

PENNSYLVANIA GAMING CONTROL BOARD

CAPITOL COMPLEX
EAST WING
ROOM 8E
HARRISBURG, PENNSYLVANIA

WEDNESDAY, MAY 18, 2005, 3:04 P.M.

BEFORE:

THOMAS DECKER, CHAIRMAN
MARY DiGIACOMO COLINS
WILLIAM P. CONABOY
JEFFREY W. COY
KENNETH T. McCABE
JOSEPH W. MARSHALL, III
SANFORD RIVERS
ROBERT P. CASEY, JR., PA STATE TREASURER

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

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4 Nick Hays 10

5 Michael French 17

6 Sharon Lewis 20

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1 CHAIRMAN DECKER: Good morning, everyone --
2 or good afternoon. Sorry. It seems like tomorrow
3 morning. I'm Tad Decker. I'm Chairman of the
4 Pennsylvania Gaming Control Board.

5 I would like to welcome the Board and all
6 of you to this meeting. A quorum of the Board being
7 present, the meeting is now called to order. I would
8 like to note for the record that all of the
9 Commissioners are here, Mary Colins, Sanford Rivers,
10 Chip Marshall, Bill Conaboy, Jeff Coy, and Ken
11 McCabe. I reversed the order there. Also with us we
12 have Secretaries Dennis Wolff and Greg Fajt and
13 Treasurer Bob Casey. So we have a full complement
14 today.

15 Would you please join me in the Pledge of
16 Allegiance.

17 (Pledge of Allegiance).

18 CHAIRMAN DECKER: Our first order of
19 business, as is the case in all of our meetings, is
20 to formally approve and adopt the minutes of our last
21 meeting.

22 May I have a motion from the Board
23 approving and adopting the minutes of the May 5th
24 meeting?

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COMMISSIONER MARSHALL: So moved.

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1 COMMISSIONER RIVERS: Second.

2 CHAIRMAN DECKER: Any comment? All in
3 favor, please indicate by saying aye.

4 COMMISSIONERS: Aye.

5 CHAIRMAN DECKER: The motion passes. The
6 minutes of the last meeting are available at our
7 website. I also note that this meeting is being
8 recorded, again, as usual by a stenographer.

9 Since our last meeting and it sounds like
10 an old refrain but I guess since it's old business, I
11 can say it this way, we have been working on another
12 set of regulations, taking comments on the ones we've
13 put out and Commissioner Colins will discuss that in
14 detail.

15 We've also been working on how we're going
16 to be doing our background checks. We've been
17 studying that issue very carefully and part of that
18 is, as you know, we asked Pricewaterhouse Coopers to
19 do a survey for us and to determine best practices
20 way back when. I guess it was in December when we
21 asked that, if I'm not mistaken, and they are not
22 here today to report on that subject.

23 We also have been interviewing lots and
24 lots of candidates for the various positions, at

25 least the first two and, frankly, even some of the

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1 other levels, particularly in the licensing
2 department.

3 So we've seen some people who we hope are
4 going to be able TO attract, who will actually be
5 handling the files and reviewing things, so in
6 addition to potential supervisors in those
7 departments.

8 We're hopeful that the decision of the
9 Supreme Court will be in the near term. I also want
10 to comment on that a bit, because people have come up
11 and asked me if I'm being critical, particularly in
12 what I have said before and at some other speeches
13 that I have made, that the Supreme Court is not
14 moving fast enough. It's anything but the truth
15 because the Supreme Court -- we were very
16 appreciative and I think most people in Pennsylvania
17 were appreciative that the Supreme Court took that
18 case and heard argument, expedited argument and heard
19 it in March.

20 This is a complicated case. It takes time.
21 There are six Justices reviewing it and coming up
22 with one opinion. It takes a lot of time. If
23 anybody saw a recent program on the Supreme Court of

24 the United States, which was I believe on CSpan -- I
25 don't know why I was watching CSpan but I was

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1 watching CSpan -- and it was fascinating to listen to
2 them talking about the complexities in dealing with
3 subjects in general, and particularly, in their case,
4 a number of very important cases.

5 I think in this situation, this is an
6 extremely important case for this Commonwealth. I am
7 not criticizing the Court for taking the time to
8 deliberate in an appropriate way.

9 I appreciate -- we all appreciate the fact
10 that they're moving with the proper amount of speed
11 in this case.

12 Okay. With that said, let's move on and
13 talk about regulations. I would like to -- I would
14 like to ask Commissioner Colins to give us an update
15 on a couple of things.

16 One is she has been busy drafting the
17 regulations along with her Committee. The public
18 comment period for our first set of regulations
19 dealing with manufacturers and suppliers ended last
20 Friday.

21 So Mary, would you please discuss with us
22 where we stand in a regulatory process -- in the
23 regulation process, I should say.

24 COMMISSIONER DiGIACOMO COLINS: Thank you
25 very much, Chairman Decker.

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1 The Board and the working group,
2 regulations working group, continue to undertake the
3 drafting of the temporary regulations, which are
4 going to govern licensing now of slot machines, slot
5 machine operators.

6 As we do that, simultaneous with that we're
7 also receiving and reviewing the public comments that
8 have been received on the previous set of
9 regulations, on manufacturer and supplier
10 regulations.

11 The public comment period closed on May
12 13th. We were -- we've received much public comment.
13 There's been a tremendous amount of interest and a
14 tremendous amount of scrutiny of these regulations as
15 evidenced by the number of comments and the detail of
16 the comments.

17 The last day we were bombarded with reams
18 of paper and we are now cataloguing the comments and
19 getting a manageable grip on the content of the
20 comments, so that the Board may through the working
21 group review them and develop answers and responses
22 to relevant and pertinent and valuable comments that

23 we've received.

24 It's been a learning experience for us and
25 it will continue to be. We've gotten good input and

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1 feedback. I anticipate that feedback and input from
2 the public will continue as we go through this
3 lengthy and arduous regulation process.

4 We will attempt to consolidate the comment,
5 respond to it. Hopefully, we're picking, as a date,
6 May 27th as being the earliest possible date. Again,
7 that is not a guaranteed date.

8 It will depend on our ability, quite
9 frankly, to do a due justice to the comments that we
10 have received in our evaluation of them and our
11 ability to respond to them but that will be the
12 earliest possible date. That's our goal. Again, I'm
13 offering no guarantees. It's something we're
14 shooting for.

15 Now, we have completed the regulations that
16 have to -- the temporary regulations that relate to
17 slot machine licenses.

18 These regulations, the draft will be posted
19 on our website today. These regulations address the
20 following subjects: General application and
21 licensing requirements for slot machine operators,
22 specific requirement for Category 1 slot machine

23 licenses, which pertain to the operators compliance
24 with the Horse Racing Commission and the Harness
25 Racing Commission's statutory requisites, the

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1 procedures for obtaining the Category 1 license
2 through alternative licensing standards.

3 This process allows the Board to use an
4 abbreviated licensing process to license an applicant
5 who is licensed in another acceptable gaming
6 jurisdiction, procedures for obtaining a conditional
7 Category 1 license, which would allow the Board to
8 issue conditional slot machine licenses to Category 1
9 licensees for an 18-month period, the bond or letter
10 of credit specifications, which are rendered now into
11 regulation form, the public input and political
12 subdivision comment regulations, which address the
13 statutory requirement for political subdivision
14 comment; and also in addition to that, provide that
15 the Board will establish a protocol for conducting
16 public input hearings.

17 Those will be hearings conducted at
18 different locals around the state to fact find or
19 take input from the public at these hearings.

20 So it's a -- there will be fact finding
21 procedures, also, regulations dealing with compulsive

22 and problem gambling as a means of regulations that
23 require the establishment of plans to deal with
24 compulsive and problem gambling by the licensees.

25 Now, these regulations will address the

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1 standards of review in the application procedure for
2 the different forms of licensure.

3 Today's motion, which the Board will
4 undertake, will be to release these regulations and
5 to open them to public comment. It will be a 30-day
6 public comment period. It's not to be motion
7 construed as the Board's final approval of these
8 regulations but merely to set them out to the public
9 and open it up to comment for this set as well.

10 We will be continuing our ongoing drafting
11 of regulations. The next batch that we will consider
12 will be the Category 2s and the Category 3s. Those
13 are the licenses.

14 Category 2s are the five, freestanding
15 casino licenses. Category 3s are the two licenses to
16 be awarded to existing resorts. We will continue in
17 the exact same process that we have been trying to
18 establish.

19 Now, I'm going to ask our Director of
20 Communications, Nick Hays, to further discuss the
21 public comment process with everyone. Thank you.

22 MR. HAYS: Thank you, Commissioner Colins,
23 Chairman Decker, and the rest of the Board Members
24 for this opportunity to present an update on the
25 first phase of the public comment program and to

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1 introduce the second phase for your consideration.

2 Phase 1, as you know, cover regulations
3 governing manufacturers and suppliers of gaming
4 equipment, as well as regulations governing general
5 administration.

6 Licensing manufacturers and suppliers is,
7 of course, a key part of the overall licensing
8 process because the Board cannot begin to license
9 gaming facilities themselves until at least 90 days
10 after its begun licensing the manufacturers and
11 suppliers of the equipment. Phase 2 will cover the
12 areas that Commissioner Colins discussed just a
13 moment ago.

14 To recap Phase 1, last Friday, May 13th,
15 the Board's public comment period on the draft
16 manufacturer, supplier, and administrative
17 regulations ended.

18 Staff is cataloguing all of the comments
19 received in preparation for your review. The
20 comments show significant interest in the regulations

21 the Board is preparing and came from a wide variety
22 of sources.

23 Just to give you some sense of the volume
24 that we're talking about, this is a set -- a full set
25 of the comments. It is 33 separate submissions. It

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1 totals 379 pages.

2 Some of it is in extremely technical
3 detail. So I think you may have your work cut out
4 for you in the next couple of weeks.

5 Now that the comments have been received,
6 the Board's next step is to review and respond to
7 them. The comments and responses will all be made
8 available to the public via the website or direct
9 purchase through the Board for a price to be
10 determined no sooner than Friday, May the 27th.

11 It could take longer depending on how long
12 it takes you all and the working group to do your
13 review and response.

14 For anybody who has -- who has forgotten
15 since last time, that web address is
16 www.pgcb.state.pa.us.

17 The second phase of the regulations while
18 work is continuing on this first batch, we're ready
19 to propose a second public comment period on the new

20 set of regulations that Commissioner Colins just
21 discussed.

22 When I was with you a month ago, I pointed
23 out that a project of this sort has three phases,
24 three steps really to it.

25 The first is making sure that the people

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1 have access to the draft so that they can comment on
2 it. Second is gathering and organizing the material
3 to present it in a fashion that is most usable to
4 you. The third is making sure that the public has
5 access to the comments and eventually -- to the
6 comments and to the eventual responses.

7 So assuming you move forward and approve
8 the next set of draft regulations to be put out for
9 comment, here is what will happen.

10 First, we will put it on the website
11 immediately. The second, the draft will be published
12 in the Saturday, May 28th, 2005 issue of the
13 Pennsylvania Bulletin.

14 The third, anyone who wants to obtain a
15 printed copy may request it by mailing the PGCB a
16 certified check for \$10 to cover copying, staff time,
17 and mailing charges. We will then send them off a
18 hard copy.

19 The address there is PGCB, Post Office Box

20 69060, Harrisburg, Pennsylvania 17106-9060. They
21 should also put on the envelope, attention
22 regulations. That should make it a little easier to
23 sort through that mail and the checks should be made
24 out to the Commonwealth of Pennsylvania, not to the
25 Gaming Control Board.

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1 Let me also note that all of these
2 instructions are going to get posted on the website
3 and will be in today's press release assuming you,
4 again, agree to go forward.

5 The approval of the posting will mark the
6 beginning of a 30-day public comment period. To be
7 considered, people's submissions must be postmarked
8 no later than Friday, June the 17th, 2005.

9 For consistency, we're, again, going to
10 require that every comment be submitted by US Mail.
11 Let me repeat the address. PGCB Box 69060,
12 Harrisburg, Pennsylvania 17105-9060.

13 There is certain information that must be
14 contained in every submission. For the record, that
15 information is the name of the person submitting the
16 comment and the name of any organization on whose
17 behalf he or she is commenting, the person or
18 organization's mailing address, a telephone number

19 and e-mail address that we can use to verify the
20 source of the information, and the county in which
21 the person or organization is based.

22 Finally, they need to include the section
23 number of the regulations that the comment addresses
24 or if there is no section number, the general topic
25 of the comment.

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1 As was the case with the first set of
2 regulations, except for the mailing addresses, phone
3 numbers, and e-mail addresses, all of this
4 information that is provided with the submissions
5 will be made public when the comments are ultimately
6 released.

7 Once this comment period closes in 30 days,
8 the Board will, again, have to begin to respond. At
9 that point, the staff will publish the comments and
10 the Board's responses once they're ready and, again,
11 provide hard copies to people who would rather get it
12 in its entirety in paper rather than via the website.

13 Finally, before I finish, just let me,
14 again, thank a couple of people who have been
15 instrumental making this process move forward. From
16 the Gaming Control Board offices, April Fegley and
17 Cheryl Posavec have been a tremendous help; and from

18 the Department of Revenue, Tom VanKirk and his staff
19 from the IT staff have been the ones making sure that
20 all of this gets put on the web and that people have
21 been able to download it.

22 We haven't had any complaints about
23 accessibility to the material that was published
24 before, and I hope we can continue that street with
25 their help.

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1 Now, if there's any questions, I will be
2 glad to help out.

3 CHAIRMAN DECKER: Any questions from the
4 Board?

5 Thank you, Mary and Nick, and thank you to
6 the team of individuals. Susan, Michelle, and I keep
7 calling them the volunteers from the legislature,
8 have been extremely helpful in getting this done.

9 There's been healthy debate on a lot of
10 issues and, in fact, even the ability of this
11 collective group to convince me that I was wrong,
12 which is not so easy in my own mind anyway.

13 They have done a great job and we
14 appreciate it. We look forward to having them
15 participate with us and getting these rounds of
16 regulations completed.

17 As Nick has stated, the first round of

18 comments and the Board's responses will be available
19 on our website as soon as the end of the month.

20 Again, I want to emphasize this because I
21 had forgotten this myself. It's got to be US mail.

22 We next need a motion today from the Board
23 concerning this next set of proposed regulations.

24 Can I have a motion to post the draft regulations as
25 proposed on the Board website and accept public

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1 comment, again, via US mail until June 17th, 2005 and
2 that in order to be considered, all mail must be
3 postmarked by that date?

4 COMMISSIONER CONABOY: So moved.

5 COMMISSIONER DiGIACOMO COLINS: Second.

6 CHAIRMAN DECKER: Okay. Are there any
7 questions about any of this today?

8 Hearing none, all those in favor, please
9 indicate by saying aye.

10 COMMISSIONERS: Aye.

11 CHAIRMAN DECKER: Anyone opposed?

12 It passes unanimously.

13 Our final agenda item this afternoon is to
14 hear from representatives of Pricewaterhouse Coopers,
15 which has been serving as a consultant to the Board.

16 We have tasked PwC with examining so-called

17 best practices for how other jurisdictions carry out
18 investigation, enforcement, and surveillance
19 activities and also I would add security issues.

20 Mike French and Sharon Lewis will share
21 with us their results of their work to date. Thank
22 you.

23 MR. FRENCH: Thank you, Chairman Decker,
24 and good afternoon. At the request of the
25 Pennsylvania Gaming Controlling Board --

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1 CHAIRMAN DECKER: Mike, is that on?

2 MR. FRENCH: I think it is now, right?
3 I'll start again. Good afternoon. At the request of
4 the Pennsylvania Gaming Control Board,
5 Pricewaterhouse Coopers identified nine jurisdictions
6 to conduct detailed research -- as I find my glass --
7 on organizational structure, background
8 investigations, security, surveillance enforcement,
9 and internal controls.

10 We brought up this earlier at an earlier
11 meeting when we put together our original
12 questionnaire.

13 In recapping our rationale for selecting
14 these jurisdictions was as follows: New Jersey,
15 Delaware, and West Virginia were primarily chosen due
16 to their proximity to the state of Pennsylvania.

17 Delaware and West Virginia were selected
18 because they have a Central Computer System. Iowa
19 and Missouri were selected at the recommendation of
20 Pennsylvania State Police, Office of Gaming
21 Enforcement.

22 Ontario and Michigan were included because
23 of the experience that PwC has in these two
24 jurisdictions. Mississippi was chosen because its
25 casinos are geographically dispersed, as will be the

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1 casino venues in Pennsylvania.

2 Nevada was selected because it's the
3 largest, most established jurisdiction in North
4 America.

5 As I said, PwC developed a questionnaire,
6 which was shared with the Pennsylvania Gaming Control
7 Board and Pennsylvania State Police.

8 Using that questionnaire, PwC performed
9 literature searches and conducted in-depth interviews
10 with representatives in 9 of the 12 major North
11 American commercial gaming jurisdictions. They were
12 deemed the selected jurisdictions.

13 Given the highly detailed nature of our
14 questions, we typically spoke to department heads
15 with expertise in areas including organizational

16 structure, background investigations, security,
17 surveillance enforcement, and internal controls.

18 Through this process, we interviewed 24
19 individuals from these nine jurisdictions. Some of
20 them were face to face while others were conducted
21 telephonically.

22 During the course of our research, we had
23 to have numerous follow-up calls. We gained new
24 information. We expanded the scope of our work
25 somewhat. We spoke with other individuals in other

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1 departments to get the information and to get it to
2 be complete.

3 We researched thousands of pages of
4 literature on the subject. We compiled hundreds of
5 pages of notes.

6 To preserve the confidentiality at the
7 request of the respondents, we have presented the
8 information on an aggregated basis.

9 I would also add that this is an
10 industry-wide best practices assessment, something
11 that our firm has done, you know, many times before.

12 Of the nine jurisdictions, some may be
13 deemed more comparable or applicable to the gaming
14 environment envisioned in Pennsylvania than others.

15 So with that, Sharon Lewis, my colleague to

16 my right, she led the research effort, led our team.
17 I participated in a number of the jurisdictions with
18 her in face-to-face meetings. Sharon and our group
19 -- she participated in all nine jurisdictions. So
20 I'm going to ask her to walk through the results of
21 our research.

22 MS. LEWIS: Good afternoon. For the
23 record, my name is Sharon Lewis. I'm a gaming
24 consultant with Pricewaterhouse Coopers.

25 Pricewaterhouse Coopers has prepared a

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1 summary of trends that emerged as a result of our
2 analysis, which I would like to present to you today.

3 Specifically, PwC found that eight of the
4 selected jurisdictions have an office at the gaming
5 facilities. We found that these offices are
6 primarily used for enforcement and surveillance.

7 Four of the selected jurisdictions only
8 have one licensing location. Fingerprinting and
9 photography are typically performed at these
10 locations. One of the jurisdictions also has a
11 mobile fingerprinting machine, which they actually
12 take out to the facilities on occasion.

13 In the selected jurisdictions that have
14 Central Computer Systems, the final gaming revenue

15 count is determined by the Central Computer System.

16 In a majority of the selected
17 jurisdictions, a division of the Gaming Commission,
18 typically the BIE, performs the background
19 investigations.

20 In a majority of the selected
21 jurisdictions, the same person is typically not
22 responsible for both investigations and enforcement
23 responsibilities.

24 All of the selected jurisdictions perform
25 different levels of investigation for different

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1 licensed types.

2 I'm going to use some of the terms
3 liberally here; but just for clarification while
4 speaking, for non-supervisory gaming employees, a
5 majority of the selected jurisdictions investigate
6 the applicant's criminal background and do not
7 perform a personal interview.

8 The majority of the selected jurisdictions
9 also perform a financial investigation on applicants
10 seeking an owner, director, officer, general manager,
11 or department head license, as well as casino
12 operators and/or manufacturers and suppliers.

13 We took a look at the estimated turnaround

14 times for background investigations. We found that
15 they varied by state.

16 For non-supervisory gaming employees, they
17 typically take approximately one week to three
18 months. For owners, directors, and officers, general
19 managers, and other department heads, that's
20 approximately three to five months. For casino
21 operators, it's approximately 6 to 12 months.
22 Suppliers and/or manufacturer licenses, also, again,
23 approximately 6 to 12 months.

24 In the select jurisdictions, criminal
25 background investigations typically involve

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1 fingerprinting, intelligence checks, and credit
2 checks. The majority of the selected jurisdictions
3 do not have an intelligence unit for gaming.

4 The majority of the selected jurisdictions
5 do not require drug testing as a part of the
6 background investigations.

7 All information developed through
8 investigations is being shared with the Gaming
9 Regulatory Commissions, with the exception of two
10 jurisdictions where source and non-factual
11 information are not shared. Other than that, all
12 information is shared.

13 When conducting background investigations,
14 the majority of the selected jurisdictions do the
15 following:

16 They work with the Federal Bureau of
17 Investigation. They search national and State Police
18 database, and they utilize Lexus.

19 When conducting international
20 investigations, several of the selected jurisdictions
21 stated that they may hire consultants, foreign
22 investigators and interpreters where appropriate.

23 With respect to license renewals, the
24 majority of the jurisdictions use an abbreviated
25 reinvestigation process.

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1 A majority of the selected jurisdictions
2 allow a conditional license to be issued for the
3 following types of licensees: Owners, directors,
4 officers, general managers, and other department
5 heads, as well as non-supervisory gaming employees.

6 The majority of the selected jurisdictions
7 do not allow a conditional license to be issued for
8 gaming casino operators.

9 All nine of the selected jurisdictions
10 allow applicants to withdraw their license prior to
11 being officially denied. However, three of these
12 jurisdictions require regulatory approval prior to

13 withdrawal.

14 Security in each of the nine jurisdictions
15 surveyed is the responsibility of the casino
16 operators and not the regulatory authority. The
17 respective gaming operators do regulate -- the
18 respective gaming operators do monitor security and
19 audit the security function of the operators in order
20 to ensure compliance with the state's gaming rules
21 and regulations.

22 In eight of the selected jurisdictions, the
23 Commission does not dictate a minimum number of
24 security personnel per facility.

25 When we asked about typical security

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1 incidences, the ones that were cited were purse
2 snatching, disorderly conduct, counterfeit, and coin
3 bucket theft.

4 In a majority of the selected
5 jurisdictions, the State Police are allowed to carry
6 guns on the casino floor. However, security
7 personnel are not.

8 We found that the majority of casinos have
9 holding cells. In a majority of the selected
10 jurisdictions, the Commission requires the casino
11 operator security department to have a separate

12 reporting structure from the casino operator's
13 surveillance department.

14 In fact, one of the jurisdictions even
15 requires security and surveillance to be physically
16 separated by a wall.

17 In a majority of the selected
18 jurisdictions, an on-site Commission only
19 surveillance room is required at each gaming
20 facility. Again, this would be over and above the
21 casino operator's surveillance facilities.

22 The minimum retention period for
23 surveillance tapes ranges from 7 to 30 days in
24 selected jurisdictions. Several of the jurisdictions
25 do require a longer retention period in areas of the

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1 casino, such as the cage, count and drop areas, and
2 if there has been a detention period.

3 However, we found that the majority of the
4 selected jurisdictions require a minimum retention
5 period of 7 days unless there's been an incident.

6 Based upon our interviews, many of the
7 selected jurisdictions are considering replacing
8 videotapes with recording devices, with digital
9 recording devices.

10 In the majority of the selected

11 jurisdictions, the Commission compiles the exclusion
12 list and the exclusion list would include felons,
13 organized crime members, and slot sheets.

14 In the majority of the selected
15 jurisdictions, individuals -- can you strike that?

16 In many of the selected jurisdictions,
17 individuals who have placed themselves on the self
18 exclusion list are charged with trespassing if they
19 are later identified in a gaming facility.

20 While the primary responsibility for casino
21 surveillance rests with the casino operators
22 themselves, several jurisdictions have BIE and
23 compliance personnel conduct additional surveillance
24 and surveillance inspections.

25 A majority of the selected jurisdictions do

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1 not require BIE or State Police staff to be on-site
2 whenever gaming is occurring.

3 State Police require a warrant in the
4 majority of the selected jurisdictions to get full
5 access to the casino facilities.

6 Commissions in a majority of the selected
7 jurisdictions have full access to all areas of the
8 gaming facility and the surveillance tapes without a
9 warrant.

10 For gaming machines with ticket in, ticket

11 out technology, ticket expiration tends to vary quite
12 a bit by jurisdiction.

13 We found that there's a range between ten
14 days and one year. In one jurisdiction, we found
15 that the tickets never expire.

16 Depending upon the jurisdiction, gaming
17 revenues are reported to the Board instantaneously,
18 daily, weekly, or monthly. Only one of the selected
19 jurisdictions requires a Commission presence in the
20 count room.

21 In four of the selected jurisdictions, the
22 audit branch is responsible for reviewing and audit
23 and internal controls.

24 In a majority of the selected
25 jurisdictions, gaming facilities are required to hire

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1 external auditors to ensure non-financial, internal
2 processes are followed.

3 In the majority of the selected
4 jurisdictions, Commissions require the facilities to
5 report internal control exceptions.

6 During our survey, we found that to
7 maximize efficiencies, several of the jurisdictions
8 emphasized that it's important to implement
9 coordinating mechanism and clearly delineate

10 responsibilities between the BIE and the PSP.

11 State Police are responsible for performing
12 criminal gaming enforcement in a majority of the
13 selected jurisdictions, which includes arresting and
14 prosecuting individuals that violate the law at the
15 gaming facilities.

16 To put the analysis by jurisdiction on a
17 comparable basis, PwC calculated the number of gaming
18 positions per officer in the selected jurisdictions
19 which use State Police for gaming enforcement.

20 The average number of gaming positions per
21 State Police officer was 488. The high end of the
22 range was 1,066, while the low end of the range was
23 181.

24 In the selected jurisdictions where the BIE
25 performs gaming enforcement, the average number of

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1 gaming positions per BIE officer was 1,100; with a
2 high end of that range 2,657, and a low end of the
3 range 269.

4 For analytical purposes, aggregating the
5 number of gaming enforcement, State Police officers
6 and BIE officers results in average number of gaming
7 positions per State Police officer and BIE officer of
8 792. The high end of the range was 2,657, while the
9 low end of the range was 158.

10 That concludes my presentation. Thank you
11 very much. If you have questions, you're welcome to
12 ask for them.

13 CHAIRMAN DECKER: Let me start with one and
14 then we'll go right down the list. We're talking
15 about staffing, right at the end there, Sharon?

16 MS. LEWIS: Right.

17 CHAIRMAN DECKER: Does the Central Computer
18 System have any effect upon the levels of staffing
19 when we're looking at these average and medium
20 numbers --

21 MS. LEWIS: We certainly feel --

22 CHAIRMAN DECKER: -- in those states where
23 they have a Central Control System?

24 MS. LEWIS: Correct. Correct. Let's step
25 back for a second just to kind of walk through why it

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1 is that the Central Computer System might have an
2 impact. The bottom line being that, yes, it should
3 help to reduce the staffing.

4 The reason for that being, the Central
5 Computer's role is to really gather data from each of
6 the slot machines and then to aggregate it. That
7 really facilitates the accounting and the internal
8 control process at the regulatory body levels. It

9 makes it a lot easier for the regulators.

10 In the jurisdictions where they had Central
11 Control Systems, by really boosting that audit and
12 internal control function, it helps to reduce the
13 staff level that is required.

14 CHAIRMAN DECKER: Jeff?

15 COMMISSIONER COY: Thank you, Mr. Chairman.

16 In your statistical analysis, you talked
17 about gaming positions per officer. Is that a
18 machine, a gaming position?

19 MS. LEWIS: A gaming position is defined as
20 the following: One slot machine or if it's a table
21 game, there are six seats at each table. So if you
22 have one table game, with six seats and one slot
23 machine, that would be seven gaming positions.

24 CHAIRMAN DECKER: So obviously, table games
25 are far more complex in terms of how people apply

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1 that definition?

2 MS. LEWIS: Correct.

3 CHAIRMAN DECKER: Okay.

4 MR. FRENCH: There's obviously a lot more
5 interaction in a situation where you have table games
6 and you have, you know, players playing with
7 employees involved.

8 COMMISSIONER COY: Okay.

9 CHAIRMAN DECKER: Chip?

10 COMMISSIONER MARSHALL: Thank you,
11 Mr. Chairman.

12 Back on page 8 of your presentation, you
13 make the statement that the majority of the selected
14 jurisdictions do not allow a conditional license to
15 be issued to gaming entities. Can you go into that
16 in a little more detail, please?

17 MS. LEWIS: Sure. Specifically, we did not
18 specifically ask the question as to why jurisdictions
19 do not allow conditional licenses for casino gaming
20 operators where that is, in fact, the case.

21 However, you know, if one were to reason
22 out why it is that that occurs, there's an awful lot
23 of investment that goes into a full scale casino
24 operation.

25 It's also made a lot more difficult to get

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1 funding for that investment if you're on a
2 conditional basis, given that the financier wants to
3 see you have the permanent license before they're
4 most likely going to lend to you.

5 Secondly, there's a lot of jobs that are on
6 the line. Before you actually issue a conditional
7 license, you have to really think about the impact to

8 your economy, as well as to the individuals that are
9 involved and to the people who have invested money.

10 Most likely, you're going to want to have
11 pretty much everything in place before you go ahead
12 and issue a license.

13 COMMISSIONER MARSHALL: But you were
14 looking at all of the mature jurisdictions?

15 MS. LEWIS: That's correct. We were
16 looking at mature jurisdictions.

17 COMMISSIONER MARSHALL: So can you -- I
18 guess reasoning it out, at some point if we're going
19 to start, like Pennsylvania has to jump off.

20 MS. LEWIS: Right. Correct.

21 COMMISSIONER MARSHALL: Do you see anything
22 wrong with us embracing the notion at least in the
23 beginning of conditional licenses?

24 MS. LEWIS: I don't know how comfortable we
25 are necessarily passing judgment.

33

1 MR. FRENCH: It would depend on a lot of
2 factors. One of the principal factors would be the
3 history and the financial suitability of the
4 applicant and whether or not they had a track record,
5 whether or not they certainly had been --

6 CHAIRMAN DECKER: No pun intended.

7 COMMISSIONER MARSHALL: When did PwC become

8 a law firm?

9 MR. FRENCH: Whether or not they had
10 obviously been licensed in other jurisdictions,
11 factors such as that nature.

12 COMMISSIONER MARSHALL: So I understand all
13 of that, but that sort of goes into the means. We
14 need to get this thing up and running at some point
15 so you can either -- I guess you have three sides.
16 You can either start with no regulations. You can
17 wait until everything is completed. Then you got
18 this long ramp up period where nothing happens or
19 presumably, you try to find something in the middle.

20 One of the issues, obviously, that we're
21 wrestling with is when will we start and if so, how
22 will we start.

23 I know at least in my mind, as I kind of go
24 through all of this, the notion of some kind of a
25 conditional licensing with a notion or an intent to

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1 sort of evolve into a permanent position -- it may be
2 that the economic market just says to your point,
3 Sharon, we're not going to bother. We can't finance
4 a conditional license. We're not putting up our own
5 cash.

6 Leaving all of that aside, if we were

7 relatively financially rigorous in terms of the
8 protections, it seems to me or maybe I should say, it
9 would be helpful, Mike and Sharon, if you could take
10 a look at how other places got up and running.

11 CHAIRMAN DECKER: I think Mike was involved
12 in at least one state that I know about. I don't
13 want to put words in your mouth. One of the things
14 that I believe that Sharon and Mike were addressing a
15 few minutes ago is the issue of some people after
16 they had everything up and running with conditions
17 were attached, the operators basically thumbing their
18 nose at the regulatory bodies and saying, we're not
19 going to implement in the timing that we set these
20 issues.

21 I, for one, would look very negatively upon
22 some actions like that. I would have no problem in
23 voting to revoke their license or suspend, even if it
24 involves layoffs and everything else. It wouldn't
25 bother me a bit. I feel sorry for the people that

35

1 got hired. It wouldn't bother me a bit to yank that
2 out from under them.

3 COMMISSIONER MARSHALL: Let me just set the
4 record straight. I'm not suggesting that we sort of
5 get in the game and then kind of catch up later.

6 CHAIRMAN DECKER: I know you're not.

7 COMMISSIONER MARSHALL: I'm talking more
8 the sort of ramping up process where there is some
9 kind, I guess, whatever the cross elastic point is
10 between when we have enough protection and enough
11 information and yet haven't dotted every I and
12 crossed every T.

13 Obviously, I would think that we would be
14 pretty rigorous in terms of our financial
15 expectations.

16 So to the Chairman's point, I think we
17 could set it up so there would be a pretty big hammer
18 in the event somebody decided to -- I don't think any
19 of us want a repeat of Detroit or any of the other
20 places, where there was all of this promise and then
21 everything got up and running and then it kind of
22 stopped.

23 COMMISSIONER DiGIACOMO COLINS: I have one
24 question.

25 CHAIRMAN DECKER: Go ahead, Mary, and then

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1 Mike and Sharon will respond.

2 COMMISSIONER DiGIACOMO COLINS: I'm sorry.
3 I wanted to know when you talk about reviewing the
4 jurisdictions that do not allow conditional license,
5 do you mean that by Statute, conditional licensing is

6 not for -- it's prohibited by their Statute or that
7 it is their regulatory policy?

8 MS. LEWIS: In --

9 COMMISSIONER DIGIACOMO COLINS: I ask this
10 because our Statute specifically provides for
11 conditional licensing. I would have to surmise that
12 the purpose is to help us in this ramp up period to
13 allow the Board to have the ability to conditionally
14 license and have that simultaneously coincide with
15 our ability to regulate, control, and oversee.

16 My question directly is do those
17 jurisdictions have statutes that allowed for
18 conditional licensing?

19 MS. LEWIS: My recollection is that in some
20 of the jurisdictions it was by Statute that they
21 wouldn't. In other jurisdictions it was by a matter
22 of procedure that they would not. It was a mixture.

23 Some of the insight that we did gain from
24 our interview process was that in the event you are
25 going to revoke a license, it's important from the

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1 Board's perspective to make sure that the burden of
2 proof is at the applicant level and not at the Board
3 level.

4 In the event that the burden of proof is
5 shifted to the Board, it can become a very long and

6 drawn out process if you do have to go in and revoke
7 a license.

8 COMMISSIONER DiGIACOMO COLINS: That's a
9 good point.

10 COMMISSIONER MARSHALL: Yeah. I'm sorry.

11 CHAIRMAN DECKER: No, please. Go ahead.

12 COMMISSIONER MARSHALL: I think for
13 purposes of clarification, we would probably need to
14 come up at least among the ten of us with a sort of
15 working definition of a conditional license versus a
16 permanent license with conditions versus some other
17 kind of hybrid.

18 I mean, in my mind, it's just at some point
19 where, I guess, as I said before, a conditional
20 license would be one where you're far enough along
21 the stream that we feel comfortable allowing you or
22 allowing an operator to begin to commence operations
23 with all the attendant financial responsibilities and
24 obligations that go along with that and yet, being
25 able to hold out things.

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1 At this point, I'm just speculating that
2 somebody had a permanent facility that might take two
3 years to construct, I don't know that we want to wait
4 necessarily for them, to wait two years to begin to

5 operate. I say this nothing more than raising the
6 issue. I don't know that I've come up with a --

7 CHAIRMAN DECKER: And your point about
8 financing is extremely important. Mike, do you or
9 Sharon want to say something about this?

10 MS. LEWIS: I would also concur with you in
11 that, you know, conditional probably does need to be
12 defined in terms of what your comfort level is, maybe
13 you don't have everything done but you got the things
14 that you feel critical done to approve someone; and
15 also issuing a conditional license to someone that is
16 already licensed in another jurisdiction is, you
17 know, very different from issuing to someone who is a
18 brand new operator.

19 CHAIRMAN DECKER: That was my next
20 question. It does make a big difference.

21 MR. FRENCH: And I also think that it's in
22 the Statute. I think that it might make some sense.
23 We just were collecting information on best practices
24 here. It might make some sense to look at the
25 protocol that has occurred where there has been a

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1 successful rollover of conditional licenses and see
2 what work steps took place and what have to be met,
3 as well as what options have so-called hammer

4 possibly and summarize that for the Board.

5 CHAIRMAN DECKER: Ken?

6 COMMISSIONER McCABE: I have a few
7 questions. First, we'll go back to the gaming
8 position ratio to BIE, State Police. Did you take
9 into consideration the geographic dispersion of the
10 casinos when you were figuring that out?

11 CHAIRMAN DECKER: To ask it different,
12 would it make it -- a dispersion that we're going to
13 have to make it more difficult for some other
14 jurisdiction where they're more centralized in terms
15 of location?

16 MR. FRENCH: In this sample, we had full
17 service gaming facilities, jurisdictions. We had,
18 you know, jurisdictions that were consolidated. We
19 had jurisdictions that -- one specific jurisdiction
20 where the casino venues were more spread out amongst
21 the state, as will be the case in Pennsylvania.

22 I certainly think that particularly, you
23 know, in the initial phases and we didn't ask this
24 question but I certainly think that the challenges in
25 Pennsylvania will be different, meaning that the

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1 staffing levels will have to be such that it
2 recognizes the fact that, you know, there's a large

3 distance between the various casino venues.

4 COMMISSIONER McCABE: Did you look at or do
5 you have an answer to based on the number of BIE or
6 State Police how many supervisory people per numbers
7 that they had to supervise? Did you look at that at
8 all? How many supervisors --

9 MS. LEWIS: The number of supervisors is
10 built into the number that we gave you with respect
11 to each of the jurisdictions.

12 We did in certain jurisdictions have people
13 tell us how many of those were supervisory versus
14 non-supervisory, but we did not specifically ask that
15 question across all jurisdictions, but it is included
16 in the number.

17 COMMISSIONER McCABE: Did you have a feel
18 for is it one supervisor per every ten; or, again, is
19 there other factors that are played into that?

20 MR. FRENCH: I think it would be hard,
21 Commissioner McCabe, to give you a specific answer on
22 that. We did not bifurcate the levels of the
23 officers that were on the premises, you know, so I
24 don't think we really answered that.

25 COMMISSIONER McCABE: Okay. In the BIE

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1 equivalence that you looked at, do they have limited
2 law enforcement investigating powers? Do all of

3 them?

4 MS. LEWIS: All of them -- not all of them.
5 Some of them will.

6 COMMISSIONER McCABE: Okay. When you say
7 that some of these backgrounds were possibly
8 bifurcated where they use consultants or
9 investigators or interpreters, how is that
10 information all shared? How did that information
11 flow up to the Commission?

12 MS. LEWIS: Basically, we found that
13 information regardless of whether it was an
14 investigation in state or an investigation out of
15 state or investigation out of the country, that that
16 information is shared.

17 The exception we found was that non-factual
18 information, one jurisdiction was specifically noted
19 as not being shared. Certain sources were not shared
20 in another jurisdiction. Other than that, all of
21 that information basically flowed through.

22 COMMISSIONER McCABE: Okay.

23 COMMISSIONER RIVERS: Mr. Chairman?

24 CHAIRMAN DECKER: Please, go ahead.

25 COMMISSIONER RIVERS: In your research as

1 you talk about licensing, did you get into the

2 renewal practice at all?

3 MS. LEWIS: Yes, we did. The specific
4 question that we were trying to get at was when a
5 license is reviewed in a jurisdiction, do you go
6 through a full-blown investigation again or do you
7 have an abbreviation with respect to your process.
8 The majority of jurisdictions, they do an
9 abbreviation.

10 COMMISSIONER RIVERS: Can you talk about
11 the time limits involved? How often do they go
12 through the renewal process?

13 MS. LEWIS: The renewal process varies
14 quite widely by jurisdiction. I don't know that
15 there's any consistency in terms of what we found.
16 It varies anywhere from one year to a couple of
17 years.

18 CHAIRMAN DECKER: When they do it every
19 year, do they do it in great depth?

20 MS. LEWIS: Typically, when they're doing
21 it on that kind of basis, no, they're not doing it in
22 great depth.

23 Even the longer periods are not doing it in
24 great depth. They try to stay on top of it by, you
25 know, making sure that they keep track of what is

1 happening, if someone does get an arrest that they
2 see it.

3 People are also -- it's their
4 responsibility to report it if there has been an
5 incident; and, you know, in certain jurisdictions,
6 people are assigned to every six months do a review
7 but it tends to be abbreviated.

8 COMMISSIONER RIVERS: So they're monitoring
9 the number of incidents that take place to determine
10 the depth of the review?

11 MS. LEWIS: That's correct.

12 COMMISSIONER McCABE: I have another
13 question now about the holding cells and security and
14 then the relationship with the local jurisdictional
15 police.

16 Your report shows that typically there
17 aren't State Police or BIE people 24/7 at these
18 casinos?

19 MS. LEWIS: That's correct.

20 COMMISSIONER McCABE: If something happens
21 there, purse snatching, disorderly conduct, who
22 handles that? Do the security people handle that and
23 do they have the right and the authority then to put
24 these people in a holding cell or do they hold them
25 on-site until the State Police, BIE respond and then

1 they have the authority to put them in the holding
2 cell and wait for the paddy wagon to come? How is
3 that process?

4 MS. LEWIS: The process varies somewhat by
5 jurisdiction. What I would say is that the security
6 in all jurisdictions is handled by the casino
7 operator's security force.

8 It depends upon who spots the incident. It
9 depends on what type of incident it is. If the
10 incident is spotted by someone in the security
11 personnel, in most situations, if a police officer is
12 present, they could report it to the police officer.
13 If a police officer is not present and it's a gaming
14 crime, they could call them in. If it's a non-gaming
15 crime, they could call the local police.

16 COMMISSIONER McCABE: Did you look at what
17 kind of MOUs, memorandums of understanding, that they
18 have, the BIE, the State Police, with the local
19 jurisdictions? Do they have one? Who handles what?

20 MS. LEWIS: I did not -- there were
21 situations that we talked to jurisdictions where they
22 had MOUs; but typically, the MOUs that we were
23 talking about were would it apply to an MOU with the
24 State Police to do criminal gaming enforcement.

25 I don't recall anyone mentioning an MOU

1 with the local police. That's not a question that we
2 specifically asked, but I don't recall that.

3 COMMISSIONER McCABE: Thank you.

4 CHAIRMAN DECKER: Bill?

5 COMMISSIONER CONABOY: Just a quick
6 follow-up to Commissioner McCabe's question. Since
7 Pennsylvania right now is slot machines only and
8 probably most likely may be cashless slot machines
9 and certainly, we don't have table games, will that
10 affect the number of enforcement personnel that you
11 project that we would need?

12 MS. LEWIS: I certainly think that based
13 upon our research, you know, having cashless slot
14 machines should help reduce the number of personnel
15 that you would need.

16 Just to step back for a second, the
17 cashless slot machine basically reduces the amount of
18 cash that is in the system.

19 What happens in most cases is that the
20 consumer goes up to a slot machine. They put their
21 bill in and then instead of having a lot of coins
22 coming out if they win, a ticket comes out.

23 The consumer, themselves, has a lot more
24 control over their cash and so that reduces the
25 number of coin bucket thefts that are possible. It

1 also just reduces the amount of change outs that has
2 to occur at the machine itself. Having less cash in
3 the system helps to then reduce the amount of theft
4 that is potentially possible.

5 CHAIRMAN DECKER: Who finds most of the
6 cheating that goes on if there is cheating?

7 MS. LEWIS: A lot of the cheating can be
8 observed through the surveillance of the casino
9 facilities themselves because, you know, as most of
10 us know being in casinos, they have the eye in the
11 sky where they are there watching the surveillance.

12 CHAIRMAN DECKER: Who is they?

13 MS. LEWIS: Being the casino operator,
14 surveillance team and their cameras.

15 COMMISSIONER COY: Mr. Chairman?

16 CHAIRMAN DECKER: Please, Jeff.

17 COMMISSIONER COY: Let me try a question.
18 I think I may have an idea what your response will be
19 and anticipating that response, the next question
20 would be, can this kind of study be done or has it
21 been done?

22 I think we're all interested in enough
23 security and enough enforcement to assure the public
24 and the participants that they are gaming in a
25 protected environment and a safe environment.

1 Has your study shown or are their studies
2 that show any direct correlation between the amount
3 of enforcement that is present and the amount of
4 revenue or sales?

5 In other words, does not enough enforcement
6 bring down sales because people are not feeling safe
7 and secure; or does too much enforcement, obvious
8 enforcement, if you will, tend to bother the amount
9 of sales or have a negative effect on the amount of
10 play in gaming? Do you understand where I'm going
11 with this or is there a correlation?

12 MR. FRENCH: We didn't research that,
13 Commissioner Coy.

14 COMMISSIONER COY: This is part two?

15 MR. FRENCH: Yeah. Once you retain
16 Pricewaterhouse, they never leave.

17 COMMISSIONER COY: Right. Self admission
18 is good for the soul.

19 MR. FRENCH: We did not address that. I --
20 my only comment would be that clearly, the way we've
21 looked at markets, you know, nationally,
22 internationally, the volume of play is clearly driven
23 by the market demographics and the dynamics of the
24 market.

25 Simply said, if you have a lot of people

1 close by and, you know, all people have some level of
2 propensity to game, then the venue will be
3 successful.

4 COMMISSIONER COY: So your conclusion is
5 the amount of security personnel either present or
6 not present has nothing to do with the amount of
7 play?

8 MR. FRENCH: Yes. That would be my
9 thought. I would say we never assessed it. I would
10 -- there are a lot of gaming environments that I have
11 been in. Some are on tribal gaming destinations in
12 remote areas and big commercial casinos everywhere.

13 I would say that, you know, I have not --
14 you know, in all instances, it's really driven by the
15 market dynamics.

16 In many places, there are casinos, a lot of
17 them I guess are illegal where I certainly probably
18 wouldn't want to attend. You know, when there's no,
19 you know, lights in the parking lot and you have to
20 go down a dirt road, you know, that doesn't make you
21 too comfortable.

22 In the major jurisdictions, the nine that
23 we assessed and analyzed, I would say that the
24 success of those casinos is driven by the market

25 demographics.

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1 COMMISSIONER COY: I suspected that would
2 have been your answer, but I do think it's an
3 interesting subject to explore in terms of the
4 security that the participants would feel and be
5 exposed to and whether that affects -- I would think
6 it would have a definite effect on the folks that
7 would be older folks, seniors that might not be as
8 comfortable on their own or without security. It's
9 just a subject that I had some interest in. Thank
10 you.

11 COMMISSIONER MARSHALL: May I?

12 CHAIRMAN DECKER: Please.

13 COMMISSIONER MARSHALL: Shifting gears a
14 little bit. This is probably more in the nature of
15 an observation or a series of rhetorical questions.
16 I appreciate the work you guys have done. I think
17 this is great.

18 Let me just kind of tell you what I am
19 wrestling with. I get nervous about best practices
20 that are so defined by a majority. I think it's
21 important that we don't leave here today just saying
22 that we have 15 pages of statements that say in the
23 majority of jurisdictions, this is what happens.

24 I think it's important to observe for the

25 record that the jurisdictions, which I think

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1 represent a great cross section, also represent nine
2 different jurisdictions that may do things for
3 varying different degrees. In some cases, I guess,
4 Nevada has been in the business for over 30 years.

5 I would submit to you that, I think, our
6 next step with our help is to then go through each
7 one of these and assess whether we want to take the
8 so-called majority view, whether the majority view
9 constitutes, in fact, a best practice.

10 One of the advantages we have, I think, in
11 Pennsylvania is that we get a chance to look at the
12 past and maybe chart a better future.

13 So what would be really helpful, and I
14 don't know how we construct this in the context of a
15 charge, would be to then take these things and then
16 say, our recommendation would be that casinos having
17 holding cells in a majority of the selected
18 jurisdictions represents a best practice and one
19 Pennsylvania should adopt for the following reasons;
20 or doesn't represent a best practice and we would
21 advise you to go in another direction. Maybe if you
22 guys could get together with our staff and take a
23 look at that.

24 CHAIRMAN DECKER: At the same time, I don't
25 think we want to drop back to maybe what New Jersey

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1 did 30 years ago and in an era where the
2 sophistication wasn't there, and the things that they
3 do, they do now, it's very different.

4 I don't think we want to jump in this thing
5 and say, well, because we're getting started, we have
6 to do what other people did 30 years ago when they
7 first got started. I know you're not saying that.

8 COMMISSIONER MARSHALL: Actually, I was
9 agreeing. That's what I was trying to say, that I
10 think the caution I would -- at least based on
11 hearing your report and not having a chance to
12 reflect much more on it, I would hate for us to jump
13 out of here today saying, here is the manifesto. We
14 take the majority of you in each one of the
15 jurisdictions, which may or may not work for us.

16 While it's tempting, you know, being in
17 healthcare, we're full of best practices. You run
18 like lemmings to the sea. We could also be in a
19 position -- I would submit to you that we want to be
20 careful and not fall into the trap, as the Chairman
21 said, of doing things because 30 years Nevada did it
22 this way and then everybody else that came along.

23 I remember back when the presentations we

24 got in December and it seemed like certainly, in the
25 area of IT, there's a whole new world of IT available

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1 to us that wasn't available to any of these
2 jurisdictions when they started.

3 Again, I don't know whether this is more in
4 the nature of an observation. I'm not expecting an
5 answer. I think it's a caution that I feel compelled
6 to put forward.

7 CHAIRMAN DECKER: Let me just say something
8 else. Chip, you may not be aware of it. We have a
9 Security Committee that has been spending a lot of
10 time looking -- I shouldn't say a Security Committee
11 -- BIE Committee, if you will, composed of
12 Commissioners Colins, Conaboy, McCabe, and myself,
13 I'm sort of ex-officio but looking at these issues.

14 We've met with PwC on a preliminary basis
15 and we have had many discussions, a number of
16 discussions with the State Police. Let me turn it
17 over to Ken with that said.

18 COMMISSIONER McCABE: I want to say great
19 minds think alike. For the record, Chip, I brought
20 those same comments to the attention of
21 Pricewaterhouse when we have met in preliminary
22 meetings, that just because it's the majority doesn't

23 mean -- I've seen that in law enforcement also,
24 having participated in an inspection program and gone
25 out and inspected offices.

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1 The majority are doing it this way but it's
2 wrong. It's not the best practice. These two or
3 three over here are really doing the best. I've
4 surfaced that before.

5 CHAIRMAN DECKER: Let me comment again.
6 When you look at nine jurisdictions that are
7 relatively sophisticated, they're all not stupid.
8 Okay.

9 When eight or nine of them are doing it a
10 certain way, it gives you an idea that maybe, just
11 maybe, that might be a good place to look at where
12 you are going to start. There are other things about
13 our law which are very different.

14 Secondly, there are things about the kind
15 of image we want to present to the public which maybe
16 will require a little bit more of a presence for
17 criminal enforcement than perhaps, you know, Nevada
18 needs 30 or 40 years after they have started up.

19 We're well aware of that. I don't want to
20 give anybody the impression here that we're going to
21 do one of two things. We're going to overload the
22 system or we're going to skimp in the name of not

23 providing the kind of protection the public needs.

24 With all of those things said, I think your
25 report is extremely useful. It provides a lot of

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1 information where sophisticated people are today in
2 their regulatory environment, their investigative
3 environment and their surveillance. I'm not trying
4 to conclude anything. I'm just saying, that's what
5 my perspective is at least.

6 COMMISSIONER DIGIACOMO COLINS: I would
7 like to add that it's my view of this report that
8 Pricewaterhouse has basically been our eyes and ears
9 and done our legwork and they have done on a grander
10 scale what we did on a very limited scale.

11 We went to New Jersey. We went to Nevada.
12 We reviewed for ourselves through question and answer
13 interviews and meetings what their practices are.

14 This is a broader scope that gives us more
15 insight into other jurisdictions. I think I view
16 this as something that is advisory and something for
17 us to use as a baseline. So thank you.

18 COMMISSIONER MARSHALL: Well, I don't want
19 to give anybody the impression that I'm critical of
20 the report. I'm not. I think it represents exactly
21 what we asked you to do.

22 I guess I just wanted to note the caution
23 that I would hate to take this report and everybody
24 run off and then six months from now say, well,
25 you're not doing the majority view. Therefore,

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1 you're not doing best practice. That's all I was
2 saying.

3 CHAIRMAN DECKER: Mike and Sharon have
4 cautioned us that our needs -- in fact, in some of
5 the reports, you'll see a statement that underneath
6 the recommendation, the Statute provides the
7 following in Pennsylvania. They have been very keen
8 to that.

9 Before we get away, Treasurer Casey has a
10 problem.

11 TREASURER CASEY: Thank you for the report
12 as well. I just wanted to direct your attention to
13 page 6 of the report. For those who don't have it,
14 the focus of my question is on the criminal
15 background investigations, the nature or the elements
16 of those kinds of investigations.

17 I just wanted to see if you had some more
18 detail than I see here. The three -- the statement
19 reads, in selected jurisdictions, criminal background
20 investigations typically involve fingerprinting,
21 intelligence checks, and credit checks.

22 MS. LEWIS: Correct.

23 TREASURER CASEY: Are there jurisdictions
24 or were there jurisdictions that you reviewed where
25 they asked for other information like tax returns,

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1 investment data, other kinds of financial
2 information?

3 MS. LEWIS: What we were trying to do here
4 is specifically define a criminal background
5 investigation as apart from a background
6 investigation.

7 In a background investigation for the
8 higher level employees, typically, they will require,
9 you know, financial information such as tax returns
10 and that kind of thing.

11 Specifically, here we were asking how do
12 you define criminal background investigation and
13 pretty much across the board, it was fingerprints and
14 then intelligence checks and in some jurisdictions a
15 credit check.

16 TREASURER CASEY: Is there a way to in a
17 way that is similar to the criminal background
18 summary, is there a way to itemize the financial
19 background check information that they would -- a
20 majority would typically require?

21 MS. LEWIS: A majority do require financial
22 information when you're looking at what would be
23 called a key license.

24 TREASURER CASEY: Okay. And what does that
25 typically involve in terms of the -- just the

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1 elements of a financial --

2 MS. LEWIS: The financial information, I'm
3 going to be doing this off memory.

4 TREASURER CASEY: Okay.

5 MS. LEWIS: Typically, it would be, you
6 know, might have someone's net worth being looked at
7 the individual level. You might have tax returns at
8 the corporate level when you're doing the financial
9 investigation.

10 You might be looking at their debt
11 structure, their cap structure. I would consider
12 that to be a financial component, also looking at
13 their audited financial statements if appropriate and
14 tax returns. Again, that's at the corporate level.

15 TREASURER CASEY: And this will be for
16 another day and may have been covered by someone
17 else. Is there a way to take and compare what they
18 asked for in regard to financial questions and
19 financial data and compare it to the Pennsylvania
20 Statute or what Pennsylvania would require? Is that

21 something your firm could do or has done, or would
22 that be part of this or not?

23 MS. LEWIS: I think we have most of the
24 information we need to give to that. I can follow-up
25 with you, if you would like.

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1 TREASURER CASEY: Thank you. I think for
2 the Board more, generally. Thank you.

3 CHAIRMAN DECKER: Any other questions?
4 Please, Secretary Wolff.

5 SECRETARY WOLFF: Just a question, the
6 other states that have slots, casinos at racetracks,
7 was there ever any integration or were they always
8 separate, stand alone units on those facilities?

9 MR. FRENCH: I'm not sure I understand your
10 question. The existing racetracks that became
11 ultimately slot parlor, rasilnos --

12 SECRETARY WOLFF: Correct.

13 MR. FRENCH: -- they were typically in most
14 cases, in most states that we have done this in,
15 states that were not included in our analysis states
16 that have those types of gaming venues, they were
17 existing racetracks, some successful, some
18 unsuccessful, some more successful than others.

19 Typically, when there was some roll out of

20 a gaming initiative, whether it be slots or BLTs,
21 they were added to the existing space or an expansion
22 of the existing facility was made contiguous to the
23 track to provide, you know, slot gaming.

24 SECRETARY WOLFF: But were separate, they
25 never integrated at all, in terms of having slots in

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1 an area where you could bet and bet on horses?

2 MR. FRENCH: For the most part, it usually
3 happens in phases. In many cases, there's a
4 motivation to open quickly. So in some of the common
5 areas, you know, machines might be initially brought
6 in on a limited basis. That's usually the first
7 phase.

8 Then while the machines are up and
9 operating and generating revenue and generating
10 traffic that will hopefully support the track and the
11 horsemen and all of those other things, the
12 construction for the permanent facility is started so
13 then they can expand and go from -- I have seen 250
14 machines, 500 machines and then ultimately to get,
15 depending upon what is legal in that particular
16 jurisdiction, the full complement.

17 SECRETARY WOLFF: Thank you.

18 CHAIRMAN DECKER: Please, Chip.

19 COMMISSIONER MARSHALL: I would like to
20 follow up on that. I would suppose if you have a
21 rasino, which I define as a racetrack where there's
22 slot or I guess you say BLTs take place, the idea is
23 you would want to have them be synergistic.

24 In a perfect world, if you're operating one
25 of these things, you want somebody to come in, have

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1 dinner, play slots for an hour and then go bet on a
2 racetrack. Is that the, I guess, ambiance or
3 environment that people are trying to create?

4 MR. FRENCH: Ideally. Again, it will
5 depend on the racetrack and the market in which that
6 racetrack exists.

7 Some racetracks, you know, independently on
8 their own are doing very well. People go there.
9 They eat. They have a nice day. Some tracks have
10 many more race days than others.

11 Generally, what you want to do is integrate
12 the facility. Oftentimes, you know, capital
13 limitations, you know, access to capital limitations
14 provide some restrictions as to how much money you
15 can invest and you get a disjointed facility.

16 Sometimes you find out, I've seen this in
17 the past, a lot of activity at the track is on one
18 side of the building. It's where the slot machines

19 are.

20 MS. LEWIS: You may also find that your
21 customer base is different. The people who play
22 slots are not necessarily the people who are going to
23 bet on the ponies.

24 COMMISSIONER MARSHALL: But I would assume
25 since racing was somewhat of the driver of this that

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1 there is a notion you would want, if possible, to
2 have people could choose to do both?

3 MR. FRENCH: Yes. People could choose to
4 do both. One of the, I think, most defining benefits
5 has been that the slot win and the revenues and the
6 taxes generated have provided for the horsemen and
7 provided for better purses.

8 Consequently, the purses were better and
9 then you were able to get better horses and that
10 upgraded, you know, the attraction and upgraded the
11 traffic in the parlor.

12 COMMISSIONER MARSHALL: Where I was trying
13 to get to is where you have that sort of integrated
14 or synergistic environment, are there security or
15 operational concerns peculiar or particular to that
16 kind of setup versus just a vanilla slot parlor in
17 your experience?

18 MR. FRENCH: I'm really not sure. I'm
19 really not sure of the answer. I don't know if there
20 would be other challenges. There may be because
21 you're mixing different types of patrons in a common
22 space.

23 CHAIRMAN DECKER: Mike, wouldn't you agree
24 that you have -- one of the things that you have to
25 do is make sure that people who are not licensed or

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1 permitted on the racetrack side, employees can't
2 automatically go over into the casino side because
3 they're not permitted and not allowed to be there?
4 Except -- I don't know what the issue with respect to
5 their perspective gambling.

6 MS. LEWIS: This is not necessarily a
7 sweeping generalization. Within the jurisdictions
8 that we looked at that were more racino
9 jurisdictions, they were also -- they also had a
10 Central Computer System and so that helped to then
11 reduce the manpower and it helped to really, you
12 know, streamline it and make it not as complex.

13 COMMISSIONER MARSHALL: In that environment
14 though, if, in fact, that exists, will we end up
15 having to be concerned with security, licensing of
16 people who are more oriented toward the track, a
17 piece of that? To your point is that you can't make

18 that distinction. Is that something we have to get
19 smart about?

20 MS. LEWIS: I would say that we probably
21 need to do additional research but to -- in the two
22 jurisdictions that we looked and, again, it's not a
23 broad sweeping generalization but the two we looked
24 at, they were really focused upon doing the licensing
25 at the video lottery terminal level versus doing the

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1 licensing at the racetrack.

2 They were separate in terms of how they
3 were regulating that. But in order to answer the
4 question, we need to look at more jurisdictions.

5 COMMISSIONER MARSHALL: That would be
6 helpful.

7 MR. FRENCH: Yeah. We have -- there are
8 mature jurisdictions that are going to be -- that
9 have operations that will very much mirror what you
10 will have with the first seven licenses.

11 So I think there's some good information
12 out there and you don't have to reinvent the wheel
13 and we can certainly assist in collecting that.

14 CHAIRMAN DECKER: Okay. Are there any
15 other questions?

16 Treasurer Casey, we will take a look at

17 that. That's part of the regulatory process. What
18 are we going to look at financially and what are we
19 going to need to see for those that have been
20 licensed in other jurisdictions and those that
21 haven't. We need to take a look at what those are.
22 It's something that, I think, Mary's group is -- it's
23 in there now, isn't it?

24 COMMISSIONER DiGIACOMO COLINS: Absolutely.

25 CHAIRMAN DECKER: It's a serious issue.

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1 Any other questions?

2 Mike and Sharon, thank you very much.

3 Steve, thank you, too. I appreciate your help.

4 MR. FRENCH: Thank you.

5 MS. LEWIS: Thank you.

6 CHAIRMAN DECKER: It sounds like you have
7 some other assignments. We'll talk later.

8 We're going to go into an Executive Session
9 to talk about potential hires, if you will. We're
10 not going to come back today.

11 COMMISSIONER MARSHALL: Ever?

12 CHAIRMAN DECKER: In a couple of weeks
13 maybe.

14 Is there any other new business to come
15 before the Board?

16 The Board's next meeting is scheduled for

17 June 2nd at 10:00 a.m. in Pittsburgh at Carnegie
18 Mellon University.

19 We have a couple of graduates from Carnegie
20 Mellon. I would ask the question, are they
21 accredited? I shouldn't ask that, right? I hope so
22 since they're a Pennsylvania college, correct?

23 If there are no objections, then the
24 meeting will be adjourned. Thank you.

25 (The meeting concluded at 4:22 p.m.)

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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

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Hillary M. Hazlett, Reporter
Notary Public

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