

NEW HAMPSHIRE GAMING REGULATORY OVERSIGHT AUTHORITY
APPROVED – Minutes of Meeting – October 28, 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 called to order by Chair, Tom Ferrini

Old Business:

- Minutes from 10/21 will be forwarded to members shortly.
- Website link has been sent to all members (www.nh.gov/GROA).
- Attorney Dan Callaghan – received Salem ordinance that does allow certain uses that are gaming related uses.

New Business:

- We have with us Steve Ingis and Rich Carretta of Spectrum Gaming. They will be discussing the scope of what it is they can do for this authority if we care to consider their services. They will make recommendations about our charge and how it is we would effectuate it in a timely fashion. Copy of their power point presentation has been passed out.
- Attorney Robert Stocker will be speaking to us about policies and procedures as well.

Spectrum Gaming Group Presentation: Steven Ingis and Richard Carretta provided the members with a brief introduction/biography.

Steven Ingis

- Director of Legal and Regulatory Services for Spectrum Gaming
- Licensed Attorney from the State of New Jersey
- over 28 years of casino gaming regulatory experience
- 26 years with the New Jersey Casino Control Commission in the capacity of Assistant General Council and the Manager of the Licensing Unit
- Conducted numerous due diligence background investigations for various gaming jurisdictions, such as Maine, Maryland and Puerto Rico.
- Participated in the drafting of the enabling legislation recently in Delaware for the expansion of table games particularly for the licensing component of legislation, and also help with the drafting of the regulations.

Richard Carretta

- Undergraduate degree from Temple University
- 29 years with the Division of Gaming Enforcement
- In at the ground floor in 1978. Participated in many of the casino openings, Taj Mahal, Regatta, Golden Nugget, Trump Arena, Trump Plaza, and Showboat. Have a number of years experience in opening casinos.
- Started out with gaming as an Investigator in the field, spent 3 years of doing investigations and field accounting, internal controls, special requests, and then was moved to Unit Supervisor for about 5 years. Spent the remainder of his career as the Assistant PR Chief, Regulatory Enforcement Bureau, which dealt with the administrative side of casino operations: controlling cage functions, credit functions, counting room, the process of getting the revenue stream to the count room.

- The topics discussed will always be within the context of comparing whatever jurisdictions are doing and maybe just flushing out some of those issues that may generate some questions from the authority members.

Spectrum is an independent casino gaming consulting firm. Spectrum relies heavily on the extensive regulatory experience of their staff. Many of their staff members, and managing directors, are former state regulators. Spectrum brings a considerable amount of expertise, and has performed numerous regulatory services throughout the world. Spectrum has no stake on whether a particular state decides from the public policy perspective on what form casino gaming should take. If the state does elect to recommend casino gaming we strongly recommend the implementation of strict regulation that is designed to ensure the public confidence and trust, the integrity of casino operations, and the regulatory process to make casino gaming a successful enterprise for a particular state. They also recommend strict recommendation to ensure that unsavory and unsuitable individuals and entities are so prevented from participating in the industry. In terms of disengagement, Spectrum will conduct a thorough review of the regulatory structure and regulations in the various states that have been designated. Thoroughly analyzing the statutes, speaking with the key regulators they know personally to determine what's been working in the different jurisdictions, and what problems they've encountered with respect to their statutory organization and set up. There are two elements for the effective casino gaming regulation and control that are employed universally. We will analyze how each of these particular states adheres to these key elements. What are the differences, what they have in common, do they enforce strict regulation, what are their internal control procedures, what is the proper roll of law enforcement, and whether they pay lift (???) service or they actually have the statutory mandates with respect to the fact that licensures should be considered a privilege and not a right of entitlement. That means that under certain circumstances a gaming license can and should be revoked or suspended and the applicants and licensees have to be aware of that in order to obtain a license. To retain a license they need to cooperate fully and extensively with regulatory agencies to provide upon request any information and documents in a timely and expedited basis. There are no excuses! In assessing the way different states approach casino gaming one of the first things to be examined is the regulatory structure, whether one agency or a dual agency approach is employed. And if so how are the divisions of duties decided upon? Who handles such important matters as the license decisions? Who handles the oversight of casino operations? Who conducts the due diligence investigations? What is the relationship between the two agencies if there is a dual agency approach? If there's a single agency how are resources allocated to enable the staff to perform these important functions. We will also examine whether there is a duplication of theories and responsibilities between the agencies that can be avoided.

Commissioner Barthelmes: Could you give me a couple of examples of what is a dual agency and what is a single agency regulatory structure?

SPECTRUM: In New Jersey there are two agencies, there is the New Jersey Casino Control Commission which sits for simplistic terms as the judge in determining licensing matters and violation complaints. The **Quasi Postural Agency** would be the Division of Gaming Enforcement which conducts the background investigations, investigations on what happens on the casino floor in terms of being casino violation complaints, and then they go before the Commission for determination. When there is a hearing the Division would appear before the Commission as one of the parties much like a prosecutor would appear in a criminal case and the licensee or application would appear as the other party. They are generally represented by very experienced casino gaming counsel. One example of a single agency is Maryland, which under the auspices of their lottery commission, conducts all of the licensing or matters that come before it. Maryland does not have sufficient staff for performing background investigations so it outsources those background investigations and Spectrum, in its bidding process, was selected to be the agency that performed the background investigations. MD did not have the law enforcement tool in the Lottery Commission and we ran into considerable problems in terms of criminal background checks and fingerprinting and the cooperation of the MD State Police. Delaware had a single agency until recently. Until very recently Delaware only had slot machines. They did not have the legalization of table games and they were under the Delaware Lottery Commission. When table games legislation was passed last year we strongly recommended the addition of a Division of Gaming Enforcement to provide the necessary law enforcement roll which is very important in terms of an effective and efficient regulatory system. It took a while to work out those problems, unfortunately in Delaware's situation they took that recommendation at heart and they came up with a division of gaming enforcement with its own staff that conducts the investigations and they have now begun the process of having licensing hearings.

Tom Ferrini: As part of a review as to what extent can we look at the existing Department Of Safety, Attorney General's Office, Lottery and Charitable Gaming Commission. With the Divisions that we have, you might have a division that does gaming enforcement but would also report to the Attorney General or the Department of Safety. Here in NH we're generally not in the business of expanding government. The question would be if we could assemble a matrix with dotted lines and black lines depending from departments. Is that an option that is reasonable?

SPECTRUM: That is a very good option. In NJ the Division of Gaming Enforcement wrote as part of the Attorney General's Office and the Attorney's assigned to the Division of Gaming Enforcement are in fact Deputy Attorney General's. You have in force now the Attorney General and you would therefore have the law enforcement capabilities to conduct proper enforcement of casino gaming. We strongly recommend that you utilize what you have already in place.

William Graham: In following up on that you're saying that in a dual agency type of situation one of the agencies is actually a board that administers the law and the 2nd part of that is the enforcement is going before that board with complaints.

Debra Douglas: In the dual agency in NJ, which one does the investigations?

SPECTRUM: The Division of Gaming Enforcement which is the law enforcement agency does the investigations. The Director of the Division of Gaming Enforcement is an appointee of the Governor. The judicial branch of the regulatory system in NJ is the NJ Casino Control Commission which sits and hears all of the licensing and regulatory matters that are brought before it by the Division of Gaming Enforcement.

Something to consider is what is going to be the regulatory structure in addition to a single agency or a dual agency. What would be the criteria for the selection of the Commissioner's? How many Commissioners? Will they be full time or part time Commissioner's and what would be the length of their term? For example, in NJ the regional compilation of Commissioner's is five (5) and only one (1) is a full time Commissioner. The other four (4) are part time Commissioners. Within a couple of years it was determined that this system was unworkable. There was a bit of a scandal that happened in NJ and the State decided to go to five (5) full time Commissioners which are what has been in force since the early 1980's. The Commissioner's in NJ serve 5 year terms which can be renewed for an additional five year term. There are no prescribed background requirements to serve on the NJ Casino Control Commission. There cannot be over 3 members of any political party. Some jurisdictions have certain prescribed background recommendations for the Commissioner's. For example, one Commissioner might have to be a licensed Attorney; one might have to be a practicing Certified Public Accountant. Some jurisdictions for budgetary constraints do not have adequate resources in respect to staffing and therefore are required to outsource many of the regulatory requirements. For example Spectrum performs the background investigations for the State of Maryland. Maine Harness Racing Commission has a contract with Spectrum to conduct the background investigations for the licensees in the State of Maine. Other jurisdictions have their own staff such as NJ and Nevada, although due to budgetary constraints those staffs have been severely reduced over the last several years and that's an ongoing problem in particularly in NJ. Spectrum will examine whether these different jurisdictions have code of ethics and necessary post employment restrictions which are very important and are designed to ensure the protection against an appearance of impropriety in such events actual or perceived conflicts of interest that could create a havoc of problems for the Commissioners and to insure that the decisions that are made by the particular regulatory agency are based solely on merit and not for any private interest or concern. In addition to the organizational structures it is very important to consider how to select the casino operators at the sites. Particularly will there be a finite number? Where will they be located? Will there be a competitive bidding process for a particular site location? It's important to put in the statute the express criteria for the selection and the objective criteria to eliminate the appearance on non objectivity. It is very important to emphasize this matter – to have criteria set out unequivocally, ending enabling legislation for the selection of the casino operators, selection of the Commissioner's. In addition we will be evaluating the two dual components of licensing and enforcement that form the fabric of casino gaming regulation. We will also address how the statutes expressly provide for different public policy goals, the methodology of taxation which is a very diverse area throughout this country. Whether there is a level of community involvement which is required of successful applicants.

Going into the methodology of taxation, in NJ there is an 8% tax on gross revenue. One of the big issues about the acceptance of data in Atlantic City in the beginning was the objection to who was going to pay for the regulatory process. In NJ the operators pay for their own regulatory process. It doesn't come out of the general fund; it doesn't come out of the 8% tax. What happens is the time that the regulators expend on the job in regulating the industries it is billed back to the industry as a public accounting firm or a law firm would bill a client. If I spent 8 hours on one day of my job working at Regatta, I would do a time report stating I spent 8 hours at Regatta, whatever the billable rate was for my time, it got billed back. The Commission billed the same way so the operators knew going in that they were going to be funding the regulatory process. There is no complaint from the constituency that they are funding the regulatory process because it is coming out of general fund. It does not happen – the 8% is set aside for senior citizens programs and other beneficial programs for various parts of society.

Tom Ferrini: We are not charged with developing a taxation model within the ambit of our statutory charge. That said it probably is something that the legislature at a point will need information on rather than just inventing that and understanding. In the context of explaining it in terms of how the services are billed back it makes great.

SPECTRUM: In analyzing the comparative basis the various jurisdictions will be looking at how the powers of the agency in terms of licensing, operation, and control are set forth. Spectrum will be comparing what each state requires in the way of fairness of table games. Black jack is the only game in the casino where the house advantage is not fixed; it is passed to the player, if he's a card counter or if he plays basic strategy. The Casino Control Commission asked the industry for a model of what would be needed to make the game viable with the introduction of card counters being allowed in the game. What they came up with was a set of rules that said if you were suspected to be a card counter the card counters would not be allowed into the game in the middle of a shoe because card counters could stand behind the game, count down the decks as the hands were played, and then move into the game and make large wagers and take money out of the casino. That is one rule. The other rule was that the casino operator if there was a suspected card counter at the game could shuffle a deck at any time and take away a positive play from him. The 3rd rule was that the operator could limit the wager of one individual at that table. If the table limits were \$500.00 to \$5,000.00 for everybody at the table, if you a suspected card counter they could limit you to the bottom \$500.00 and that would be it. With respect to the fairness of the games it works both ways. Is it fair to the player? Is it fair to the house as well? Other issues pertain to the roulette wheel – is the roulette wheel balanced every day? Do all jurisdictions require that it be balanced once/day? Do they require that they be balanced at the end of the shift? Do they require that dice be measured because the regulations in many jurisdictions talk about the size of the dice, they have to be square, they have to have certain scribes on them, and serial numbers, in order to determine that they are in fact legitimate dice. With regard to the level of supervision jurisdictions vary there in terms of the number of games that supervisors are required to observe and monitor. Some jurisdictions allow as many as 24 tables for a pit manager, some only as much as 12. Some mix the types of games a manager may have. He might have 4 black jack games, 2 roulette games, 2 craps games, so we are looking at the mix of games and the supervision that goes along with those games.

Debra Douglas: Who actually employees the supervisors?

SPECTRUM: The supervisors are employed by the casino. In terms of movement of slot machines because slot machines in almost every jurisdiction are considered contraband. A private person cannot own a slot machine unless it's a collector's item and it has to be over 25 years old and it can't be functional. In any movement of slot machines, into or out of a jurisdiction, it has to be accounted for. With respect to monitoring the slot operations themselves in terms of playing the game when NJ first started each slot machine had what they call an EPROM, which is an electronic programmable read only memory which was really the brains of the slot machine to determine the frequency of the payouts, the dollar amounts, and the payouts. Over the years with technology and improvements they have moved beyond that in some jurisdictions to go to central computer systems where the information is maintained on a hard drive that describes every game, the type of game that it is, the payout that is offered and records the \$'s in, the \$'s out and will actually record the net win for that particular machine and every machine on the floor. Delaware and West Virginia operate on the central computer system model. There's a movement to go to the server based gaming which allows the casinos to change on the fly, the game they offer, the denomination of the game, the whole percentages on the game. The testing of gaming equipment can be a plus or minus to the regulator. If you're a regulator and you're using an internal lab to gut the machines and

improve the machines that's great because you have a high degree of confidence in what your people do. You set the protocol for the test; you decide what you want to test on and what the parameters are. There is a downside to that – if you have so many games coming into the state and you're not geared up to handle all those games that come in you develop a backlog of new games which prevents those games from getting out on the floor as quickly as the operator and the vendor would want. If you go to a private lab you remove that vocal point but then again you lose some benefit with respect to the protocols for testing. We will be analyzing that as well to see who uses the external model and who uses the private lab.

SPECTRUM: The fundamental components of any effective regulatory system are obviously the licensing mechanism. We will analyze and compare the various states and how they approach the licensing system in terms of who needs to be licensed. What are the categories of licensures for employees, whether there are requirements that only gaming vendors need to be licensed. What is the application process? What is the investigation process and who conducts it? What are the criteria for receiving a license, good character, honesty, financial stability, integrity and responsibility, and in the case of casino operators, business ability? We will examine the criteria for suspensions. We will examine temporary. The system called transactions or waivers which enables slot machine manufacturers to absolutely distribute slot machines while their license investigation is pending. Very important is we'll examine the procedures for continuing casino operations in the event a casino license should be revoked. Some jurisdictions do not have the statutory components in place and if a license is denied they had to implement procedures on the go rather than to look at the statute which opens them up to potential for litigation in court and perhaps reversal of their decisions. Transfer of ownership is an important component in any gaming legislation.

Spectrum will be analyzing and comparing what the five states require with respect to the hours of operation. That's pretty straight forward – is it 24 hours, is it less than 24 hours? When NJ first opened it wasn't a 24 hour operation. Ultimately the operators wanted to expand to 24 hour gaming. They said at the end of the gaming day we have all these people leaving Atlantic City, it's causing traffic jams, and it is requiring a burden on the local police departments to move the cars out of the city. We had some reservations as to whether or not the operators could function and control the assets of the organization at a 24 hour gaming cycle. We looked at what the operators described what they would do in order to maintain the same level of control in less than a 24 hour period because when the casino was closed they would empty the drop boxes at the tables, they would empty the slot buckets at the slots machine, they would replenish the bill changers or the coin dispensers for slot play. We looked it over, set some parameters, and it has proven to be successful. Hours of operation are pretty much something that's flexible. It doesn't impact the integrity of operations in any way. Spectrum will be looking at the minimum internal control standards with respect to the operator's organizational structure and that goes into the casino staffing levels. We will look to see what is required with respect to the operator and his organizational chart. Does he require that there be an accounting department, a marketing department, a security department, a surveillance department, a gaming department and a credit department? Surveillance and internal audit are required to report up to a board of directors for an audit committee. They both are independent of the operator and the operator's manager. They do not report to anybody onsite. With respect to what their roles are they are overseers of the operation from an integrity standpoint. Surveillance is there every day 24/7, internal audit would be performing audits throughout the year.

Tom Ferrini: Is that like an ohms man within the company or are these people who are not company employees.

SPECTRUM: They are company employees but they do not report to the General Manager or the CEO on site. They are at the corporate level or at the Committee Board of Directors level. We will look to see whether those requirements are consistent across the board.

Debra Douglas: Which one are you referring to?

SPECTRUM: Internal audit and the surveillance department. The internal audit could be onsite year round. Surveillance is observing everything that happens on the casino floor, at the tables, the count room, the cage, anything within the compounds of the casino. They may also have cameras out in the parking lot that is most likely a security role. It was decided to have a standard set of rules so that the regulators, whether we assign person "A" and person "B", they will be looking at the same rules. It also helps the operators as well. When there is no difference in the rules you have a level playing field. We've been allowed to offer different kinds of bets so if you had a blackjack game in casino "A", and a blackjack game in casino "B", If casino "A" wanted to offer some type of

bet if you have 3 7's in 3 cards they would pay you a bonus. The rules of the game in craps require that you have a box man, two stickmen, and that the payout odds are all the same across the board, but some casinos wanted to offer multiple odds on a pass line or come line in the middle of the game. Some casinos wanted to offer 10 times odds, others only wanted to go 5 times odds. We did not get involved in any of those discretionary management decisions. What is required from the cage operations? Cages are the central nervous system for a casino. Millions of dollars are kept in the cage, in the forms of currency, chips, and markers. All regulatory jurisdictions require that there be a man trap in order to access the casino cage. A man trap is a little area that on the casino floor with door, you go in this area and that door closes behind you, there's another door that opens only after this door is closed, and then you get into the cage. These two doors cannot be opened simultaneously. Is one door on the floor controlled by security and the other by the cage? Generally that is how they operate. Inside the cage there's a lot of paperwork. With the millions of dollars that are in the cage we want to make sure that there is segregation of functions between the marker bank, the chip bank and the main bank, with the cashiers. Anything that happens in that cage in terms of assets moving from point "A" to point "B" they have to be bought – either on an even exchange slip or on a credit slip. Accounting is pretty straightforward. All the paperwork that's produced by the casino floor, whether it's in the cage, or whether it's in the pit, goes up to accounting. With respect to table games the amount of revenue that's collected is not determined in a table game environment until the drop boxes are brought into the count room. That's the real concern. Who's watching the drop boxes and the money that goes into the count room? The drop boxes are locked to the gaming tables with sensitive keys. Strict control over a gaming environment requires that sensitive keys be limited to only specified individuals and that they be accessed by two separate departments. Security generally has control of the keys that cannot be accessed unless they're requested by another department. Each drop box is locked in a table with a slide release.

Debra Douglas: Who watches the money at the table?

SPECTRUM: Surveillance is watching, the gaming supervisor is watching, the dealer is watching. There is a series of people watching, people watching people. If money is in the center, you have a dealer, outside the dealer you have a floor supervisor, outside of that floor supervisor you have a pit manager, and outside of that pit manager you have the surveillance department. Most games today are recorded 24/7. They have a fixed camera that watches what is transacted in each game, they can reconstruct the hands at the table so if there is a dispute during the game, the floor supervisor can call the surveillance department and say whoever is on this game said he wagered \$25, not \$10. We paid him off to \$10 he wants to get paid for \$25, they roll back the tape, they see what I played, and if I'm unhappy they'll show me the tape. Getting back to the movement of the money, the money gets into the drop box, they only get moved once/day or maybe once every shift, depending on what the operator wants to do or the jurisdiction wants to. Keys must be retrieved from the key secured area, you must have a gaming supervisor, and you must have security. Some jurisdictions require that an inspector or a commission representative be present to move those boxes from the table into a trolley. The trolleys have locks. There are keys to those locks that are specially controlled. Only certain people have access to the trolley lock keys. All this is under surveillance, this is all being taped. Once the trolleys are filled they are moved into the count room. The count room can only be accessible by the count team, and through security. Some jurisdictions require that the regulator have the key for the count room so no one goes into the count room without a regulator. The money is moved into the count room and the trolleys are opened by the count team. In most jurisdictions, the boxes have two locks, a house lock and a regulator lock. The regulator maintains the key to his lock and whoever goes to the operator. It requires two people to open that box. We will be looking at what the requirements are.

Tom Ferrini: It is helpful to the authority to see the level of detail that is required at the actual ground level of operations. That level of detail and understanding of that it is we must assemble or do as the legislature has indicated is helpful to us.

SPECTRUM: Credit has the same degree of control. There must be applications; there must be signatures of approval by credit execs. It's just like applying for credit at Macy's, verifications have to be conducted. Money laundering controls are important in today's environment. All casinos that have revenues of more than \$1 million are subject to the Bank Secrecy Act requirements. A CTR (Currency Transaction Report) has to be done for transactions of cash, in or out, of more than \$10,000. If the casino believes that a transaction by a patron is of a suspicious nature, it has no useful purpose in the casino, or the casino suspects that is being used as a financing institution by using its wire transferring capabilities, they are required to do a SAR (Suspicious Activity Report). We will be looking at what is required in this jurisdiction of money laundering controls.

Under age gambling - some jurisdictions require purse security to inspect the drivers licenses or credentials before they let someone in the casino that might be underage. Some don't have fixed posts but allow people to come in and game supervisors will question people at the game who appear to be underage. There are two types of exclusion lists: self exclusion, and those who are criminals, organized crime. There will be a separate list of the bad guys; there will be another list of those people who want to exclude themselves because they can't control their gaming habits. We will look to see what each jurisdiction requires with respect to self exclusion. Some jurisdictions say if you put yourself on the list you're done for the rest of your life. Some say you can go on for a 2 year, 3 year or 5 year and you can rescind that. Jurisdictions have inspectors on the floor observing the play of the game, the count and the count room. Most jurisdictions have an inspector in the count room to verify that the count goes on as required and prescribed, and then signs off on the document. The paperwork from the count goes up through Accounting. Supervisors in most jurisdictions cannot gamble in any casino in the jurisdiction. Employees may gamble on slot machines in some jurisdictions – that's a variable, because there is no human interaction with a slot machine other than you dropping coin or currency in or pushing a button. Table games there can be pay offs in the wrong amounts, there can be payoffs when you lose a bet. Those are the issues with respect to employee gambling

Tom Ferrini gave a special thanks to Steve and Rick for their informative presentation.

Commissioner Barthelmes: As far as the process you go through in looking at the organization and the agency that would fit, what is the process? We have NH lottery which controls games (controlled by the State), and the NH Racing and Charitable Gaming which regulates private entities. In the process of trying to integrate the role of those two regulatory entities what is your experience in looking at the role of those regulatory entities that regulate the private sector and those that are dealing with games such as the lottery which is really completely run by the State. Does that make any difference?

SPECTRUM: You might want to consider a model where there is an independent deregulatory agency on top with products for the various components of gaming regulations that are already in place. There needs to be an effective determination of the relationship of the different agencies being responsible for the ultimate enforcement of the regulation.

Commissioner Barthelmes: In roles of similar types of regulatory authorities?

Mike Delaney: This is a very important decision in terms of who we are going to retain to try to help us in the initial steps of assessing regulatory models and what we want to do as a State. Given your level of expertise, if we went through a process and had expanded gaming in NH and this authority made some determinations about how we would regulate that how much of it we would do ourselves, what pieces of it we would want to partner with other organizations. Would your organization be interested in establishing a long term relationship with the State of NH in terms of potentially bidding on future regulatory business? If we chose to retain you to help us up front, looking for your advice in terms of pros and cons. Would you want to retain it's stability to bid on future contractual relationships with the State?

Spectrum's Response: Certainly - what we would do to ensure the avoidance of any proprietary on our part we would provide the various models that are utilized in the different jurisdictions with respect to staffing, for example, whether a particular jurisdiction had sufficient staffing to conduct all of the regulatory services. If they didn't then it would be up to the State of NH to determine which model they wanted to employ.

Mike Delaney: If we also wanted to retain some assistance in evaluating the current regulatory structure for existing lawful gaming in NH assuming there were not an expansion of legalized gaming is your organization in a position to do that?

Response: Yes it is. We have done that in other jurisdictions

Attorney Robert Stocker was introduced by Chair, Tom Ferrini. (Attorney Stocker's biography was distributed to authority members) Attorney Bob Stocker has significant experience in this field from a variety of

perspectives at the State, National and International level. He has also had heavy involvement in Michigan in terms of how they dealt with these issues at heart. Attorney Stocker is here today to speak with us about our policy consideration.

ATTORNEY STOCKER: In the way of my background, I hold the position of Chair of the Gaming Law Committee and the American Bar Association. I am required to say whenever I speak that I am never speaking on behalf of the American Bar Association. Attorney Stocker has written extensively on a number of issues you're facing with the charge that you've been given by the legislature particularly addressing social responsibility to self exclusion programs. He has also written extensively in dealing with bankruptcy. In fulfilling your charge, a major issue in terms of how you go about approaching this and fulfilling the charge is deciding what kind of expansion of gaming, if any, is going to occur. That has a major impact on how you build your structure. For example if you decide that there should be land based commercial gaming in the state then what you are looking at is a vastly different type of regulatory framework than the regulatory framework you have with the lottery bureau. It is state run which makes it dramatically different. It is also vastly different than the regulatory framework that you have with a pari-mutuel industry and charitable gaming industry.

Attorney Stocker's approach is one of giving his thoughts on how you go about establishing an expanded gaming industry that protects the public, that addresses social responsibility issues, and ensures the integrity of this system at all levels, both from the licensed operator's standpoint, from the licensed supplier standpoint, from the employee standpoint, and also from the state regulators standpoint. The basic considerations for a really comprehensive framework revolve around a number of different issues. First, obviously is integrity. You're going to hear that time and time again. My very candid view is that you are going to the best system once you see all the comparisons. I suspect that you will conclude that if there is going to be commercial casino gaming in NH then it should be run by a separate state regulatory agency composed on individuals who are appointed, a chairman and additional commissioner's or board members. You can have a board or a commission. Typically appointed by the Governor I concur that you have a 5 person board or commission, no more than 3 from one party. You have a limitation on the number that can be from one party. A big issue is whether or not they're full time or part time. Given the size of NH and the likely size of the industry do not think you're looking at full time board members or commission members.

That is something that you will want to study based upon what kind of framework you wind up recommending back to the legislature in terms of commercial gaming. Should they be paid, I recommend yes. In Michigan it is voluntary. That has had few impacts. First of all it's been hard to find people to serve on the commission, second of all it really places all the power in the hands of the administrators that is the Michigan gaming control board staff, because the board members have limited time and they're not getting compensated for that time. They place a great deal of reliance upon the board staff. If you have a compensated position, 1st of all you are going to have more people interested in doing the work and, 2nd of all you can demand more of them in terms of the time that they spend. Currently on the board in Michigan several of the members are retired former judges, a retired lawyer and a couple of lawyers, and individuals who are not actively involved in industry now. In some jurisdictions you do have an accountant that is part of the staff or board members. In terms of integrity, you have audit committees, and a compliance committee. The compliance committee is set up so that anyone can report inappropriate activity to that committee and that is outside of your normal reporting chain. The compliance committee is charged with oversight of all compliance and has to agree with reports. Those reports are reviewed by the gaming control board staff. Social responsibility i.e., problem gaming is an issue that you want to directly address. You do it through a black list of people you don't want on the sites, but secondly a self exclusion program. In that regard in connection with the chronic end of the business, i.e., slot machines there is now quite a bit of technology on the market place that can be utilized in connection with slot machines that identifies compulsive behavior. That is something that should be part of your social responsibility program in addition to self exclusion programs. You need to take a good hard look at a social responsibility program because the involvements in that area are very very extensive. It is an issue that has a lot of momentum worldwide in terms of greater demands for meeting social responsibility requirements. That should be at a high level of concern and focus in connection with any program. Taxation is not part of your charge, and I note that, but I will also say that when deciding why you want the expanded gaming and what you are trying to achieve, taxation does have an impact on that.

Tom Ferrini: We are charged with the how, and the legislature is going to deal with the debt. The statute that we are charged with is creating regulations to be in a state of readiness. We do not want to design something that is not appropriate with our state. I would presume that our discussion of these systems would be a scalable one. We want to be at some state of readiness without predetermining an outcome, and the legislature really has that authority.

ATTORNEY STOCKER: these are issues you want to deal with. You're going to have any kind of gaming system is going to be on a smaller scale than NJ or Nevada. At the same time in connection with the integrity of the gaming equipment and that is traditionally you would be thinking that it's the slot machines but its way beyond that. Blackjack and other card games you can now play at a typical casino site are all set up electronically so that the cards are being read as they're being dealt and that is going into a reporting system. That cuts down card cheating and cheating in terms of the passing out of winnings, either by being short changed or being paid too much. All your table game manufacturers have all this electronic equipment. The technology that is available today is mind boggling. There is an annual conference being held this coming month in Las Vegas. It's the big gaming trade show where all the latest technology is shown and the rapid pace of the changes that are occurring in technology. Not only changes on the floor but what's called the back room. All of this technology is extremely sophisticated. Therefore one of the things you need to look at very carefully and get some strong recommendations on is the issue of testing. Do you maintain your own lab? Do you use an external lab? NH is too small to have its own lab. You can have your own lab, but you'll never be able to keep up with the technological demands. You won't have the money to hire the sophisticated people that are necessary. What you will be able to do is have a techie (really good sophisticated techies) on board that work with independent testing labs. There are several of them that are very high end, extremely sophisticated, and very high integrity. You'll work with them because they have the size and the ability to pay their people to do a better job of keeping up with technology. One of the reasons you want to keep up with technology is not just because of preserving integrity but also you have competition. Your surrounding states are your competitors. If you're equipment is too generations behind the equipment in the surrounding states, customers will go to the surrounding states, they won't come here. You want to maintain a competitive edge which means you have to maintain flexibility. As you grow and get experience, you may take on larger roles in terms of testing as your staff determines is appropriate. In the beginning you want to maintain some real flexibility in connection with gaming. There is a certain amount of regulatory flexibility that you want to build into your system because so much changes so rapidly. You're going to be relying heavily in terms of the regulations you adopted. You're going to want to give a fair amount of authority to your board to develop and modify the regulations to keep up with the technology and the rapid pace of changes. Your systems also need to promote stability.

The last thing you want to have is failure. That in turn gets to the issue of capital equipment. Who are you going to license? In terms of who you pick, competitive bidding for example, typically most states prefers the Vetter bidding. You want to get the best proposal. That competitive bidding within your regulatory framework should also take into account commitments, for example, to hiring residents of New Hampshire, retain the services of NH based companies, hiring women as employees and other minorities and other minority businesses. Those are all things you can consider or take into account as to whether or not you feel it's appropriate as part of the package for the expansion of gaming. In regards to licensing you have several different choices. Clearly the owners of the casinos need to be vetted and licensed. The senior officers, the members of the board of directors, they all go through an extensive vetting process. Any gaming equipment manufactured, you have to define who the gaming equipment manufacturer is and it goes through that same kind of process including their major owners, their board members and senior officers. Any one who is working on the casino floor is going to have a license but you'll probably set up different levels of license reviews, so that a manager gets a very thorough vetting, a dealer gets a criminal check and financial check, and a little bit less of a vetting. The cocktail waitress, if you allow service of alcohol on the casino floor, goes through a basic criminal and financial background check. It's less intrusive but it still is a check that they have to go through. All of these licenses are made very clear in the statute that there is no property right to this license. Mr. Delaney can explain the significance of that. When it's not the property right that means that if your license is pulled you can argue over whether or not there was good cause to pull your license, but you don't get any compensation for the loss of that license. In connection with the equipment another provision you have to have in the statutory framework is a Johnson Act provision. A Johnson Act is a federal statute that deals with the interstate transportation of gaming equipment. There is a provision that says it's a federal act because it's interstate transportation. Nobody is manufacturing slot machines up here so it's the provision that says those slot machines (or any gambling equipment) can be accepted here in NH. That makes the

transportation of that equipment (say from Nevada where it might be manufactured) to NH legal so long as under federal statute the equipment has serial numbers on it, the equipment is identified, and there should be notification that it's being shipped.

Tom Ferrini: Stepping back to one previous item, I believe that Steve and Rich mentioned a provision whereby if a license were revoked and you have a huge capital investment and you have a going concern and the license gets revoked what's the procedure for someone to step in to operate or not.

Response: A series of conservatorship provisions is extremely important to have in the statutory framework. In addition, typically the casino will file chapter 11, and that involves the federal bankruptcy court as well as the board. There are procedures that have been worked out in other jurisdictions about how all of this gets handled. You may want to have that in your statute.

Tom Ferrini: Not understanding fully what each of those is, presumably the state has a significant interest in that income string.

ATTORNEY STOCKER: What is done in a chapter 11 proceeding is filed is the very first order in the chapter 11 proceeding, in connection with income to the state, which I strongly recommend that everything is done electronically. So the payments to the state should be made electronically on a daily basis. In the first order filed in the bankruptcy proceeding a portion of that order specifically says that the daily tax payments to the state will continue to be made. This has to be done in the very first order. You also do need three other things. First of all coordination with other departments. The best model that we have is the gaming control board staff. That staff will have dedicated to it a division of the Attorney General's office. As far as the State Police are concerned, they oversee the investigations right within the gaming control board staff so they are part of the staff.

Tom Ferrini: Can you have people who are employed by, in our case the DOS State Troopers, who are then tasked with working for that.

ATTORNEY STOCKER: Yes you can. You want to have some kind of dedication so there is full coordination. The other thing you're going to want to do is wherever the casinos are located you are going to want to have a cooperative agreement between the Attorney General's office, the State Police, the county authorities, the local jurisdiction, and also the FBI. There is a lot of coordination between these agencies. It is a general cooperation agreement. You can send the investigation work to an outside agency. All the investigations are paid for by those being investigated, licensing fees, renewal fees, etc. You will want to deal with institutional investors. Ten years ago the major funding source for casino operations was the banking industry and Bank of America and Wells Fargo were the biggest lenders in the industry. What you need to have is a framework that's flexible that takes into account that kind of investment ownership. Flexibility to deal with that kind of financing situation is important. Then what you're doing is maximizing the sources of the capital that is needed for involvement of these casino operations and in connection with your major companies. A lot of them have institutional investors that have more than 5-10% ownership particularly. Non gaming suppliers – some jurisdictions do require the licensure of non-gaming suppliers if they go above a certain dollar threshold. That is something you are going to want to address and listen to the pros and cons of requiring non-gaming suppliers. Supplier of toilet paper and other paper products – are you going to want to have that company vetted? The two largest money serving machine manufacturers in the world are a Japanese manufacturer, and a German company, that is actually owned by one individual. This individual is responsible for setting up the entire security system of Germany. When you get those kinds of structures you want to be realistic about who it is you're really vetting. You're trying to achieve integrity in the system with social responsibility – you don't want crooks involved!! How do you make certain that the people that are doing business in this state are honest people but at the same time making certain that the best equipment wants to come into the state. Sometimes they'll say it isn't worth the hassle. You don't want that to happen. That's a balancing act.

Debra Douglas: Gaming control board, you had talked about the Attorney General's staff having a dedicated people and the state police – did you say IRS?

ATTORNEY STOCKER: What I'm saying with regards to the IRS there are reports that get filed with the Internal Revenue Service, currency transaction reports (CTR's), and suspicious activity reports (SAR's). Typically part of the

staff that gets hired by the gaming control board staff are former IRS agents that usually come out of the criminal investigation section. Typically you have a full time executive director of the gaming control board that is not one of the board members or commission members, but is a full time individual who is in charge of overseeing operations. Usually you will have a couple of deputy directors, one dealing with licensing, and one dealing with compliance so that you have a chain of command that reports up to the board members themselves. A special thank you to Rich and Steve from Spectrum and Attorney Stocker.

Tom Ferrini: It's clear as you heard from the operational side and policy side to probably get a sense to the areas of concern we are going to need to coalesce to do what the legislature has asked us to do. We have two weeks to our next meeting. At this point in time we have heard a significant amount of information and it probably makes sense to have more deliberative time for us as an authority to track our path as we go forward. As part of that Deb Douglas and Mike Delaney have indicated that they'll assist us in hopefully getting someone to come from the state of Delaware. They offer a different perspective given the size of their structure and what it is they do and that will be part of the meeting. Now that will give us 3 different points of view and at the same time it will give us an opportunity to hear from a State. We then have an opportunity as an authority to put together the road map to complete our charge and go along the path that we need to do those things.

Commissioner Barthelme: As we deliberate we need to understand the statute we are being tasked with. Want to make sure we are all very clear on this.

Tom Ferrini: It's important that we had the presentations that we had so that we have sufficient information to get to the more drill down level. We need the practical ability to deliver what the legislature has said. That will be the subject of our next meeting. We all know our right to know, but authority members need to do some thinking and reviewing of materials. When we come together at the next meeting then we'll have a good 1 ½ hours to get right into that and get ready to go.

MEETING ADJOURNED

GAMING REGULATORY OVERSIGHT AUTHORITY
EXHIBIT A
October 28, 2010

ATTENDEES:

Robert W. Stocker, II, Dickinson Wright PLLC, Lansing MI
Bob Clegg, Legislative Solutions
Steven Ingis, Spectrum Gaming Group
Richard Carretta, Spectrum Gaming Group
Jim Van Dongen, Dept of Safety
Jim Demers, The Demers Group
Ted Connor, Gaming & Racing
Dick Bouley, Dennehy/Bouley
Dan Callaghan, Devine Millimet
Ed Callahan, Rockingham Park
Warren O'Leary, Gaming Commission