on a
24 square-footage basis.

25 So, if - if - if we were going into

1 the actual counts of games, number of games in each
2 of those areas, I can give you a current and I can
3 give you where we'll end up.

4 CHAIRMAN: That'd be very helpful.
5 Thank you.

6 MR. IHM: So currently now we have
7 1,217 games in smoking, which is about 52.52
8 percent. The other 1,100 or 47.48 percent is a
9 nonsmoking. These are the physical machines.

10 CHAIRMAN: Uh-huh (yes).

11 MR. IHM: When we make the transition,
12 if approved for the 315 removal, -.

13 MR. LOGAN: I'm sorry. Can you give
14 me the last number again?

15 MR. IHM: Yes. The last number is
16 1,100 nonsmoking or 47.48 percent.

17 MR. LOGAN: Thanks.

18 MR. IHM: The - after the removal -
19 proposed removal, we will be at 1,156 games that are
20 smoking, or 57.74 percent, and 846 nonsmoking, or
21 42.26 percent.

22 So, based on - based on that, you'll
23 see that the majority of the games being removed are
24 coming in off the nonsmoking area of the facility.
25 And it's just - it is - it is what it is. It's just

1 those are unfortunately the lowest-performing games
2 on our - on our floor reside in those areas.

3 CHAIRMAN: I just want to ask a
4 question of Counsel.

5 ATTORNEY FABIUS: Yes.

6 CHAIRMAN: Obviously, when I need
7 legal advice, I'll ask my own counsel, but -

8 ATTORNEY FABIUS: I'm always
9 available.

10 CHAIRMAN: - in your interpretation of
11 the statute, it's square footage that matters, not
12 the number of games?

13 ATTORNEY FABIUS: That's correct.
14 That's my read of it.

15 CHAIRMAN: Okay.

16 Questions from the Board or ex-officio
17 members?

18 MR. JEWELL: I have a question. You
19 talked about - sir, about market saturation. That's
20 not a self-defining point. I'm interested in you
21 elaborating more on market saturation.

22 Because interestingly enough on your
23 bids, you have shored up, if I understand things
24 strategically, kind of a defensive posture, which
25 has saturated and may reduce, I think, maybe some of

1 the folks that come into Hollywood are going to stop
2 a little sooner at one of the minis.

3 So, I'm trying to balance everything,
4 but let's talk about market saturation over time,
5 how you define it and how you think it is played
6 out. I - I see diminishing numbers, but I want to
7 get behind that a little bit.

8 MR. IHM: Yeah. I - I think - I think
9 what - what we've seen over the course of since 2010
10 we've seen gross terminal revenues steadily decline.
11 I think we're at a point now, just based on the
12 change in the - changes in the marketplace, in terms
13 of new competition, the economy, different -
14 different variables.

15 I think in the last several years
16 we've seen that stabilize, where we've seen that -
17 that - that revenue at about \$209 million. And I
18 would say that this year we probably anticipate that
19 being around the same. So, I think we've seen
20 things stable off.

21 You're absolutely correct. There's
22 going to be another shift next year, possibly, when
23 the Category 4s start to emerge and start to come
24 up.

25 And again, we'll have to - we'll have

1 to - to - to come, you know, deal with that when -
2 when that happens. And I think part of Penn's
3 strategy is a defensive move was to help our current
4 business here at - in Grantville, so we don't lose
5 as much business and try to be as stable as we can.
6 And obviously, as markets change, we have to be more
7 aware of the marketplace and the conditions and be
8 more aggressive and look for other opportunities to
9 drive more revenue and visitation into our property.

10 MR. JEWELL: You've made a heck of an
11 investment both in bid and what's going to be
12 required to fulfill the object of the successful
13 bid. And I'd be interested to see what your ORI is
14 going to be for the entire enterprise, let's say,
15 within the two - and plus the Hollywood one. It's a
16 lot of money you are investing to do that to shore
17 it up.

18 MR. IHM: Yeah. We're - we're - Penn
19 is definitely committed to - to - to the State and
20 PA, so - and that's part of the commitment. And
21 obviously we want to - we're interested in seeing
22 how it all falls - falls out as well.

23 MR. JEWELL: Table games comes in, of
24 course, in 2010, so that - that adds to your arsenal
25 of things to offer to your guests. What effect has

1 that had on the slots? That's had an effect, I'm
2 sure, on the slots.

3 MR. IHM: Yeah, it has. It has had a
4 little effect. It's also, I think, helped. It's
5 also helped the slot market. You know, what we're
6 seeing now in terms of trends, if anything, we're
7 seeing, you know, part of the decline in - in
8 revenue. It's not necessarily coming from the table
9 games, so we're seeing the table game business as
10 pretty steady and very strong. We're seeing some
11 reductions on the slot side.

12 MR. JEWELL: Okay.

13 Thank you very much.

14 CHAIRMAN: Kathy.

15 MS. MANDERINO: Yes. Thank you. Just
16 a little bit of follow-up on both the Chairman and
17 Mr. Jewell's questions.

18 So, when OEC asked about whether or
19 not this reduction was making room for table games
20 or - or Cat 4 and your answer was no -. The reason
21 behind that question is because our statutory
22 guidance tells us that that is something that we
23 need to consider when you ask for a reduction of
24 machines that takes you below what you had on the
25 floor in 2010 when table games first came in.

1 And you're asked today, is taking you
2 below what you had on the floor in 2010. So I'm
3 looking at your history, where you showed us the
4 gross terminal revenue and slot machine count, and
5 seeing kind of that peak of slot machines right at
6 or before the introduction of table games and a
7 falloff between 2010 and 2014, before it - it
8 stabilized.

9 Is it fair for me to assume that at
10 least the - the larger drop-off from 2010 to 2014
11 was kind of a readjustment of players who now had
12 another option and preferred to play tables versus
13 slots? Can you - can I draw a conclusion like that
14 or is that not a proper conclusion?

15 MR. NEWMAN: To some extent, I would -
16 I would agree with that. I would also say, prior to
17 the live table games, we offered electronic table
18 games. We had 55 seats out there. So, these are
19 classified as slot machines, but they play like an
20 electronic table game.

21 Right?

22 So, upon opening of the live tables,
23 we did see business move from those electronic table
24 games to the live games, in which case, reduced our
25 revenue effectively just in that area alone. Which

1 was - I don't have the numbers, but they were - was
2 pretty substantial for that period of time.

3 MS. MANDERINO: And then from 2014 to
4 the current, in terms of the change-out of machines
5 that you've been making - I mean, I toured a few of
6 the casinos since I've become a Commissioner. I
7 noticed that there's a lot of new innovative things.

8 I've noticed that there are - it seems
9 a lot of machines that now act as electronic tables
10 for - or - or it's an electronic version of a table
11 game. I assume those are collecting revenue for the
12 Commonwealth at the slot machine rate, not at the
13 table game rate.

14 Is that a fair - correct conclusion?

15 MR. NEWMAN: There's a few different
16 classifications of those type of - of - of units.
17 There's a dealer-assisted table game, where a dealer
18 is required to be dealing that game. That's taxed
19 at the effective live table game tax rate.

20 There's also what they call a fully
21 automated table game rate, which is kind of a hybrid
22 between a slot machine and a - a live table game.
23 Where I believe that's a 48 percent tax rate, which
24 it plays like a live table game, but there's no
25 dealer involved.

1 And then there are others that are
2 strictly still classified as slot machines. I know
3 on our floor we've got a bank of ten. We call them
4 - they're Mega Star Roulette. They're Roulette
5 machines. They've been there since the beginning,
6 since we've opened.

7 They're still being taxed as a slot
8 machine and the reason for that is because they
9 don't meet the requirements from a software and
10 hardware perspective to be classified as either a
11 fully automated table game or a live table game, if
12 that makes any sense.

13 I believe on that particular unit we
14 would have to have a -. For Roulette we would have
15 to have a dealer who's going to be live, a live
16 table game. Or in the event that it was a fully
17 automated table game, tax rate at 48 percent, we
18 would have to have a - a - a mechanical wheel at
19 least automated on its own.

20 But it didn't require a dealer, if
21 that makes sense. We have just an electronic
22 display that's running that - that - that unit.

23 It's an - it's an electronic random
24 number generator and it's classified as a slot
25 machine. So, in that case there they are still slot

1 machines. We're paying 55 percent, whatever that
2 tax rate is, on slots, yes.

3 MS. MANDERINO: The ones that are not
4 classified as slot machines, are they located in
5 your smoking, your nonsmoking or both sections?

6 MR. IHM: We have -.

7 MR. MANDERINO: The ones that are that
8 - that hybrid or that are mechanical to a certain
9 extent, but have that dealer in the pit, but 55
10 people could be playing on machines. And if I'm
11 understanding your - your response, there's - that's
12 considered a table game and the - the tax revenues
13 at a table game.

14 So, where are those located?

15 MR. NEWMAN: The - the - there are 14
16 terminals that are located, if you look on that map,
17 when you walk in the main -. If you look - we can
18 go back to that map, if you'd like.

19 And if you look at either one of them
20 - if you look at the lower portion, that would be
21 the main entrance to the casino, like the valet
22 entrance. And as you walk in, you'll see two - two
23 gaming pits there.

24 If you walk between those pits, you'll
25 see on that back wall there about right in the

1 middle of the casino we have 14 terminals set up.
2 And within these terminals we have two double
3 podiums.

4 There's a dealer that deal two games
5 on each of those podiums. They are live - they are
6 dealer-assisted table games. They are -.

7 CHAIRMAN: Is that what appears to be
8 black?

9 MR. NEWMAN: Yeah, those - yes, they
10 are black. You're right.

11 CHAIRMAN: Thank you.

12 MR. NEWMAN: Yes. Those units are
13 dealer-assisted. So, they are taxed at the table
14 games tax rate. Smoking is available on those as
15 table games.

16 MS. MANDERINO: Is nonsmoking
17 available to those is my question?

18 MR. NEWMAN: We - we - not on those
19 particular games. Although we can with - with the
20 permission of the Gaming Board, at any time, deem a
21 smoking to be nonsmoking, if it was to our benefit
22 for the guests.

23 MS. MANDERINO: And at what point -
24 since your read of the statute is that it's the
25 square footage that matters, in terms of the

1 allocation of smoking versus nonsmoking, and
2 compliance with the statute, at what point does - in
3 your view does - does the -?

4 How do I want to articulate this?
5 We're now at - at a 15-percent differential between
6 active - with your proposed new changes.

7 You're at a 15-percent differential
8 between 57 and 42 percent availability nonsmoking
9 versus smoking. At what point does the argument
10 come that you're kind of just emptying out your -
11 your - your availability for nonsmoking gaming and -
12 and kind of going around the intent of the - of the
13 legislation? Maybe that's the way to say it.

14 ATTORNEY FABIOUS: I - I think I -
15 ma'am, I -. I understand the question and the point
16 that you're driving. And it's - it's a fair
17 question. I - I don't know that we have a bright
18 line test for you.

19 MS. MANDERINO: I don't know that we
20 do either, but your - your testimony raises that
21 question about whether we need one.

22 ATTORNEY FABIOUS: We're - we're
23 looking at -. When we - when we identify the slot
24 machines, the - the market data and where is the
25 demand and where is the lack of demand? And - and

1 that's what's dictating the machines that we've
2 identified. The data clearly reflects that there's
3 lower demand on the nonsmoking side. And so that's
4 driving our business decision.

5 MS. MANDERINO: And - and I could
6 appreciate that, to a certain extent. It does
7 circle me back to the Chairman's original question,
8 which is, as a - as a regulator, trying to evaluate
9 this - and clearly you know your market better than
10 I - any of us do, but it still does raise the
11 question of -. Well, if - if in your testimony
12 you're telling us that the games that you're taking
13 out are the oldest and tiredest games, then - and
14 you're taking them out of the - the nonsmoking
15 section, part of me wonders if the nonsmoking
16 section has the newest and most exciting games.

17 And if - if folks would both want to
18 play there. And that we wouldn't be making as much
19 of a risk of losing - excuse me, what is important
20 to the Commonwealth, too, the - the - the revenue to
21 the Commonwealth if we were putting the newest and
22 brightest and fanciest and the stuff that people
23 really like in - in - in those sections?

24 MR. IHM: Well, - I was just going to
25 say, well, I - I can assure you that that's not the

1 case. We have some of our highest-win-per-unit
2 games, some of our newest games. And I know John
3 can probably - could probably tell you what those
4 games are and what the win per unit on those games
5 are. But some of those games are three, four times
6 house average win per unit.

7 And those are located in the
8 nonsmoking sections. I would also tell you that we
9 have games -. And I think I mentioned it earlier.
10 We have similar themes and cabinets that are - that
11 are - that we're removing from the nonsmoking area
12 of the 315 that reside in the smoking area.

13 So, they still are games that are
14 seven, eight years old, but they're performing at a
15 rate that they did not fall into that lower 315
16 quadrant, because they're just performing better
17 games.

18 So, this exercise, I can tell you,
19 it's -. I mean, we have the statistics as it
20 relates to smoking versus nonsmoking, but that was
21 not a -. That was not a factor into this. It was
22 merely looking at we have an oversupply of games.
23 We want to right-size our facility and where are our
24 lowest-performing slot machines at? And those are
25 the games that we identified.

1 MR. LOGAN: You said it wasn't a
2 factor, but of the 315 slots that are being removed,
3 254 of them, if my numbers are right, are coming
4 from the nonsmoking section and only 61 from the
5 smoking section. So, it's, what, 80/20?

6 MR. IHM: Yes.

7 MR. LOGAN: And you're saying it
8 wasn't a factor?

9 MR. IHM: In the decision process, no.
10 We - we weren't - we weren't factoring in -.

11 MR. LOGAN: Wouldn't it be more
12 equitable at all in the -?

13 MR. IHM: It was merely - it's
14 just -. I guess you could say it so happens that
15 the lowest-performing machines reside in the
16 nonsmoking area. I don't know if that's -.

17 MR. LOGAN: Okay.

18 MR. NEWMAN: If I could add one thing
19 when we talk about smoking and nonsmoking. I think
20 it's very important to also realize that, you know,
21 we're - we're all keenly aware of the impact of
22 smoke, of course.

23 We've - we've maintained a maximum of
24 45 percent of the floor as smoking, when we could
25 have been at 50 percent. So, literally we have

1 close to a 100,000 square foot casino.

2 We could, if we wanted to, have
3 maximized our floor by going to that extra \$5,000 in
4 smoking area, which we haven't done. So, the square
5 footage, I believe in a lot of cases, is just as
6 important, if not more important. Because when
7 guests that are nonsmokers want to come onto the
8 property they're looking for areas that are
9 nonsmoking areas.

10 Right?

11 So they want to come to and see the
12 biggest areas that they can find that are - that are
13 nonsmoking, which we constantly look to preserve and
14 grow. And we don't really get as hung up as much on
15 the individual machines, per se, as we do those
16 areas.

17 So, we've been working, you know,
18 diligently over the years in trying to, you know,
19 satisfy the needs of the nonsmokers, obviously.

20 And - and so that's something I think
21 should be taken into consideration when we're
22 talking about that square footage, the size of those
23 areas on the floor.

24 CHAIRMAN: Commissioner Logan, did you
25 have other questions?

1 MR. LOGAN: No, that's it. Thanks.

2 CHAIRMAN: I think - no questions
3 here. I think ex-officios?

4 MR. STRATHMEYER: I think this is on.
5 Thank you, Chairman Barasch.

6 This is a statement made on behalf of
7 Secretary Redding. We all recognize symbiotic
8 relationship between agriculture, the promotion of
9 horse race - horse breeding programs, open spaces,
10 the horse racing industry gaming. We only have to
11 look at the primary objectives of the 2004 racehorse
12 development and Gaming Act.

13 As the slot machine sector of the
14 gaming industry in Pennsylvania matures, Secretary
15 Redding who is also the Chairman of the State Horse
16 Racing Commission, would like to express his concern
17 regarding the potential impact the ongoing reduction
18 of slot machines may ultimately have on gross
19 terminal revenue and the Pennsylvania Horse Race
20 Development Fund.

21 Secretary Redding would hope that
22 casinos who operate slot machines make every effort
23 to rejuvenate, replace, relocate and remarket slot
24 machines.

25 The default position must not always

1 be removal of slot machines from the casino floor
2 when there are other potential alternatives. As
3 Pennsylvania moves forward with every expanding
4 gaming opportunities, the Secretary would like to
5 remind everyone of the positive impact that gaming
6 has had on live horse racing, entertainment,
7 economic development and the employment in the
8 Commonwealth. Thank you, Chairman Barasch.

9 CHAIRMAN: Thank you. Jen, did you
10 have a question? Jen?

11 MS. LANGAN: No.

12 CHAIRMAN: I want to thank you for
13 your appearance today. And we're going to take up a
14 vote on this matter later this morning in the Office
15 of Chief Counsel's (OCC) section of the agenda.

16 ATTORNEY FABIUS: May I, as a
17 housekeeping measure, just move the PowerPoint into
18 the evidence?

19 CHAIRMAN: Fine. It's so moved.

20

21 (Whereupon Hollywood Casino Exhibit 1,
22 PowerPoint, was marked for identification.)

23

24 MS. LANGAN: Also just for
25 clarification on the record, I didn't see an Answer

1 by OEC to their motion to protect confidential
2 information. Is there any objection to that?

3 ATTORNEY HAKEN: No, there was an
4 Answer that was also confidential submitted -

5 MS. LANGAN: Okay.

6 ATTORNEY HAKEN: - as well.

7 CHAIRMAN: I just realized I did have
8 one - not so much a question as - as a kind of
9 follow-up statement. I - I was listening to
10 Commissioner Manderino's follow-ups on my questions.

11 And I kind of feel like Justice
12 Black or something of the Supreme Court. I'll know
13 it when I see it, but 4257 is one number, but, you
14 know, we end up in -. I don't know where that red
15 line is either, but I guarantee you, there is a line
16 there where we're passing by legislative intent.
17 And this is a comment both to you and to the rest of
18 the casino industry.

19 Somebody comes in here and basically
20 ends - some day it's going to - somebody's going to
21 come in here and say, I want to have - oh, I'll have
22 50 percent of my floor, but only 20 percent of my
23 slot machines are going to be in the non - in the
24 nonsmoking area.

25 One way or another there's going to be

1 a challenge, whether it's by administrative action
2 of this Board or by some other complainant. And I
3 just - the trend is a troublesome one.

4 Because I think square footage was a
5 shorthand of a way to have a talk about it without
6 unduly restricting casinos in terms of exactly where
7 they placed their machines. And whether it's 41
8 percent, or 35 or 25 or 10, I have no idea. But I -
9 I cannot imagine that the legislature intended to
10 have square footage and have disproportionately
11 balanced, so that people could basically keep all
12 their best games and all their most activities in
13 the - in the smoking part and effectively, in my
14 opinion, potentially end run around the legislative
15 intent.

16 That's more of just a statement. And
17 I think it's something we're going to have to take a
18 closer look at as - as we move forward. But again,
19 I do want - if you have a response, fine, but
20 otherwise, thank you for your appearance today.

21 ATTORNEY FABIOUS: No argument on my
22 point. I - I would just say, thank you for the
23 comments. I mean, the industry pays attention to
24 the comments that are made at each other's petitions
25 and we - we hear these comments and we take them

1 into account. So, we appreciate that you express
2 your views.

3 CHAIRMAN: That's my view.

4 ATTORNEY FABIUS: Absolutely.

5 CHAIRMAN: Whether it's the Board's
6 view is another question, but I - I do see a
7 potential. I wouldn't want to go too far down that
8 road before we end up talking about what was the
9 intent of the General Assembly.

10 And I think, you know, just leave it
11 at that for now, unless anybody else has any other
12 comments. Thank you so much.

13 MR. IHM: Thank you.

14 ATTORNEY FABIUS: Thank you, Chairman.
15 Thank you.

16 MR. NEWMAN: Thank you, Commissioner.

17 * * * * *

18 HEARING CONCLUDED

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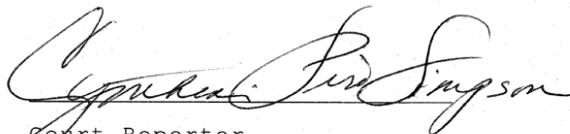
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CERTIFICATE

I hereby certify that the foregoing proceedings, meeting held before Chairman Barasch was reported by me on 05/02/2018 and that I, Cynthia Piro Simpson, read this transcript, and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 25th day of May 2018


Court Reporter
Cynthia Piro Simpson