PENNSYLVANIA GAMING CONTROL BOARD

PHILADELPHIA MARRIOTT HOTEL
SALON H
PHILADELPHIA, PENNSYLVANIA

TUESDAY, MARCH 15, 2005, 3:03 P.M.

BEFORE:

THOMAS DECKER, CHAIRMAN
MARY DIGIACOMO COLINS
WILLIAM P. CONABOY
JEFFREY W. COY
KENNETH T. McCABE
JOSEPH W. MARSHALL, III
SANFORD RIVERS
GREGORY C. FAJT, SECRETARY OF REVENUE
DENNIS WOLFF, SECRETARY OF AGRICULTURE

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC
<table>
<thead>
<tr>
<th>WITNESS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mary DiGiacomo Colins</td>
<td></td>
</tr>
<tr>
<td>Michael French</td>
<td></td>
</tr>
<tr>
<td>Lynn Stelle</td>
<td></td>
</tr>
<tr>
<td>Sanford Rivers</td>
<td></td>
</tr>
<tr>
<td>Michael Walsh</td>
<td></td>
</tr>
</tbody>
</table>
CHAIRMAN DECKER: Good afternoon, everyone. Thank you for coming to the meeting. I'm Tad Decker. I'm Chairman of the Pennsylvania Gaming Control Board. I would like to welcome the Board and all of you to this meeting of the Board.

We do not have a quorum yet. Chip Marshall is running a little late. We can do some of the meeting and then we'll have a quorum.

I'm noting for the record, you can read the signs as well as I can, that each of the Board members are here and Chip will be here shortly.

The minutes for the last meeting are available on our website; and you will note, as usual, this meeting is also being recorded by a stenographer.

Let's start with the Pledge of Allegiance.

Thank you.

(Pledge of Allegiance.)

CHAIRMAN DECKER: Thank you. Our first item of business today is going to be an update on the regulations and the report on the Legislative Working Group.

I want to thank a number of people -- Mary is going to cover that in detail -- who have volunteered their time in addition to our own massive
staff to help us on this project.

At the last meeting, Commissioner Colins discussed the work that had been done on our initial set of general regs and, again, it was an initial set, relating to manufacturer and licensing applications. I have asked Mary to update us on this process since that last meeting.

Mary?

COMMISSIONER DiGIACOMO COLINS: Okay.

Thank you very much, Chairman Decker.

I'm going to be brief today because I'm just going to update you on the process that we are engaged in which will result in the publication of the regulations.

As you know at the last meeting, I discussed a work plan, basically a footprint that the Board was going to follow in the drafting of regulations, publishing them, receiving public comment, reviewing that comment, submitting the finished draft to the Attorney General for the Attorney General's review, and then revamping based on whatever comment was received by the Attorney General resulting in a final work product, which would be temporary regulations, which would govern us for the next three years until such time the
regulations are required by Statute to be made public.

In order to do this, we have completed a number of drafts, just myself and Michelle Afragola, Susan Hensel, who is secretary to the Board. We have been engaged in our own endeavor regarding this.

We have been able to enlist and receive the help of, what is now, a working group, which consists of different attorneys with experience and expertise in not only drafting regulations, because they are people who work for different legislative caucuses and have had extensive experience in drafting regulations; for example, the PUC, the Liquor Control Board, other regulatory agencies, but also because these are the people who basically have been most involved for the last four or five years in the legislation itself.

They have agreed to assist us, and we've had our first working meeting and we're going to try to meet hopefully once a week, if possible, as a group and go through and create a body of regulations to address each of the phases that I outlined in our previous meeting.

We're going to be working with Fran
Cleaver, an attorney and Chief of Staff from Senator Thompson's office; Kathy Akin, who is an assistant to Steve McNett and has volunteered to assist us; Chris Craig, who is counsel from Senator Fumo's office and has also agreed to lend his expertise in our endeavor; George Bedwick, an attorney from Representative Veon's office; Edgar Powell, who is a staff member for Representative Deweese; Michael Sawyer, who is staff counsel for the House Judiciary Committee.

All of these attorneys who I have been meeting with and talking with have precise experience in not just the legislative process but the regulatory process.

One of the reasons I'm grateful for us to be going this route is that we can fashion our regulations in such a way that when they become permanent in three years, the process is done. We don't have to reinvent them.

So after our first meeting, we received a lot of input, which helped us augment that which we had already done.

We had a framework based on the statutory provisions. We added to it in terms of what the thinking through and adding elements to what the
process of the Board will be, very practical things.

These regulations that we're looking at to adopt for the Board are patterned on the PUC regulations, the LCB regulations. They're very basic, administrative regulations.

We're working with these individuals, and I think we've been able to enhance the product that we started out with. I look forward to it.

Now, I'm anticipating that the next meeting we have will be sometime in mid-April. I'm very hopeful to be able to get this body to move so that we can have completed by that time general regulations that I spoke about, manufacturer/supplier regulations and we can then fit in the next group of regulations into our process thereafter.

That's a basic update. We're going to meet next week again. That's where we're going with this. Thank you.

CHAIRMAN DECKER: Thank you, Commissioner.

Let me just add something to this. Our group, the seven here and the seven out in the audience, I think that's our total right now, no one here has expertise, maybe other than Jeff Coy to some degree, in drafting regulations.
Our point in trying to put this together was to get two types of expertise. The first is expertise in helping us prepare these formal regulations, you know, the process, the formality. To Mary's point, our concept was we don't want to have to do this -- was it three years, Mary?

COMMISSIONER DIGIACOMO COLINS: Yes.

CHAIRMAN DECKER: Second, every one of the individuals who have volunteered had a vested interest. I know you might think this in a negative way but had an interest in seeing that this Statute comes to life. For them to volunteer their time here is greatly appreciated.

At the end of the day, these regulations are going to be our regulations and not the Drafting Committee's regulations. So I want to make sure everyone understands that. There is no issue about independence on this.

This is a very, very helpful group of individuals, very knowledgable. I don't know how many years of drafting experience. It's probably 100, isn't it, Mary? While our group is going to be preparing initial drafts, we're going to get a lot of help and a lot of valuable input as to how you get this done. We very much appreciate that.
Ultimately, I think we want to offer all seven of them jobs. I'm joking when I say that. But we need people like this in the long term. We hope to hire individuals, who will ultimately develop this expertise themselves.

Any questions from the Board members on this?

Okay. All right. Thank you. Again, we hope to get drafts of those resolutions. What did you say, Mary? We hope to get looks at those at our April 12th meeting.

COMMISSIONER DiGiacomo COLINS: I'm hoping we'll have a very complete set that gets us up through manufacturers and suppliers up to that time.

CHAIRMAN DECKER: It's a guide.

COMMISSIONER DiGiacomo COLINS: Right.

CHAIRMAN DECKER: Thank you.

In December, the Board selected Pricewaterhouse Coopers to assist the Board with a variety of issues, including licensing application forms for manufacturers and suppliers.

With respect to these forms, we asked PWC to evaluate best practices for forms used in other jurisdictions.
Mike French is here today to report to us on these applications and to provide a status report on PWC's activities.

Mike?

MR. FRENCH: Thanks, Chairman Decker, and good afternoon.

PWC has two projects that are currently under way. The first is the application process and the review of the documents, many of which were put together and assembled by the staff members and Lynn Stelle.

We, over the past few weeks, have reviewed the method that Lynn and the team took -- went through to develop these forms. They took a number of jurisdictions. They looked in New Jersey, New Mexico, West Virginia, Delaware, and South Dakota and assembled these applications.

We tested them in house for some of the data that we had. We edited them. We provided some cosmetic changes and for the forms associated with key employees, manufacturer/supplier application, and disclosure information forms, the manufacturer/supplier employee application, and disclosure forms, the manufacturers and suppliers affirmative action statement, and the instructions
for filing an application for a manufacturer or
supplier license.

We've reviewed them in total and we believe

they're comprehensive and essentially complete. That
was the first issue we addressed and we completed
that review for the Board.

I'll speak a little bit about where we stand with the best practices analysis. We have met
with the Board, discussed the areas where we thought
we should focus. There are essentially six areas
where we are going to be analyzing best practices.

The first one being, Gaming Control Board
organizational structure. The second one being the
background investigation processes. The third one
being the best practices as it relates to security.
The fourth, best practices as it relates to
enforcement; and the fifth best practice as it
relates to internal controls.

We have solicited input from Board members,
and we have also been assisted by the Pennsylvania
State Police in gathering this information.

What we have done in the first phases is we
have developed, what I would call, a discussion
document, which is a detailed questionnaire, which we
are using as a basis for, you know, collecting all of this information.

We identified nine jurisdictions, and they will become the basis for this best practices research.

We selected New Jersey, Delaware, and West Virginia primarily due to their proximity to the State of Pennsylvania, as well as the fact that Delaware and West Virginia have central computer systems.

We selected Iowa and Missouri based on some information received from the Pennsylvania State Police. We suggested -- we selected Ontario and Michigan based on PWC's history with those jurisdictions and the fact that we have a lot of information already on hand.

We selected Mississippi because of the geographical locations of the casinos, somewhat similar to the situation we have here in the Commonwealth. We selected Nevada because it's the largest, most extensive gaming in North America.

This research has been ongoing, and we have worked with the staff and with Lynn Stelle to collect the names of the people that we needed to meet with either face to face or via telephone in these
jurisdictions.

Today, we have met with the New Jersey Division of Gaming Enforcement. We met with a number of people there. Extensively, we spent the better part of the day there talking to them and going through this discussion document in detail.

We have also met out in Las Vegas face to face with the Investigations Division of the Nevada Gaming Control Board.

We have conducted telephone interviews with the West Virginia lottery, with various people there. On the 17th, which is Thursday, we'll be traveling down to Dover, Delaware, to meet with the director, deputy director and principal deputy of the Delaware lottery. These are all under way.

On the 22nd, we'll be meeting with the superintendent of Investigations and the Enforcement Bureau for the Province of Ontario. This will be by telephone. We'll be discussing best practices with the executive director of the Alcohol and Gaming Commission for the Province of Ontario. These are people we have dealt with in the past.

We have calls in to Iowa, Missouri, Michigan, and Mississippi. We are in the process of
scheduling those meetings. They'll probably be via telephone to go through our discussion document with them.

Concurrently, we're also developing a template to assimilate all of this data and consolidate it with what we feel are the best practices.

We have had significant, 100 percent cooperation from all of the jurisdictions to date. We believe that we're going to come up with a fairly comprehensive document with what those best practices are.

Our plan is to -- and it's dependent largely on the response we get from the last six jurisdictions that we have to interview.

Our plan is to, hopefully, in a month, be able to, you know, assimilate this data in some kind of a deliverable and draft form, which we would then prepare and provide to the Board for their comment, review, and questions. That's where we stand.

CHAIRMAN DECKER: Any questions of Mike?

COMMISSIONER COY: I do -- go ahead, Ken.

CHAIRMAN DECKER: Please.

COMMISSIONER McCabe: How do you foresee the package you put together? What do you see it
looking like when you present it to us?

MR. FRENCH: Well, to be honest, we haven't finished the template yet. We are going to have six different categories. We're going to subcategories in those six, like where we see there are common approaches in these jurisdictions -- some being more mature than others -- have followed and where they have in many cases in confidence told us this is the way we think it should be done, we will summarize those comments and say, this is what we believe is the best practice for this category or subcategory.

COMMISSIONER McCABE: Are we then also going to be able to see -- is it going to be a part of this project where we'll see what each state does too? They'll be best practices, but you'll also have then the way Nevada does it, the way Jersey does it, the way Dover does it so we can look for that?

MR. FRENCH: No.

COMMISSIONER McCABE: Why not?

MR. FRENCH: The reason for that is we discussed at length with everybody we have talked to so far, and their biggest concern is they do not want what we feel their individual best practices or their opinions, in many cases their opinions, conveyed
unless they are conveyed, you know, in total, in a consolidated format.

So in order to get people to give us their candid opinions in what they do, we have taken the position that we will consolidate those. In some instances, there may not be a conclusive best practice.

COMMISSIONER McCabe: So are you going to consolidate what is best practice for Pennsylvania?

MR. FRENCH: Yes. We're asking them not only what their best practices are, but we'll also ask them what they think if they were put in the position in Pennsylvania, how they think Pennsylvania might differ and what might be the best road to take.

CHAIRMAN DECKER: Mike, what we could do -- I'll make a suggestion. What we could do in some situations is have a grid and have a topic and show Nevada does it this way without getting into comments.

MR. FRENCH: Yeah, we can develop something, that eight of the nine jurisdictions do it this way --

CHAIRMAN DECKER: Without getting into the underlying comments.

MR. FRENCH: Right.
CHAIRMAN DECKER: Necessarily form the recommendation.

MR. FRENCH: I believe there's going to be some information, you know, that is consistent and some that will be inconsistent. We will say that the data that we collected was not consistent upon all jurisdictions. Some do it this way. Some do it that way.

COMMISSIONER COY: Mr. Chairman?

CHAIRMAN DECKER: Please, go ahead, Jeff.

COMMISSIONER COY: That was the direction of my question. I guess the reason for asking it was, my question was going to be are all of the states forthcoming and willing to share information? I guess I hear your response.

So if indeed it's best to -- in a report to us give us consensus information or information as a total sum, if that's going to help you elicit better information from those jurisdictions, then I think that's probably better, too, if it's guaranteeing some sort of generality and response as opposed to this is the way each state does it, especially if they consider some of it proprietary in a way. I guess as long as we're getting a response through you
and if it's answered in general terms, I would rather
have it that way than them being concerned about
giving information that they shouldn't, if that makes
sense.

MR. FRENCH: Yeah. They made it clear in
every meeting we had to date they wanted this
information to be held in confidence.

COMMISSIONER COY: Thank you.

COMMISSIONER CONABOY: Yes, I have a
question. I want to go back to the first part of
your presentation, the first task that you were
charged with.

MR. FRENCH: Sure.

COMMISSIONER CONABOY: Because I think it's
important that the public is aware that -- of the
tasks that are being completed. So could you just
tell me again the documents that you reviewed?

MR. FRENCH: Yes. I probably went too
fast.

CHAIRMAN DECKER: This is on the
application?

COMMISSIONER CONABOY: Yes.

MR. FRENCH: The applications, yes.

Essentially, there's five applications that have been
prepared by the staff and, you know, we've reviewed
them in total. We believe them to be comprehensive and complete based on our testing, based on the five markets that they used on their benchmark.

Those applications are the key employee qualifier form, the manufacturer/supplier application and disclosure information form for the companies and vendors, the supplier/manufacturer employee application and disclosure information form for the individuals, the manufacturer/suppliers affirmative action statement, which we have reviewed, and the instructions for filing an application for a manufacturer/supplier license.

COMMISSIONER CONABOY: So again, because I think it's important for the public to be aware of that so you -- your Pricewaterhouse has reviewed the work that was done by Lynn Stelle and other staff members of the Board and those five key documents. Your observations were a very comprehensive and complete and so they are ready to go.

MR. FRENCH: Yes. They were very well done when we got them. In many cases, you know, changes were editorial, were cosmetic; but from what you need in response and what we have seen in the past, they're complete and they're done.
COMMISSIONER CONABOY: Thank you very much.

Obviously, we're pleased with that. I want to thank also Lynn and others at the -- other employees that worked on this document.

I think it's very important that each meeting we make the public aware of the amount of work that is being done and what is complete and ready to go. Thank you very much.

COMMISSIONER COY: Mr. Chairman?

CHAIRMAN DECKER: Please.

COMMISSIONER COY: One more item. If you said it in a peripheral manner, that's fine; but I want to ask directly, are you attempting to elicit from the other jurisdictions what they do about minority participation in every aspect?

MR. FRENCH: We have not done that.

COMMISSIONER COY: Is it possible to add that to your areas of concern?

MR. FRENCH: Sure.

COMMISSIONER COY: I think it would be interesting for me, at least, to know what other jurisdictions are doing.

The Statute directly points to it and calls for it. I think if we attempt in an affirmative manner to do that, we would be good.
MR. FRENCH: That's fine.

COMMISSIONER DiGIACOMO COLINS: Would you repeat what you said, please?

CHAIRMAN DECKER: Do you want to repeat that one more time?

COMMISSIONER COY: I don't know if I can.

CHAIRMAN DECKER: I think what --

COMMISSIONER COY: That's what she's for.

CHAIRMAN DECKER: I think what Commissioner Coy is saying is we should ask PWC to take on another assignment in addition to the two and take on a third one with the internal IT operations.

Coming back to what Commissioner Coy said is we should take a look at some of the best practices in other jurisdictions as to what they do about implementing their EO opportunities and also underlying -- am I saying this right, Jeff?

COMMISSIONER COY: Yes.

CHAIRMAN DECKER: The underlying activities that each of these Commissions have taken to comply with their statutory requirements.

We've seen firsthand both in New Jersey and we'll see it more tomorrow when we visit but also in Nevada. I think it would be worth it to go back to a
couple of those. I'm sorry we didn't think of that ahead of time.

MR. FRENCH: That will be easy to accomplish.

COMMISSIONER COY: It will, Mr. Chairman, I'm sure, be a work in progress for us, but I think the more assistance we have in seeing what happens and has happened in other jurisdictions, it will give us another idea about how we can be helpful.

CHAIRMAN DECKER: It's a very good idea.

Are there any other questions for Mike?

One thing I might note, because Commissioner Colins and I have talked about this earlier, as we move forward with these regulations on manufacturers and suppliers to the extent that there are some changes in the basic draft, we may have to come back to Lynn Stelle and Mike and PWC to make sure that the application form is consistent with the final regs.

We'll keep that in mind that as we work through it to make sure that if we make some changes there, we might have to make some changes in the application.

Okay. Any other questions?

Thank you very much.
CHAIRMAN DECKER: Our next item today is on testing and certification standards. In addition to PWC looking at other jurisdictions best practices for forms and other procedures and processes, we have asked Lynn Stelle to study how other jurisdictions deal with testing and certification standards for slot machines.

As you know, this is an important area that the Board will have to address as we bring gaming to Pennsylvania.

Lynn will provide us with an overview of what he has learned to date. Lynn?

MR. STELLE: Thank you very much. Before I begin, I would like to amplify Michael's comments by thanking specifically Captain Ron Petyak and Lieutenant Michael Rudolph for their great help. The State Police have been invaluable in getting the application forms done correctly and presented to the Board.

CHAIRMAN DECKER: Thank you.

MR. STELLE: As we move forward discussing the manufacturers and suppliers and considering the licensing of manufacturers and suppliers, it's
important that we provide guidelines and standards
that will be required for the gaming machines and the
related equipment that will be sold and installed
within the state.

These standards and guidelines will be
divided into two very broad categories,
communications and operations. To do this, we need
to establish a way to test and certify the equipment.
The purpose of establishing the standards
and guidelines is to establish in the Commonwealth

that we will deliver and maintain all aspects of
gaming at the highest level of integrity and control
by providing to every manufacturer and every supplier
very specific requirements of each and every piece of
equipment and software.

To enforce these standards and guidelines
and to measure compliance, the Commonwealth will
establish a laboratory. The laboratory will inspect,
test, certify, and establish compliance with these
standards.

In most jurisdictions of the United States,
we found that the regulatory body has been assisted
in the creation of these standards and guidelines by
one or more of several independent testing and
certification laboratories.
Additionally, the independent testing and certification laboratory has assisted these jurisdictions in the creation of their own gaming laboratory.

Today, there are only three jurisdictions that operate their own labs without the use of these private laboratories for assistance. Most jurisdictions have chosen to partner with the independent laboratories to share the work.

Act 71 offers the Board specific direction as regards to certification and testing of all gaming equipment employed in the Commonwealth.

To accomplish the requirements of the Act and develop the standards to be implemented within the state, it will be necessary to acquire assistance for the Board.

We have researched the practices in other jurisdictions. I would like to provide the Board with a summary of overall testing and certification as the first step in developing our own lab.

To start off, what do gaming laboratories do? The backboard of any gaming activity is the perception and reality of the level of integrity and honesty offered by the games and facilities licensed
within the jurisdiction.

The foundation of that probity is the machines and the games themselves. It's incumbent upon the Commonwealth to ensure that the games that are in play and the licensed entities perform as advertised and that the players can trust that the games provide fair and honest play. That's the first role of the gaming laboratory.

The lab will provide a highly specialized and technical interface between the Gaming Board and the actual licensee and their selected gaming machines and manufacturers.

Based on the jurisdiction, the gaming test laboratory will test every machine or sample those machines; a decision will have to be established by the Board.

Initially, the Gaming Board will have to rely heavily on an outside vendor to supply the expertise in fulfilling these requirements. Within the scope of the Act, the Board is allowed three years to establish its own laboratory.

This presentation is just the first step to assist the Board in understanding the role of the lab, the best practices in other jurisdictions, and the steps necessary in creating our own testing
The establishment of a lab is a very exacting science that requires specific knowledge, training, and experience. It is recommended that the Board move forward to review the organizations capable of providing these valuable services as quickly as possible. It should be noted that the industry practice is the cost of the testing and certification of the slot machines and the gambling related equipment is borne by the manufacturers directly, not by the Commonwealth and not by the Board. The BGCB testing certification capability will need to be incorporated into three areas; professional facility large enough for the acquisition of new equipment and technology on a regular basis with security and documentation management capability. Trained personnel, training is a constant in gaming. Games are created daily. On a daily basis, new challenges are found. The technical expertise, expertise in hardware, electronics, software, mathematics, network
conductivity, and communications, including gaming equipment and associated equipment as well. It also needs to be independent from the operators, the manufacturers, and any other pressures. It has to have high integrity or integrity without question.

The laboratory will need to address the following: Communication protocol testing. The Department of Revenue has recently selected a Central Control System vendor. It is the responsibility of the laboratory to make sure that all devices connected to the

Central System communicate properly through to what is referred to as a communication protocol. You can relate a protocol to a foreign language. The lab needs to confirm that all equipment within the licensed facility speak the same languages with all its nuisances. I compare this to a visit I make in the midwest. When I go to a restaurant and the waitress asks, do you want a pop? I say, no, I have one. He lives in Chicago. She replies, no, I mean, do you want something to drink? The nuisances of the protocol are just as difficult. There are significant challenges in
making sure the protocols work correctly.

To determine the levels of security and control of the machines based on the scope and definition of the protocol, the communication protocol allows the state's Centralized Computer System to control the functions of each and every machine, the constant monitoring of all activity and reporting gaming results in a real-time environment, mechanical, electrical, and software testing in each game, testing at multiple levels including mechanism, the gaming operating system and the game performance.

As each game is introduced to the lab, the lab will test the machine in every aspect. This will include the following: Mechanical and electrical aspects of the gaming, including the coin/bill acceptor, the ticket-in ticket-out mechanism.

Special care will be taken to make sure the machines are not susceptible to any and all illegal interventions.

Software testing, sometimes referred to as EPROM, the actual encoded chip within the machine is tested for its ability to perform as specified within the game documentation.

It's also necessary to achieve the
statutory win/loss ratio that is achieved by every machine.

Each machine is required to have its own personal identity. That is encoded within the EPROM and is required as a prerequisite to play.

This personal identity is what will allow our Central System to control each individual machine and make sure that every individual machine is properly secure.

In essence, we'll have 61,000 potential individual machines controlled through these identifying traits.

What that brings us down to is, where are we today? Well, in researching this, we found there is really only three companies that provide these services in the United States and, of course, are the three states that I mentioned earlier that provide their own.

I suggest that the Board goes to the next step and does a complete evaluation of the three companies providing these services. They include Gaming Labs International, Inc., BMN Test Labs, and Nick Farley and Associates.

At this point without going further into their identity, I think that will give you a basic
update on of where we are in our research and what we need to do is this next step.

CHAIRMAN DECKER: Any questions of Lynn?

COMMISSIONER McCabe: Lynn, do you know what the three states that have the state labs, what do they do when they have a backlog of work?

MR. STELLE: Well, actually, they call up an independent laboratory for help. I can't tell you exactly which state it was. I think it was Mississippi. They got themselves in trouble with their lab. They went back to one of these companies -- I believe it was GLI -- to take over the lab because they did have a backlog they couldn't clean up.

COMMISSIONER McCabe: Thank you.

CHAIRMAN DECKER: When you say outsourcing, how does it work? I guess there's all different levels. But when you're establishing your own and when you're outsourcing, how does that work?

MR. STELLE: You'll find what I call the newer generation gaming marketplaces or gaming jurisdictions, the ones that are specifically similar to ours in that they have Central Computer Systems, every one of them has sole sourced the decision to
use an independent lab.

What happens is they will have their own staff working in conjunction with the independent lab at performing these tasks.

It allows you access to all of the information traveling throughout the marketplace, throughout the United States and the world, and stay current on all activities. What they do is they do, for lack of a better term, a joint venture with the gambling lab, independent gaming lab.

COMMISSIONER DiGIACOMO COLINS: And in that case, would the gaming lab more or less act as a quality control type of entity?

MR. STELLE: Absolutely.

COMMISSIONER DiGIACOMO COLINS: So then the gaming lab would be more or less just an oversight entity with respect to the work that the independent --

MR. STELLE: They're doing oversight of the independent lab. They're managing that contract or that relationship.

CHAIRMAN DECKER: Ken?

COMMISSIONER McCABE: These independent labs, who establishes the protocols used to test the machines? Is it the lab or is it the state that is
asking them to do the work?

MR. STELLE: I think the standards for testing certain aspects are an art. It's actually an industry standard that is established to evaluate the EPROMs.

What happens is the manufacturer writes working papers that says, we're giving you a machine. Here is what it is supposed to do. What the gaming lab does is instead of believing that that is what it's going to do from just reading the software that is within this chip, they take the chip and they actually drive that chip through the process of testing its capabilities or performing to the specifications of the working papers.

They actually can crunch through a short period of time the activity that that chip will experience over a long period of time. That's the whole extent of the gaming lab, to test that it does what it says it's going to do.

COMMISSIONER McCABE: Aren't we supposed to establish the protocols? It has to tie into the centralized computer system. It cannot take downloadable games.

MR. STELLE: You're absolutely right.
COMMISSIONER McCabe: Are we responsible --

CHAIRMAN DECKER: Could you elaborate on that?

MR. STELLE: Okay. There's two separate issues. One is the ability of the game to do what it is supposed to do. You'll establish the win/loss ratio. You may even establish what games will be in play.

Once you establish that, then someone has to make sure that every individual machine without fail does exactly what it is supposed to do. That is testing the machines themselves.

On the other side, it's communication protocol. Because of the Central System, you'll have the ability to be communicating constantly with all 61,000 potential machines.

Every machine can have rules to live by.

There are 5,600 of these that are available. They include if the door is open, do you shut the machine down? Do you turn on an alarm? Do you send a camera over to look at that machine? If a machine jams, how do you handle that? Maybe you just call security, call a person over to check it.

It establishes days it's allowed to work.

You may decide you only want a 20-hour day. You can
control that by establishing in that protocol the
hours that that machine is allowed to work.
You can set locks on it so can't download
data into that machine, that only it is reading data
out only.
So yes, the protocols for communication are
established with your Central System and through a
communications protocol. The machine is creating a
vast amount of data. It's just a matter of you
determining how you want that data presented back to
the state. That will have to be presented both
through -- we'll have to develop that with an outside
laboratory, how you want to handle each and every one
of these individual machines.

COMMISSIONER DiGIACOMO COLINS: And can

that be developed by best practices analysis, what
other states with Central Computer Systems has?

MR. STELLE: I think that is a very good
place to start. We can certainly look at what the
newer states, New Mexico, West Virginia, Delaware,
how they use the protocols.

I think we'll also find that there's a lot
of new opportunities as the technology has grown even
since those states were installed.
COMMISSIONER COY: Lynn, could you comment a little bit on the nuts and bolts of setting up a lab in Pennsylvania? In other words, if we were to start today, if you were to start today, how long do you think it would take to really set it up? How many personnel are we talking about? What is the size of the building and so on, just some things like this?

MR. STELLE: The ones that we're familiar with, I think you can probably guess a facility about the size of this room is what you're going to need. A lot of the materials that you will need you can acquire, especially through a relationship with the independent testing lab.

The real difficulty is acquiring the talent and the knowledge to do the job. The manufacturer has come on board and they will give you a lot of what you need.

Then what you do, you actually independently -- it's like having Pricewaterhouse come in and do our audit, you hand them a financial statement and then you prove the financial statement is true. That is what happens here.

The equipment we need can easily be acquired from the manufacturers, then we will take
the time to test that equipment to make sure the
equipment is, in fact, going to do what it is
supposed to do from a testing standpoint.
Our biggest challenge is to getting the
personnel who can actually run that lab. It takes a
lot of sophistication and experience to do that.
COMMISSIONER COY: My question, about how
many people?
MR. STELLE: You're probably -- again, this
is just a guess but I'm guessing we're in the
neighborhood of six to eight people.
COMMISSIONER CONABOY: If I could just
follow-up on that one observation I was going to ask
you about also.
It struck us when we were in Las Vegas, we
had the opportunity to go through their lab. What

struck me, first of all, it wasn't that big. I think
Nevada has in excess of 200,000 slot machines. The
lab really wasn't that big, but they had a lot
crammed in a little space.
I think they had about eight people, but
what struck you was the expertise of the people
involved, particularly the individual that was
running the lab. It was a highly educated electrical
9 engineer. Before he came to Nevada, Ken, I think he
10 was involved with counterterrorism. I don't know if
11 it was the FBI or what was his last assignment with
12 the government. These are very sophisticated
13 individuals, pretty highly compensated because
14 they're doing very sophisticated work.
15
16 It struck that that's going to be our
17 biggest problem is establish the labs and the people
18 who run it, particularly when we have all of those
19 neighboring states that are either already in
20 business or getting into the business. It seems like
21 it's a small number of people who do this type of
22 work.
23
24 MR. STELLE: I think the statute is very
25 keenly aware of that. That's why they allow us to
26 partner with an outside organization to help us
27 either with a state or an independent lab.
28
29 I think that would be a good move on our
30 part to do either of those things. I do think that
31 from talking to many other jurisdictions, instead of
32 trying to reinvent the wheel and partnering with an
33 independent gaming lab would certainly allow us to be
34 up and running, to provide both the operators and the
35 manufacturers and the general public the confidence
36 that the integrity was there from the Central System
out to the field and through the operating of these
61,000 potential devices.

COMMISSIONER COY: You're correct. The
Statute gave the particular amount of time and extra
amount of time in order to do just what you're saying
and that was the intent of the Statute.

I think the thing that the Board needs to
continue to be concerned about is the integrity of
the process and to make sure that whatever we do,
whether it is outside, inside, a combination of both,
all of the above, that it assures the folks who are
participating and the people of Pennsylvania that the
system has been tested and has integrity with it.

MR. STELLE: Absolutely.

CHAIRMAN DECKER: Do you have any other
questions for Lynn?

That was a very interesting report. It

confirms a lot of the information we picked up in
Nevada as well. Okay. Thank you.

Okay. Well, I just want to announce we
have a quorum. Commissioner Marshall has joined us.
I also want to note that Secretary Wolff has joined
us as well. Thank you.

We have one housekeeping item that I would
like to discuss. I would like to suggest to the Board that we pass a motion that formally approves and adopts the transcripts or minutes of the meetings that we have had previously; specifically, December 14th and 15th, 2004 meeting, January 25th, 2005 meeting, the February 8th and March 3rd, 2005 meetings.

COMMISSIONER DiGIACOMO COLINS: I move that we adopt the minutes of the aforesaid meetings.

CHAIRMAN DECKER: May I have a second, please?

COMMISSIONER CONABOY: Second.

CHAIRMAN DECKER: Any discussion? All in favor, please indicate by saying aye.

COMMISSIONERS: Aye.

CHAIRMAN DECKER: Any nos? Motion passes unanimously.

COMMISSIONER McCabe: And all of those transcripts are posted on our --

CHAIRMAN DECKER: Yes. All of those transcripts, I think everyone knows, are on our website.

We will now hear from Commissioner Rivers and Mike Walsh, who are spearheading our administrative and staffing matters for the Board. I
asked them to provide us with an update on their efforts since our last meeting.

Commissioner Rivers?

COMMISSIONER RIVERS: Thank you, Mr. Chairman.

Fellow Board Members, let me bring you up to date as to where we are and what we've been doing. At our last meeting, I gave you specific information in terms of the number of the hirees that need to be made in the next 45 days.

I can assure you that we've had a large number of applications arrive. We've been doing interviewing. I'm going to ask Mike Walsh to talk very specifically about our manpower needs and where we are.

I'll also add that the State Police are in the process of doing background investigation on these individuals, so that's an ongoing process.

Mike, would you please enlighten us?

MR. WALSH: I'll do my best. Thank you, Commissioner Rivers.

I would like to provide a brief update to the Board in the efforts to create administrative framework, which we have been discussing in the
meetings since December.

First, I would like to spend a few minutes on the proposed staffing structure. That is the packet we just handed out and then provide a quick update on the process we have put in place to identify potential candidates for key positions.

First, the proposed staffing plan. We have included in that packet a draft staffing plan and complement structure. This document, as Commissioner Rivers said at the last meeting, is a work in progress. It is just that. It is a draft.

It is literally updated each week, sometimes many times each week as staff and Board members hone in on a specific operational unit of the organizational structure, as we learn more by looking at other jurisdictions, about the needs of the complement structure and about the -- as we just discussed with labs, about the critical talent needs that we have.

Recruitment is a key point of that and understanding what skill sets are needed for each position is a key part of that. Again, this draft is updated quite often.

With that being said, the draft structure's most significant purpose is to align the core
business function of the organization to its corresponding complement structure.

Not only does this help us better understand the possible budget implementations but also allows us, as an organization, to identify those skill sets necessary for each position and go about the business of recruiting and attracting the most qualified candidates as possible.

As outlined by Commissioner Rivers at our last meeting, Board members and staff have been working together to identify the key positions that need to be filled in the near term, as well as those that we feel should be filled prior to the end of this fiscal year, June 30th, 2005.

From the outset, I will add for the benefit of our guests today that 3 of those 18 key positions are currently in the recruitment process; executive director, the director of Bureau of Investigation Enforcement, and the chief counsel position. Those interviews have already been in an ongoing process.

So that leaves 15 more key positions that we need to hire in the near term.

You will see an X that clearly marks those 18 positions in your packet, as well as proposed
salary structures.

As Commissioner Rivers mentioned at the last meeting, we have done benchmarking to look at other jurisdictions, as well as look internally within the Commonwealth at Commonwealth agencies under the Governor's jurisdiction and independent agencies so that we have an attractive salary structure for starting salaries, as well as something that reflects the industry standards.

As you will notice on page 2 and 3 of your packet, those 15 positions have been identified for priority hiring, and the Bureau of Licensing and the Bureau of Administration makes up 10 of those 15 positions.

I think this is obvious given the discussions that we have had over the past couple of months. We are a new agency. We are just getting off the ground.

The positions within the Bureau of Administration, HR, and Finance specifically are needed really to help us build the organization.

In licensing, given our discussions on the rules and regulations, that expertise is needed, that you'll notice that not only are the deputy positions identified there but those middle management
positions are really key.

So each time we fill a position going forward, it sort of creates a building block for us as an organization. It will make this process become more fluid for all of us.

In order to fill these priority positions, the 15 plus the 3 that we said are currently underway, we are in the process of identifying potential candidates and scheduling Round 1 interviews.

In one case, the director of human resources, for example, we are currently in the Round 1 process. We will begin shortly with the finance director position.

As you know, we've received literally hundreds of resumes. It's probably upwards of 700 so far. We've been going through those to -- you know, the first step is sorting them out and figuring based on the person's talents and background and still sense that they have identified for us what pile they go in, literally what operational unit are we going to consider them for.

There's a whole sort of internal process about how we'll acknowledge those resumes, and
contact the people for interviews, which I would be
happy to provide you with off line.

Identifying the positions has been the
biggest part of that complement structure that we
have given you.

I would just add one other thing, the
position descriptions that are being developed right
now, we will have drafts for you at the April 12th
meeting of those 18 key positions. This will get
easier, obviously, when we have an HR director
because some classes don't exist in other agencies.

We're creating entirely new positions given
that there isn't a similar agency to compare
ourselves with.

We're looking at other jurisdictions,
obviously, in other states; but we're trying to come
up with an entirely new set of class and pay
structures that don't exist anywhere currently within
the Commonwealth.

For those 18 positions, we're going to have
position descriptions and we're going to provide them

for you at the April 12th meeting.

Between now and then, I also wanted to let
you know that there would be a schedule of
interviews, those Round 1 interviews. We'll provide
you with those via e-mail in the next couple of weeks
to let you know when each candidate will be
considered and who is in that first round.

That is an overview of the 18 -- just one
other thing beyond the 18 and the 3 that we talked
about to get us to June 30th, and the same process
will happen with them but we're focusing on the first
18.

CHAIRMAN DECKER:  Sandy, anything else?

COMMISSIONER RIVERS:  Mr. Chairman -- first
of all, Mike, thank you very much.  You do an
outstanding job and I appreciate all of the help and
assistance you have afforded me.

I would also like to thank my fellow Board
members for their intelligence in helping with the
interviewing.

I can say that the quality of the
application makes us feel very good about being able
to hire a greater and professional oriented staff.

They are individuals that are coming from
all parts of the Commonwealth from cross gender, I

mean, any particular subset that you can possibly
think of, we have quality applications coming from.

I think what you're going to see is the
final staff in the building of this process will, in fact, represent that diversity, the quality, the educational level, the skill set level so that we will be able to do the type of job that we have been asked to perform.

I just, again, say thank you to the Board members for your continued participation and look forward to seeing you at the next set of rounds of interviewing. Thank you.

CHAIRMAN DECKER: Do any of the Commissioners have any questions of either Sandy or Mike?

Okay. Thank you very much.

I was remiss before. I didn't notice he was here. I received a notification from Treasurer Casey that he was unable to attend today in light of his other duties; but he was kind enough to send one of his chief deputies who has been helping us in a number of ways, Terry Kostoff.

Thank you, Terry. I appreciate you being here today. It's very important.

Are there any other questions from any of

the Commissioners on what we have covered so far?

COMMISSIONER RIVERS: Mr. Chairman, the one thing I would like to add and that is at all of our
Board meetings, I think you will get an update in terms of where we are staff-wise so that you will be able to see this is an ongoing process and be able to watch us build this thing as we move down the road.

CHAIRMAN DECKER: I think that's a fair comment. What we intend to do at each of these meetings is provide a timeline. Commissioner Colins did that a bit where we are on the licensing process.

We'll get a report from PWC on some of the activities that we have asked them to undertake. We have asked them to help us build the foundation. Commissioner McCabe will be talking to us a little bit on issues about our various activities in the BIE area. I'm missing somebody.

Lynn Stelle and others will be making periodic reports to us at these meetings, again, an update of where we stand.

Again, I want to thank everyone for their reports. The Board will now break for Executive Session for the purpose of discussing personnel vacancies and potential candidates.

The time is approximately 4:00. We will reconvene, my guess, which I've been wrong about all along, will be within one hour. In fact, I believe
we're going to make it 45 minutes because we have some additional things.

For those of you in the audience, I want to let you know that then we will then report back on these issues briefly and then we're going to adjourn and go back and have -- go back into Executive Session for the purpose of interviewing candidates. So I just want to let you know so you can plan the rest of your afternoon.

With that said, we're now adjourned temporarily.

(Executive session.)

CHAIRMAN DECKER: All right. Thank you. Sorry to be late. The Board will now go back into regular session. The time for the record is 5:09.

As noted prior to the break, we went into Executive Session to discuss personnel issues, including vacancies and potential candidates.

As I mentioned to you, we have been doing a lot of interviewing. We are very pleased at the quality of interviews we have been getting through the three positions; executive director, head of the Bureau of Investigation and Enforcement, and chief counsel. However, we're not ready to make a decision on those because we still have a number of interviews
to finish.

But today, we have two individuals that we are going to offer employment to. I'm going to turn it over to Commissioner Rivers to discuss that.

COMMISSIONER RIVERS: Thank you, Mr. Chairman. Mr. Chairman, based on our meeting and interviewing process, there are two names I would like to bring forward for the opportunity to offer them a position within our organization. Sheryl T. Possavich, she would be an administrative assistant to Commissioner Coy.

CHAIRMAN DECKER: Can I add something to that? Just so everyone is clear, each of the Commissioners may or may not, it depends on what happens, hire someone; but each one of those individuals that will be hired will also be helping in another function, perhaps licensing, probably not BIE but perhaps BIE -- I would say no to BIE because of some other issues -- but in various of our administrative functions. They won't just be 100 percent with the Commissioner. I wanted to make that clear. Sorry.

COMMISSIONER RIVERS: Not a problem. Let me also assure you that all of our job descriptions
talk very specifically about expanding job responsibilities.

So as we are in the process of hiring individuals, no one can say that their job description is so finely defined that their areas do not go outside their particular area. So I would just like to make that a point.

There again, Sheryl Possavich as the administrative assistant to Jeffrey Coy at a salary of $43,000, and Lamont J. Williams as deputy chief counsel for administration at a salary of $90,000. Those are the only two recommendations I have at this point. I ask for a motion.

COMMISSIONER CONABOY: I make a motion that we proceed with those two hirings.

COMMISSIONER MARSHALL: Can I just ask a question? Could you clarify Mr. Williams? What is his position?

COMMISSIONER RIVERS: It's going to be deputy chief counsel for administration.

CHAIRMAN DECKER: And included in that will be the --

COMMISSIONER RIVERS: He will also be our EEO officer. In light of the fact we don't have an HR person, he will have some duties in that area.
also.

COMMISSIONER MARSHALL: Thank you.

CHAIRMAN DECKER: In fact, like everyone else, he will be helping to do drafts and regulations as well.

COMMISSIONER RIVERS: Are there any other questions from the Board members?

COMMISSIONER MARSHALL: I second.

COMMISSIONER McCabe: I would just like to add to the motion, pending a successful background check.

CHAIRMAN DECKER: Yes, that will go with everyone. Thanks for reminding us. We're still not sure about Mike Walsh.

COMMISSIONER RIVERS: We have a motion. And do we have a second?

COMMISSIONER McCabe: Second.

CHAIRMAN DECKER: Any discussion?

All in favor?

COMMISSIONERS: Aye.

CHAIRMAN DECKER: Any against? Motion carries unanimously.

Is there any other new business to come before the Board?
All right. I have one more announcement then before we adjourn. The Board will hold an Executive Session for the purpose of discussing personnel matters, but it's really for interviewing -- I want to be direct about that -- 15 minutes ago here at the Marriott. No business will be conducted at the Executive Session, which will be closed to the media and the public.

The Board's next meeting is scheduled on April 12th at 1:00 in Harrisburg. Beginning in May, the Board will adopt a regular meeting schedule. We're going to try to have regular meetings to be held on the first and third Thursday of every month.

Okay. Do I have a motion to adjourn the meeting?

COMMISSIONER MARSHALL: So moved.
COMMISSIONER CONABOY: Second.
CHAIRMAN DECKER: All in favor?
COMMISSIONERS: Aye.
CHAIRMAN DECKER: The meeting is adjourned.

Thank you.

(The meeting concluded at 5:07 p.m.)
I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

Hillary M. Hazlett, Reporter
Notary Public