

PENNSYLVANIA GAMING CONTROL BOARD

CARNEGIE MELLON UNIVERSITY
McCONOMY AUDITORIUM
PITTSBURGH, PENNSYLVANIA

THURSDAY, JUNE 2, 2005, 10:09 A.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
DENNIS WOLFF, PA SECRETARY OF AGRICULTURE

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

I N D E X

1		
2	WITNESS	PAGE
3	Mary DiGiacomo Colins	14
4	Sanford Rivers	59
5	Lynn Stelle	65
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 CHAIRMAN DECKER: Good morning. I'm Tad
2 Decker. I'm Chairman of the Pennsylvania Gaming
3 Control Board.

4 I would like to welcome the Board and all
5 of you to our first meeting in Pittsburgh. It's a
6 pleasure to be at Carnegie Mellon University. We're
7 very thankful to them for allowing us to have our
8 meeting. Everybody has been great, and we appreciate
9 what they have done for us.

10 This is a great institution despite having
11 one graduate. We won't use the name. It's a great
12 institution. No one knows better how great an
13 institution than our Commissioner, Sandy Rivers, who
14 has worked here for numerous decades. I hate to say
15 that, Sandy. I'm not even kidding. He's now on
16 leave, and he's providing us a very valuable service
17 to the Board.

18 Earlier this year, we held a meeting in
19 Philadelphia. The Board feels it's important to on
20 occasion hold meetings at various parts of the state.

21 As we know the Act, Act 71 calls for
22 Pittsburgh to hold a stand alone gaming facility.
23 This is a great city. It's improving on a regular
24 basis. I haven't been here for a couple of years.
25 It's just a terrific place.

1 With that said, let's get the meeting
2 underway. A quorum of the Board is present today. I
3 would like to note for the record that Secretary
4 Wolff is here, Commissioner Coy, Commissioner McCabe,
5 Commissioner Conaboy, Commissioner Marshall,
6 Commissioner Rivers, Commissioner Colins, and
7 Treasurer Casey.

8 Secretary Fajt was unable to join us today
9 due to a scheduling conflict but James Ellenbogen --
10 I'm sorry if I mispronounce your name -- Assistant
11 Area Operations Director for the Bureau of
12 Collections and Taxpayer Services in the Department
13 of Revenue is representing Greg today.

14 And before we begin, I've been asked to,
15 including myself, to turn off all of your
16 blackberries and cell phones. The devices apparently
17 interfere with the audio.

18 Thank you. Okay. Old business. We
19 continue to work on our hiring process. We continue
20 to interview a number of people. We continue to try
21 to align things up so if and when the case comes down
22 from the Supreme Court -- I'm sorry. I apologize. I
23 missed something.

24 Let me cover this point. We will be in a
25 position to hire. I missed a very important point.

1 Would you please join me in the Pledge of Allegiance.

2 (Pledge of Allegiance.)

3 CHAIRMAN DECKER: Thank you. Is this
4 better now? Thanks. In terms of old business, we
5 are also continuing to -- Mary's group, Commissioner
6 Colins' group is continuing to deal with the regs,
7 temporary regs, considering the concepts behind the
8 regs and that's taking some time. Mary is going to
9 report on that in a little while.

10 As is our custom, the first order of
11 business this morning is to formally adopt the
12 minutes of our last meeting. May I have a motion
13 that the Board approves and adopts the meeting of the
14 18th?

15 COMMISSIONER MARSHALL: Moved.

16 COMMISSIONER CONABOY: Second.

17 CHAIRMAN DECKER: All in favor?

18 COMMISSIONERS: Aye.

19 CHAIRMAN DECKER: The motion carries. The
20 minutes of the last meeting are available on the PGCB
21 website. I also note that this meeting is being
22 recorded, as usual, by a stenographer.

23 The one thing that has come up over a
24 period of time when we talk about that, let me just
25 cover for a moment, is the opportunity that we're

1 going to have once applications are received to meet
2 with political subdivisions in the public in general
3 by having hearings -- I guess we're going to call
4 them hearings -- in each location where a casino may
5 be either through the application process or in the
6 racino process.

7 The Statute calls for us to allow 60 days
8 to receive comment from the political, quote,
9 unquote, subdivision; is that correct, Mary?

10 COMMISSIONER DiGIACOMO COLINS: That's
11 correct.

12 CHAIRMAN DECKER: We've noted for the
13 record that there are a couple of groups that have
14 been formed by the Philadelphia -- cities in
15 Philadelphia and Pittsburgh who are studying the
16 issues. We think that's important.

17 We're looking forward to receiving their
18 comments, as well as the comments from other groups
19 and individuals when we have these hearings.

20 So I think it's a good thing and we look
21 forward to hearing the kind of thoughtful process
22 that will be behind those kind of studies.

23 Commissioner McCabe and I and the rest of
24 the so-called, I guess, Security Committee, for lack
25 of a better term, are continuing to look and work on

1 the process of how we're going to go about doing
2 background investigation, surveillance, criminal
3 enforcement, etc. We hope to have that finalized in
4 the next month or so.

5 COMMISSIONER McCABE: I hope so.

6 CHAIRMAN DECKER: We can be in that
7 position with the State Police and others to conduct
8 these background investigations when the applications
9 come in.

10 In particular, we're going to have to try
11 to set up a deal with the forensic financial, if you
12 will, accounting part of the background
13 investigations.

14 We've also met and talked about outsourcing
15 of the testing and certification for slot machines at
16 our meeting in April.

17 PwC recommended that we would consider
18 hiring the computer testing lab of GLI to assist us
19 in providing this type of testing and certification
20 standards.

21 I think as we more and more look at this,
22 we can consider to have not just a small lab but to
23 have a significant lab down the road ourselves.
24 That's part of the process, part of the things we'll

25 be studying over the next couple of months.

8

1 COMMISSIONER DIGIACOMO COLINS: Excuse me,
2 Mr. Chairman.

3 CHAIRMAN DECKER: Please.

4 COMMISSIONER DIGIACOMO COLINS: If I could
5 comment concerning the testing and certification
6 standards.

7 As you know, in the proposed temporary
8 regulations from manufacturers and suppliers, one of
9 the requirements is that the Board develop
10 regulations that relate to the testing and
11 certification of standards to be followed by the
12 manufacturers.

13 These standards will also correlate to a
14 communication system with the central computer
15 system.

16 Now, in order to develop these testing and
17 certification standards, there will be a requirement
18 that the Board develop very specific ones, as other
19 states have, and incorporate them into the
20 regulations. As of now, we have general regulations
21 addressing this that extract from the Statute.

22 Now, in our working group, it was a
23 regulations working group, which as you all know
24 consists of the lawyers who were basically
25 responsible for drafting the Statute.

1 It was suggested that a very good way to
2 begin getting at these specific testing and
3 certification standards would be to have some sort of
4 public comment period, which invites manufacturers to
5 comment on that and to provide or supply the Board
6 with their most updated suggestions and standards,
7 and that would be a very good way for the Board to
8 collect this information and use it as a jumping-off
9 point to develop our own specific regulations.

10 So I'm throwing that out there now because
11 as the working group goes forward, we're going to
12 explore that further; and it's something for the
13 Board to consider and a very good way to reach out to
14 the manufacturers themselves, collect these
15 standards, and then we can determine whether or not
16 based on whether we go completely in-house on this or
17 use another company, what standards to use.

18 CHAIRMAN DECKER: That's another -- please,
19 Ken.

20 COMMISSIONER McCABE: I want to go to
21 something else.

22 CHAIRMAN DECKER: Let me also comment on
23 that. When we visited Las Vegas, Nevada, if you
24 will, and New Jersey, they have -- Mary, I'm correct
25 in saying they have standards that have been there

1 for a period of many years.

2 We also got to know that some of the
3 outsourcing companies, GLI, which set standards which
4 are close to New Jersey and Nevada but also different
5 in some ways.

6 It's our hope, I think -- I think I'm
7 speaking for most of the members of the Board -- that
8 we will have not only a separate lab, an independent
9 lab that will be a small group with outsourcing, but
10 we hope that some day we will have a lab which are
11 more than that, kind of equal to the other
12 jurisdictions.

13 That's our hope and that's what our thought
14 is. That's subject to a lot more thought and lot
15 more action.

16 Would you agree with that, Mary, in terms
17 of what we're thinking about?

18 COMMISSIONER DiGIACOMO COLINS: Definitely,
19 and I think it's something that we not only have to
20 think about down the road, but we have to look into
21 the specifics of these standards now when we get into
22 the licensing process with the manufacturers.

23 CHAIRMAN DECKER: Right. Chip?

24 COMMISSIONER MARSHALL: I would just agree
25 with Mary. I think we should solicit comment. I

1 think the comment on the regulations have been very
2 helpful. Any time we can take advantage of the
3 industry inputs, I would concur and support that.

4 COMMISSIONER DIGIACOMO COLINS: Thank you.
5 I'll definitely take that back to the working group,
6 because I think it's something we would like to work
7 on.

8 CHAIRMAN DECKER: Mary, I presume you're
9 also working on the thought of New Jersey, Michigan,
10 and others in terms of the standards, manufacturer
11 standards?

12 COMMISSIONER DIGIACOMO COLINS: Yes. I
13 think that those are definitely in places that we'll
14 be looking at.

15 COMMISSIONER MARSHALL: And Mary, I would
16 assume for something like this, we could almost send
17 out a general inquiry for comment as opposed to come
18 up with complex regs.

19 COMMISSIONER DIGIACOMO COLINS: Absolutely.
20 I would think it would be something we can address at
21 another meeting by virtue of a public resolution by
22 the Board that reaches out, and then we can publish
23 the resolution on the website and open it up for 30
24 days and ask for these type of input regarding
25 standards and certification. It's something we can

1 do very soon.

2 CHAIRMAN DECKER: Ken, you have another
3 point?

4 COMMISSIONER McCABE: Yes. Not on this
5 topic. I just wanted to go back to the backgrounds,
6 that if there are any sophisticated companies in
7 Pennsylvania that believe they have the
8 sophistication to conduct a complex financial
9 investigation to please get in touch with me.

10 We're looking at three companies now. One
11 is a Pennsylvania-based company, but I would like to
12 explore the gamut and open us up to make sure we have
13 Pennsylvania's best interest at heart, and if there
14 are other Pennsylvania companies out there to get in
15 touch with us, in particular me.

16 COMMISSIONER MARSHALL: But we wouldn't
17 object to anybody else, providing they're competent.

18 COMMISSIONER McCABE: A couple other
19 companies, one of the heads of the companies are
20 Pennsylvanians but they're now living in Virginia.

21 COMMISSIONER DiGIACOMO COLINS:
22 Commissioner McCabe, I'm wondering if it would
23 benefit us if we published on our website criteria
24 that you were looking for from these organizations.

25 I'm wondering if we could have some sort of

1 formal publication that they could revert to if -- if
2 we did this on our website, then we could formally
3 accept these companies.

4 COMMISSIONER McCABE: That would be good.
5 I don't just want individuals contacting us that
6 think they can do it.

7 CHAIRMAN DECKER: Let's turn our attention
8 now to new business. The Board is continuing to
9 advance the development of its initial set of
10 regulations.

11 As you know, Commissioner Colins is
12 spearheading that effort along with some of our staff
13 people in what we call our volunteers.

14 At our last meeting, we made available for
15 public comment, draft regulations concerning the
16 Category 1 licenses.

17 Also at that meeting, we heard a report on
18 the volume of public comments received regarding the
19 first set of regulations offered in the public
20 comment previously, those being the general and
21 supplier/manufacturer regulations.

22 The Board has been busy getting comments.
23 Commissioner Colins -- I've asked Commissioner Colins
24 to provide us with an overview of the specific
25 comments that we received and the Board's responses

1 to date.

2 Mary?

3 COMMISSIONER DIGIACOMO COLINS: All right.

4 Thank you. I'm going to urge everyone to stay awake,
5 please.

6 Let me just give a brief overview of the
7 process we're involved in. It's a linear process
8 that is overlapping. That's how we're approaching
9 the regulations.

10 It's a group consisting of 13 lawyers, some
11 staff lawyers who have been exceptionally hard
12 working, the work group consisting of representatives
13 from different Legislators.

14 We, on April 12th, at our April 12th
15 meeting, as you know, we posted the draft temporary
16 regulations regarding the licensing of manufacturers
17 and suppliers.

18 In addition to the proposed draft,
19 Commissioner Coy at that time asked that we publish a
20 proposed amendment to the supplier regulations and
21 that, as well, has been on the website.

22 We asked for a public comment period to
23 last until May 13th. We have received volumes of
24 public comment. There's been an intense interest
25 expressed from the -- from private individuals as

1 well as the people within the gaming community.

2 We have a volume of about 300 pages, 35
3 comments, law firms, manufacturers' representatives,
4 it's been a very intense process. It's been also a
5 very good learning process.

6 I can see the benefit to having this public
7 comment, because you will see that we have made
8 adjustments to the proposed regulations based on the
9 comments, and we have also refused to adjust based on
10 comments. Some of the comments have reinforced our
11 original positions as well.

12 So the comments have been pointed and
13 direct. For some of them, some of our responses have
14 basically been a wait and see approach. We've taken
15 that approach in areas where we believe that we just
16 need to have real, real gaming experience to make
17 decisions about whether or not to make adjustments,
18 how specific to get our regulations.

19 We think that time and experience will help
20 us in some instances, and in other instances the
21 Board has a basic philosophy that has to do with high
22 level integrity and enforcement.

23 We were able to make our decisions based on
24 maintaining that philosophy of wanting to be a very
25 tightly regulated jurisdiction with a high level of

1 integrity. So those comments will reflect that.

2 In areas -- another commenting thread that
3 you'll find is that in areas where it was suggested
4 that certain types of equipment for certain types of
5 manufacturers be excluded from the supplier
6 requirement, we have declined that because the
7 statutory requirement is that supplier distribution
8 requirement is in Pennsylvania by Statute. So we
9 have declined to carve things out of that.

10 Now, what I'm going to do is go through
11 sampling of some of the comments and the responses.
12 Then I'm going to get to the proposed amendment and
13 the responses to that, the comment and the Board's
14 response to that as of now; and that proposed
15 amendment, again, I'll get into in detail about that.

16 Public comment, some examples have to do
17 with very specific things involved in the gaming
18 industry. For example, bill validators.

19 We received a number of comments
20 questioning what role the manufacturer of a bill
21 validator would have with respect to licensing.

22 Would a manufacturer of a bill validator
23 have to obtain a manufacturer license? Would that
24 bill validator have to go through the suppliers?

25 The Board has taken the position with

1 respect to the bill validators as of now. Again,
2 this is a work in progress. The Board will reserve
3 the right to make changes through this temporary
4 regulation process as our experience dictates we need
5 to.

6 The Board is reviewing the inclusion of
7 bill validators in the manufacturer and licensing
8 provisions.

9 The Board believes that if the bill
10 validator is inserted and made part of the slot
11 machine by a slot machine manufacturer, that a
12 separate license would not be required.

13 The Board would rely on the integrity of
14 the machine and as put forward by the manufacturer of
15 the machine. The bill validator, however, is
16 directly installed by the maker. The bill validator,
17 the manufacturer's license would be required.

18 In addition, a manufacturer of associated
19 equipment would have to use a supplier to install and
20 repair the equipment.

21 If the validation system is a freestanding
22 machine, it would be deemed associated equipment.
23 Therefore, the manufacturer must be licensed by the
24 Board as a manufacturer and the machine would have to
25 pass through the supplier.

1 Another example of a comment of note has to
2 do with the issue of controlling interest. There was
3 a comment asking to amend the definition of
4 controlling interest in order to exclude
5 institutional investors of publicly held companies.

6 The Board has said that it will retain the
7 ability to qualify institutional investors. That is
8 in the Statute. Section 1313 of the Act allows the
9 Board, however, to waive the qualification
10 requirements for institutional investors and an
11 applicant or licensee could petition the Board for
12 such a waiver; however, the authority to qualify may
13 be needed in certain instances, such as when there's
14 a financial investigation of wrongdoing by the FCC.

15 The Board is willing and will add
16 additional language to qualify the ability of an
17 institutional investor to obtain waivers.

18 Then there were comments regarding the
19 issue of confidentiality. This will be an ongoing,
20 evolving issue as the Board develops its practice and
21 protocol and as the Board develops its regulations.

22 We have attempted to address
23 confidentiality issues. As we bring on a general

24 counsel, they will be handled on a case-by-case basis
25 but in accordance with the provisions that are

19

1 already included in the Statute.

2 There's one comment says request for
3 clarification, how the Board will determine if
4 information is confidential and how such
5 determinations will be appealed.

6 Again, that is something that the Board is
7 looking into and is going to address in direct
8 protocol.

9 There was a comment about the materiality
10 of the violations of the Act. There was a request
11 that the Board only disqualify or consider a
12 disqualification of a license if there is a material
13 violation of the Act.

14 The Board declined to accept that
15 recommendation. Section 421.3 of the regulations
16 includes various enforcement tools available to the
17 Board, including disqualification of an individual or
18 the denial, suspension, or revocation of a license.

19 The Board believes that it must retain its
20 broad discretion to utilize these enforcement
21 measures in a way that will fairly enforce the
22 Statute.

23 Then the Board anticipates there may be a
24 need to enforce based on non-material violations if

25 there are enough of them and if it is, in fact, the

20

1 only way the Board can enforce. So we refuse to
2 change to eliminate -- to add the language of
3 materiality.

4 Then there was a request that the diversity
5 requirements be exempted from manufacturers based on
6 New Jersey case law.

7 Just to summarize, the Board's response to
8 that is that the New Jersey case law does not apply,
9 that the Board's diversity requirements are
10 applicable for purposes of the Board's licensing
11 powers and that the statute specifically empowers the
12 Board to advance the interest of diversity. That was
13 declined by the Board. Let me --

14 COMMISSIONER MARSHALL: Excuse me. Just to
15 clarify. The Board has not taken a position finally
16 yet? This is the recommended. It has been
17 responsive to the comment but have not been to the
18 Board yet.

19 COMMISSIONER DiGIACOMO COLINS: Right.
20 These are the Board's comments, which were drafted,
21 and Board's responses in response to the comments.

22 As a result of that, these comments and
23 responses, the temporary drafted regulations has been
24 adjusted and amended to comport with these responses.

25 COMMISSIONER MARSHALL: But --

1 COMMISSIONER DIGIACOMO COLINS: Now, to
2 answer your question specifically, no, the Board has
3 not voted on that yet. That's something that --

4 COMMISSIONER MARSHALL: These are the
5 recommended responses?

6 CHAIRMAN DECKER: From the Committee.

7 COMMISSIONER DIGIACOMO COLINS: Exactly.
8 Exactly. Let me in the -- I discussed slot testing
9 and certification briefly when the Chairman was
10 talking about his comments. Let me go now -- let me
11 just jump right over to the proposed supplier --

12 CHAIRMAN DECKER: One second.

13 COMMISSIONER DIGIACOMO COLINS: Sure.

14 COMMISSIONER COY: Mr. Chairman?

15 CHAIRMAN DECKER: Commissioner Coy.

16 COMMISSIONER COY: Commissioner Colins, I
17 really didn't follow the situation you described from
18 New Jersey case law.

19 I understand why the response and that it
20 was New Jersey law and, therefore, wasn't applicable;
21 but I guess -- can you just elaborate on the issue,
22 that issue generally just to help me with that?

23 COMMISSIONER DIGIACOMO COLINS: Yes. The
24 comment specifically was that the New Jersey case law
25 would preclude imposing diversity requirements on

1 manufacturers.

2 I believe the basis of that was that the
3 Statute in New Jersey, the requirement in New Jersey
4 that caused this decision, case decision, case law
5 decision was an imposition of specific quotas,
6 numerical quotas. Our Statute does not do that. Our
7 Statute was careful not to impose quotas but to
8 encourage diversity.

9 COMMISSIONER COY: And in addition, this
10 was New Jersey case law and not Pennsylvania law.

11 COMMISSIONER DiGIACOMO COLINS: Absolutely.

12 COMMISSIONER COY: Okay. Thank you.
13 That's helpful.

14 COMMISSIONER DiGIACOMO COLINS: With
15 respect to the manufacturer and supplier licensing
16 issues, the original temporary draft regulations
17 which were published back in our April meeting
18 provided regulations dealing with a supplier
19 licensing that basically followed the strict
20 interpretation of the Statute and did not call for
21 the creation of any type of subdivision of the state
22 into any type of regions.

23 The proposed regional supplier amendment
24 that Commissioner Coy had offered as an alternative

25 calls for a system where the state would be divided

23

1 into five regions.

2 There would be a limited number of supplier
3 licenses for each region, between five or ten
4 licenses. The Statute does not address a limit to
5 the licenses and also requires -- the amendment also
6 requires that the manufacturers would have a domicile
7 or business office in Pennsylvania. That's something
8 that the Statute does not speak to and creates a
9 scheme which was different from what the temporary
10 draft proposed.

11 We put both things out for public comment
12 and received a lot of public comment with respect to
13 the issue of suppliers licensing.

14 As a result of that public comment, and I
15 have to say as a result also of some of the mind and
16 feelings regarding interpreting the Statute and some
17 of my own experience that I have worked on a Board --
18 having been on a bench for 15 years, I viewed the
19 proposed amendment which sectionalized or
20 regionalized the state for purposes of licensing as
21 something that was really not the intention of the
22 Statute.

23 I have and had and still have concerns that
24 it does exceed the scope of the Statute for a number

25 of reasons.

24

1 So based on that and discussions with the
2 work group and review of all of the comments, I
3 fashioned a response to the regional supplier
4 comments regarding the proposed amendment. I will
5 read that and explain it to you, and basically then
6 that will conclude my remarks regarding this.

7 Section 1317 of the Act does not contain
8 language which supports the regulatory scheme
9 suggested by the amendments.

10 While the Legislature has clearly spoken in
11 the Act to limiting the number of slot machine
12 licenses, it shows not to limit but rather to leave
13 to the Board's discretion the task of designating the
14 number of supplier licenses to be granted.

15 Now, the Board is guided by Section 1102 of
16 Act 71 and that expresses the Legislature's intent,
17 included in which is the directive to enhance and
18 encourage economic development, to encourage a
19 significant source of new revenue for Pennsylvania,
20 to promote diversity among other goals.

21 So the Board must exercise its discretion
22 in a way that supports this legislative attempt. The
23 Board must create regulations and take actions which
24 are supported by this intent and the mandates of the

1 Now, having reviewed all of the comments,
2 it's clear that at this time, there is insufficient
3 financial industry or economic data and experience in
4 this regional supplier format for the Board to
5 conclude that regionalizing the supplier licensing
6 process will enhance or encourage the creation of
7 jobs or businesses or economic development in
8 Pennsylvania or that it will promote diversity. The
9 majority of the comments suggest otherwise.

10 Now, the Board further finds that in the
11 absence of tangible and reliable evidence from the
12 gaming industry, it is hard pressed to find
13 experiential support to the proposed regulatory
14 scheme from other jurisdictions as there are no
15 comparable regulations to these proposed amendments.

16 The Board will be parting the state into
17 five regions and rearranging a market that has not
18 been opened in a way that is unproven and which could
19 adversely affect outcome of the redevelopment goals
20 of Act 71.

21 The Board, however, recognizes its duty to
22 receive and review new industry data and information
23 on an ongoing basis and to keep informed at all times
24 the impact of its actions and its decisions on the

25 Commonwealth.

26

1 If it becomes clear to the Board that its
2 regulations and decisions are impeding the intent of
3 Act 71, the Board will take every effort to correct
4 or amend its regulations and positions.

5 In conclusion, absent specific and enabling
6 language in Act 71 and absent present and tangible
7 and reliable industry and economic data, the Board
8 believes it is without reasonable justification to
9 adopt the proposed amendments in lieu of the draft of
10 temporary regulations.

11 So again, those are proposed responses to
12 the comments as a result of the review and work of
13 the work group, and that concludes my remarks and my
14 summary at this time.

15 CHAIRMAN DECKER: Thank you, Mary. I would
16 like to ask Lynn -- Lynn, I know you have looked at
17 this topic. I know this is last minute. I would
18 like to hear from you on the financial liability
19 side, five suppliers/distributors in a given
20 region -- would you mind? I don't mean to put you on
21 the spot.

22 Lynn, before you start, what is your
23 background?

24 MR. STELLE: Business consultant and
25 business manager. I've done nine restarts in --

27

1 CHAIRMAN DECKER: Haven't you been involved
2 in helping people who are in extreme financial --

3 MR. STELLE: Four different bankruptcies
4 that I have covered.

5 CHAIRMAN DECKER: I just wanted to note
6 that background. Specifically, what is the viability
7 of having this regional concept established?

8 MR. STELLE: I've been looking at this for
9 quite some time and I have some problems with it. I
10 wrote some notes quickly. Let me see if I can recap
11 this.

12 I think the assumption is 1102, we want to
13 create viable businesses, suppliers that are
14 economically viable that create jobs and create
15 professional expertise in Pennsylvania in slot
16 technology, and also in the sale and the marketing of
17 slot equipment through the suppliers that we create.

18 It also is clear in 1317 that we have to
19 make sure that the sale, the lease, the installation
20 is done by a supplier. The suppliers are critically
21 important to the functionality of the marketplace.

22 So I looked at three things fairly
23 intensely over the last few months in trying to

24 resolve this issue in my mind, the marketplace, the
25 manufacturers and the revenue stream this has

28

1 created.

2 I think those three areas create a problem
3 for the Board in deciding to have more than
4 established the marketplace through market
5 activities.

6 As we know, the market is calling for
7 61,000 machines, but best estimates are that it will
8 be closer to 36,000 machines which is 60 percent of
9 the potential of the Act; but at the same time if you
10 think about it, that's 80 percent of the mature
11 market like Atlantic City. So this is a big, big
12 marketplace.

13 What makes it complex for us is the
14 marketplace is scattered. Pennsylvania is a very
15 large state. Creating five regions is a very complex
16 thing because, in fact, what you have, if you look at
17 what we know today, which is where are the licenses
18 for horse and harness held and what does the Statute
19 call for in the freestanding facilities.

20 We know that there's going to be
21 approximately four facilities in Philadelphia. There
22 will be three facilities here in Pittsburgh. There
23 will be one out in the Poconos, mid-state, and Erie,

24 and then there's two freestanding developments. We
25 don't know where they are. There's two resorts. We

29

1 don't know where they are. They're small and don't
2 really impact on the economics of this.

3 What you see instead of five nicely
4 balanced regions, you have two mega regions and three
5 very, very small regions. This is critical when you
6 look at the viability of these suppliers because in
7 smaller regions, they just don't have enough work to
8 make themselves viable.

9 So what you have, as I said, the two large
10 regions and the three small regions, compact that on
11 looking at the manufacturers now because they -- what
12 the manufacturers want is they want to have suppliers
13 that provide professional limits for themselves and
14 produce a professional product and bring expertise
15 because, obviously, it's a very complex piece of
16 equipment they are going to be handling.

17 Also, the manufacturers are wanting
18 specifics. The manufacturers are going to look for a
19 single relationship with the supplier. That's where
20 it gets muddy.

21 If you look at the worldwide slot machine
22 market or the US market for that matter, the market
23 is controlled by about eight manufacturers and one is

24 behemoth.

25 IGT has a 70 percent market share. Bali's

30

1 is close up there with 12 percent. Close 70 percent,
2 IGT, 12 percent Bali's. Williams comes in at a third
3 with about 8 percent. Then you have Aristocrat,
4 Diamond, Blackjack, there's a million others, that
5 make up the other 10 percent.

6 Now, what this means is if you look at the
7 State of Pennsylvania, as I said, 36,000 machines,
8 IGT is going to have 26,000. You're going to have
9 Bali's with 4,000. You're going to have Williams
10 with 2400 approximately, and then the others are
11 going to split up with another 3600. Now, that's
12 great on a statewide basis --

13 CHAIRMAN DECKER: Pennsylvania is reflected
14 on the --

15 MR. STELLE: Well, assuming that we let the
16 market strategies work in Pennsylvania, we should
17 achieve those levels.

18 They tried to manipulate the market in New
19 York. What they are producing, unfortunately, is
20 about a 50 percent performance rate in each plant.

21 Their yields and wins per machine are
22 significantly lower than what they suggested would
23 happen, because they manipulated the market by

24 putting caps on a number of machines each one of the
25 manufacturers could have, saying the manufacturer

31

1 could only have up to 25 percent of the market.

2 Well, obviously, the reason IGT is such a
3 behemoth worldwide is because they have the best
4 machines and are the most popular or at least it
5 appears to be that. New York is proving that out.

6 So I think market caps are a very dangerous
7 way to go. Assuming we let the market yield its own
8 levels, these numbers will hold up in Pennsylvania as
9 they do everywhere else in the country and in the
10 world.

11 These numbers become scary when you start
12 breaking them up into five regions, because those
13 little manufacturers that I mentioned before, which
14 are 50 percent of your manufacturers and 50 percent
15 of your suppliers, will only have 200 machines in a
16 five-region environment, assuming those five regions
17 are all equal.

18 Your No. 4 operator -- excuse me -- your
19 No. 3 operator in the marketplace will have only 450
20 machines in each region. Your No. 3 -- No. 2 and
21 your No. 1 start getting into more respectable
22 numbers where they'll have enough machines to maybe
23 be viable.

24 The reason I say this is because the next
25 point, which is revenue, if we go to five regions,

32

1 you end up with about 30 or 40 suppliers are going to
2 be required to service these 6 to 8 manufacturers.

3 If you take that fully, 60 percent of those
4 suppliers or about 30 of the 40 are going to be in
5 such a small size they're only going to produce
6 \$70,000 in commission revenues, assuming our
7 commission structure is similar to what it is
8 nationwide.

9 With \$70,000 of gross revenue to the
10 supplier, what you're going to have by the time you
11 pay our regulatory fee of \$25,000 to the supplier
12 license plus some background investigations, you'll
13 have less than 35 or \$40,000. This becomes an
14 entrepreneurial business where the owner is the
15 operator.

16 Well, unfortunately, as you can see, that
17 concept becomes pretty weak when over 50 to 60
18 percent of your suppliers depend on one individual's
19 health and safety in supplying the services of the
20 marketplace.

21 There's no chance for economies of scale.
22 There's no chance for improving the ability to
23 perform.

24 What happens over a long term is the larger
25 two manufacturers, ITT specifically and Bali, almost

33

1 end up with a monopoly of the revenue to support the
2 training, the service, the installation, the other
3 processes.

4 So I think what happens is -- and again,
5 the only other state in the United States that has
6 any requirement on suppliers is the state of
7 Louisiana. The reason they have a requirement for
8 suppliers in Louisiana is because they have 2500
9 locations, not 14 like Pennsylvania; and those are
10 truck stops, bars, taverns with three to four
11 machines maximum, so the supplier network makes a lot
12 of sense.

13 I think based on the fact that we have a
14 requirement to a supplier network, I think we're far
15 better off in serving the marketplace.

16 CHAIRMAN DECKER: Your view of this was on
17 a study of five regions?

18 MR. STELLE: Yes, exactly right.

19 CHAIRMAN DECKER: Any questions of Lynn on
20 this topic? I know somebody else had questions --
21 any questions of Lynn on this topic? I think
22 somebody had a question on the role of distributors.

23 COMMISSIONER COY: I don't have a question.

24 CHAIRMAN DECKER: Go ahead.

25 COMMISSIONER COY: If you want to go onto

34

1 something else, that's fine.

2 CHAIRMAN DECKER: Please, go ahead.

3 COMMISSIONER COY: Thank you. I'm pleased
4 that the proposed amendment has given rise to a
5 healthy debate about what are the prospects. I think
6 that was the purpose of it. There's no question
7 about it.

8 I do respectfully object to the
9 characterization that this is the Board's response,
10 very much as Commissioner Marshall indicated earlier.

11 This is not this Board Member's response.

12 So the characterization that the Board has
13 come to some sort of finality on this issue is an
14 unfounded characterization, and I just want to make
15 sure we're clear. And I'm not being --

16 CHAIRMAN DECKER: We agree with you on
17 that.

18 COMMISSIONER COY: I'm not being
19 disingenuous about the work of the committee. I
20 appreciate it. I have supported it. I think we have
21 done a good job on that.

22 Obviously, we're going to arrive at some
23 points where we have disagreements and differences

24 of opinion. This is one of them.

25 I think the way the Board ultimately comes

35

1 to some sort of agreement on this, some sort of
2 mutual understanding, some sort of middle ground will
3 be in large measure a statement of how the Board will
4 operate in the future.

5 So I'm hopeful with all of the comments
6 that have been provided and continue to be provided
7 that we can respect everyone's opinion and try to
8 work things through, and I must in the strongest
9 terms object that this is the Board's conclusion. It
10 is not this Board Member's conclusion and I just need
11 to be clear about that.

12 CHAIRMAN DECKER: Sure. It's not a
13 problem.

14 Chip?

15 COMMISSIONER MARSHALL: Thank you,
16 Mr. Chairman.

17 I would echo Jeff's comments. I have not
18 made a decision one way or the other on this. Lynn,
19 I appreciate your expertise; but at least from my
20 perspective, you could be more helpful to me if you
21 could perhaps kind of layout -- first of all, I
22 suppose the various roles a supplier or in our case
23 we're using that term synonymous with the

24 distributor, just for the purpose of the record, when
25 we talk about suppliers that distribute slot

36

1 machines.

2 There are many different jurisdictions.
3 Certainly, there is legislative intent and purpose
4 that I think we have to honor. What would be helpful
5 to me, Lynn, is if you could maybe draw out a couple
6 of different scenarios and then from your
7 perspective, not necessarily your conclusion, but
8 where the Act would attach and where the Act would
9 allow us to follow a particular jurisdiction and
10 where the Act would prevent us from following a
11 particular jurisdiction.

12 Then maybe, Mr. Chairman, we could ask Mike
13 French and his people to give us some of the elements
14 around economic viability.

15 I'm not prepared -- I don't know enough to
16 share your conclusion that it wouldn't work. I'm not
17 so unsure that the market wouldn't resolve that
18 anyway. If that would be okay, Mr. Chairman. I
19 don't want to put you on the spot now.

20 MR. STELLE: Thank you.

21 CHAIRMAN DECKER: Lynn, before you go, I
22 have one question for you. What is the role in --

23 the fundamental role in other states of a supplier
24 where they do exist?

25 I mean, forgetting about the fact that

37

1 we're mandated by Statute. In other states where
2 it's not mandated and there are
3 supplier/distributors, correct?

4 MR. STELLE: That's correct.

5 CHAIRMAN DECKER: What is their basis or
6 function in what they do, for the public and for the
7 Board? Chip's question is a lot more detailed, but
8 just as a framework so there's no confusion on the
9 part of the public on what a supplier does.

10 MR. STELLE: Probably the word that best
11 describes them, they are manufacturer reps. They
12 work hand and glove with the manufacturer. They do
13 the installation work. They do the parts
14 replacements.

15 For example, we just mentioned before,
16 talking about bill validators. Well, when they came
17 out with a new \$5 bill and \$20 bill, every bill
18 validator in America had to be changed.

19 In Atlantic City, that means 44,000 bill
20 validators had to be changed. In Nevada, there were
21 208,000 bill validators that had to be changed.

22 order for a new machine from an operator through a
23 supplier or direct. The machines will be sent to a
24 cage or control room in the operator's facility where
25 the regulatory folks will either -- it varies in

39

1 degree, but they'll either certify the machines there
2 or they certify classes of machines so they may say
3 that this Wheel of Fortune game has now been approved
4 so you can take that into drop ship and put it right
5 in.

6 During the regulatory process, they will
7 make sure it's certified and sealed. They test a
8 chip called an EPROM. That's how they certify it.
9 There's every possible determination unless
10 regulatorily controlled in how these machines get to
11 market, and the suppliers run the gamut of doing
12 nothing but taking orders to services based on a
13 relationship with the manufacturer.

14 CHAIRMAN DECKER: Any other questions?

15 COMMISSIONER RIVERS: Mr. Chairman, a
16 question of Lynn. Lynn, as you talk about the
17 regional suppliers, is there any positive attribute
18 for having regional distributors?

19 MR. STELLE: I guess you could make a case,
20 but I can't. I find that the problem is I really
21 want to see you create more jobs. I think what you

22 create is more owners. You don't create more jobs.

23 Jobs are going to be a result of the number
24 of machines to be serviced. You need X number of
25 technicians per X number of machines.

40

1 Based on the demands of the marketplace, I
2 think we create more owners, not jobs. I think we
3 create as many jobs by just creating one supplier
4 versus five suppliers representing the same
5 manufacturer.

6 COMMISSIONER RIVERS: But if we create more
7 owners, are they not responsible for the maintenance
8 of the individual machines, thereby creating jobs?

9 MR. STELLE: You have a problem there.

10 COMMISSIONER RIVERS: You expect them to go
11 out and repair them themselves?

12 MR. STELLE: Well, that's what would
13 happen. When your revenue stream is \$70,000 to
14 handle, say, Blackjack machines in Erie,
15 Pennsylvania, you're going to be driving to Erie.
16 You're going to be doing the work yourselves because
17 you only have 70,000 revenue.

18 COMMISSIONER RIVERS: Are you supposing
19 this is the only venue or is this the only area
20 they're involved in?

21 MR. STELLE: Actually, what I did learn
22 when I designed this layout, I averaged that every
23 region would have three entities, which I already
24 showed. It's very difficult to do because of the way
25 the geographic structure is made.

41

1 When doing the revenue stream, I assumed
2 that every venue would have three entities, which is
3 a little off because there's 14, not 15, total and
4 that every facility would be the same size.

5 We all know that a facility in Philadelphia
6 is not going to be the same size as the facility in
7 Erie. I would assume that the facility in
8 Philadelphia, just because of the demographics, will
9 be much larger, maybe a 5,000 machine. The facility
10 in Erie according to the folks at Mountaineer we'll
11 probably have 3500 machines.

12 So if you look at those numbers, I assume
13 all that to be a level playing field and still you
14 only produce 70,000 revenue for those 50 percent of
15 your suppliers.

16 COMMISSIONER RIVERS: Thank you.

17 COMMISSIONER MARSHALL: Not to belabor the
18 point, but the market resolved that?

19 MR. STELLE: Well, that's the problem.
20 They want the chaos in the marketplace.

21 CHAIRMAN DECKER: We would go bankrupt and
22 then we would be --

23 MR. STELLE: I think it would create a
24 chaos in the marketplace by doing that, as opposed to
25 having a manufacturer with a representative across

42

1 the state, and it's his job to make sure those
2 facilities are serviced; and therefore, he must have
3 enough staff to take care of sicknesses and illnesses
4 and accidents and that sort.

5 CHAIRMAN DECKER: Anybody with a half a
6 brain would do the same kind of study, and why would
7 you ever get to the five suppliers in a given region?
8 Certainly, you and I wouldn't --

9 COMMISSIONER MARSHALL: Well, I agree; but
10 I guess the point is that in some way the marketplace
11 would resolve. If it is, in fact --

12 CHAIRMAN DECKER: Absolutely.

13 COMMISSIONER MARSHALL: -- impossible, the
14 marketplace will tell you that.

15 CHAIRMAN DECKER: But then you won't be
16 following your own regulations. The marketplace by
17 the fact -- if Lynn's projections are correct, the
18 marketplace in and of itself will prevent us from
19 achieving the regulatory scheme that we've adopted.

20 COMMISSIONER DiGIACOMO COLINS: Exactly,
21 which is the legal analysis that you have to apply

22 for this. In order for it be a valid exercise of the
23 Board's authority, there has to be tangible evidence
24 that says this encourages economic development.

25 CHAIRMAN DECKER: At least with five

43

1 regions.

2 Ken?

3 COMMISSIONER McCABE: I have a question.

4 Who would benefit from having this system we set up?

5 CHAIRMAN DECKER: Can I answer that to some
6 degree?

7 COMMISSIONER McCABE: Somebody.

8 CHAIRMAN DECKER: It's a follow-up to the
9 answer to a question that Sandy asked. I was
10 impressed in the comments that one of the things that
11 could have a benefit, if it were economically
12 feasible that you would have more suppliers, if you
13 have more suppliers in theory, there is an
14 opportunity for minorities, women, etc. to have an
15 opportunity, ownership opportunity or a controlling
16 ownership opportunity. However, it's not financially
17 liable for what we are doing. I was impressed with
18 that point.

19 MR. STELLE: If you create an artificial
20 environment where every manufacturer represents 20

21 percent of the market, then the concept may become
22 viable.

23 In the real world where the marketplace is
24 represented by a single manufacturer with a
25 preponderance of 70 percent, the concept is no longer

44

1 viable because it's all of the other suppliers other
2 than that one manufacturer/supplier can't create the
3 revenue stream that they need. So I think that's
4 what creates the fallacy of this regional supplier
5 marketplace.

6 COMMISSIONER MARSHALL: Or what happens is
7 the other smaller manufacturers have to pay a higher
8 price.

9 MR. STELLE: Well, and that's a
10 self-fulfilling prophecy. The operators are going to
11 start pushing away, because they're paying an
12 unrealistically high price just to support an
13 artificial supplier network.

14 So it's a difficult task to try and create
15 it. I think the ultimate challenge is do you create
16 more jobs. I'm sure you can say that you do create
17 more jobs with the regional supplier concept.

18 CHAIRMAN DECKER: Mary, do you have a
19 comment?

20 COMMISSIONER DiGIACOMO COLINS: Yes. I
21 have a question I would like to ask. We can assume

22 that the major marketplace will be in the
23 Philadelphia area and the other one will be in the
24 Pittsburgh area.

25 So assume we take your analysis and instead

45

1 of five regions we break it into two regions, east
2 and west, and we cap the number of licenses in each
3 of those regions, does that -- what type of result
4 does that get us? Have you thought that through?

5 Does that get us to creating more jobs and
6 promoting a diversity if we have two regions or is
7 that still an unknown?

8 MR. STELLE: I don't think you create more
9 jobs. At the end of the day, the jobs are created
10 based on the number of machines.

11 What you do create is a possible compromise
12 if that's the intent. I think that concept is viable
13 from a financial standpoint.

14 These manufacturers operate in several
15 hundred jurisdictions worldwide. The reason why this
16 concept is not used anywhere else in the world is
17 because it basically doesn't improve the speed to
18 market and the quality of the product once delivered
19 to the market.

20 At the end of the day, I think we want to
21 create the maximum number of jobs while at the same

22 time not diminishing the effect of the pack and
23 creating tax relief. I'm not sure you're
24 accomplishing anything by splitting the state in
25 half. It certainly is a possible compromise.

46

1 COMMISSIONER COY: Mr. Chairman?

2 CHAIRMAN DECKER: Go ahead, Jeff.

3 COMMISSIONER COY: Okay. Thank you.

4 Again, I'm pleased to see the amount of discussion
5 that this is developing.

6 Some of the comments that I read that came
7 back in the public comment that I have paid
8 particular attention to are what I thought were the
9 very thoughtful comments by the Legislative Black
10 Caucus and by several members of the General
11 Assembly, who incidentally were very supportive of
12 this legislation and who are looking to the Board
13 for, if not remedy in this regard, at least
14 participation in the process.

15 So the other thing that concerns me a
16 little bit about the response so far, respectfully,
17 Lynn, that this simply won't create jobs is that --
18 and I've heard this in our previous discussions --
19 Pennsylvania, in what we put together in Pennsylvania
20 through this Act, is really unique.

21 This is a very large distribution of slot
22 machines over a large geographical area as opposed,
23 for example, to New Jersey, which is a very small
24 geographic area in Atlantic City.

25 So we have heard in the previous arguments

47

1 and setting that Pennsylvania is going to have a
2 unique situation. So maybe our response needs to be
3 a little unique, too, and not just say, well, because
4 it doesn't work anyplace else and we should deal with
5 the largest company because they're the largest and,
6 therefore, the best, I think we need to be more
7 thoughtful.

8 CHAIRMAN DECKER: I don't think that's what
9 Lynn said.

10 COMMISSIONER COY: Well --

11 CHAIRMAN DECKER: I think the question of
12 the largest company doesn't mean we won't have
13 multiple distributors. I agree with your point in
14 that respect.

15 COMMISSIONER COY: And respectfully, I
16 disagree. The point of the matter is that we need to
17 get ourselves and the Board, therefore, to an area
18 where we can all agree, because I think it's a very
19 important subject that we want to do it right for
20 Pennsylvania.

21 If there's a chance -- if there's a

22 possibility of creating jobs that all -- if there's a
23 possibility for making minority or women
24 entrepreneurs more acceptable to environment, I think
25 we ought to err on the side of trying.

48

1 Mr. Chairman, I have another question about
2 another matter.

3 CHAIRMAN DECKER: Hold it for one second.
4 Chip?

5 COMMISSIONER MARSHALL: Just to -- Lynn, if
6 I could clarify or whatever, aside from the numerical
7 issue going back to what Tad was saying, I think it's
8 important that we understand the functions that we
9 would ask a distributor/supplier to be involved in,
10 and I think that may go to some of Jeff's comments in
11 terms of how unique we can be. So if you can add
12 that to that matrix or report, that would be helpful.

13 COMMISSIONER COY: Thank you.

14 CHAIRMAN DECKER: Ken and Jeff -- still the
15 same topic, Ken?

16 COMMISSIONER McCABE: Yes. Commissioner
17 Coy brought up something that made me a little bit
18 concerned about. If we set up the regional districts
19 to address special interest or special group, does
20 that give the appearance that we're favoring a group
21 and is that legal?

21 heard was that if the bill validator is part of the
22 machine, it may not need to be licensed but if it's
23 not part, it may be. Can you go a little further
24 with that for me?

25 COMMISSIONER DIGIACOMO COLINS: I can. We

50

1 were contemplating and discussing just how to handle
2 the manufacturers of the components of the slot
3 machines.

4 Does every manufacturer of every component
5 that goes into a slot machine have to be licensed, or
6 do we rely on licensing the manufacturer of the
7 machine that has placed all of those components and
8 just stop our licensing at that point and then rely
9 on testing and certification to validate integrity of
10 the machine?

11 I believe that in most jurisdictions that
12 is how it's done. So with respect to bill
13 validators, if the bill validator is placed in the
14 machine by the manufacturer of the machine, then the
15 company that actually made that validator does not
16 have to be manufactured -- have to be licensed. I'm
17 sorry.

18 However, if that company is making bill
19 validators and that company is installing them into
20 the machine, then we have to look into that company

21 and license them.

22 Then the third scenario we thought of was
23 what about a bill validator that is separate from the
24 machines in the kiosk somewhere, and that would be a
25 company -- that would be associated and the company

51

1 would have to be licensed.

2 COMMISSIONER COY: I guess my only thought
3 in response to -- you're obviously very thoughtful to
4 look at this whole thing, is that why wouldn't we
5 simply err on the side of caution and just require
6 licensure in all cases rather than -- rather than --
7 and I'm not to conclusion on that either. I'm just
8 wondering if that isn't the safer way to go.

9 COMMISSIONER DiGIACOMO COLINS: These are
10 just conversations that we have had in the working
11 group as we go through each and every element of the
12 regulations.

13 The overall feeling was that because the
14 machine manufacturer, the actual manufacturer of the
15 machine bears the burden of the licensing, has to
16 subject the machine to testing and certification,
17 that that in and of itself was ample.

18 CHAIRMAN DECKER: My reading of it when I
19 looked at it, Commissioner Coy, was if it was a
20 component part of the machine, then we wouldn't have
21 to license it; but if it's a separate add on, total,

22 then it's a question of they were trying to address
23 the timing, am I right, Commissioner Colins?

24 COMMISSIONER DiGIACOMO COLINS: Yes.

25 CHAIRMAN DECKER: That is what I understood

52

1 when I read it as comparing to other components.

2 COMMISSIONER COY: I would like to learn
3 more about it.

4 COMMISSIONER DiGIACOMO COLINS: I think our
5 interests were weighing the -- you know, weighing the
6 time and effort and expense versus the, you know,
7 efficiency.

8 We thought by licensing the manufacturer of
9 the entire machine, you were getting every part of
10 that machine.

11 CHAIRMAN DECKER: Are there anymore
12 questions from the Board about different comments,
13 about the comments?

14 Please.

15 COMMISSIONER CONABOY: Thank you,
16 Mr. Chairman. Just a quick comment and not to be --I
17 just want to follow up on Chairman Decker's comments
18 and certainly Commissioner Coy's comments.

19 I couldn't agree more that the debate
20 regarding this issue and all issues is helpful. That
21 is the charge of this Board. That is the charge of

22 the individual Commissioners. That's our
23 responsibility as we sit here.

24 So Commissioner Coy bringing this amendment
25 to this Board and obviously time and energy that is

53

1 spent on this issue by a lot of people is exactly
2 what we should be doing.

3 I want to commend you for bringing the
4 issue here. I want to commend everyone that has
5 worked very hard researching that issue. I just feel
6 compelled to comment on the work of Commissioner
7 Colins/Judge Colins and her presenting conclusions,
8 if you will.

9 I know that that is more the result of her
10 background and the amount of time that she has spent
11 with this working group who are varied individuals
12 who worked at both the House and Senate to bring this
13 bill to fruition and to bring this opportunity to the
14 citizens of the Commonwealth.

15 So I'm certainly not sitting here -- I
16 haven't discussed it at all with Commissioner Colins.
17 I'm not sitting here defending her presentation, but
18 I'm sitting here compelled to comment that her
19 presentation and conclusion that she came to I don't
20 think was in any way meant to represent that.

21 It was a position of the entire Board

22 rather than what she was -- what I think she was
23 attempting to do is present the findings that she has
24 spent an enormous amount of time working on with the
25 people that have quite a bit of background.

54

1 I just want to thank you, also,
2 Commissioner Colins, for the work and your
3 presentation. I know it wasn't meant to be presented
4 -- and I don't mean to say that about anyone --
5 overreact to Jeff, who I respect and Chip, your
6 reactions to that.

7 I just needed to follow-up on the work that
8 has been done. I know your conclusion was presented
9 in background as a Judge as we would expect you to.
10 Thank you very much.

11 COMMISSIONER DIGIACOMO COLINS: Also, just
12 for a point of clarification, nothing is the Board's
13 position until the Board votes on it.

14 I just bring these things to the Board as a
15 result of the working group and present it as the
16 Board's conclusion and vote. That's the way we
17 operate.

18 CHAIRMAN DECKER: That's right. The final
19 decision is for the Board. It does represent the
20 overwhelming majority of the feelings of the 15 or 20
21 people who formed this committee, am I correct about

22 that, Mary?

23 COMMISSIONER DiGIACOMO COLINS: Yes.

24 CHAIRMAN DECKER: Was the answer yes?

25 COMMISSIONER DiGIACOMO COLINS: Yes.

55

1 CHAIRMAN DECKER: So that's really how the
2 public should interpret this. I appreciate that.
3 I'll add my thanks on behalf of the Board for the
4 dedication of Commissioner Colins in moving this
5 process forward, not only on these set of regs but
6 the other regs as well.

7 The staff and the volunteer group, we
8 appreciate the work. It's really slugging through
9 the process.

10 Well, the Board is now going to do a couple
11 of things. One, we're going to postpone the vote on
12 these regs for now because we want to -- I think it's
13 very clear as a result of discussion that there are a
14 couple of issues we need to study a little bit more.

15 We do need a motion to post on the
16 Pennsylvania Bulletin and on the Board's website a
17 summary of the public comments regarding the general
18 manufacturer and supplier regulations and the
19 responses to those comments by the committee. We'll
20 make it clear it's the response of the committee, not

21 the adoptive response.

22 COMMISSIONER MARSHALL: So moved.

23 COMMISSIONER McCABE: Second.

24 CHAIRMAN DECKER: All of those in favor,
25 please indicate by saying aye.

56

1 COMMISSIONERS: Aye.

2 CHAIRMAN DECKER: Any opposed?

3 Motion carries.

4 As I said now regarding the regulations
5 themselves, we will postpone those until the next
6 meeting.

7 We're now going to move to the topic of
8 vendor licensing. At our recent meeting of the
9 Board, we voted to adopt the policy of licensing
10 non-gaming vendors who enter into business
11 relationships with slot/gaming facilities.

12 While we have not yet resolved regulations
13 addressing the licensing of non-gaming vendors, it is
14 important that we give the industry as much notice of
15 our intentions as possible.

16 This is particularly true regarding the
17 construction work that will begin on slot facilities,
18 hopefully, early on in the process.

19 To that end, I would propose a resolution
20 that the Board issue an industry letter -- excuse me,

21 industry notice letter formally alerting potential
22 slot operators to the Board's plan.

23 Let me cover this with you, if I might.

24 Under Section 1202(b)(4) of the Pennsylvania
25 Racehorses Development and Gaming Act, the

57

1 Pennsylvania Gaming Control Board has the exclusive
2 authority to issue, approve, condition, or deny the
3 issuance of all slot machine licenses in
4 Pennsylvania, whereas the key factor in the Board's
5 decision making process regarding any application for
6 licensure will be the integrity and credibility of
7 potential licensees in all aspects of their business
8 dealings and whereas the Board has an interest in
9 putting all future applicants for slot machine
10 licenses on notice as part of the review of
11 applications for licensure.

12 The Board intends to scrutinize any and all
13 vendor contracts and business relations entered into
14 by any applicant, regardless of whether these
15 contracts were created prior to filing an application
16 and whereas those interested in applying for slot
17 machine licenses will be expected to conduct due
18 diligence reviews of all vendors, contractors, and
19 subcontractors, including those the applicant has
20 contracted with for construction services.

21 Be it resolved that the Board authorizes
22 the issuance of an industry notice letter which will
23 be published on the Board's website and which
24 outlines the Board's intention to scrutinize vendor
25 contracts and business relationships entered into by

58

1 applicants for slot machines licenses.

2 COMMISSIONER MARSHALL: So moved.

3 CHAIRMAN DECKER: Thank you. Is there a
4 second?

5 COMMISSIONER McCABE: Second.

6 CHAIRMAN DECKER: Let me just -- before we
7 vote on it, let me cover with you briefly the letter
8 will be posted on the website. It covers, without it
9 having any specific criteria because we're going to
10 discuss those later, it does place some burden, some
11 obligation, and some responsibility as we said in the
12 resolution for applicants to do their own homework
13 with respect to those individuals and entities with
14 whom they intend to do business with.

15 With that said, any questions about it?

16 We'll call a vote then. All of those in
17 favor, please indicate by saying aye.

18 COMMISSIONERS: Aye.

19 CHAIRMAN DECKER: Any opposed?

20 The motion carries.

21 Administrative update is our next topic. I
22 have asked -- I have asked Sandy -- Commissioner
23 Sandy Rivers to update us on the work that is being
24 done to identify the candidates for the various
25 positions for the Board.

59

1 COMMISSIONER RIVERS: Mr. Chairman, thank
2 you. I would also like to thank all of the other
3 Commissioners for their time, effort, and energy in
4 the process we have been going through in the last
5 two and a half months.

6 As you know, in our March meeting, we
7 talked about the number of people we would like to
8 have on board by the end of the fiscal period.

9 Unfortunately, because of the Supreme Court
10 case, we have decided not to offer individual
11 positions while at the same time interviewing people
12 so when the court case is decided, and assuming it's
13 in our favor, we can be in a position to hire those
14 people.

15 During the past two and a half months, we
16 interviewed approximately 70 people. Of that 70, we
17 have identified a fair number of qualified, bona
18 fide, and strong applicants to the extent that these
19 are individuals that if the court decision goes our
20 way and they ask that court decision be rendered, we

21 will be on the telephone and issue letters to these
22 individuals offering them positions with the
23 Pennsylvania Gaming Control Board.

24 Lynn Stelle will talk later about updating
25 you regarding some of this information, and I would

60

1 also like to thank the staff, especially Mike Walsh
2 and Sue Hensel, for their involvement in this
3 interview process.

4 I can assure all of you that the people
5 that we're going to offer employment to are
6 representative of people within the Commonwealth.

7 We have a very diversified applicant pool;
8 and in the process, we are going to have a very
9 diversified staff that will be employed.

10 I think the quality -- and I would really
11 like to take special -- a special moment to the
12 individuals that have applied for positions with us
13 because of the fact they bring a lot of skill.

14 The thing that I like, too, is with their
15 skill sets, there are places within our organization.
16 I think we also took a unique task in the
17 interviewing process, an individual might have been
18 applying for job X; but during the process, we found
19 that that individual had particular skills and/or
20 abilities in some other area, we basically would

21 offer them the opportunity of going into another area
22 other than the actual area they applied for.

23 I think a lot of the applicants were
24 surprised that we just didn't hold them to what they
25 indicated on their application. I think this is

61

1 where the skill of this staff really came to the
2 forefront, because it allowed us the opportunity of
3 taking advantage of what people thought and felt
4 would be needed in certain positions and as we
5 interview these individuals, they identified that
6 they had the skills and the capabilities.

7 So that's where we are today. We're still
8 continuing. Starting next Monday, the 6th of June,
9 there will be another round of interviewing taking
10 place. Mike is shaking his head in acknowledgment.

11 So we're going to continue this process. I
12 can tell you that when it is all over and done with,
13 we will have a staff that I think all of you can be
14 appreciative of and I think the Board especially can
15 be very proud of because of the abilities and skills
16 of those individuals.

17 So, Mr. Chairman, I give it back to you.

18 CHAIRMAN DECKER: Thank you. Because this
19 is going to really heat up over the next month or so,

20 I have asked Commissioner Coy and he has graciously
21 volunteered to participate with Sandy in these
22 interviews.

23 Also earlier today, I asked Commissioner
24 Marshall to get involved in that process as well.
25 The rest of us will all be around to interview,

62

1 although we have our focus on other activities. So I
2 think that's the concept.

3 COMMISSIONER RIVERS: Mr. Chairman, if I
4 may, I would also like to add that Commissioner Coy
5 is my right-hand man. It's almost like a tag team
6 between the two of us. Without his presence and his
7 thoughtful knowledge, I don't think we will be as far
8 along as we are now. So, Jeff, hang in there and
9 stick with us.

10 CHAIRMAN DECKER: Commissioner Coy and Mike
11 Walsh have been recruiting for us. We have got
12 people lined up. We've hired some good people in the
13 State Government and other places. So we will be
14 looking forward in continuing that process.

15 Again, I'm twisting Chip's arm in getting
16 involved as well and the rest of us will be involved
17 in the interviewing process, but at least the initial
18 will be involved with those Commissioners and Mike,
19 Mike Walsh.

20 TREASURER CASEY: Mr. Chairman, I have a
21 question.

22 CHAIRMAN DECKER: Please.

23 TREASURER CASEY: For Commissioner Rivers
24 or Commissioner Coy or anyone who may want to answer
25 this. I may have missed it at a previous Board

63

1 meeting.

2 With regard to employees, in terms of -- I
3 know you did walk through some of the process, but in
4 terms of the regulations or any kind of restrictions
5 that govern their employment, are they governed by
6 the -- are they meant to adhere to the Governor's
7 Code of Conduct or is that a requirement? I'm not
8 sure how that process works. I know in our agency we
9 have a separate code of conduct requirement.

10 CHAIRMAN DECKER: Sandy, can I comment on
11 that?

12 COMMISSIONER RIVERS: Go ahead.

13 CHAIRMAN DECKER: We adopted at the
14 beginning, the first meeting, the State Ethics Code
15 as our code.

16 However, the Treasurer has a good point.
17 We are going to add to that. I think Commissioners
18 Coy and Marshall have been involved in an attempt to
19 see what we're going to add to it.

20 We're not there yet; but for example, how
21 would we deal with during the application process
22 after your applications are filed where the X party
23 is issued? Do we need to add any more conflict of
24 interest?

25 Do you want to comment at all, Jeff and

64

1 Chip?

2 COMMISSIONER RIVERS: Mr. Chairman, I would
3 like to comment on that before they respond. I think
4 in addition to that in terms of the employees that we
5 offer positions to, we're going to have them sign
6 disclosure statements. Our Deputy Director for the
7 Administration and Mike Walsh are working on a
8 variety of dos and don'ts and things that people have
9 to adhere to, so that we are in a good position to
10 list 15 to 20 issues that would be a violation of
11 ethics and a violation of how we perform and, more
12 importantly, a violation of a code of conduct for our
13 particular office. So that issue is being addressed
14 as we speak.

15 TREASURER CASEY: Thank you very much.

16 CHAIRMAN DECKER: Jeff or Chip, do you have
17 anything to add to that?

18 COMMISSIONER MARSHALL: I would just add
19 that the Board has agreed and accepts that we will

20 have to do something for the Commissioners, Members
21 of the Board, once the application and review process
22 starts.

23 I think once we get that into place then I
24 would assume, Sandy, we would all look into
25 incorporating that into an employee code of conduct.

65

1 There may be issues that don't exist in other places
2 that we may want to tweak a little bit and probably
3 take a look at yours.

4 CHAIRMAN DECKER: I was just going to say,
5 if you could give us a copy -- it's good to see some
6 independent ones as well.

7 TREASURER CASEY: Sure. Thank you.

8 CHAIRMAN DECKER: Any other questions on
9 that point?

10 Also, under the heading of administrative
11 update is a report from Lynn Stelle. Lynn is going
12 to provide us with a, quote, unquote, high level view
13 regarding the budgetary issues, considerations for
14 this year and next year.

15 Lynn?

16 MR. STELLE: Thank you. I'll make this
17 somewhat brief. I would like to recap the current
18 budget and discuss for a second the proposed or the
19 planning process in preparation of the '05-'06

20 budget.

21 The '04-'05 budget was presented and
22 approved by the Board several months ago. We
23 anticipate a total expenditure for the year of
24 approximately \$3.9 million.

25 Unfortunately, due to the delays that

66

1 Commissioner Rivers just referred to with the
2 challenges and the Supreme Court, we're going to fall
3 \$600,000 below that because of our inability in some
4 of our hiring decisions.

5 One third of those expenditures during the
6 first year have been for furniture, fixtures,
7 computers, telephones, etc., installation costs, as
8 well as professional and consulting services.

9 As you know, at the present time, we only
10 have 18 employees. We, unfortunately, will make no
11 further hiring decisions probably until the beginning
12 of the next fiscal year.

13 So basically, we're about to close out our
14 '04-'05 budget. We're preparing the process
15 presenting to you a '05-'06 budget for your review,
16 discussion, and hopeful approval.

17 I would just like to briefly give you some
18 insight into some key areas we're developing in that
19 budget, certainly due to the significant work and

20 effort Commissioners Rivers, Coy, and special
21 assistants to the Board, Mike Walsh and Susan Hensel.

22 Personnel is obviously about 83 percent of
23 our anticipated budget expenditure in the next fiscal
24 year.

25 Most important line item of the proposed

67

1 budget also includes a hopefully rapid start-up and
2 ramp up assuming successful conclusion of review by
3 the Supreme Court.

4 From our current 18 staff, we expect to
5 hire 78 staff in the first quarter of the fiscal year
6 including the executive director, the director of
7 BIE, and the chief counsel; 53 staff during the
8 second quarter; 11 during the third; and 7 during the
9 fourth to bring us up to a full complement.

10 Our office space, Mike Walsh has done a
11 great job negotiating excellent fees and prices on
12 our furniture and fixtures. It's pretty much
13 expensed during our last fiscal year and construction
14 should be completed. There's no additional cost, no
15 significant additional cost anticipated.

16 The Board anticipates we will probably need
17 to discuss and review the development of an east and
18 west regional office, especially for the purposes of
19 some executive and, more importantly, investigatory

20 and enforcement activities. Those offices will be
21 located probably in the Pittsburgh and Philly area.

22 On consulting services, until we get up to
23 full staffing, we'll need to, as discussed earlier
24 today, the development of the independent testing
25 laboratory.

68

1 We have had several presentations and
2 hopefully we will bring that to a conclusion in the
3 next few months. The hiring and the testing labs,
4 those that serve as consultants to the Board help us
5 establish our broad standards -- excuse me -- to the
6 Board's standards for testing and certification and
7 as well as help us with our regulatory requirements.

8 Management consulting services additionally
9 is anticipated. The Board may extend the current
10 contracts to keep this on the Board and keep it
11 growing until such time as we have our full staff
12 complement up and running.

13 IT consulting services, one of the biggest
14 tasks ahead of us is developing the internal systems
15 for managing, tracking more than 30,000 license
16 applications we'll probably be receiving.

17 I've included a development budget of
18 \$200,000 in the new fiscal budget for that, as well
19 as later on discussion of the acquisition of

20 that very shortly, that they present the budget as
21 quickly as possible, the budget requests to the Board
22 per your review.

23 The State Police is somewhat delayed,
24 because we have to complete a statement of work and
25 make a full determination as to the division of

70

1 responsibilities between the State Police and the
2 Bureau of Investigation and Enforcement, as well as
3 other areas of the Board's activities.

4 That's the summary overview. If there are
5 any questions, please let me know.

6 CHAIRMAN DECKER: Any questions as to how
7 we're proceeding and big items popping up?

8 COMMISSIONER COY: Mr. Chairman, I think it
9 is probably important for all of us to understand the
10 budgetary process that the -- at least as my
11 understanding that the Board will not require an
12 appropriation in this year's budget of the
13 Commonwealth, because we continue to operate under
14 the appropriation which was appropriated in the
15 course of the passage of Act 71.

16 And therefore, the findings that were
17 appropriated in that Act continue to cover the costs
18 of the operation of the Board. There will be,
19 therefore, no appropriation in this year's state

20 budget to the Gaming Commission.

21 So if anyone happens to page through to the
22 state budget and see that there is not an
23 appropriation of the Gaming Commission for this year,
24 that is the reason. At least, that's my
25 understanding.

71

1 CHAIRMAN DECKER: I think you're right.

2 COMMISSIONER COY: And I think it's good
3 that everyone understands how that works. Unlike
4 Secretary Wolff's appropriation of Department of
5 Agriculture and Treasurer Casey's, a budget is
6 required. This one is not, and that is the reason.

7 CHAIRMAN DECKER: Thank you. Thanks for
8 clarifying that. Any other comments? Any other
9 questions?

10 Lynn, thanks for that. Thanks for doing
11 that and getting us started.

12 MR. STELLE: You're welcome.

13 CHAIRMAN DECKER: Is there any other new
14 or, for that matter, old business to come before the
15 meeting? Any other questions from anyone?

16 Following the meeting today, the Board will
17 have an Executive Session for purpose of discussing
18 personnel matters and conducting some interviews. No
19 decisions will be made today. So no business will be

20 conducted during the Executive Session. There's no
21 reason to stay around is my point.

22 The Board's next meeting is scheduled for
23 June 16th at 10:00 a.m. in Harrisburg. May I have a
24 motion to adjourn the meeting?

25 COMMISSIONER RIVERS: So moved.

72

1 COMMISSIONER McCABE: Second.

2 CHAIRMAN DECKER: The meeting is adjourned.
3 Thank you very much.

4 (The meeting concluded at 11:39 a.m.)

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20
21
22
23
24
25

73

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.

5

6

7

Hillary M. Hazlett, Reporter
Notary Public

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25