

February 23, 2016

Governor Tom Wolf
508 Main Capitol Building
Harrisburg, PA 17120

Governor Wolf:

As the national trade association that represents the majority of Pennsylvania casino operators, the American Gaming Association (AGA) has serious concerns with your proposal to tax promotional credits, a crucial marketing tool for casinos that generates millions of dollars in tax revenues for the Commonwealth of Pennsylvania each year.

While we appreciate the difficult budget deficit facing Pennsylvania, taxing promotional credits would likely lead to a decrease in tax revenue from casinos – the exact opposite of the intended result.

How Promotional Credits Generate Tax Revenue

Promotional credit marketing programs in casinos are no different than grocery store coupons, which are widely used to attract more customers to purchase and consume more goods. Direct marketing, which involves sending promotional free play to patrons, is much like a shoe store sending a customer a buy one, get one free coupon. Promotional credits are a critical part of casino marketing because they:

- Incentivize customers to increase their real-money wagering and spur increased visitation;
- Empower casino operators to respond to market conditions, customers' preferences and the broader economic environment; and
- More than triple the return on investment of issuing promotional credits.

Other States Have Refrained from Taxing Promotional Credits

Pennsylvania's neighboring states are among those that have recognized the important role of this casino marketing tool and have refrained from imposing taxes on promotional credits. Further, no state has regressed from a policy of tax-free promotional credits to a subsequent policy of taxing them. These states recognize that with competition among gaming states at an all-time high, casino operators must adapt and implement innovative business practices to effectively attract and engage customers.

Taxing Pennsylvania casinos' promotional credit programs will be an economic deterrent to casinos offering such incentives, and consequently, result in a decrease in patron play and lower tax revenues generated for state and local governments.

Promotional Credit Tax Would Threaten Jobs & Potential Revenue

Increased taxes discourage reinvestment and prevent Pennsylvania casinos from meeting consumer demand, which, as we have seen in other states, leads patrons to seek these the latest gaming products in markets outside of the state. This would hurt Pennsylvania's burgeoning casino industry and jeopardize jobs and millions in tax revenues.

According to a 2015 study conducted by Ekay Economic Consultants that analyzed this issue in Colorado, the \$6.9 million collected in taxes on promotional credits in 2014 resulted in a total statewide impact economic impact of \$11.9 million. Yet had casinos retained the \$6.9 million and spent it to either issue additional credits or to upgrade existing properties, it is estimated that the economic impact would have more than tripled to as much as \$35.2 million.

Progressive Casino Policies Will Benefit Pennsylvania

Pennsylvania's 12 casinos already pay among the highest taxes of any casinos in the country. On slot machines, up to 55 percent goes to state and local governments, while 14 percent of revenue on table games is taxed. By comparison, any other business in the Commonwealth is taxed at a rate of 9.99 percent.

Yet few companies contribute to the Pennsylvania economy as gaming companies do. Each year, casinos in Pennsylvania provide more than \$6 billion in economic impact, support more than 33,000 jobs and generate \$2.4 billion in tax revenue when the significant ripple effect is considered.

However, in order to maintain and build on these contributions, it behooves state legislators and regulators to view gaming companies as partners with the state and to seek progressive gaming policies. The tax treatment of promotional credits is just one of these important policies.

In the months and years ahead, AGA looks forward to working with you, the state legislature, gaming regulators and other stakeholders in Pennsylvania to support the industry's commitment to growing and creating more jobs in communities across the state. Should you wish to discuss this matter with me in greater detail, or if we can be of further help as you deliberate this issue, please do not hesitate to contact me.

Sincerely,

Sara Rayme
Senior Vice President of Public Affairs
American Gaming Association

CC: State Representative John Payne
State Representative Nick Kotik
State Senator Bob Mensch
State Senator James Brewster