

NEW HAMPSHIRE GAMING REGULATORY OVERSIGHT AUTHORITY

APPROVED – Minutes of Meeting – October 7, 2010

Member Attendance:

Tom Ferrini, CHAIR (Mayor, City of Portsmouth)
John Barthelmes, Commissioner, Dept of Safety
Paul Kelley, Director, NH Racing & Charitable Gaming Commission
Debra Douglas, Chairman/Commissioner, NH Lottery Commission
Michael Delaney, Attorney General, State of NH
David Bailey, Chief of Police, Bedford NH
William Graham, NH State Police

Additional Attendees: see Exhibit A

Meeting began with introduction of members.

Commissioner Barthelmes' staff will be providing support for this committee. Nancy Cassidy and Cindy Barlow will provide administrative support to the Committee. Nancy is the main point of contact and all communications/correspondence should go through her. Cindy Barlow will be taking minutes at scheduled meetings.

We are in the process of creating a website for this Committee. There will be a link so every one can look at what the materials are for the meeting and they will be readily accessible. Materials will be distributed as necessary, as well as placed on the website.

Binders have been put together – the information in these binders will be put on the website as well.

Statutory charge and scope of work, Chapter 284-A. Tasks us with 3 items;

- We need to evaluate whether the current regulations and regulatory bodies for legal gaming in New Hampshire are adequate and operate in a manner that protects the public interest and allows regulation of gaming to be conducted in an effective and efficient manner. We will do a review of existing conditions and that is part of what we will be doing today, through the presentations you will receive today.
- We need to look at the design and structure of oversight agency necessary to regulate lawful gaming and betting activity in the State and to look at what the appropriate structure is for doing that. The idea is the legislature has indicated that we should look at the laws of other states and they are listed in the statute, including Maine, Delaware, Connecticut, New Jersey, and Nevada. We will look at what the best application for New Hampshire will be.
- We want to recommend regulatory functions and powers that will be necessary to deal with expanded gaming at some locations in New Hampshire.

The statute is a little bit more involved than that in terms of items we are going to look at, but in the interest of time, it is not necessary to go through all of that today.

Our goal is to do an even handed, fair minded review and try to design what would work for us here in New Hampshire, and that is why we've assembled the various people that we have. We are hereby statutory appointment. The legislature made the decision that the individuals who should serve are set forth in this statute. There are only a few appointed positions the others are departments or designees.

Michael Delaney – I will note that I think that was a helpful overview. Clearly one of the statutory assignments includes evaluating whether current regulations in regulatory bodies for legal gaming in the state as they currently exist are adequate in the manner that protects the public interest. Protecting the public interest is obviously an important part of the statutory charge. I would supplement your comments that I do think there is a particular statutory charge here to look at.

Mayor Ferrini has put together a tentative meeting schedule with proposed subject matter. This schedule is by no means cast in stone. As we drill down into these aspects of the schedule, this information will change. We will be more specific as we get further into the process so people have some understanding in advance of what it is we are going to be addressing. I ask that the Authority Members please review the schedule. Depending on our resources, the subject matter may change. We will do our best to keep this information updated on the website, and keep members notified. When a change is posted, the date of change will be noted.

November meetings have been moved to Tuesdays to allow less conflict time with certain Holidays. The statute does allow designees. If you are unable to make a meeting, please appoint a designee to attend in your place. The general times of the meetings are 1-3:00 p.m. If I feel the meeting will go beyond 3:00 p.m. I will try to get the information out to you in advance so you can schedule accordingly.

Paul Kelley presented an Overview of the NH Racing and Charitable Gaming Commission. The mission/purpose of the New Hampshire Racing and Charitable Gaming Commission (RCGC) is to protect the wagering public and ensure the integrity of racing, bingo, lucky-7 sales and games of chance, to maximize revenue to the charities and the State, and to ensure compliance of the regulated entities with State rules and regulations. *(A copy of Director Kelley's presentation is under the Data/Gaming Reports tab in your binder.)*

- The Agency is entrusted to (6) part-time Commissioners appointed by the Governor and Council for a term of three years. Two of the Commissioners are present here today, Ted Connors and Warren Leary.
 - Chairman, Timothy "Ted" Connors – Ted has the distinction of being one of the longest reigning Commissioners in the world. He was appointed in 1968 and he has been reappointed every year since then, to current. He brings with him a good background to the Agency on the history of pari-mutuel wagering and also to the horses and the greyhounds.
 - Commissioner Warren Leary – Warren is serving as Secretary of the Commission. Warren used to be Sergeant of the Arms at the State House. He brings to the Agency a good understanding of the Government.

- Commissioner Lynn Presby – Commissioner Presby is a former Colonel of the NH State Police. He brings to our Agency a wealth of knowledge regarding enforcement techniques and the proper enforcement ideas.
- Commissioner Tony Urban – Tony is a long time educator from Berlin. He has also been employed with the State as the Director of Purchase and Property and he brings to us a good set of skill sets regarding general life experiences as well as procurement in the areas of the State Government.
- Commissioner Michael Gatsas – Michael Gatsas is a very successful businessman in the State. He also is a horse owner and a lover of the sport. He brings with us that aspect of the business.
- Councilor Bernie Streeter (former Dean of the Council). Mr. Streeter has been a successful businessman and he brings to us a good sense of public duty and how the agencies work.
- The daily operations of the Agency are the responsibility of a full time Director, which is myself. I have a staff of 19 full time and 2 part-time. I have a BS in Business Administration and I have been working in the industry since 1975. I started my employment with the State in 1987 and I became Director in 1995.

Commissioner Barthelmes questions to Director Kelley's presentation:

- Getting back to background checks and background investigations, there is a legitimate concern about people coming into the state, particularly with games of chance. I know we are doing background checks, are we doing background investigations?
Director Kelley's response: We are relying on the Dept of Safety for State Police record checks. We don't have any statutory authority or money to do any further than that.
- You also talk liability in the games of chance. What do you see? You have a lot of entities you have to regulate. You have 3 auditors, 5 inspectors. It's a huge operation and it is cash based. What concerns do you have, particularly with games of chance?
Director Kelley's response: Games of Chance are a cottage industry that has taken off. There are a lot of areas that we have to look at. There are two types of operations. There are the larger ones such as race tracks where they have the resources to put in cameras and video equipment to watch the games being played so that if the auditors or inspectors have any questions or concerns we can go to the facility and have them run a tape. Some of the smaller venues, "Mom and Pops", can't do that. They are just making a living, so they are not as robust as putting in some equipment. That is a liability. The other liability I see is about licensing the roulette wheel companies, the card companies. Right now you can buy a pack of playing cards at Walmart. We need some rules in that area to strengthen that up. We need to know how the roulette wheels get balanced, and we don't have that technology or expertise of my staff yet. I did request money to send one of my inspectors to Las Vegas or Connecticut for training.
- Last question, can we get some data on enforcement action, broken down by the different segments i.e., games of chance, racing. What type of enforcement action are we up to, including criminal investigating, referrals from the AG's office?
We will make sure we get an answer through Nancy or Cindy.

Debra Douglas questions to Paul Kelley's presentation:

- You stated that the race track licensees are subject to background checks by the Attorney General and your Agency. Are the game operators subject to the same background check?

Director Kelley's response: Game operators are subject to more stringent background checks. Game operators have FBI background checks. The race tracks primarily, depending on class of license, have State Police background check.

- Talking about your inspectors and auditors, do they ever do spot checks of these games to make sure that the reconciliation is right so the State gets the 10% and the charity gets the 35%? Who is really counting the money? There are a lot of questions that arise about that.

Director Kelley's response: It's difficult to audit because it is an all cash business. We do it with the limited resources that we have. We have intelligence out there. The Commission has a requirement by rule that paperwork has to be kept so that we can do a paper audit trail. One audit that did occur, they didn't have the paperwork, and they were fined thousands of dollars. In one instance last month we revoked the license, so we do take that seriously. We do audit that – it's an ongoing process that never ends.

Chief Bailey question to Director Kelley's presentation:

- Is there a way we can compare your staffing to other states of comparable gambling? I know in my industry we go by population, number of complaints, etc. I know you say you're understaffed (Director Kelley: "That goes without saying"), but is there a way you can give a scientific measure as to how you do stack up to other operations in other states that are comparable.

Director Kelley's response: I don't know any other state that is comparable. Chairman Connors said it best about a year and a half to two years ago; the State of NH legalized casino gambling in the name of charities. We do have a good enforcement piece. We do have some auditors on the staff but we are scratching trying to get that staff up there. We don't have enough staff. We can always do a better job with more staff.

Tom Ferrini comments:

Perhaps some of the data that might be helpful, following up on Commissioner Barthelmes, with respect to that would be "do you have data which indicates how many audits you do, what the result of those is, that flows into the numbers that he's talking about. Maybe one way to look at that as we look at other states that have some similarly situated items we can perhaps look at the amount of money raised and the types of games and try to draw some correlations and understanding. I know that is difficult and that is going to be part of what we wrestle with as we go forward but we begin the process by getting that information.

Director Kelley's response: The audits we are ramping up. When we had the auditors hired it is a very unique business gambling by its own nature.

Charles McIntyre, Executive Director of the NH Lottery Commission, gave his presentation. Prior to Director McIntyre's employment with New Hampshire, he was General Council to the Mass Lottery for 7 years, and Deputy Director. The Mass Lottery sells about \$4.6-4.7 billion/year in lottery products. It is the 2nd largest lottery in gross sales in the US, 8th largest in the world. Prior to the Mass Lottery, he was an organized

crime prosecutor for about 5 years at the District Attorney's Office in Norfolk VA. He regulated gambling as a prosecutor and regulated gambling as a lottery executive.

NH Lottery has been in existence since 1964. It is a three member commission appointed by the Governor.

- One chair – Debra Douglas
- Commissioner Paul Holloway
- One vacancy

There are 1200 retailers across the state. From stores as large as Hannaford in Manchester which sells over a million dollars/year in business, to stores that do thousands/year in business.

Very early on lotteries became funding mechanisms for Government.

In 1964 New Hampshire became the first state in the US to start a modern lottery. First lottery was created by Governor King. First Director was Ed Bowers who was a former FBI agent. With a lottery, integrity counts first and foremost.

NH Firsts: The first ticket was actually housed at the NH Lottery. NH has the first primary in the nation. NH was the first start up of a multi-state lottery (Maine, NH and Vermont). Three Lottery Commissions, 9 Lottery Commissioners, 3 Directors and 3 pieces of legislation joined together. NH also has the first only loyalty program – NH Lottery Replay.

In our peer group, NH is the most efficient lottery in the US. This is based off the percentage of sales - it costs about \$.6 on the \$1.00 to run the lottery. We run the lottery well and inexpensively.

Every new lottery created in the last 10 years has been an education lottery. NH lottery did \$233 million in gross sales last year, \$66 million in net proceeds, which equates to about \$200 for every family of 4. In addition to that every year there is \$10 million in commissions and bonuses. We have 50 employees, some part time, 20+ imbedded vendors who work directly for us. These vendors run our gaming system.

We are particularly proud of the fact that our financial report has been given a Government Accreditation and Government Award every year for the last 10 years. This report is available on our website, it details every dollar, every penny we ever spend or give away.

The way to increase lottery sales in Mass is to push out of state sales. Approximately \$35 million/year NET in Mass lottery revenue comes from NH citizens. The largest lottery agent in the world is in Massachusetts, and his parking lot is in New Hampshire. This one retailer does \$14 million/year in sales. Why are they going to Massachusetts? Massachusetts has better games. The players want better prizes, more prizes and higher jackpots. Mass does about \$25 million/year in Keno sales to NH citizens. These are NH citizens that drive to Massachusetts to eat and drink and play Keno.

Wagers go in through different methods, DSL (hard line), satellite and frame relay. The duplicate wagers goes both places, an exact duplicate goes to the primary data center, the backup data center and then through our control system, which is what we maintain. There is a duplication of efforts, redundancy, and checks and balances. The wager will exist in 3 places to insure that the wager has been placed. The integrity of the wager in the lottery is the one thing you must have. The integrity in the system is too important. We have to make sure redundancies take place. The architecture is almost identical to 4 other states. Mass architecture is 17 years old. They have similar functionality – there is always a backup data center. If our primary center gets hit, you won't miss a beat. It's the best practice in the industry. Every name is given to us to review and perform a background check. Every person that touches our system has either been an employee of the NH Lottery for years or has provided us with a detailed background of all the information that they have ever worked.

A copy of Director McIntyre's presentation will be distributed to all members.

In the schedule some of you have noticed that the schedule goes out into January and there might be some concerns about whether and to what extent bills are filed that are going to be impacted by what it is we do here. It is our intent while this is a schedule that is blocked out this way to insure that you have certainly, in the first instance, the report out, or at least an interim that is a significant work product that you will have something to work with in December, at least into the Senate deadline. That is our intention. We will be looking at the schedule again and we will probably be reworking the calendar. We want to make sure the legislature and everyone else involved has what they need to work with.

Tom Ferrini – MOTION TO ADJOURN
Commissioner Barthelmes - SECONDS THE MOTION

EXHIBIT A

GAMING REGULATORY OVERSIGHT AUTHORITY October 7, 2010

ATTENDEES:

**Keith Lohmann, NH Dept of Safety
Kory Kanke – The Lodge at Belmont
Ed Callahan – Rockingham Park
Dan Callaghan – Devine Millimet Attorneys
Bob Clegg – Legislative Solutions
Chuck Saia – RCGC
Jim Demers – The Demers Group
Bob Blaisdell – The Demers Group
Scott Spradling – The Spradling Group
Curtis J. Barry – The Dupont Group (CBarry@dupontgroup.com)
George B. Roberts, Jr. – Seabrook Racing Park
Mike McLaughin – Shaheen & Gordon**