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COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS GAMING COMMISSION
PUBLIC MEETING #194

CHAIRMAN

Stephen P. Crosby

COMMISSIONERS

Lloyd Macdonald

Gayle Cameron

Bruce W. Stebbins

Enrique Zuniga

June 23, 2016 10:00 a.m.

MASSACHUSETTS GAMING COMMISSION
101 Federal Street, 12th Floor
Boston, Massachusetts 02110

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P R O C E E D I N G S

CHAIRMAN CROSBY: We are good to go. We are calling to order the 194th meeting of the Massachusetts Gaming Commission on Thursday, June 22nd, again at our offices on Federal Street. Before we do anything else, we wanted to mark a momentous occasion. Turns out there are several. As of, essentially, today, MGM, I think, has had its first anniversary as a licensee.

COMMISSIONER ZUNIGA: Penn.

COMMISSIONER CAMERON: Penn.

CHAIRMAN CROSBY: Penn had it's first -- yeah, sorry.

THE FLOOR: Thank you. We all look the same.

CHAIRMAN CROSBY: Right. That's a good thing. You've seen one casino operator, you've seen them all. But it's been a great -- it's been a great run. It's been a great year. And its been an incredible experience.

You know, we -- everybody on the commission side is very much aware of the fact

1 that we were new to this. And Penn came on
2 first, and we have been learning as we have
3 been going, and you've been very accommodating
4 in learning with us. But on the whole, we
5 couldn't be happier with the way it's worked
6 out, and with the professionalism of the
7 operation, the absence of any troubles of any
8 particular kind. Our crime research, as you
9 know, suggests there haven't been any serious
10 problems. A lot of money and a lot of jobs
11 are being generated, and it's tremendously
12 exciting. And that's what we were asked to
13 do. The legislature gave us a job. The job
14 was generate revenue and generate jobs. That
15 was what we were asked do. And with your
16 help, we've been doing it, so it's great.

17 The second, however, is much more
18 significant than that. And that is that our
19 long time stenographer, Laurie Reardon, who
20 has been with us through thick and thin for
21 most of these past four or five years, is the
22 leaving the stenography business to become a
23 permanent employee at
24 Mass Development. That's great for

1 Mass Development. That's great for Laurie.
2 That's not so great for the Gaming Commission
3 because she's really been fantastic. The --
4 our stenographer - and Brenda is sitting here
5 now doing the same thing - sits there
6 repeating and recording every single word of
7 our meetings, and it eventually gets
8 transcribed into text. This is an incredibly
9 critical role in our commitment to
10 transparency. It couldn't happen without our
11 stenographers.

12 And Laurie has gone through us --
13 gone through the licensing process with us,
14 which has been extraordinary, with many, many,
15 many late-night meetings and crazy people
16 testifying, and, you know, all sorts of stuff.
17 So we would like to wish Laurie well. If you
18 would please come down here, please, for
19 minute. Here you go. Thank you very much.
20 You've been terrific.

21 MS. JORDAN: Thank you. Thank you
22 very much.

23 CHAIRMAN CROSBY: And Brenda Ginisi
24 has been with us before, and maybe will be here

1 for a long time. But you have big shoes to
2 fill, big flip-flops to fill. Thank you,
3 Laurie. You've been great. You did great.

4 COMMISSIONER ZUNIGA: Thank you,
5 Laurie.

6 MS. JORDAN: Thank you.

7 CHAIRMAN CROSBY: And it's a credit
8 to your company too. You bring a great
9 attitude, and this is a tremendously demanding
10 job, and we -- we really appreciate your work
11 and your professionalism, and good luck.

12 MS. JORDAN: Thank you.

13 CHAIRMAN CROSBY: Okay. We are on
14 into Item 2, the approval of minutes.
15 Commissioner Macdonald.

16 COMMISSIONER MACDONALD: I move that
17 the minutes of the meeting of June 9, 2016 be
18 approved, subject to corrections, typographical
19 errors and other nonmaterial matters.

20 COMMISSIONER CAMERON: Second.

21 CHAIRMAN CROSBY: Discussion? All in
22 favor?

23 MR. MACDONALD: Aye.

24 COMMISSIONER STEBBINS: Aye.

1 COMMISSIONER CAMERON: Aye.

2 COMMISSIONER ZUNIGA: Aye.

3 CHAIRMAN CROSBY: The four votes to
4 zero, Commissioner Crosby abstains himself
5 because he was not involved in that meeting.
6 Next up is Item 3, an overall administrative
7 update from Executive Director Bedrosian.

8 MR. BEDROSIAN: Good morning, members
9 of the Commission. I, too, would like to
10 congratulate and thank Ms. Reardon. She's been
11 a valuable contributor and partner in our
12 development. I would also like to congratulate
13 Penn National and Plainridge for their year
14 anniversary. So I've been here about half that
15 time. Mr. George and his staff and the folks
16 at corporate have been very generous in their
17 time in helping me as an executive director get
18 up to speed. So thank you and congratulations
19 to them.

20 Just a couple of items on the agenda
21 for both the Commission and people who might
22 be either in the office or watching on line,
23 Items 6B, review of the MG & E written
24 decision, and Item 8C, Brockton fair racing

1 request, are going to be deferred until
2 another meeting. So if people have interest
3 in those, those will be deferred to another
4 meeting.

5 Under Item 3A, general update, I
6 just -- I became aware that
7 Commissioner Cameron and Director Wells
8 recently went to a law enforcement summit,
9 which had some interest. I'm going to ask
10 Commissioner Cameron to give a brief
11 explanation of what that was.

12 COMMISSIONER CAMERON: Thank you,
13 Executive Director -- Director Bedrosian.
14 Yeah, we -- Director Wells, who's in the back
15 of room, we were invited to participate as --
16 you know, me, mostly, for my former status, I
17 think, as a law enforcement executive, and,
18 certainly Director Wells in her present status.

19 It was a law enforcement summit
20 hosted by the American Gaming Association, but
21 the topic was illegal gaming. And this was a
22 pretty elite group of law enforcement
23 professionals, state, federal, local, county,
24 high-ranking folks to really talk about the

1 scope, and kind of a brainstorming session on,
2 maybe, next steps when it comes to this
3 business.

4 I certainly have been involved in
5 this business over the years with illegal
6 gaming, illegal bookmakers, illegal slot
7 machines, but I actually was surprised at the
8 numbers. We're talking about an estimate
9 of -- to exceed a hundred billion dollars
10 annually in the United States. That's with
11 sports betting.

12 CHAIRMAN CROSBY: That's -- that's
13 illegal?

14 COMMISSIONER CAMERON: Illegal.

15 CHAIRMAN CROSBY: Illegal.

16 COMMISSIONER CAMERON: That's
17 illegal. Correct. That's not -- you know,
18 lots of legal gambling going on in Las Vegas
19 and in a couple of other states, but -- but
20 illegal. I was actually surprised at those
21 numbers. 4.2 billion on the Super Bowl alone.
22 97 percent of that was illegal. The black
23 market on slot machines, you know, they did a
24 study on Texas, because I think Texas is one of

1 those states without any legal gambling. And,
2 you know, putting the numbers together, 1.9
3 billion annually just on illegal slot machines.

4 And I know that, that is an issue
5 here. We've had discussions with our partners
6 at the AG's office on -- and ABCC, on what is
7 the extent to the problem? This is an area I
8 think we could do some work here, is try to
9 identify how large the problem is here.

10 Had an excellent presentation from
11 the UK sports betting. It's legal in the UK.
12 Very -- very nice presentation on what they do
13 to keep it safe and secure. Very interesting
14 presentation from a group call the Genius
15 Sports Group. Their analytics are amazing.
16 What's changed in their ability to identify
17 something awry with a sports bet. You know, a
18 full analytics team that can track betting.

19 Now, those countries that have legal
20 sports betting would hire this company to --
21 to look at their analytics. And they give
22 gave us examples. There was a Ukrainian
23 soccer match, in which the betting was going
24 along just fine, according to, you know, how

1 teams were rated. And then, toward the end of
2 match -- now, we're talking about betting
3 during matches, which is very common now,
4 mobile betting during a match, and, you know,
5 the numbers changed dramatically for the away
6 team. And, you know, certainly in soccer in
7 particular, as you get closer to the end, it's
8 hard to score a goal, right, because there's
9 not much time left in the game.

10 So they noticed this, turned it over
11 to the investigators. Immediately, in
12 conjunction with talking to the league,
13 stopped taking bets, so that bet -- those bets
14 were canceled. And within the last two
15 minutes of the game, there was kind of a
16 loosely -- a loose attempt at defense by both
17 the defenseman and the goalie, and the goal
18 was scored. But, luckily, they -- they were
19 able to protect the integrity because they had
20 stop the betting. And now you have something
21 to -- to really work with, with an
22 investigation into those players.

23 So interesting to see what they can
24 really do, when there is a safe and legal

1 betting environment. That was discussed at
2 length, how law enforcement really has limited
3 resources when it comes to investigating or
4 tracking the amount of the illegal gambling
5 going on.

6 So, you know, there is some talk,
7 and there is a group that is very much in
8 favor of legalizing sports betting, regulating
9 it. Nevada gave a nice presentation on what
10 they do to keep it transparent, how they
11 protect their legal market. So it was
12 interesting.

13 As we've done with this Commission,
14 we -- we take a look at whether it be on-line
15 or social gaming, we're going to learn more
16 about that today. I think this is a topic
17 that was very much of interest for us to
18 receive new information. It could be that
19 past, but some point is -- the leagues will --
20 will understand that maybe it is better, and
21 we just need to be prepared. We have to
22 understand it. And if, at some point, it
23 comes to us to regulate, I think it's really
24 important that we attend these sessions so

1 that we know enough about it, and what --
2 what's out there, as far as -- you know, it's
3 a changing market, as we know.

4 So I found it interesting. It was a
5 day long. Director Wells, do you have
6 anything to add? Okay. She's saying, no, she
7 does not. So I just thought the -- the other
8 commissioners would find it interesting to
9 hear about the day we spent in DC last week.

10 CHAIRMAN CROSBY: Is there any -- is
11 there a consensus within the law enforcement
12 community one way or the other?

13 COMMISSIONER CAMERON: I think --
14 this was an educational, kind of, a format.
15 Meaning, you know, we want you to know what
16 these numbers are like. We'd like your help in
17 brainstorming. So I thought that was a smart
18 idea, to reach out to law enforcement and say,
19 hey, we think this is an issue, and we want to
20 know about your experiences.

21 And -- and there were many
22 prosecutors there, a former attorney general
23 from -- you know, just every level of folks
24 who have dealt with this issue. And so I

1 wouldn't -- I think it's early to say there's
2 a consensus, but it is -- I think everyone
3 found the education to be worthwhile. And
4 that -- that was another next step. How do we
5 educate those folks, for example, here in the
6 Commonwealth? Is there -- is there work to be
7 done along those lines, because I, in
8 particular, who do have experience with this,
9 I was still surprised at the numbers how
10 much -- and, you know, when the money is
11 unregulated, it's not tracked. You know,
12 many, many stories about how that money is
13 used for other illicit activities, sports
14 betting money, whether it be, you know, human
15 trafficking or narcotics. So it really was a
16 worthwhile discussion, but it's early in that
17 discussion.

18 COMMISSIONER STEBBINS: For the
19 industry to be that -- or that amount of money
20 being -- being played, some of it's -- I mean,
21 how much of it's being moved electronically? I
22 mean, via -- it's not somebody just walking
23 into the corner store and laying down cash for
24 that kind of thing.

1 COMMISSIONER CAMERON: Well, a lot of
2 it -- I mean, I think the bookies are alive and
3 well, frankly. They're alive and well here in
4 the Commonwealth and -- but there is a growing
5 piece of it that is -- that is done on line.

6 You know, used to be that the
7 bookmakers all had local wire rooms, we used
8 to call them. And that's where people would
9 call in and place their bets. A lot of that's
10 done offshore now, so it makes it a little
11 more difficult, frankly. But I don't know
12 that there are exact numbers on how much of
13 this is -- is done locally and how much is
14 done offshore. Again, it's really early, and
15 it hasn't been tracked.

16 I mean, the Brits were kind of
17 chiding us for saying, we can keep it safe, we
18 can keep it secure. People love to bet so
19 let's -- you know, you'd be smart to regulate
20 it and really work along these lines. But,
21 certainly, there's not a consensus here yet
22 for that. And -- but it is certainly a
23 dialogue, I think, was worth having, and more
24 information is really important.

1 COMMISSIONER ZUNIGA: Commissioner,
2 you mentioned the difficulties getting around
3 understanding the numbers and the extent. I've
4 had discussions with the lottery, another one
5 of the -- you mentioned the ABCC and -- and the
6 AG, but the lottery's very much an interested
7 party in this. They -- they see, anecdotally,
8 some machines that, even though they say for --
9 for entertainment purposes only, they are
10 effectively illegal slot machines, oftentimes,
11 at lottery-licensed places, which, in their
12 mind, undermine the -- you know, the brand of
13 the lottery and -- and the ability of the
14 lottery. It affects the lottery in many ways.

15 So that's a topic that locally here
16 is also of interest, you know, in our -- in
17 our charter to protect the lottery.

18 COMMISSIONER CAMERON: Commissioner,
19 you were -- you were correct in pointing that
20 out. And not only are, you know, state,
21 federal, local officials looking -- you know,
22 getting together on a scale like this to talk
23 about the issue, but I know we have had
24 conversations here in the Commonwealth with

1 everyone understanding that it is an issue, and
2 is there something more we can be doing to --
3 to really address this issue. So that --
4 that's a point well-taken.

5 COMMISSIONER MACDONALD: Commissioner,
6 you referenced a presentation by the UK.

7 COMMISSIONER CAMERON: Yes.

8 COMMISSIONER MACDONALD: Some UK
9 people. And I gather that sports betting is
10 very much a part of the conventional landscape,
11 you know, in the UK?

12 COMMISSIONER CAMERON: No, it's not
13 just sports betting. It's -- they bet on
14 everything. Politics. I mean, just --

15 COMMISSIONER ZUNIGA: The Brexit.

16 COMMISSIONER CAMERON: Yes.

17 COMMISSIONER MACDONALD: As we speak.

18 COMMISSIONER CAMERON: Yes.

19 COMMISSIONER MACDONALD: Were there
20 any concerns noted by -- by the UK presenters,
21 as to problems that have consistently
22 manifested themselves?

23 COMMISSIONER CAMERON: Well, I think
24 everyone's major concern is the integrity of

1 the game, the sport. And their -- Europe
2 probably has some more glaring examples of what
3 they call match fixing. And so, that -- that
4 continues to be a concern, but they feel like
5 it would be much more of a concern if they
6 didn't -- if it wasn't legal, and it wasn't
7 regulated, and it wasn't tracked.

8 Again I -- one of the most
9 interesting presentation I found with -- were
10 the analytics by this Genius group. I mean,
11 amazing what they can see, if something is a
12 awry, when it comes betting on that particular
13 match. And -- and stopping that bet
14 immediately, when they can see that happen.
15 So that -- those analytics were not available
16 even five years ago, and they -- they get
17 better every year.

18 So that is a concern, but one they
19 feel like they're doing a good job with. The
20 other concern they mentioned is -- you know,
21 they feel like their tax rate so that they can
22 regulate properly is -- is -- is about the
23 right rate. Meaning, if you tax too high,
24 you'll still have an illegal market. If you

1 -- if you really decide to make too much
2 money, or to tax at a rate that's high, then
3 you'll leave room for the illegal operators to
4 exist.

5 They feel like they don't have a
6 problem with illegal operators now because
7 they offer all the games that people are
8 interested in. And, secondly, their rate is
9 such that there's no room for the illegal
10 market to operate. So those were some of the
11 concerns, but some of the ways they address
12 them.

13 COMMISSIONER MACDONALD: And these
14 analytics that were described, is -- for the
15 analytics to -- to work, is it necessary for
16 the market to be, essentially, a legal one,
17 because then that provides the people applying
18 the analytics to have regular and direct access
19 to the pattern and magnitude of -- of -- of the
20 betting?

21 COMMISSIONER CAMERON: They can do
22 some tracking of the illegal market. But,
23 first of all, they work for their clients, who
24 pay them to do this, and the illegal market

1 certainly not interested in being tracked.

2 Also, yes, they have access to all
3 of the information. Because it's legal, it's
4 -- it's transparent. All the bets are
5 transparent so they have all that information.
6 So they are -- you know, they can track in
7 realtime, and they do track in real time.

8 And -- and what that's helping,
9 that's helping law enforcement around the
10 world as well, because without those analytics
11 it may be have been very tough in the past to
12 say, hey, that goalie really didn't make an
13 effort. Where now they have real -- they have
14 something to investigate.

15 CHAIRMAN CROSBY: Circumstantial
16 evidence, yeah.

17 COMMISSIONER CAMERON: Sure. And --
18 and more than that, if you go in and talk to
19 some of those betters, to get someone to flip
20 and say yes, and you have probable cause to
21 look at -- to look at someone's bank records
22 then, and find out if, in fact, that individual
23 was -- was paid.

24 So they just feel like it's a

1 much -- much more able to keep it safe and
2 secure with the analytics.

3 CHAIRMAN CROSBY: Interesting.
4 Great.

5 COMMISSIONER ZUNIGA: Sounds like a
6 great --

7 COMMISSIONER CAMERON: It was an
8 interesting day.

9 CHAIRMAN CROSBY: Yeah.

10 COMMISSIONER CAMERON: It really was.

11 CHAIRMAN CROSBY: Thank you. That
12 was terrific.

13 COMMISSIONER CAMERON: Okay.

14 COMMISSIONER MACDONALD: Thank you,
15 Commissioner Cameron. Before I go on to
16 PlayMyWay update, I will just note on that
17 subject, whether it's appropo of anything, I
18 believe I read that Las Vegas is going to get a
19 NHL hockey team.

20 COMMISSIONER STEBBINS: Yes.

21 CHAIRMAN CROSBY: Yes.

22 COMMISSIONER CAMERON: I saw the same
23 thing.

24 COMMISSIONER MACDONALD: Director

1 Vander Linden is not here so I will give a
2 PlayMyWay launch report. Commission, as you
3 may remember --

4 COMMISSIONER STEBBINS: Can I stop
5 you just before you get into -- you know, this
6 -- this opportunity, this discussion is
7 something I'd like us to think about, kind of,
8 adding to our agenda periodically.

9 I mean, because each of us is now
10 going off attending different meetings and
11 conferences, and giving some thought to
12 squaring away time on our agenda to have this
13 type of -- type of discussion and
14 presentations as each of us is off going to
15 different conferences or meetings, I think it
16 would be a great way -- great thing to add to
17 our agenda, to give us this chance to have
18 these updates and conversations.

19 COMMISSIONER MACDONALD: We might
20 call it commissioner update versus executive
21 director update.

22 COMMISSIONER STEBBINS: Absolutely.
23 Don't want to take away your time.

24 CHAIRMAN CROSBY: So everybody

1 understands, under the operation of the Open
2 Meeting Law, we can't go off on a business trip
3 and come back and report to our other
4 commissioners about what happened on a business
5 trip. We thought we could, but we were told we
6 can't so --

7 COMMISSIONER ZUNIGA: Unless it's in
8 an open meeting.

9 CHAIRMAN CROSBY: Unless it's an open
10 meeting, right. So that's -- that's a good
11 idea. It helps mitigate the inability of us to
12 communicate -- communicate with one another.

13 COMMISSIONER MACDONALD: So I will
14 continue. Director Vander Linder [sic] is off.
15 As you may remember, Commissioners, on June 8th
16 and 9th, the Commission officially launched
17 PlayMyWay, which is a new, responsible gaming
18 initiative that provides casino patrons with a
19 voluntary option to budget and track their
20 play.

21 I'd like to commend
22 Director Vander Linden, the folks from our IT
23 staff, all our volunteers, our partners at
24 Plainridge, and the developers at

1 Scientific Games.

2 While the technology, if you've seen
3 it, and I know you all have, looks simple, it
4 is a complicated process to overlay that on a
5 casino floor with different machine
6 manufacturers, software, a slot management
7 system, and make it work and operate
8 seamlessly, given all the different
9 permutations of betting that can take place.

10 And I think our goal was for that to
11 happen so this then can be one of our tools in
12 our Responsible Gaming toolbox. And that,
13 down the road public health officials can
14 evaluate it on its merits and not that we
15 couldn't get it to work. So I think that
16 we've really accomplished that.

17 And I will tell you that, as of this
18 morning, a report from Director Vander Linden
19 we -- 1,695 people have enrolled, and 146
20 people have unenrolled. So I think -- I think
21 that is encouraging statistics.

22 CHAIRMAN CROSBY: Let me just add to
23 that. And you mentioned this, but I think it's
24 worth mentioning again, there's never been a

1 system used like this in the United States. It
2 had to be developed. The technology had to be
3 developed, a working relationship had to be
4 developed with an operator. And we -- we
5 proposed this, as has been discussed publicly.
6 There was a lot of -- of debate about whether
7 this was worth trying. And if it was worth
8 trying, under what terms and conditions.

9 Penn National has really stepped up
10 here at some considerable cost, at least, in
11 time and angst, to partner with us on this.
12 Starting out with their CEO, Tim Wilmont, who
13 volunteered to agree with us to try this as a
14 trial. But the burden of it fell on
15 Lance George, the general manager and his
16 staff, to work with us on an ongoing basis.
17 And it was not easy. That -- it took
18 tremendous commitment of their resources.
19 Michele Collins and Jason Gittles, in
20 particular, were tremendously helpful.

21 And this is -- you know, this is
22 working on a controversial, experimental
23 program, even while Lance and the rest of the
24 team are working to get their casino up and

1 running, and to maximize their appropriate
2 revenue streams and so forth. This was not
3 easy, and it was done tremendously
4 professionally. We -- we take our role as
5 regulators very seriously. If we have
6 problems, our licensees will know it. But
7 where humanly possible, we want to
8 collaborative and partner when we do things
9 like this. And with the help of
10 Penn National, we were able to do it.

11 How it's going to work, what
12 success, what failure, we don't know, but we
13 have a very robust evaluation going on, but we
14 couldn't have done this without the really
15 professional collaboration of, particularly,
16 Lance and his team. So I just want to mention
17 that again, and we know it was not easy so
18 thanks.

19 COMMISSIONER ZUNIGA: Yes. Thank
20 you.

21 COMMISSIONER MACDONALD: Chairs --
22 Commissioners, we're on to Item 3C, Social
23 Gaming. And just as a reminder, this is a
24 follow-up presentation to a presentation that

1 you had on May 10th, in which we had the
2 following speakers, we had Timothy Lowe and
3 Monty Sharma from Mass DiGi; Luc Delaney, the
4 CEO of International Social Game Association;
5 and Keith Whyte from National Council on
6 Problem Gaming.

7 Mr. Stempeck and I, at the end of
8 that presentation, informed the Commission the
9 next step would be to invite our licensees and
10 in to update the Commission on what they're
11 doing in this area. Today, you'll hear from
12 representatives of two of our licensees, MGM
13 and Penn. To state the obvious, at this
14 point, they are not similarly situation.

15 MGM will present what
16 MGM International is doing with its partner,
17 MyVegas. You'll hear a caveat, I think, that
18 MGM Springfield will make a determination to
19 participate in this program or not, when it is
20 operational. And we should consider this
21 presentation on behalf of MGM as
22 informational.

23 With that, I'd ask Mr. Stempeck to
24 introduce the speakers from MGM. And after

1 they are done, we will call up the
2 representatives of Penn.

3 MR. STEMPECK: Here today, from MGM,
4 we have from -- or on behalf of MGM, we have
5 Paul Mathews, the president and CEO of
6 Playstudios; Josh Swissman, the senior vice
7 president of loyalty marketing from MGM Resorts
8 International; and Jed Nosal, the outside
9 counsel for MGM Springfield. So without
10 further adieu, I'll turn it over to them.

11 MR. BEDROSIAN: And I also see
12 Seth Stratton down there at the end, so I just
13 wanted to notice him too.

14 MR. MATHEWS: Well, thank you. My
15 name's Paul Mathews, as mentioned. I'm a
16 founder and the president and chief financial
17 officer of a company called Playstudios. I'd
18 like to spend some time going through a little
19 bit of background on what we do, and our
20 partnership with MGM Resorts International.
21 And I also want to explain how our game works,
22 and how our -- the rewards component of our
23 game works. So if we could go -- you want to
24 do that? There we go.

1 The company was started in 2011 by
2 myself and a gentleman named Andrew Pascal.
3 By way of background, this is actually the
4 first company we've ever worked at that wasn't
5 in the gambling industry. Andrew and I are
6 from the gambling industry. I started as a --
7 a regulator, an agent with the Nevada Gaming
8 Control Board. Andrew was an operator at
9 The Mirage. And then, in the mid-90s we
10 joined each other and built a slot company
11 machine company that we ultimately sold to
12 IGT. So we make slot games.

13 We sold that in 2001, and thinking
14 that on-line gambling was going to spread
15 throughout the United States, in the year 2000
16 we started another company called Wager Works.
17 Actually did a partnership with MGM with that
18 company as well, and here we are 16 years
19 later and there's not a lot of on-line
20 gambling in America so the company based its
21 operations in Europe, where, as you mentioned,
22 there's a lot of on-line, and we built slot
23 machines again just for use on the Internet
24 versus the slot floor. And we sold that

1 company to IGT as well in 2005. So Andrew
2 then went and became the president and chief
3 operating officer of Wynn Resorts, Wynn and
4 Encore in Las Vegas, and I worked for IGT as a
5 senior executive after the acquisition.

6 In early '11, we both found
7 ourselves out of work and got a white board
8 out and tried to decide what to do. And I've
9 been telling him that people are starting to
10 play slot machines on Facebook, and on mobile
11 devices. They're not gambling, they're just
12 playing them for entertainment purposes. But,
13 for some reason, there's a small percentage of
14 them that are buying virtual currency to
15 extend their play, or go deeper into the game
16 faster than somebody who doesn't pay. And he
17 thought I was crazy so we started to dig up
18 the research and, low and behold, we heard
19 about DoubleDown Casino, now IGT, Slotomania,
20 which, which is now owned by Caesar's. And
21 so, we decided to do it. We've made slots
22 machines our whole careers so why not try it
23 in just a different pricing model in a
24 nongambling way.

1 But we were late, in 2011 the market
2 had already started to move so we came up with
3 the idea that, what if we let our players not
4 win, but accumulate loyalty points so that
5 they could buy and redeem real -- real-world
6 rewards in casino properties and other
7 leisure-oriented places?

8 So we went over to our friends at
9 MGM. We've known the senior team there for a
10 long time, explained the idea. Said, why
11 don't you give us bunch of inventory that
12 might go unused, like a show ticket, if the
13 seat's empty, a buffet that, you know, you
14 never, you know, run out of food at a buffet,
15 a hotel room that might not be occupied, you
16 give it to us and we'll give it away to our
17 players. Now, we can't give it to them for
18 winning and losing on a slot machine, because,
19 obviously, I wouldn't be here. I'd be
20 probably be somewhere else. We can give to
21 them, though, based on their loyalty to our
22 game. And I'm going to spend some time
23 explaining that.

24 So they thought it was a good idea.

1 We had a different kind of product, and we
2 built a business around it. Our strategic
3 investors include MGM and Activision Blizzard.
4 Activision's one of the biggest video game
5 companies in the world. Call of Duty is their
6 flagship franchise.

7 We're up to 180 employees in three
8 states and in Hong Kong. We have six game
9 applications live today, whether it's on
10 Facebook or in the Apple or Google app stores.
11 There's about a million-and-a-half people a
12 day that play one of our applications,
13 5 million a month. These are unique players.
14 So, by now, we're the seventh largest social
15 casino operator in the world.

16 And we're also -- I'm -- I'm a -- a
17 founder and the chairman of the International
18 Social Games Association, which I know you
19 heard from Luc at your last meeting. And we
20 started that organization for just this
21 purpose, to educate and communicate in the
22 business we're in so that the message is
23 clear, and that it gets out that we're quality
24 companies doing the right thing by the

1 consumer, which we know we are. So that's the
2 background.

3 I will skip that, because we just
4 talked about it. This is just the
5 representation of our brands. These are -- if
6 you've ever downloaded an app from the i --
7 iPhone store, these are icons that you see in
8 the store, and these are our five games. The
9 first one is actually available on Facebook so
10 that's how we get to six. We have a blackjack
11 app, an app based on Konami content, which is
12 licensing here in Mass -- Massachusetts.
13 We -- a Hong Kong app called Lucky Life, which
14 is available in Asia, and then a new app
15 called Pop Slots that we're launching next
16 week.

17 Those are important because an
18 overlay of all of these is our loyalty
19 program. So on each one of these apps you
20 will accumulate the loyalty that I talk about,
21 which is then used to redeem real-world
22 rewards.

23 So the rewards program is a
24 collection of about 40 different partners.

1 MGM makes up about a fourth of those. They're
2 leisure-oriented partners. They're hotels and
3 casinos, and attractions in Las Vegas, cruise
4 ships, airlines, food and beverage. We don't
5 do Best Buy cards or Amazon gift credits.
6 It's leisure. It's about playing a game that
7 you enjoy, and then getting to experience
8 something in the leisure sector that's sort of
9 akin to a game experience.

10 CHAIRMAN CROSBY: Who are a few of
11 your others?

12 MR. MATHEWS: Wolfgang Puck,
13 Cirque du Soleil, Caribbean Cruise Lines,
14 Legion Air, which is a Vegas-based airline, the
15 monorail in Las Vegas, the helicopter --
16 Maverick's Helicopters in Las Vegas. You know,
17 really -- the Station Casinos group in
18 Las Vegas, which is a locals-oriented operator.
19 So it's just not just casino. It's -- it's
20 anything that where leisure makes sense. I
21 assume, some day, we'll have theme parks and,
22 you know, things like that.

23 So what I'd like to do is explain
24 how the game works. I was going to try to

1 just show you my phone, but I didn't think
2 that would work. But, basically, I'm loading
3 our app now. And what you're going to see on
4 the screen is that, that's the main menu. so
5 if you want to just look at your TV. You
6 basically select what you want to do. Do you
7 want to play a game? Do you want to look at
8 your rewards? We have things called Journeys,
9 which is a progression mechanic in the game.
10 But if you were to hit the games icon, you
11 would be taken to a menu. And if I do that
12 here on my phone, you can see we have, you
13 know, over 30 slot games that you can choose
14 from. It's a menu.

15 In this case, I've picked a screen
16 shot of part of that menu to show you. And
17 I'll show you the SHAQ9 game. We've done a
18 licensing deal with Shaquille O'Neal, who's a
19 wonderful guy, and we've built a slot game
20 around him and his brand. And so, the next
21 slide, if you clicked on the Shaq game, you'd
22 see the slot machine. You've seen this story
23 before, that's the nameplate field of the slot
24 machine.

1 So what I want to point out are the
2 meters at the top, and then this will, sort
3 of, tie rewards out. So that the 289 is your
4 level. So this player, who's -- the screen
5 shot is on Level 289. Players like to level
6 up. If you like to play Candy Crush or any of
7 these games, your level is important to you.

8 The -- I'm going to go over to the
9 purple chips. The purple chips are what we
10 use to play the slot games. We give you those
11 for free. We give you those when you come
12 back every four hours. Every day you get to
13 spin the wheel and get more. You can do
14 things on Facebook to get chips, like share
15 things with your friends, invite your friends
16 to the game. You can also buy those. You can
17 see the buy button. And if you do, you buy
18 them through iTunes or Google Play, or
19 Facebook, just like you would a song. Most
20 people don't. About 97 percent of our players
21 never will pay us to play the game. And you
22 use those to play the slot machines. And so,
23 you're winning and losing that currency. It
24 has no real-world value. It can't be cashed

1 out. You can't sell it. There's no way to
2 monetize those purple chips. They're just
3 used to play the game. They're virtual
4 credits.

5 As you participate in our game and
6 play it, and come back every day and invite
7 your friends, and do, sort of, everything to
8 engage with our games --

9 CHAIRMAN CROSBY: Excuse me, could I
10 ask you a question? You're a player sitting
11 there playing, you don't get cut off at a
12 certain level of play. What is -- what's the
13 motivation for buying?

14 MR. MATHEWS: Well, you -- you could
15 run out of chips.

16 CHAIRMAN CROSBY: Oh.

17 MR. MATHEWS: Yeah.

18 CHAIRMAN CROSBY: You get the free
19 chips to start with and you run out? Okay.

20 MR. MATHEWS: Yeah, yeah.

21 CHAIRMAN CROSBY: For a period --

22 MR. MATHEWS: In this case, I have --
23 you know, my screen shot I have 374 million
24 chips. It's very unlikely that you'll run out

1 very soon.

2 CHAIRMAN CROSBY: Right.

3 MR. MATHEWS: But most people have,
4 maybe, you know, four 5,000 and they'll play
5 for 10, 15 minutes and run out of chips, and
6 then wait until we give them more, which is an
7 hourly bonus.

8 CHAIRMAN CROSBY: Okay. That's what
9 I was going to say. So when -- when you run
10 out, you are then replenished every --

11 MR. MATHEWS: Yeah.

12 CHAIRMAN CROSBY: -- hour or so, did
13 you say?

14 MR. MATHEWS: Yeah. It depends on
15 the game, and it depends on the whether you're
16 running a promotion. But ours is every four
17 hours you get the bonus, and there's a clock
18 that you can check and people actually --

19 CHAIRMAN CROSBY: So the -- so the
20 person -- the 3 percent run out of their chips
21 and don't want to wait.

22 MR. MATHEWS: Don't want to wait.
23 That's right. And that's the way all social
24 casino games work, and it's really all the way

1 all games work. When you run out of lives in
2 Candy Crush, you can wait until they give you
3 more, or you can do things, like invite people
4 so that you don't have to pay for that
5 marketing expense. You're being viral and
6 paying it for them, or you can just hit the buy
7 button and buy lives. And, in our case, you
8 buy chips.

9 CHAIRMAN CROSBY: So the only --
10 we've gone through this before, but just to
11 make sure, the only distinction between one of
12 these games and Candy Crush, in the economic
13 model -- well, there isn't one in the economic
14 model. The economic model is exactly the same.
15 The only difference is Candy Crush isn't a
16 replication of a gambling game.

17 MR. MATHEWS: Yeah. It doesn't look
18 like a duck, a gambling game. There are -- in
19 every game there are plenty of random-based out
20 sounds.

21 CHAIRMAN CROSBY: Right.

22 MR. MATHEWS: Mystery boxes. Whether
23 your soldier turned the corner and there was
24 two guys or one guys, there's very much

1 randomnes going on in those -- in those things
2 as well, but it doesn't look like a slot
3 machine.

4 CHAIRMAN CROSBY: Right. For sure.

5 COMMISSIONER ZUNIGA: Well, and
6 another distinction is, in Candy Crush, you
7 don't get anything in return, besides advancing
8 to the next level. In your case, you
9 accumulate loyalty points.

10 MR. MATHEWS: Yeah, right, so that's
11 where I'm headed next. And we're -- we're
12 unique in that. There are other people doing
13 rewards. But, at scale, we're by far the
14 biggest, and -- and that's why we're here with
15 MGM.

16 So purple chips, no value. Win and
17 loose, buy, if you want, don't buy, if you
18 don't want to you. You -- you accumulate
19 loyalty for playing the game, for engaging
20 with the game. The amount of time that you
21 play. Do you come back every day? Do you
22 invite your friends? So there's a whole bunch
23 of things in the game that allow you to
24 accumulate loyalty. None of which are the

1 outcome of the slot machine. So you have to
2 have prize consideration and chance. And
3 we've eliminated at least one of those in
4 every scenario in our game.

5 What happens is, you increment this
6 -- this gold coin -- this gold -- your gold
7 balance through playing the game, not winning
8 or losing, and then you go back to the main
9 menu, where I'm at now, and when you have
10 enough of them and you want to see what's
11 available in the rewards catalog, you hit the
12 rewards button and it takes you to that
13 screen.

14 There's about 40 of these cards in
15 the game. And, as I said, there's a
16 collection of hotel casinos and other
17 leisure-oriented things. I've shown,
18 uniquely, Las Vegas, which is a collection of
19 things you can do in Vegas, excursions and
20 helicopters, which I'm going to talk about in
21 a minute. And there you see Bellagio, Aria,
22 you can barely see Vdara.

23 So you hit one of those buttons, and
24 then you go into the rewards catalog, or you

1 can search by category. If you see at the
2 very bottom, it says "sorting by category."
3 Let's say you don't know where you want to go,
4 but you're interested in food. So you can hit
5 the restaurants, or the room category. And
6 it's just like on-line shopping. You're just
7 going through a catalog looking for something
8 to redeem.

9 So in this case I've hit -- I'm now
10 showing you other rewards cards. There's
11 Wolfgang Puck, the Las Vegas monorail. Let's
12 say you want a helicopter tour of The Grand
13 Canyon while you're in Las Vegas, or the
14 strip. You can fly up and down the strip. So
15 you hit the Maverick helicopter button, and
16 then you see a collection of different rewards
17 that we offer in collaboration with them.
18 Here's a \$50 off a Las Vegas dream, which I
19 assume is a Hoover Dam kind of tour. For \$85
20 you can fly up and down the strip, which is a
21 discount stated rate. There's a buy one get
22 one free, which you can see is sold out. And
23 then, at the bottom you can see how much of
24 the loyalty it costs. You know, one case 50,

1 another case 200,000. And then, when you
2 decide that's what you want to do, you hit the
3 purchase button right in the game, on your
4 phone, put your name and address and e-mail.
5 And then, our system sends you an e-mail with
6 instructions on how to redeem.

7 In the case of a room, you call MGM
8 and book your room. In the case of a
9 helicopter tour, it gives you a code. You
10 walk into the -- the place, or make your
11 booking and give them the code and it's all
12 automated and you get your -- you get your
13 reward.

14 So that's a general overview of how
15 rewards work in the game. We are unique.
16 There are others who are giving out rewards,
17 but, like I said, not at scale. Josh is going
18 to talk about, sort of, how it works for him.
19 If you think about it from our perspective, we
20 got into a business that was highly
21 competitive and late, so we came up with a
22 secret sauce, which is rewards. And so, it
23 helps us engage our players and keep them
24 active in the game, which helps us then,

1 ultimately, sell more chips.

2 You know what, I missed the one
3 point I wanted to make about the games. I
4 know there's been a lot of -- there was press.
5 And it always coming up that, somehow, these
6 social casino games have math dynamics that
7 are designed in a way to entice players to --
8 or to get people feel that they're -- I'm
9 pretty good at this Shaq game. You know, I
10 really can win on that. And then go try to
11 find it at the casino, and find that the
12 payback dynamic's very different. It's --
13 it's not -- it doesn't make sense for us, and
14 I'll explain why. We don't do it in our
15 association, and I don't know that any social
16 game operator does it.

17 We have some Konami games in our
18 game, and they're the exact same math models.
19 We get them from Konami, that end up on the
20 casino floor. But the more important thing
21 is, there's no incentive for a social casino
22 operator to pay back -- to have a loose game
23 or -- or a positive payback game because, if
24 you played our Shaq game at 104 percent

1 payback because we were trying to get you into
2 the casino, we wouldn't sell a whole lot of
3 chips because you'd never run out, if it was a
4 positive payback games.

5 So we're in the business of -- well,
6 we're not in the gambling business. We're in
7 the business of draining chips in an
8 entertaining way so we can sell more. Just --
9 sort of just --

10 CHAIRMAN CROSBY: Might that be what
11 you're in it for but not, necessarily what MGM
12 is in it for? I mean, in theory. And I -- I
13 take at face value what you say.

14 MR. MATHEWS: Absolutely, yeah.
15 Have.

16 CHAIRMAN CROSBY: We'll look into it.
17 But, in theory, a division of a casino company
18 could get -- induce people to play social
19 casino games, make the formulas very loose.
20 You do give a -- and you're -- you're not
21 making any money on the selling of new purple
22 chips, because what you're really trying to do
23 is induce people to come in to the slot
24 machines, which are much more profitable than

1 chips. So that's a perfectly reasonable model,
2 right?

3 MR. MATHEWS: No doubt about it.
4 It's a good question to ask. It's just no
5 responsible operator on our side, or,
6 certainly, a licensee would -- would ever do
7 that.

8 CHAIRMAN CROSBY: Okay.

9 MR. MATHEWS: Makes no sense
10 economically, and it's -- it's a bad thing do
11 from a policy standpoint.

12 CHAIRMAN CROSBY: But it's important
13 -- it's an important distinction to make. To
14 say it's not a good idea economically is a
15 little disingenuous, you know. It might be or
16 it might not, depending on what your motivation
17 is, depending on who owns you and so forth.

18 MR. MATHEWS: Yeah. From our
19 perspective it is.

20 CHAIRMAN CROSBY: And what your
21 return on investment is and so forth and so on.

22 MR. MATHEWS: Right.

23 CHAIRMAN CROSBY: Coupled with, we
24 don't do it because it's the wrong thing to do

1 and we'll prove it to, that's -- now you're
2 starting to get to the whole story.

3 MR. MATHEWS: Right.

4 CHAIRMAN CROSBY: But I just -- I
5 don't want it to sit out there that -- for us
6 to take an assertion that this isn't good
7 economically and let it sit there as, on its
8 face, true. I mean, disagree if you want to,
9 but I think that's an important distinction.

10 MR. MATHEWS: No, no. From
11 Playstudios, who doesn't share in the revenue
12 on the casino floor, I think my argument
13 sticks.

14 CHAIRMAN CROSBY: Right.

15 MR. MATHEWS: It makes no sense. The
16 next questions for Josh and MGM guys is, do you
17 do it because you're not in the business of
18 selling chips; you're in the business of
19 getting people in your resort?

20 CHAIRMAN CROSBY: Right.

21 MR. MATHEWS: So it's a valid --

22 CHAIRMAN CROSBY: Okay. Are you
23 finished with your --

24 MR. MATHEWS: I am.

1 CHAIRMAN CROSBY: -- presentation?

2 Other questions or comments or --

3 MR. MATHEWS: Yeah. I --

4 MR. BEDROSIAN: So I just -- I think
5 they're going to do now -- they're not done
6 with the presentation, though, correct?

7 MR. NOSAL: No. Josh --

8 MR. SWISSMAN: I'll speak.

9 CHAIRMAN CROSBY: Okay.

10 MR. NOSAL: Yeah, yeah. Go for it.

11 CHAIRMAN CROSBY: Oh, okay.

12 MR. NOSAL: And just before
13 Mr. Swissman picks up where Mr. Mathews left
14 off, talk a little bit about how this is used
15 for marketing purposes. I want to stress,
16 certainly, build on something that
17 Director Bedrosian indicated that, you know, no
18 decision has been made about utilizing this in
19 Massachusetts from the MGM Springfield
20 perspective.

21 And to the extent that, that
22 discussion continues and evolves for purposes
23 of marketing, it's something that the company
24 would come back, engage, certainly with staff,

1 and continue to keep the Commission apprised
2 of -- you know, prior to taking those steps.

3 And so, today's presentation is
4 really informational in the spirit of the
5 educational forum that the Commission does.
6 And Mr. Swissman is going to talk about how
7 this is utilized in other jurisdictions,
8 primarily, Las Vegas.

9 CHAIRMAN CROSBY: Right. And that's
10 important. MGM's a long way from open. We
11 realize this is, sort of, in the abstract at
12 this point.

13 Let me just ask one other question
14 to Paul. Do you know anything about the
15 3 percent? One might, again, hypothesize that
16 the only people who can't wait an hour are
17 people who are beginning to get in trouble.
18 Not because of gambling trouble, but which --
19 but because they're becoming addicted to the
20 play of social games, like people do all the
21 time. Is there -- do you have any data on who
22 the 3 percent are on what's going on, what
23 motivates them?

24 MR. MATHEWS: Well, we've got a lot

1 of data about --

2 CHAIRMAN CROSBY: Their play.

3 MR. MATHEWS: -- their spending --
4 spending patterns.

5 CHAIRMAN CROSBY: Right.

6 MR. MATHEWS: I'm not sure how to
7 answer the question. I -- I mean, these are
8 people who, this is the way they're choosing to
9 spend their money. And this is the type of
10 game they like, versus playing Call of Duty or
11 pinball, back in the day when you just pumped
12 quarters in one after another.

13 CHAIRMAN CROSBY: Right.

14 MR. MATHEWS: And, you know, the
15 overwhelming majority of 1.5 million people are
16 happy just to play the game in the flow at
17 which the game allows you to play, and there's
18 a small percentage that aren't. There are
19 definitely people who spend, you know, money on
20 this. And -- and sometimes you can look and
21 go, wow, that seems like a lot for a game, but
22 you have no idea what their --

23 CHAIRMAN CROSBY: Resources are.

24 MR. MATHEWS: -- sort of, economic

1 profile is.

2 So, I mean, what we know is, it's a
3 very engaging game. People love it. And
4 those that buy -- you know, I don't think
5 we've -- I've never heard of -- of like a
6 buyer's remorse complaint. Like, oh, my God,
7 I got over my head here, and now I owe my
8 credit card a lot of money and Apple, you
9 know, because I bought it through Apple. I
10 can't think of one case we've had of that.
11 Did that answer your question at all?

12 CHAIRMAN CROSBY: Yeah. And it's --
13 I had this conversation with Keith Whyte, when
14 he was with the National Council of Problem
15 Gambling.

16 MR. MATHEWS: Yeah.

17 CHAIRMAN CROSBY: And it's -- our
18 business is gambling, you know, and his
19 business is gambling too, unless they change
20 their mandate, which they're considering. But
21 there may be a problem in the world about
22 people being prone to getting into some kind of
23 distortion in their play of social games. That
24 may be a problem in the world.

1 We've all talked about and seen kids
2 and friends, who sit at a screen too long, and
3 there might be a problem there. That isn't
4 our problem. And I don't think it was
5 Keith Whyte's problem yet. But it is -- just
6 as an aside, it is interesting because we are,
7 in this world, of being sensitive to behaviors
8 that can become dysfunctional for people. And
9 I was just curious whether -- whether you know
10 about 3 percent. So -- but your answer it
11 fine.

12 COMMISSIONER STEBBINS: Of that -- of
13 that 3 percent, though, how -- how often are
14 they actually going in and redeeming their
15 prizes?

16 CHAIRMAN CROSBY: Oh, that's
17 interesting.

18 MR. MATHEWS: The overwhelming
19 majority of rewards that are redeemed and
20 consumed are from nonspenders, you know, just
21 because of the numbers, 97 to three. The
22 3 percent, and I don't know the stats off the
23 top of my head, but they're definitely
24 redeeming rewards. But, you know, if a hundred

1 rewards were redeemed today, you know the vast
2 majority are going to be from nonspenders, just
3 because of the math.

4 COMMISSIONER STEBBINS: And,
5 obviously -- I mean, you're drawing them into a
6 physical location, or you're drawing them to a
7 physical location to redeem stuff so you begin
8 to get a sense, maybe, of geography of where
9 your players are coming from.

10 MR. MATHEWS: Yeah. A lot of --

11 COMMISSIONER STEBBINS: So they've
12 got to be in close proximity to an MGM
13 facility.

14 MR. MATHEWS: We're very strong in
15 the feeder markets to Las Vegas because of the
16 overweight of Vegas rewards in our game, which
17 we're trying to change. We now have the UK
18 rewards, we're getting Australia rewards. But,
19 you know, Phoenix, San Francisco, LA, Salt Lake
20 City, you know, Canada, a lot of the feeder
21 markets.

22 COMMISSIONER STEBBINS: Thank you.

23 COMMISSIONER ZUNIGA: You mentioned
24 this quickly, but I know you may -- you may

1 also talk about it, but the three elements are
2 consideration, price and chance. Chance is, of
3 course, always present in your -- in your
4 games; is that -- is that correct?

5 MR. MATHEWS: It is, when you're
6 winning and losing purple chips, but it has no
7 bearing on the loyalty accumulation, which is
8 the only way you can purchase a award.

9 COMMISSIONER ZUNIGA: So I guess
10 that's where I was going. You say, in your
11 games there's at least one, but maybe more,
12 always removed from -- you know, in -- in your
13 model. Is that -- is that one chance?

14 MR. MATHEWS: Yeah. Chance has no
15 bearing on the accumulation of loyalty. Maybe
16 I -- let me try to state it another way. If
17 you play our game, if you started playing right
18 now for the first time and you just kept
19 playing it, whether you purchased or not,
20 eventually, you're going to have enough loyalty
21 to buy every reward you have. It's determined.
22 You will earn every reward just by playing the
23 game. That's a very different dynamic than if
24 you think about a gambling floor, where if you

1 said, if I just play blackjack long enough I'm
2 going to end up winning a bunch of money. It's
3 just the opposite. The longer you play the
4 house has an advantage.

5 So -- so there's no luck involved.
6 You just have to keep playing the game to
7 accumulate loyalty, because it's -- it's not
8 won or lost. It's given for just moving
9 through the game. What monetizers do, people
10 who spend, is move faster through the game.
11 You get to level 200 faster because you load
12 -- you load up with more chips, which is the
13 way every game works.

14 COMMISSIONER ZUNIGA: So the
15 accumulation -- I mean, without revealing the
16 secret sauce, the accumulation of loyalty has
17 an algorithm that you've established and it's a
18 set formula?

19 MR. MATHEWS: That's right.

20 CHAIRMAN CROSBY: Which is just a
21 function of play?

22 MR. MATHEWS: Just a function of
23 play. And then there's things you can do to
24 get more. Which, like I said, invite your

1 friends, share your achievements, help us
2 market our game. Those other things like that.

3 But, yeah, it's just mathematical.
4 That's why I say, if you just wake up every
5 day, play our game, run out of chips, wait,
6 play our game, run out of chips, wait, you're
7 going to be able to buy the most expensive
8 reward we have. It's just -- it's just a
9 matter of time, which is very different than
10 gambling, that dynamic.

11 COMMISSIONER ZUNIGA: Thank you.

12 CHAIRMAN CROSBY: Could we take a
13 real quick break before you start?

14 MR. SWISSMAN: Certainly.

15

16 (A recess was taken)

17

18 CHAIRMAN CROSBY: All right. We are
19 reconvening meeting 194. And back to our
20 guests from MGM.

21 MR. SWISSMAN: Sure. Well, I'll be
22 brief. Paul did a lot of heavy lifting here,
23 and I am effectively disclaimed so -- before
24 we start, may name's Josh Swissman, senior vice

1 president of loyalty marketing of MGM Resorts.
2 I actually had the pleasure of working with
3 Paul and Andrew many years ago in our on-line
4 gaming efforts, and spent more than my fair
5 share of time in the Isle of Man, which is
6 where we held our license. This is a much
7 shorter plane flight than the Isle of Man
8 flight was, so I'm happy to be here, and thank
9 you all for having me.

10 So my job is -- is to talk to you
11 about how we utilize the MyVegas platform
12 to -- to -- really just to more deeply engage
13 our customers. And if you think about it,
14 there are really three types of customers that
15 we would like to engage through MyVegas, and
16 through the rewards platform within MyVegas.

17 The first is quite obvious. And
18 that is growing new customers, acquiring new
19 customers. There's a different way to
20 effectively grow your active database. And
21 that is also to focus on reactivating dormant
22 customers, or inactive customers. For one
23 reason or another, they've stopped coming to
24 our facilities in -- in Las Vegas, or in

1 Mississippi.

2 And before we get to the third
3 group, I'll tell you, those first two are
4 really what we were, sort of, laser focused
5 on, when we started this effort with -- with
6 Paul and Andrew a few years ago. And we've
7 been relatively successful in that regard so
8 far.

9 If you were to look at all the
10 people that have redeemed an MGM Resorts
11 reward within the MyVegas reward ecosystem,
12 north of 40 percent of those people are, in
13 fact, new or reactivated customers, so we're
14 pretty proud of that. That leaves just shy of
15 60 percent being previously active, or
16 currently active customers within the MGM
17 Resorts customer database, which are also
18 engaging with MyVegas and redeeming
19 MGM Resorts rewards, and coming on property
20 and enjoying those experiences.

21 And while it wasn't a big focus of
22 ours initially, what we've found over time is
23 that we are actually doing a better job of
24 engaging our -- even or active customers

1 through -- through MyVegas and through the
2 rewards platform. Particularly, in Las Vegas.

3 If you think about the average Vegas
4 visitor, they're only coming once every 1. --
5 you know, 6, seven years, depending on what --
6 what the latest convention visitor's authority
7 data is. And this is a great way to keep our
8 active customers energized about our brands,
9 other properties, and all the experiences that
10 we have to offer. So we've actually seen an
11 increase in engagement from that active
12 customer group as well, which is a tremendous
13 benefit for us as a company too.

14 Paul's already talked a little by
15 about the usage of that, sort of, remnant or
16 perishable inventory for our company and
17 for -- really for any hospitality company, the
18 effective, optimized utilization of that
19 inventory is paramount to a company's success.
20 And so, we're happy to say that we are -- we
21 are achieving a good optimization, sort of,
22 mix in utilizing and stimulating business
23 during offpeak periods through these MyVegas
24 rewards.

1 Another KPI, or another metric that
2 we often look at is what we call -- and this
3 again is a Vegas metric, is Share of Wallet.
4 People come to Vegas, they visit Las Vegas,
5 they have a set budget, and there is fierce
6 competition to gain more of that customer
7 Share of Wallet when they come out to Vegas.
8 And to the extent that you do that, that is
9 where a-- a general market share is won and
10 lost.

11 And what we've found is that these
12 rewards that -- that people are redeeming
13 within MyVegas are exposing customers. Even
14 our -- even our active customers, our current
15 customers, to experiences and offerings that
16 they normally don't get exposed to. And once
17 that happens, they actually stick around
18 and -- and stay with us and enjoy other assets
19 and other offerings within the company.

20 You know, if they redeem an offer
21 for a show, the likelihood that they'll stick
22 around for a dinner afterwards, or a show,
23 increases dramatically. And so, for those
24 that redeem these rewards, we've seen Share of

1 Wallet actually increase quite nicely as well.

2 From a broader standpoint, we -- we
3 value our relationship with Playstudios
4 because the positions are a company is a
5 forward-thinking, progressive company, which
6 is important to us, and important to our
7 chairman. And our work, specifically with
8 MyVegas, has actually generated some initial
9 momentum in other, sort of, interactive
10 initiatives that the company is undertaking as
11 well.

12 This is pretty simple. This
13 virtuous cycle of customer development. New
14 players into the game, getting engaged within
15 the MyVegas game, some of them being active,
16 and, again, those new and reactivated
17 customers. And really, again, the big win for
18 MGM Resorts is when those people convert from
19 being on-line players into offline customers
20 of ours.

21 Before that happens, though, and
22 this is for every MGM Resorts reward that is
23 redeemed within the MyVegas platform, we
24 require every player to join our loyalty

1 program. That's MGM Resorts loyalty program,
2 which, you may know is called MLife.

3 Now, in order to join MLife, you
4 actually have to be 21 years of age or older.
5 And, therefore, in order to redeem any of
6 these MGM Resorts rewards within MyVegas, you
7 also have to be 21 years of age or older.

8 CHAIRMAN CROSBY: How do you -- you
9 said in order to -- I'm sorry. In order to
10 redeem you have to be 21.

11 MR. SWISSMAN: Yes.

12 CHAIRMAN CROSBY: But if you -- if
13 you picked a -- picked a Marriott room
14 somewhere, not in Las Vegas, how -- how do --
15 how do you know that that person is 21?

16 MR. MATHEWS: Oh. You mean, another
17 rewards partner?

18 CHAIRMAN CROSBY: Right.

19 MR. MATHEWS: Oh. Other rewards
20 partners, all the casinos have the same
21 restriction.

22 CHAIRMAN CROSBY: Yeah.

23 MR. MATHEWS: The helicopters,
24 there's not a -- I think it's 18, probably.

1 There's not a -- there's not an age
2 restriction.

3 CHAIRMAN CROSBY: Okay. So you --
4 you -- you don't -- you don't have to be 21 to
5 play, you don't have to be 21 to pay, you have
6 to be 21 to redeem your credits in the casinos
7 facility?

8 MR. MATHEWS: Yeah, at certain -- at
9 certain reward partners.

10 CHAIRMAN CROSBY: Okay. So the -- so
11 on site you confirm -- when you come in to get
12 your free room, it's the duty of your
13 customer -- of your sales rep, but upfront --
14 it's not working, Mike? It's the duty of your
15 sales rep to confirm that the person is 21?

16 MR. SWISSMAN: Whether or not --
17 we'll use the room as -- as an example there.
18 Whether or not it's someone redeeming a MyVegas
19 reward, or just buying a room directly from one
20 of our Web sites or our third-party partners,
21 we ID every single person that checks in, and
22 we require that, that person that's checking
23 in, whose name is on the reservation, is 21.
24 That's just a normal course of business for us.

1 CHAIRMAN CROSBY: Right. Okay.

2 Okay.

3 COMMISSIONER ZUNIGA: Do these points
4 expire?

5 MR. MATHEWS: No. We -- we should,
6 but we haven't yet.

7 CHAIRMAN CROSBY: You will.

8 MR. MATHEWS: We -- in our terms and
9 conditions, we have the right to expire them,
10 but we've never got around to writing the --
11 the software to do it, so there's a lot now,
12 billions.

13 MR. SWISSMAN: Sorry. And if I
14 didn't say it before, you do actually have to
15 be 21 years of age or older to actually join
16 MLife, our -- our loyalty program as well.

17 CHAIRMAN CROSBY: Yeah.

18 MR. SWISSMAN: So that's, yet,
19 another check and balance.

20 CHAIRMAN CROSBY: So there's two
21 day -- there's two checkpoints.

22 MR. SWISSMAN: That's right. That's
23 right, depending on the type of reward. And we
24 can go quickly through this. Paul talked about

1 the different types of rewards that MGM Resorts
2 offers. You have, on the left side, the
3 age-old Las Vegas comp. I think it's as old as
4 Vegas itself, the free buffet.

5 The most exciting one, to me, is the
6 one on the right-hand side. And this is what
7 we think really differentiates us from our
8 competitors, and helps differentiate MyVegas
9 from its competitors. For those of you that
10 can't read it, this is a reward, which has --
11 has actually been redeemed. Someone redeemed
12 it for their 50th anniversary, right, Paul?

13 MR. MATHEWS: Yeah.

14 MR. SWISSMAN: And this is the
15 experience to choose the -- the song that plays
16 while the fountains at Bellagio go off. Now,
17 nowhere else in the world can you offer this
18 reward. And in no other program can anyone
19 acquire this reward. So those are the types of
20 things that are great exposure for our brands,
21 and great exposure for our company, and really
22 excited people about coming to -- to visit
23 Las Vegas and to visit our properties. And
24 we're thrilled that we have the ability to

1 offer this through MyVegas platform.

2 MR. MATHEWS: If I could just add one
3 of those good stories. Just about two weeks
4 ago, a player redeemed lunch, spent the
5 afternoon and played basketball with Shaquille
6 at his house in Orlando, and brought his
7 grandson and his son.

8 CHAIRMAN CROSBY: Wow.

9 MR. MATHEWS: And we had some of our
10 guys go. It was fantastic. You can't buy
11 that.

12 CHAIRMAN CROSBY: How many points was
13 that?

14 MR. MATHEWS: That was a lot.

15 COMMISSIONER CAMERON: Mr. Chair, I
16 thought you were asking how many points that
17 person scored against Shaq.

18 MR. MATHEWS: That would be not --
19 that would be not a lot.

20 CHAIRMAN CROSBY: That would not be a
21 lot, no.

22 COMMISSIONER STEBBINS: Well, a
23 little plug for Springfield, he's getting
24 inducted to the Basketball Hall of Fame this

1 year.

2 On the marketing cycle, you talk
3 about converting some of your on-line players
4 to the MGM Las Vegas resorts. You obviously
5 have properties in other parts of the country.

6 MR. SWISSMAN: Yes.

7 COMMISSIONER ZUNIGA: Not focusing in
8 on the Springfield, but Detroit, Mississippi,
9 how collectively is this program playing to
10 those more regional destinations?

11 MR. SWISSMAN: We do have these --
12 our properties in Mississippi, so that's
13 Beau Rivage in Biloxi, Mississippi, and
14 Gold Strike in Tunica, Mississippi, also have
15 rewards within MyVegas.

16 Detroit's an interesting market in
17 that there's -- there's a great velocity as
18 far as customer visitation. If you were to
19 look at proximity of most folks that frequent
20 our Detroit property, they're really quite
21 close. So -- and they spend time there
22 already. So we've chosen not to place any
23 Detroit rewards within the ecosystem, solely
24 because those customers are already

1 super-engaged. They're already coming with --
2 with really, pretty good velocity already. So
3 it just hasn't been a priority for us.

4 Whereas, if you look at our other
5 two properties in Mississippi, while they
6 definitely have local contingents as well from
7 a visitation standpoint, they have a much
8 greater proportion of folks flying in, and --
9 and are more of that leisure, kind of,
10 destination-type, customer. So it works
11 actually quite well for our properties in
12 Mississippi too. That's really all I had. If
13 there are any other questions, happy to answer
14 them.

15 MR. BEDROSIAN: Are there any other
16 questions, Commissioners?

17 CHAIRMAN CROSBY: Yeah. This issue
18 about the -- the algorithms - I guess this is
19 the two of you - the algorithms in the games,
20 whether or not a player of a social casino game
21 is affected -- is presented in any material way
22 with a different winning percentage than
23 casinos on the floor, and games on the floor.
24 You're saying that the answer to that is no,

1 there's no material difference in the winning
2 percentage algorithms; is that correct?

3 MR. MATHEWS: Yes.

4 CHAIRMAN CROSBY: And you're saying
5 the same thing?

6 MR. SWISSMAN: The math is similar,
7 yes.

8 CHAIRMAN CROSBY: Is that different
9 from what I've said?

10 MR. SWISSMAN: No.

11 CHAIRMAN CROSBY: Okay. If -- and
12 why not? I mean, wouldn't it be a good
13 marketing tool? I mean, why don't you do that?

14 MR. MATHEWS: We wouldn't let him.

15 MR. SWISSMAN: Well, that's the first
16 reason. The second reason is that, from an
17 MGM Resorts standpoint, it's -- it's the
18 assets. It's -- it's those beautiful buildings
19 and those great rooms and shows that we offer
20 that are truly the -- the draw for our customer
21 base.

22 To utilize some, you know, different
23 type of slot machine in math, if -- if Paul
24 was ever going to let us do it, which he

1 wouldn't, just -- it doesn't fit well with our
2 brand. It's not what we're about, and it's
3 not representative of the -- sort of the
4 leisure, sort of, aspect of this game and --
5 and most of the assets that we offer as a
6 company.

7 CHAIRMAN CROSBY: I don't -- I don't
8 understand that. What -- I mean, players are
9 pretty sensitive. I was astonished to find out
10 how -- how sensitive players are to change in
11 payouts and holds and so forth. So with
12 relatively minor shift in the algorithms, you
13 could, apparently, have positive impact on
14 getting people to feel good about the game
15 because it's -- they feel like they're winning
16 with some regularity. I don't understand where
17 that's incompatible with something else that
18 you're doing. That would induce people to come
19 into the floor.

20 MR. SWISSMAN: Yeah.

21 CHAIRMAN CROSBY: How is that
22 incompatible with what you're doing?

23 COMMISSIONER ZUNIGA: Can I take a
24 stab at that, because I think the numbers --

1 CHAIRMAN CROSBY: You're going to
2 answer my question to MGM?

3 COMMISSIONER ZUNIGA: You know, if
4 the existing -- if the engagement is with
5 existing customers to the tune of 60 percent,
6 like you just described, it occurs to me that
7 having that -- something that is fundamentally
8 different could feel, I don't know,
9 disingenuous for the player; is that a fair
10 statement?

11 MR. SWISSMAN: Well, yes. I mean,
12 that -- that is something that -- that
13 perceptive players would pick up on. And,
14 yeah, that would feel disingenuous. And,
15 again, for us, from an acquisition standpoint,
16 it's really been all about the reward
17 ecosystem. That's what attracted us to this
18 relationship in the first place.

19 CHAIRMAN CROSBY: Say that again.
20 What was that point?

21 MR. SWISSMAN: The -- the reward
22 ecosystem, this unique, sort of, proprietary
23 way with which MyVegas displays rewards, and
24 how we can incent visitation through these

1 rewards, is really the winning play for us is
2 MGM Resorts. That's -- that the important part
3 for us.

4 MR. MATHEWS: You know, I would just
5 add, if you had a game on a social casino that
6 paid, say, 110 percent back to the player, it
7 becomes very uninteresting quickly to a player,
8 if you think about it, if you just win every
9 time playing a game, it gets borings very fast.

10 What's interesting about gambling
11 games is, it's the winning and the losing, and
12 the way you feel through the ups and the
13 downs, that is an attraction for people. If
14 you win every time you hit spin it's boring.
15 So that's one reason not to do it. And then I
16 think, as you said, players are pretty smart
17 about this. They can feel very subtle changes
18 in payback. And if you did and they walked in
19 and played it, it wouldn't take them very
20 long, at all, to feel bamboozled.

21 So I think what you have to have to
22 make this reality, is a social casino
23 operator, who doesn't care about making money.
24 So they're wanting to not drain chips. It's

1 tied directly to a casino, who is either not
2 regulated, or is willing to risk their license
3 by doing something that's, sort of, consumer
4 deceptive.

5 CHAIRMAN CROSBY: Is -- I mean, I
6 think the points you're saying make -- are
7 common sense -- are sensical. And the
8 commissioner -- if 60 percent of your players
9 are already players, then, you know, that's
10 a -- sort of a failsafe system. But we have a
11 lot of constituents who are skeptical of the
12 good-faith assertions like these, and who would
13 say, trust but verify.

14 Would you -- if this became a big
15 issue, and for the moment it's not, but if it
16 became a big issue, would you have any problem
17 having your systems tested by the same kind
18 of -- you know, IGT systems or whatever --
19 test systems that -- that we use on the -- on
20 the hardware, to prove if anybody really
21 doubted that the algorithms are fundamentally
22 the same?

23 MR. MATHEWS: Yeah. I think we
24 would -- we would, not because we're trying to

1 hide anything. In fact, through the ISGA, we
2 now have a certification program that is run by
3 one of the labs that you will be familiar with.
4 It's not -- because it's not gambling it's hard
5 to say, well, go get tested for gambling,
6 because it's not gambling. And so, we're
7 sensitive to that. I think what we would be
8 happy to do is share whatever information about
9 the dynamics of our games and how they relate
10 to floor, with anybody, sort of, privately, I
11 guess.

12 CHAIRMAN CROSBY: Well, it might be
13 worth thinking about. I mean, this is not --

14 MR. SWISSMAN: Yeah.

15 CHAIRMAN CROSBY: I'm just mindful of
16 the fact -- you understand this a lot better
17 than I do. All of you who are in the industry
18 understand this a lot better than I do. There
19 are plenty of people out there that flat out
20 don't believe and are going to raise
21 challenges. There are -- there are consumers,
22 there are consumer advocacy groups, there are
23 media, et cetera, that simply don't accept
24 good-faith assertions as such. You know that

1 well. And to trying to anticipate how to deal
2 with that, you might think about doing
3 something on your own. I mean, it doesn't have
4 to be our -- we're checking it, but you can
5 have some of the labs --

6 MR. MATHEWS: Yeah, well, we do --

7 CHAIRMAN CROSBY: -- testify, you
8 know, that X, Y and Z whatever it is. But I --
9 I think it is -- I think it's a vulnerable
10 spot -- again, I'm not telling you anything you
11 don't know. It's a vulnerable spot to that
12 portion of the world, which is very skeptical
13 about casino games and gambling and so forth.
14 And that might be a way to -- to give us the
15 tools, first of all, to reassure us that what
16 you're saying is right, but also to inoculate
17 yourself against that kind of thing.

18 MR. MATHEWS: Yeah, let me elaborate.
19 The ISGA has taken us awhile to get there, but
20 working closely with one of the labs who have,
21 sort of, a sister lab that isn't -- that's more
22 software testing than gambling-machine testing.
23 We're all going through certification. In
24 fact, our company's almost done. And one of

1 the best practices that Luc mentioned when he
2 was here, is this disclaimer that, you know,
3 your success in social has no bearing on your
4 success in the real world, and then we test
5 against that. I wouldn't -- I would never say
6 it's as robust as the slot-machine maker goes
7 through the process. It may get there. We'll
8 have to see if this consumer feeling either
9 gets bigger or smaller. It's the same
10 consumers who think the games in the casinos
11 are funny -- have funny math too.

12 CHAIRMAN CROSBY: Right.

13 COMMISSIONER CAMERON: Could you,
14 just rough numbers of the growth from year to
15 year, since you started offering this -- this
16 on-line social gaming product?

17 MR. SWISSMAN: Specific to MGM
18 Resorts --

19 COMMISSIONER CAMERON: Yes.

20 MR. SWISSMAN: -- redemptions?

21 COMMISSIONER CAMERON: Yes.

22 MR. SWISSMAN: I can get you those
23 figures.

24 COMMISSIONER CAMERON: Well, just, I

1 mean, you just started offering it in, did you
2 say, 2011?

3 MR. SWISSMAN: The first game went
4 live in the middle of '12, yeah.

5 COMMISSIONER CAMERON: Okay. So
6 middle of '12. So you've just seen tremendous
7 growth, or little by little every year? I
8 don't need exact numbers, I was just wondering.

9 MR. SWISSMAN: We've -- we've had a
10 couple hundred thousand redemptions since that
11 time, I believe.

12 MR. MATHEWS: The chart looks kind
13 of up and to the right.

14 MR. SWISSMAN: Yeah.

15 MR. MATHEWS: It doesn't go like this
16 but --

17 MR. SWISSMAN: It's good growth.
18 It's not huge.

19 COMMISSIONER CAMERON: Okay.

20 MR. MATHEWS: It tracks very nicely
21 with our daily active user numbers, which are
22 just on a trend that uses --

23 COMMISSIONER CAMERON: And you -- you
24 expect that there's no reason why that wouldn't

1 continue or --

2 MR. MATHEWS: Yeah. We have to add
3 more apps and make the apps more interested.
4 It's a super-competitive space. There are
5 thousands of slots machine apps in the store.
6 And growing DAU is now very expensive. You can
7 buy them with banner ads and apps that you
8 might be playing and it's -- the secret's out.
9 It's a very competitive market.

10 COMMISSIONER CAMERON: Thanks.

11 CHAIRMAN CROSBY: Anybody else?

12 Thank you very much. I appreciate it.

13 COMMISSIONER CAMERON: Thank you.

14 MR. BEDROSIAN: So just give me about
15 two minutes and we'll get the Penn folks up and
16 introduce that subject to the commissioners.

17 So before I ask Mr. Stempeck to
18 introduce the -- the representatives from
19 Penn, in my initial comments, I think I stated
20 what I'd characterize is the obvious, that
21 these two organizations, at this point, are
22 not similarly situated. Obviously,
23 Penn National has an operation in Plainridge,
24 which we mentioned before, operating in

1 Massachusetts. And what they are looking to
2 do is, consistent with what I think you heard
3 from MGM, if there are differences, I think I
4 suggest they'll tell us the differences. And
5 their -- their plans were outlined in a letter
6 to me -- well, first, they had written a
7 letter long ago alerting the Commission about
8 this. I think what sure started this ball
9 rolling most recently, their most current
10 plans are outlined in a letter to me dated
11 June 17, 2016, which is in the packet, from
12 Mr. Baldacci, who's here, their deputy chief
13 compliance officer. In that, this is -- could
14 be viewed as a marketing promotional tool. We
15 did not put it on for a vote of the Commission
16 because the Commission -- that is not
17 traditionally voted on marketing and
18 promotions.

19 Having said that, I think everyone
20 realizes this is active commission. They --
21 you are engaged in new areas. You have done,
22 obviously, a lot of work in daily fantasy
23 sports, you've thought about other on-line
24 segments. So it seemed obvious that, as

1 staff, or as executive director, I wasn't
2 going to bless this or do anything without
3 bringing it to the Commission.

4 My -- my plan had been, pending your
5 hearing and asking questions, is -- was to
6 allow Penn to move forward. But as -- as you
7 have somewhat the articulately said,
8 Mr. Chair, trust but verify.

9 I come from, you know, the
10 Attorney General's Office with a consumer
11 protection background. I would want to make
12 sure what they say is happening is actually
13 happening. We've had conversations with the
14 underlying maker of their games,
15 Scientific Games, about the algorithm. We
16 wanted to see how to check those and recheck
17 those, if we think necessary, and potentially
18 find out about -- I don't know what their
19 3 percent is, if there's any indicia of what's
20 happening with those 3 percent.

21 Having said that, as I said, you're
22 an active board. If I am misguided in any
23 way, I suggest you will probably tell me so.
24 So with that, I'll have Mr. Stempeck introduce

1 the folks from Penn.

2 MR. STEMPECK: Here on behalf of
3 Penn National are Chris Sheffield, the managing
4 director of Penn Interactive Adventures;
5 Carl Sottosanti, general counsel,
6 Penn National; Jim Baldacci, as Mr. Bedrosian
7 mentioned, the deputy chief compliance officer;
8 Frank Donoghue, the chief compliance officer of
9 Penn National. And in the event that there are
10 any technical questions, I understand there are
11 two representatives from Sci Games that are
12 here. That's Robert Gustafson, the assistant
13 general counsel and vice president of legal;
14 and Michael Friis, the vice president of
15 regulatory -- regulatory affairs.

16 MR. BEDROSIAN: And, again, of course
17 I see Mr. George in the back of the room.

18 CHAIRMAN CROSBY: Okay. Thank you.
19 Fire away.

20 MR. SOTTOSANTI: Well, good
21 morning -- good morning to all the
22 commissioners and the staff members. Good
23 morning to all the commissioners and the staff
24 members. Mr. Bedrosian stole a lot of my

1 thunder so my remarks will be remarkably brief.

2 You know Penn National well, and I
3 won't belabor our backgrounds. Consistent
4 with Chairman Crosby's opening remarks, happy
5 first anniversary to all of us, to all
6 stakeholders. It is, honestly, no small feat
7 to launch a whole industry, and this has been
8 no exception.

9 I guess, with the benefit of time
10 now, I can look fondly on some of our
11 adventures and misadventures in Springfield
12 and Tewksbury, and with the R word,
13 referendum, for those of you who remember
14 that. Honestly, we're thrilled at our first
15 year of operation in the Commonwealth, and we
16 look forward to many, many more years of
17 successful partnership with the Commission and
18 the Commonwealth.

19 We appreciate the opportunity to
20 present today on our new business line, social
21 gaming. The MGM team mentioned that they were
22 late to the party. I guess, by definition,
23 then, Penn is exceptionally late to the party,
24 but we are hoping to catch up, and we'll brief

1 you on that today.

2 So this presentation is part of our
3 continuum of our transparent approach with the
4 Commission. As Mr. Bedrosian said, as we look
5 back on the dialogue, it actually started in
6 July of 2015 relative to our plans for the
7 social gaming business line. And since then,
8 we've updated the Commission and the staff
9 literally, at every development. And I
10 believe that kind of dialogue pays off in the
11 long run.

12 So with that, I'm pleased to
13 introduce Chris Sheffield. Chris is the
14 managing director of Penn's interactive
15 division. I think you will find, from Chris,
16 what I've found over the last 18 months of
17 getting to know him. He is quite literally
18 the gold standard in this business. He'll
19 give you a little bit of background on his
20 experiences. And pursuant to what
21 Commissioner Cameron said before, he is one of
22 those Brits that chides us on our conservative
23 approach, fairly often. With that Chris --

24 MR. SHEFFIELD: Thank you, Carl. And

1 good morning, Chairman and Commissioners.

2 COMMISSIONER STEBBINS: Good morning.

3 MR. SHEFFIELD: I'm not too sure
4 today I have to describe myself as a Brit or
5 European. And -- but I'm probably going to
6 find out by the end of the day.

7 CHAIRMAN CROSBY: Keep your iPhone
8 on, let us know if you get any bets. Or if
9 anybody hears about the Celtics third draft --
10 first draft choice.

11 MR. SHEFFIELD: So my background,
12 I've been in the U.S. for 18 months. Prior to
13 that, I was managing director of Betfred, which
14 is the fourth largest bookmaker in the UK,
15 1,400 retail outlets and a very large Internet
16 business. And, interestingly, in the
17 sports-betting business in the UK, 30 percent
18 of the on-line revenues come through sports
19 betting, where 70 percent of it comes from
20 casino games, poker, Bingo, et cetera.

21 Prior to that, I was involved in a
22 number of technology companies, and I also
23 worked for awhile at IGT. And the same place,
24 at the same time as Paul Mathews from

1 Playstudios, so we know each other quite well.

2 And by way of background, we look at
3 a social casino industry and define it as
4 free, play-for-fun, social games that have
5 casino themes. The social gaming industry is
6 huge. It's a multibillion dollar business.
7 And, interestingly, the social casino games
8 part of our industry, this year is going to be
9 worth about \$4 billion, mainly in the U.S.
10 market. So it's a very significant business.
11 And -- and as you can tell from the graph,
12 it's growing beyond the year quite
13 significantly as well.

14 And the way the model works, as
15 we'll describe today, is that customers can
16 play the games for free, for fun, and for pure
17 entertainment aspect of it. But customers can
18 also do things like buy virtual currency to
19 extend their game time. They can also unlock
20 games and do other things as well by -- by
21 payment. And, in that way, it works no
22 different to any of the other social games
23 that are out there. These just happen to have
24 a theme with slots in them.

1 In terms of where these games fit
2 with the rest of the market, I describe, you
3 know, the social casino games being around
4 \$4 billion of the market, the biggest game in
5 the social casino category is actually
6 Slotomania, which is operated by a subdivision
7 of Caesars Entertainment. That generated
8 \$200 million in revenue last year.

9 And when you compare that to
10 Candy Crush, which is a very well-known game
11 that generated \$600 million in revenue last
12 year, and the number one social game that's
13 out there, Clash of the Clown has generated
14 about \$1.3 billion last year. So the casino
15 games is a very small part of the very, very,
16 big category where people are playing all
17 types of different games, and most people
18 playing for free, and some people are also
19 spending to extend their game time.

20 Another way that these games can
21 make money that's becoming increasingly
22 popular is also advertising. So that's
23 another way these products commercialize, if
24 they put our adverts up as people are playing

1 their games. And, obviously, those people
2 that are at the hun of those first commercials
3 are paying for the eyefuls that they get.

4 So in terms of Penn's plans in this
5 space, we spent the first six months, when I
6 first arrived at Penn, really exploring the
7 market that was out there already, and, as
8 Paul pointed out, we were very late to the
9 market. This was very well-developed, and
10 probably for the last five or six years.

11 One of the things that I had to
12 overcome was the idea that people like Lance
13 and the general managers of our properties
14 around the country, had a -- had very
15 legitimate questions. Was, you know, will
16 these games cannibalize our customers, if you
17 people playing these games, will they come
18 into properties anymore? And that -- you
19 know, our property business is very, very
20 important and that was something that we
21 really had to prove out.

22 So one of the first things that we
23 did was a survey of 3,000 customers. And we
24 actually did observational testing with them

1 as well, we met them. And it was surprising
2 to me that we found out nearly 50 percent of
3 our customers across the country are already
4 playing social casino games. They're playing
5 DoubleDown. They're playing Jackpot Party,
6 which is -- Scientific Games put out, playing
7 MyVegas. And there's lots and lots of social
8 casino games out there.

9 CHAIRMAN CROSBY: Is that 50 percent
10 of your -- so this is like your card, your
11 rewards card, your marquee rewards cards
12 players are playing casino social games?

13 MR. SHEFFIELD: They're playing
14 social casino games anyway.

15 CHAIRMAN CROSBY: And by playing,
16 does that mean they played it once, or you mean
17 50 percent are, sort of, regular players?

18 MR. SHEFFIELD: Yes.

19 CHAIRMAN CROSBY: Wow.

20 MR. SHEFFIELD: Yes, I would say.
21 And it's very -- interesting. And we did the
22 observational group testing, they all came in
23 with their own phones, and they all had five or
24 six games already loaded on their devices. So

1 that was -- that was very powerful to Penn.
2 And so we, you know, obviously thought this is
3 really interesting, the customers are already
4 doing it. And, you know, as has already been
5 discussed today, we saw an amazing opportunity
6 here to engage with our customers more. There
7 aren't many businesses that you will see today
8 that isn't dealing with their customers in more
9 than one channel with the Internet, through
10 mobile devices, through all these different
11 channels that exist nowadays.

12 So the very first, kind of, leg of
13 the structure that we wanted to -- to look at
14 getting involved with casino games engaged
15 with our customers, we certainly would be in
16 favor to engaging in those, rather than
17 somebody else.

18 You know, and if you look at the
19 casino marketplace now, a lot of the casinos
20 out there are now offering these types of
21 products, either linked into rewards programs
22 or standalone. The two big casinos in
23 Connecticut are both offering those products,
24 both of those products as well. So we

1 certainly want to be engaging with our
2 customers. We don't really want to be
3 engaging with our competitors.

4 As touched on this morning, we see
5 this is a very powerful tool for building
6 loyalty with our customers, and retention. So
7 when the customers are on property and they're
8 still interfacing with us as a business, it's
9 still interfacing with us as a brand. It just
10 makes a lot of sense. And so, that was, kind
11 of, a very, very powerful part of the
12 structure, is that, you know, especially, in
13 the marketplace where it may be competitive
14 and the customer has a choice, then we won't
15 -- you know, we won't -- you know, we want
16 Penn probably to be the first choice that our
17 customer has.

18 Again, as touched on this morning,
19 is some opportunities to use these products to
20 acquire new customers. So that was something
21 that we really wanted to try and explore as
22 well. I think that MyVegas model that we --
23 we looked at this morning is very powerful.
24 And it's proven that it can drive customers to

1 property in Las Vegas. So, again, we want to
2 see if these products can do the same thing
3 for Penn's property. We have properties
4 across the country. I have one in
5 Massachusetts. And I think's there's probably
6 a potential to skew the -- the customers a
7 little bit younger.

8 You know, there's a -- since I've
9 been here people have been talking about less
10 millenials are interested in the casinos
11 because they're all playing games on their
12 phones an they're interested in technology and
13 e-sports and things like that. So this is an
14 opportunity to appeal to a younger
15 demographic.

16 And, you know, not being embarrassed
17 about it, this is a \$4 billion market. So,
18 you know, Penn is obviously very interested as
19 a -- you know, as a profit-making business, to
20 see if there's an opportunity to engage in
21 that market and make some revenue.

22 And I think a final, really
23 interesting point is the idea that, you know,
24 last night in Pennsylvania the house passed a

1 bill that -- that would allow -- enable our
2 gaming in the state. It's already happening
3 in New Jersey, it's happening in Delaware,
4 it's happening in Nevada. So we're interested
5 in looking at these products as a way of
6 potentially building databases for the future
7 so that we have a database of customers that
8 we know like to get involved with products on
9 their electronic devices, be it their computer
10 or their mobile device. And in the future,
11 if, for example, another state like
12 Massachusetts goes that way as well, then
13 we're already got a -- you know, hopefully,
14 we're not running behind everybody else, as we
15 are with social gaming. Hopefully, we're
16 right there from the start.

17 So with all those reasons, we
18 decided that we were going to get involved
19 with social gaming. We've spent the last six
20 months working with our partners to develop
21 products, and we've now got quite a bit of
22 experience rolling this out across our
23 properties.

24 We have two products. One is called

1 Hollywood Casino, and Hollywood Slots. And
2 we're going to talk through both of those
3 products today, but please ask me any
4 questions as I go along.

5 So hollywoodcasino.com is a social
6 casino platform. You can play on line or on
7 your mobile devices, and it mainly has slots
8 games on there, but there's a few video poker
9 game as well.

10 This product was provided to us by
11 our partner, Scientific Games. They're a very
12 large slot -- slot manufacturer. We have a
13 very good relationship with them, and they
14 provided us almost with a white label, a
15 turnkey solution. So they provide us the
16 whole package out of the box. We don't get
17 involved in the configuration of -- of the
18 algorithms or anything like that. Our job is
19 to market it. And the rest, the hosting and
20 everything else is all performed by
21 Scientific Games.

22 We've branded the product
23 Hollywood Casino, and some other casinos out
24 there have exactly the same products in

1 different states, but it's branded with our
2 own brand. So it's very much a white-labeled
3 model. And the model is for social casino
4 model so -- so you can't win anything of
5 value. It's free to play. But some customers
6 can spend money. And, in this case, they can
7 spend money to either buy virtual currency, or
8 they can unlock games. So there's some games
9 that may be at a very high level, and if a
10 customer plays for a long time they can unlock
11 that game. But, also, if they just wanted to
12 play it quickly they could -- they could
13 unlock it now, for spending a 1.99 or 2.99.
14 Something like that.

15 Some of the games that we have in
16 that product are off the casino floor, but a
17 very small number. So it's a very low
18 percentage of the games within our platforms,
19 once we get interaction on -- on the casino
20 floor. There's about 60 games on the platform
21 now, and we have no involvement in the
22 algorithms, or changing the mass models for
23 those games or return to player, but they are
24 very similar. Very, very similar to the -- to

1 the -- to mass models and the algorithms on
2 the -- on the land-based floor as well. And
3 I'm sure we can touch on that and -- later on,
4 if you have more questions around it.

5 What we've found, so far, is that
6 marketing works really well at our properties.
7 So to market these games to existing casino
8 customers, it is going to appeal to them. And
9 what we've found is that e-mail marketing is
10 the most powerful marketing tool that we have.
11 We have databases of customers, we have their
12 e-mail address that we e-mail them and tell
13 them about these games. And a really high
14 percentage of customers actually sign up and
15 start to play their games.

16 There's other things we can do with
17 the properties. So signage around the place,
18 posters, giving flyers to customers, and now
19 beginning to look at actually doing some
20 external marketing, putting (inaudible) on the
21 buckets on our TV commercials and radio
22 commercials as well.

23 And this is an example from
24 St. Louis of how we're promoting these games

1 on -- on the property. We have some very big
2 digital signage. And -- and if a player
3 downloads a game when they're on the property,
4 then we have a relationship with them. Not
5 every single person in our properties have --
6 have a marquee rewards card have a loyalty
7 card. So it's very difficult to contact those
8 customers if they haven't signed up. Whereas,
9 if they've download -- downloaded the game, or
10 sign up to it, we then at least have their
11 e-mail address and we can start to communicate
12 with them. And so, that's a really good
13 example of -- of -- of what we do on property.

14 And here's the example, in St. Louis
15 again, of what we're doing beyond the
16 property. So this is an example of a
17 billboard, which is very prominently
18 displaying a game, telling people that it's
19 free. And it's ideally -- the idea is that
20 customers would download the game, would go to
21 the Web site, and then we can start to have
22 this relationship with them.

23 COMMISSIONER ZUNIGA: Can you
24 describe that relationship a little better, or

1 will you get into that in the rest of your
2 presentation?

3 MR. SHEFFIELD: I could get into that
4 now. Certainly, relationship would be very
5 much about marketing. So -- so once a player
6 signs up to the game, we want them to play the
7 game more. So it's more of a -- from --
8 from -- form of art, but it's more about
9 getting them to play the game more. Within the
10 Web site there's other adverts where we display
11 advertisements for some our properties, like
12 Tropicana Las Vegas, for example.

13 COMMISSIONER ZUNIGA: So
14 advertisements.

15 CHAIRMAN CROSBY: Right.

16 MR. SHEFFIELD: It's really bout
17 building our relationship.

18 CHAIRMAN CROSBY: Right.

19 MR. SOTTOSANTI: Thanks, Chris. I'd
20 like to take a moment to talk about some of the
21 legal, regulatory practices, some of the best
22 practices we employ, and why we employ those
23 practices.

24 I guess, at the outset, and I was

1 heartened to hear a few of the commissioners
2 mention this during the MGM presentation, I
3 think it's becoming a very common conclusion,
4 now that this type of business is not
5 gambling. It's not illegal gambling, it's not
6 gambling, it's not any of the above.

7 To support that, and we've provided
8 these to Director Bedrosian, I'm pleased to
9 report that, in the last 12 months alone, four
10 courts have construed the laws of six
11 different states, and the recurring motif in
12 each and every one of those conclusions, all
13 four cases were dismissed. They were brought
14 by the very creative members of the
15 plaintiff's bar that I'm sure you're all
16 familiar with, in the various industries you
17 all oversee outside of your jobs here. Those
18 creative claims were across the board,
19 dismissed, dismissed, dismissed, dismissed,
20 all four. And the recurring motif is they're
21 not -- it's not gaming. There is no payment
22 required. Again, no payment required, and no
23 opportunity to win.

24 So as we take an opportunity today

1 to educate the Commission, the staff, the
2 Commonwealth, the rest of the stakeholders, I
3 think it's important that we, sort of, begin
4 and end with that conclusion in mind. And, by
5 the way, the cases that looked at social
6 gaming were on products that I submit to you
7 are remarkably similar to the products you're
8 hearing about today, either Big Fish by
9 Churchill; Playtika, the Caesar's product, or
10 the Double Down IGT product. So that's it for
11 the legal jargon. I promise I'll put that
12 aside.

13 In terms of our responsible
14 practices, I guess I also want to dispel some
15 myths. There are those, either in the popular
16 press, or who have other agendas, who want to
17 imply, somehow, that we're doing something
18 inappropriate here. And, again, I submit to
19 you guys, facts are stubborn things. We'd
20 like to present some facts to you today to
21 dispel those misguided conclusions.

22 Among other things, at registration,
23 we have the customer certify that they're over
24 21 and they're not part of a group that is

1 self-excluded patrons. Now, I know the more
2 curious members among the Commission will say,
3 is that failsafe? It is not failsafe. It is
4 a practice that we've instituted, not because
5 we believe our product is gambling, or should
6 be overseen by any regulators. To the
7 contrary. We don't believe that.

8 We do know, however, that, at some
9 point, there is likely to be some discrete
10 overlapping in the promotion of our products,
11 as Mr. Sheffield told you. And we don't want
12 customers who are self-excluded, or who are
13 under 21. Well, that's not a failsafe.

14 As MGM explained to you before, the
15 failsafe is, if someone decides to actually
16 purchase credits, and become part of the
17 Affinity card, in our case, Marquee rewards,
18 there is a perfect failsafe, and that is the
19 physical check at the casino, when they seek
20 to either become a member of the Affinity
21 cards, or when they seek to redeem the
22 rewards.

23 A few other points about our -- what
24 we think are good practices. The terms and

1 conditions that we've accepted for you today
2 on the PowerPoint that you have in front of
3 you, are prominent, they're required to be
4 read before you can play. And I'm pleased to
5 tell you that we drafted them in plain
6 English.

7 We control the payback percentage on
8 the floor. That's a fact. It's published
9 every month. You guys have that information
10 at your fingertips. We do not control the
11 payback percentage with our Scientific Games
12 product. As Mr. Sheffield told you before,
13 that's an off-the-shelf product. We only
14 white label it. We have no input in the
15 configuration of it.

16 Finally, as Mr. Sheffield mentioned,
17 of the games that are on line in the first
18 launch we did with Sci Games, there are seven
19 themes. Those seven themes are replicated
20 fairly closely by 24 of the machines on the
21 floor at our Plainridge facility. That's 24
22 out of 1,363 machines. In other words,
23 there's an overlap between our on-line games
24 and our on-the-floor games of 1.8 percent.

1 I submit to you that, if our
2 objective was to be deceptive, then we are
3 doing it very, very poorly with these
4 prominent terms and conditions, with not
5 controlling the payback percentage, and with
6 having such a small overlap between the games.

7 CHAIRMAN CROSBY: Can I ask you the
8 -- ask the Sci Games people while we're on
9 this. So you're -- what you're telling us is,
10 you buy or lease, or whatever you do, an
11 off-the-shelf product, which is -- has the same
12 internal workings as other people who buy the
13 off -- that same off-the-shelf product. It's a
14 Sci Games game, but you brand it as the
15 Hollywood Casino, whatever, and that you have
16 no input, therefore, on the play algorithms,
17 the win algorithms; I heard that right, right?

18 MR. SOTTOSANTI: You are correct.

19 CHAIRMAN CROSBY: Okay. So Sci Games
20 are the ones who calculate those algorithms.
21 And there are two, I think, folks from
22 Sci Games here. Will you tell us what the
23 relationship is, the comparative relationship
24 is, between -- for the games that are the same,

1 it's an easier comparison, but as a practical
2 matter, it's seeing whether -- whether the game
3 is the exact same game on the floor or another
4 game, what are the ratios, the payout ratios,
5 in these games that -- that Penn gets from you
6 by comparison to the same ratios in the
7 on-floor games? And give us your name, please.

8 MR. GUSTAFSON: This is Rob Gustafson
9 from Scientific Games.

10 CHAIRMAN CROSBY: I'm sorry, say that
11 again?

12 MR. GUSTAFSON: This is Rob Gustafson
13 from Scientific Games.

14 CHAIRMAN CROSBY: Rob Gustafson.
15 Okay.

16 MR. GUSTAFSON: Again, thank you for
17 having us. We're happy to be here to support
18 our partners. When the game is the same theme
19 as a game that is on the floor, it is a math
20 model, or a return-to-player model that is
21 available to our customers.

22 When we make a slot machine that's
23 in a box that goes on a floor, the customers
24 have the ability to choose from a variety of

1 return-to-player settings, as I'm sure you're
2 aware. That's what you guys have been doing.
3 The on-line version of the game that we bundle
4 into the play-for-fun product is one of those
5 models. It's usually a higher model. But
6 it's one of the models that's available to our
7 customers. And the range of lowest to highest
8 is not that great. I think it's 10 or
9 12 percent from the lowest setting that you
10 could put on a box to the highest setting that
11 you can put on a box.

12 CHAIRMAN CROSBY: 12 percent not of a
13 hundred, but of the -- of the return ratio?

14 MR. GUSTAFSON: So if you had a slot
15 machine that you could set on a floor at
16 somewhere between 88 and 96 percent, the
17 on-line version might be the 96 percent, and
18 the -- this comparable title on a particular
19 customer's floor would be whatever they set it
20 at. We, of course, don't control that, but
21 they can choose the lower setting, that range
22 typically, of hold, is between, I believe, 85
23 and 96.

24 When we make a game that is just for

1 the on-line business that does not have an
2 on-the-floor component, it uses a similar
3 model. We call them Game Frames. And we'll
4 design a new game around a Game Frame, but the
5 game frame itself is going to be similar to
6 other on-line slot machines that we've made.

7 And the model for customers like
8 Penn is a little bit different than the
9 model -- the customers that partner with a
10 discussion that you heard earlier today, in
11 that this is a revenue-generating vehicle for
12 our customers as well. So it would make no
13 sense for us to try and have a artificial
14 payment, or artificially high payback to the
15 player, because we expect to make revenue from
16 this product and we share the revenue with the
17 customer.

18 CHAIRMAN CROSBY: So your deal with
19 Penn National is a revenue-shared deal?

20 MR. GUSTAFSON: Yes.

21 CHAIRMAN CROSBY: So -- all right.
22 So that's somewhat analogous to the MGM. That
23 you have an outside player, who's not motivated
24 by getting people onto the casino floor, you're

1 motivated by revenues out of the social game?

2 MR. GUSTAFSON: That's correct.

3 CHAIRMAN CROSBY: So on the identical
4 games, the algorithm is set, the hold is set at
5 the same -- within that same range -- the
6 payout is held between 88 and 96, and probably
7 on the higher end. And on the other ones, it's
8 -- that are not identical to the games on the
9 floor, you're operating within that same basic
10 range, 88 to 96. Again, presumably, more often
11 than not on the high end?

12 MR. GUSTAFSON: Yes. And I think we
13 -- we typically choose the higher returns for
14 the -- for the social gaming. Some game
15 mechanics don't lend themselves to that same
16 number, so I can't say it's always this number.
17 A three-reel -- a three-reel slot machine has a
18 different math behind it than a five-reel slot
19 machine with exploding wilds and all that. So
20 they're not always identical, but they're
21 always in that same typical area.

22 CHAIRMAN CROSBY: And if -- and why
23 do you do that? Why do you pick the higher
24 return, typically, for a social game?

1 MR. GUSTAFSON: I don't know the
2 answer to that. That decision was made before
3 my time. I can speculate. We, of course, want
4 the game to be fun. We had to make a choice,
5 and that seemed to be a logical choice, I
6 imagine, at the time. I don't think there's a
7 lot of issues -- a lot of the issues we're
8 facing today weren't really considered issues
9 when they first designed this product. So some
10 of the things we're talking about now probably
11 weren't taken into account. I'm not sure I
12 have anything to add to that. I don't --

13 CHAIRMAN CROSBY: Well, just,
14 logically, how would that affect your economic
15 model. You said it would be dis --
16 counterintuitive for us to let the games be
17 very loose, you were saying, because they would
18 be winning all the time. Somehow, you said
19 there was something inconsistent with your
20 economic interest to have the games be loose.

21 MR. GUSTAFSON: If you return -- so a
22 lot of the articles, and a lot of the press
23 that has been presented up until this point
24 have said, oh, they're artificially high

1 returns, you can get, you know, 130 percent
2 payout, you're always winning. If that were
3 the case, if you had a higher than hundred
4 percent payout, you would never have a zero
5 virtual credit balance, and there would be no
6 incentive for him to have to spend a dime to
7 buy a virtual credit.

8 CHAIRMAN CROSBY: Right.

9 MR. GUSTAFSON: And having said that,
10 we still want the experience to be fun for
11 players. And a fun experience for the players
12 is a reasonable return, and a similar
13 experience to what you -- to what you achieve
14 or receive on a casino floor. For the people
15 that are trying to replicate what they can do
16 on a casino floor, without having to spend real
17 money, we want it to be as realistic and as
18 entertaining as we can at the same time.

19 COMMISSIONER ZUNIGA: Somebody else
20 mentioned competition, you know, social gaming.
21 Mr. Sheffield, what you were talking about, how
22 fragmented, how many players are in this phase,
23 and how fiercely they compete with -- with each
24 other, obviously. Is that a dynamic that bears

1 into this payout percentage, perhaps?

2 MR. SHEFFIELD: Not from our
3 perspective, no.

4 COMMISSIONER ZUNIGA: Not from your
5 perspective.

6 MR. SHEFFIELD: We don't play any
7 part in setting a percentage on this project.

8 COMMISSIONER ZUNIGA: Mr. Gustafson?

9 MR. GUSTAFSON: I don't feel that --
10 there is competition. We would maybe have to
11 react to something if -- if somebody was doing
12 something else that made them want to play a
13 different product instead of our product, we
14 would react to that, but I'm unaware of that
15 being the case at this time.

16 COMMISSIONER MACDONALD: Can I ask
17 you a question, Mr. Gustafson, this phrase that
18 you use game frame, what does that -- is that
19 a -- is that a -- is that a range of payout
20 that the customer can then choose within to
21 program the games?

22 MR. GUSTAFSON: It is not. It is
23 not. What I mentioned Game Frame, it is, sort
24 of, a computer program model that we can build

1 a slot machine on. It's, sort of, the
2 underlying code behind the slot machine. So we
3 might have one what they call Game Frame. And
4 I apologize if I -- I have to retract any of
5 this down the line. I'm not a technical
6 expert, but this is my understanding of how it
7 works. It's sort of an engine that we would
8 make a slot machine from. It's sort of the
9 basic building block of what you make the
10 virtual slot machines on. And we might use
11 different graphics. We might use different
12 sounds we might make it not exactly identical
13 to the one before, but it will be based on the
14 same core component of the codes below.

15 So we might have one Game Frame that
16 operates a three-wheel traditional slot, and
17 we might have a different Game Frame that
18 operates a five-reel slot, and we might have a
19 different Game Frame that deals with expanding
20 wilds and things like that.

21 So my point in mentioning it was not
22 to confusing you, I apologize. But just say
23 that --

24 COMMISSIONER MACDONALD: You're not

1 confusing us, you're educating us, or, at
2 least, speaking for myself.

3 MR. GUSTAFSON: That the -- the math
4 model that goes behind them will be similar.
5 It can be adjusted, but it will be similar from
6 one to the next.

7 COMMISSIONER MACDONALD: I guess,
8 that's my question. You say it can be
9 adjusted. Can the customer -- can Penn
10 adjust --

11 MR. GUSTAFSON: No.

12 COMMISSIONER MACDONALD: -- the --
13 the percentage?

14 MR. GUSTAFSON: Once the game is
15 made, then that is absolutely set. We would
16 have to go back, even for the games that are --
17 our similar games that are on the floor, if we
18 wanted to change the return on that game right
19 now, we would have to remake the game. We
20 would have to be -- start with the source code,
21 make changes based on the source code, and then
22 recompile it into a totally different piece of
23 software. It's not adjustable, once it's
24 presented to our customers.

1 COMMISSIONER ZUNIGA: Mr. Sottosanti,
2 you operate in a number of jurisdictions and
3 are very aware of what transpires, you know,
4 current trends, et cetera. Are other
5 commissions or regulators looking at this
6 elsewhere in the country?

7 MR. SOTTOSANTI: We have certainly
8 provided like education to a few of the other
9 commissions in which we operate. And I think
10 they've all made the right decision that it's
11 good to know about these trends, but none are
12 looking to regulate it. I think it would be a
13 dangerous precedent to do so.

14 MR. BEDROSIAN: In fact, I think I've
15 heard, and you'll correct me if I'm wrong,
16 we're the last jurisdiction they're coming to.

17 MR. SOTTOSANTI: No pressure.

18 CHAIRMAN CROSBY: You know I just,
19 sort of, for the record, we will end up doing
20 whatever we do on this, but I don't consider
21 this a precedent as to whether or not we have
22 the authority to regulate consumer promotions,
23 you know. We'll cross that bridge every day as
24 we get to it, but I'm not buying into a

1 principal that we don't have the authority over
2 the role to regulate promotions, just for the
3 record. I'm not saying we do, but I'm not
4 saying we don't.

5 MR. SHEFFIELD: Okay. I'll move on.
6 So as we talked about, when customers first
7 play the game they -- they have to register.
8 They can register two ways. One is via the Web
9 site, and one is via the mobile apps. And as
10 we discussed, at that point is where we ask the
11 customers to give us their e-mail address and
12 also, at that point, tick the box to say that
13 they're over 21, they accept the terms and
14 conditions, and they're not a self-excluded
15 patron.

16 Probably, the most interesting piece
17 of work that we've done so far was to do --
18 we've been operating for around six months
19 now. We've generate the 350,000 customers who
20 are playing the game. So we're growing it
21 very quickly. Every week we're acquiring tens
22 of thousand of new customers. So about two
23 months ago, we took a sample of those
24 customers, 70,000 of them, that we could

1 actually identify as casino customers as well,
2 and looked at what impact the game had on
3 their behavior, to see whether it cannibalized
4 the behavior, did they come to the property
5 less? Did they spend less, or, you know,
6 didn't engage with them more? And we found
7 some really interesting results. And this
8 isn't just common to us. There's -- there's
9 other people looking at it this type of thing.

10 In Europe, in the UK, where we have
11 the betting shops, there was the same concern
12 there, that it would on-line cannibalize and
13 we've found that it didn't. It worked very
14 much hand in hand with it. And what we've
15 found from our data so far, is that, the
16 product does a number of things.

17 And the first thing that -- that was
18 really interesting is that we found a thousand
19 customers, so quite a big percentage out of
20 70,000, that were new to the casino. So
21 they'd actually gone to the casino, signed up
22 and got a rewards card. So it doesn't
23 necessarily mean these customers had -- hadn't
24 been into the property before, but what it had

1 done is it encouraged them to sign up with a
2 reward card because they're playing a game,
3 and they're seeing messages about the benefits
4 of being a reward member, which is fantastic
5 in terms of business because we happen to
6 understand more loyalties retention. So I
7 would will say that some of those customers
8 are totally -- are totally new, and some of
9 them are customers that haven't registered for
10 our loyalty program before.

11 The second thing that we saw is the
12 customers that were playing the game,
13 actually, when compared to customers that
14 didn't, started to visit the casino more
15 frequently. Overall, not a huge impact on the
16 on that -- on the -- on the spend or the
17 visiting the properties more. But more
18 frequently in spending a little bit more, in
19 terms of theoretical spend is what versus the
20 data we use to look at, and how much do we
21 spend typically on average visitation.

22 I think the really, really
23 interesting one is, especially where we have
24 properties where we're in competition with --

1 with other states, and other competition, we
2 call them walks of the war grounds, whereas
3 customers who are being targeted by -- by
4 quite significant competition. We seen
5 this -- this fact of where we're reactivating
6 customers.

7 So these people are probably not
8 people that are not going to casinos anymore.
9 They're just not going to ours. So what we've
10 found is that out of the 70,000, 3,000
11 customers were reactivated again, because
12 again engaging with our brand, engaging in our
13 business, and we've them back to -- to -- to
14 our property.

15 MR. SOTTOSANTI: Chris, to that end,
16 do you want to speak to some of the competitive
17 products that have been introduced recently by
18 the Connecticut tribes?

19 MR. SHEFFIELD: Yes. So the
20 Connecticut tribes, so you have -- you have --
21 I won't name who's who, but one of them has the
22 same product as us. And Mohe -- Mohegan Sun, I
23 will name names, has the Scientific Games
24 product, and Foxwoods has just lunched a

1 European game from a company called Novomatic,
2 who, hopefully, will still be a part of my
3 world in the future. And -- and that launched
4 very recently. And that has the full rewards
5 linked into it.

6 And what I'm beginning to see -- I
7 know I meet a lot of the people in my position
8 at the other casino places around the country,
9 that most of the casinos are now looking at
10 this as way to, firstly, drive revenue, but
11 more importantly, build this relationship with
12 the customers.

13 And so, it's very interesting. And,
14 you know, we've had a lot of support now from
15 the management of our properties, who, you
16 know, when I first did get here, they were
17 concerned that this might have a
18 cannibalization effect. And what we're seeing
19 is, it's -- it's having a very positive
20 influence.

21 I'm going to very briefly talk about
22 our second product and Hollywood Slots. And I
23 think, you know, one of the things that we've
24 touched on is, is this isn't gambling. These

1 games aren't gambling. These are entertaining
2 to a lot people. I've played these games all
3 the time. My wife plays a game called
4 Hay Day, which is about having a virtual farm,
5 and she has virtual chickens, and friends that
6 play Clash of the Clowns. And we all spend a
7 little bit of money doing it. And, to me,
8 it's just, you know, I have a choice watch a
9 movie and download that, or to buy music.
10 It's just something that I do in my spare
11 time. It relaxes me. And I think that's what
12 these games are doing.

13 What I'm seeing now, I spend a lot
14 all my time looking at innovation and shopping
15 around the world and looking at what other
16 companies are doing. Without a doubt, MyVegas
17 is very innovative. But what's happening now
18 is, the slot is almost becoming like a dice.
19 Most games, in -- in the old days, you'd have
20 a dice and it would have six options on it
21 where you'd have two dice, and you'd have, you
22 know, potential of getting 12 numbers, and
23 something would happen in their game. What
24 people have realized is that a slot mechanic

1 is like a dice. It's based on chance, but it
2 has so -- so many more combinations. You can
3 make a much more sophisticated game. What
4 we're going to see now very much, you know, in
5 the top 20 social casino games, now there's at
6 least two, they use a slot more like a dice
7 than anything else. And the game around the
8 slot is more important than the slot itself.
9 So we decided that we wanted to be in the
10 thick of it as well and, hopefully, start to
11 catch up with everybody else.

12 We've had a platform built for us in
13 San Francisco, by a company called Open Wager,
14 which we are beta testing. It went live about
15 six weeks ago, and it's a very, very different
16 game to the Hollywood Casino. It has slot
17 machines in it, but it also has a world in
18 there. So it's about you take on the life of
19 an actor, and you develop within the film
20 industry and you have to do certain things
21 within the game to become a producer, to
22 become a superstar, to become an icon, those
23 types of things. And people playing the game
24 to do more social things. So they're sharing

1 a lot of more content with their friends,
2 they're chatting to their friends within the
3 game. I've heard about some social casino
4 games where people have actually got married
5 in real life. So they've met somebody in the
6 game and then they've ended up getting
7 married. I'm not sure ours will do that. But
8 it's really, really interesting.

9 And the key thing about this game is
10 that people are playing to do quests, to do
11 tournaments. And what people want to do is
12 compete with each other. And especially, the
13 younger demographic, millenials. And we
14 thought this could be a way of really trying
15 to get to a different target demographic in
16 the future.

17 So we've been testing it. It's, so
18 far, looking very, very interesting. We're
19 developing tens of thousand of customers very
20 quickly on this game. They're very different.
21 They are -- they skew, younger, so the people
22 that are playing Hollywood Casino tend to be
23 45 to 60. These people are in their 30s that
24 are playing this game. And it's very, very

1 similar to a lot of the other games that are
2 out there and their motivation for doing it.

3 Again, it's configured the same way
4 as the Hollywood Casino so that you can play
5 for free, you can purchase virtual currency,
6 and you can buy other things within the game
7 as well, but you can't win anything of value,
8 and you can't transfer your points to anybody
9 else.

10 Exactly the same registration
11 process as Hollywood Casino, so we ask people
12 to confirm that they're over 21 and not on the
13 self-exclusion list. And -- and the
14 interesting thing about this product is we're
15 not marking it by other properties at all. So
16 this property is being marketed by Facebook
17 via the app stores. And so it's not -- we're
18 not marketing it to existing customers. This
19 is about, can we use this product to acquire
20 new customers and hopefully build this
21 relationship with them.

22 And the final slide is a -- is a --
23 is a thing that we really would like to do now
24 with both of those products and the Hollywood

1 Casino in particular is integrate it with our
2 Marquee rewards program. And so, the
3 technology has been built, and we're -- we're
4 ready to implement. And the idea is that we
5 would like to enable customers to earn tier
6 points, which is one of the status things
7 within our Marquee rewards program, which
8 allows a customer, if they get a higher tier,
9 as a real land-based customer they get some
10 benefits, like a free valet, or they get
11 access to a VIP room, or they might get
12 some -- some free buffets and things like
13 that.

14 So we'd like to try and extend this
15 relationship with our Marquee rewards
16 customers when they're not on the property.
17 So the idea behind when they're not on the
18 property they're earning something, which,
19 hopefully, engages them, and maybe helps them
20 to come back to the property again in the
21 future.

22 It's a very soft model. So what
23 we'd like to do is, the person can only earn
24 tier points when they purchase virtual

1 currency. So absolutely no link whatsoever to
2 the games. If you spend \$10, we can give you
3 10 cents of -- of your tier points, that's it.
4 Doesn't matter how much you play the game.
5 Doesn't matter what you're do in the game.
6 Doesn't affect what you're getting in the tier
7 points. So it's a very, very, very, very
8 simple model.

9 And the reason we want to do it is
10 -- is to try and build this relationship
11 and -- and see if we can get to a customer
12 outside the property and give them a reason to
13 come back to the property when they've been
14 playing for awhile. And we think it would be
15 very, very powerful. We've heard about the
16 MyVegas model and how that's -- that's working
17 with rewards, and this is probably a simpler
18 model than that. And, you know this is the
19 request we've made of the regulators as we're
20 operating, to see if we can switch this on and
21 at least get the experience and see what
22 benefit it would have to the land-based
23 business.

24 In terms of customers that are

1 self-excluded or indirect under 21, they would
2 not be able to participate in this program.
3 So the only way you can use your tier points
4 is, you have to physically go to the property.
5 If you haven't got a Marquee rewards card
6 already that means you've already been --
7 you've already been verified. You have to get
8 a Marquee rewards card, so you have to go
9 through that verification process. So that
10 process stops anybody under the age of 21, who
11 ultimately is self-excluded from benefits and
12 from -- from this feature.

13 CHAIRMAN CROSBY: Is that it?

14 MR. SHEFFIELD: Yep.

15 CHAIRMAN CROSBY: Questions or
16 thoughts?

17 COMMISSIONER MACDONALD: Yeah, I've
18 got -- I've got a question. On your slide on
19 page nine on the hard copy of the
20 Hollywoodcasino.com impact on land-based
21 behavior. I'm afraid I don't -- I don't quite
22 understand that. If you could take me -- take
23 me through that. You say that you reviewed --
24 and I'm just reading the -- reading the slide,

1 reviewed 70,000 customers who are -- who are
2 I-gaming, and compared to customer database, et
3 cetera, et cetera. Your first bullet point is
4 1,029 customers signed up for Marquee rewards,
5 that drove 21,000 theoretical win and 3,000
6 gaming visits. What does that mean? Of the
7 70,000 customers who are I-gaming, then what?
8 What do those 10,000 -- I mean, 1,029 customers
9 do?

10 MR. SHEFFIELD: So they actually
11 signed up for the Marquee rewards program, and
12 then we could track what that theoretical spend
13 was going to be.

14 COMMISSIONER MACDONALD: Say that
15 again.

16 MR. SHEFFIELD: We could then track
17 that theoretical spend. How much, in theory,
18 how much they'll spend when they visit the
19 property. And we've tracked the -- the 3,000
20 visits that I've generated as well.

21 CHAIRMAN CROSBY: So the thousand
22 people --

23 COMMISSIONER MACDONALD: So a
24 thousand people made 3,000 gaming visits to

1 your brick and mortar?

2 MR. SHEFFIELD: Yes, yes. Were
3 Marquee reward members before they played the
4 game.

5 COMMISSIONER MACDONALD: Okay. Then,
6 this is increased 8 percent and 24 percent
7 respectively. What are the two classes of
8 people that you're referring to by using the
9 word "respectively?"

10 MR. SHEFFIELD: I need to come back
11 to you on that.

12 COMMISSIONER MACDONALD: I'm sorry?

13 MR. SHEFFIELD: I would need to come
14 back to you on that stat.

15 COMMISSIONER MACDONALD: Okay. Then,
16 I don't feel stupid.

17 MR. SHEFFIELD: Sorry.

18 COMMISSIONER MACDONALD: Yeah, I
19 don't understand it.

20 CHAIRMAN CROSBY: Others?

21 COMMISSIONER STEBBINS: I had a
22 question. You don't have fountain songs to
23 give away. Thinking -- thinking specifically
24 of Plainridge, and I believe you have some of

1 your Marquee reward points tied to other area
2 restaurants and business partners. Is that,
3 kind of, the same redemption strategy plan to
4 use with some of the folks that are playing on
5 line?

6 I mean, obviously, you're driving
7 them to the facility, but if I'm not mistaken,
8 you have partnerships with some other area --
9 you know, an area hotels; are they going to be
10 able to use their points in a similar fashion?

11 MR. SHEFFIELD: Not at the moment.
12 That could be something we considered way down
13 the line, but it's not something not right now.

14 MR. SOTTOSANTI: The only perk right
15 now, Commissioner Stebbins, is a change in your
16 tier status. And that gives you access to
17 amenities like valet parking, awareness of
18 special promotions. I'm sure I'm missing a
19 few.

20 MR. BALDACCI: Yeah, free valet
21 parking you would get, or pre-valet parking.
22 You could get invitations to special events.
23 You could get --

24 MR. SOTTOSANTI: Preferred access to

1 the restaurants.

2 MR. BALDACCI: Jim Baldacci. Sorry.

3 Some of our properties have
4 concierge lounge, which is limited to high --
5 high-end players, so they can go in there,
6 whereas other folks cannot. I'm not sure if
7 Plainridge has one of those or not. But perks
8 like that, the higher tier you are, the more
9 those perks you get.

10 The other thing for, like, the
11 restaurants and stuff, people generate comp
12 rewards for their casino play. That's not
13 part of this program right now. And that --
14 with those restaurant partners you referred
15 to, I think that's where we -- we involve the
16 local community, once they earn comp points.
17 That's probably something we're going to ask
18 this commission in the near future, to add
19 that.

20 MR. SOTTOSANTI: So to answer your
21 question succinctly, and to sum it up, today
22 we're asking, and we've been working with the
23 staff on linking to our rewards card, but only
24 in the manner that the social play impact your

1 tier status. And, again, not the outcome of
2 the social play. The fact that you are a
3 social player. That can change your tier
4 status. Down the road, we will explore, with
5 the staff, and probably speak with you again
6 about the next phase.

7 COMMISSIONER STEBBINS: Okay. Thank
8 you.

9 MR. SOTTOSANTI: The phase that you
10 were addressing, Commissioner Stebbins.

11 COMMISSIONER STEBBINS: Thank you.

12 MR. SHEFFIELD: I think, just going
13 back to the point that's not on the eight and
14 the 24 percent, I think that's coming back to
15 me now. So -- so that's actually comparing the
16 behavior of customers that didn't play the
17 game. That they -- we actually saw them come
18 back and grow by 8 percent. But the ones that
19 did play the game were increased by the
20 24 percent.

21 COMMISSIONER MACDONALD: I'm afraid
22 our common language is getting between us. So
23 the 8 percent and 24 percent, the 8 percent is
24 what? Who are those people?

1 MR. SHEFFIELD: So those are just
2 normal customers who haven't played the game.
3 Their visitation increased by 8 percent, so
4 we've not taken credit for that. And of the
5 customers that did play the game, their
6 visitation increased by 24 percent.

7 COMMISSIONER MACDONALD: I see.

8 MR. SHEFFIELD: So the 8 percent is
9 saying it increased anyway. So we're doing a
10 great job marketing to those guys. But the
11 game actually improved those conversions well.

12 MR. SOTTOSANTI: I think all of this
13 speaks to the fact, and I think you've heard
14 this in common from MGM and Penn, this is an
15 important engagement tool with our customers,
16 and not one that hurts land base. I think
17 those are the takeaways. And one it, in fact,
18 not only does it not hurt land base, but it --
19 it helps pursuant to the studies we've done to
20 date.

21 MR. BEDROSIAN: So Mr. Chair -- I'm
22 sorry.

23 CHAIRMAN CROSBY: Anything else?
24 Thank you, folks.

1 COMMISSIONER ZUNIGA: Thank you very
2 much.

3 MR. SOTTOSANTI: Good to see you guys
4 today.

5 MR. BEDROSIAN: So Mr. Chairman, that
6 concludes the administrative update. And I
7 believe I have horribly misjudged the amount of
8 time that would take, so I don't know if the
9 commission -- I would suggest that --

10 CHAIRMAN CROSBY: Lunch?

11 MR. BEDROSIAN: Yeah, I'm done with
12 estimating time so I can't even tell you what
13 the next --

14 CHAIRMAN CROSBY: I think we ought
15 to --

16 MS. WELLS: Well, we do have two
17 guests, so I guess that's my only concern, if
18 they're traveling, if we want to get this done
19 before lunch.

20 CHAIRMAN CROSBY: How long is it
21 going to take, more or less?

22 MR. BEDROSIAN: I'm done. I'll defer
23 that.

24 MS. WELLS: It depends on the

1 commissioners' questioning, but my best guess
2 is 30 minutes.

3 CHAIRMAN CROSBY: Yeah.

4 MR. BEDROSIAN: Do you want to take a
5 break and then do it?

6 CHAIRMAN CROSBY: Well, I mean, if --
7 yeah, we'll take a quick break, but if you're
8 all right to wait for another half-hour or so
9 for lunch, we'll let these -- we'll let the
10 guests get their business done. All right. So
11 we'll take a quick break and then we'll come
12 right back.

13 MR. BEDROSIAN: Thank you.

14
15 (A recess was taken)

16
17 CHAIRMAN CROSBY: All right. We are
18 reconvening meeting 194th at about 12:15.
19 Who's leading off?

20 MS. WELLS: Good afternoon,
21 Mr. Chairman, members of the Commission. The
22 next item on the agenda, under the
23 Investigations and Enforcement Bureau, has to
24 with a regulation under 205 CMR 138.

1 Specifically, 205 CMR 138.40 and .47.

2 Currently, the language prohibits
3 ATMs at casinos to process a credit card cash
4 advance transaction. The gaming agents on
5 site at the Plainville casino, at PPC, had
6 been doing some routine testing and had tested
7 the machines, and I can have Bruce Band give
8 you some further detail on that.

9 But, generally, what they discovered
10 is that, during the testing it was, in fact,
11 possible to use certain credit cards to get
12 cash in casino ATMs. So as a result of that,
13 we had meetings with the licensees and the
14 vendors that provide the ATM service at the --
15 at the -- at the casino, to discuss this
16 issue. And we have this us today -- I'd like
17 to thank both David Maletic from U.S. Bank,
18 and Darren Simmons from Everi for joining us
19 here today to explain this issue.

20 And, basically, what we've
21 discovered is that there's somewhat of a dual
22 interpretation what a cash advance is, and,
23 also, there's some technical limitations on
24 what the banking industry can do to -- to

1 accommodate the reg. that's currently -- the
2 commission has currently promulgated.

3 So I just want to turn it over,
4 initially, to Bruce Band, just talk about the
5 response to the discovery by the licensees and
6 the vendors, and the immediate remedial
7 measures that the PPC casino took. And then,
8 the U.S. Bank and Everi reps will talk about
9 the banking industry, understanding what a
10 credit card cash advance is, and the technical
11 issue with compliance with the current
12 regulation, and we'll talk about a potential
13 alternate regulation for Commission's
14 consideration.

15 MR. BAND: Yeah. This was, pretty
16 much, a group effort by everybody. When we
17 discovered that we could get cash advances on
18 certain credit cards, not all of them, we
19 immediately went to Penn, and they got Everi
20 and U.S. Banks involved in the conversation.

21 It was pretty extensive talks we had
22 to try and understand the limitations. Their
23 terminology was a little different than ours.
24 I mean, where they didn't think they were

1 giving a cash advance then, but it's the
2 terminology in the system that made that
3 difficult.

4 After we kind of sured that there
5 was no electronic fix that we could make to
6 prevent it altogether, working with the -- the
7 whole group, we moved to make it so that --
8 that it would be very difficult to get a cash
9 advance on a credit card.

10 They added signage to every machine.
11 There's a sign right on the top, says, "Using
12 credit cards is illegal in Massachusetts."
13 They added signage to machine itself. They
14 also removed certain buttons that were on
15 there. Now, your choice, when you stick your
16 card in, is either take it out of my checking
17 or my savings account.

18 CHAIRMAN CROSBY: Excuse me, Bruce.
19 Is it illegal in Massachusetts?

20 MR. BAND: Well --

21 MS. WELLS: By reg.

22 MR. BAND: By our regulation.

23 CHAIRMAN CROSBY: Okay. So it's not
24 illegal. Okay.

1 MR. BAND: Yeah. We are only state
2 in the country that that is illegal, except
3 Pennsylvania. You can't get cash advance on a
4 credit card on the casino floor, but you can
5 right off the casino floor. And I think we've
6 got it to a point where it's livable. The only
7 other answer would be to totally remove these
8 machines off the floor, which would be
9 devastating to this industry, because not many
10 people like to carry cash with them anymore.

11 The way these cash advances work, if
12 you're going over your limit that a normal ATM
13 will give you, you can request it, it will
14 give you a receipt, and then you have to
15 complete the transaction at the cashier's
16 cage, where they run it through their
17 electronic system, check your ID to make sure
18 you are who you are, and the bank gives them
19 the okay to, you know, give the additional
20 money above what your normal ATM limit is.

21 CHAIRMAN CROSBY: And that's what's
22 not happening?

23 MS. WELLS: That's not an issue. So
24 the cage transactions, which is, sort of, that

1 common understanding of a credit card cash
2 advance, that's the large amounts of money
3 you'd get out, like a credit card loan.
4 Those -- we haven't had an issue with those.
5 The cage procedures and protocols are taking
6 care of that. But it's that limited, you know,
7 area where they can potentially get the money
8 off the credit card. And I think the folks at
9 Everi and --

10 MR. BAND: The other thing that
11 should be noted, when they did those
12 transactions, they weren't handled like a
13 credit card transaction. And by that I mean,
14 you know, if you get -- there's a \$5 charge, if
15 you use your debit card in a outside machine
16 and stuff, that's the only charge that's put on
17 these people's cards. Normally, if you get a
18 credit card, it can be as much as 20 percent
19 interest starting immediately on your card.
20 That did not occur.

21 MR. BEDROSIAN: I think -- and if I
22 could hop in here, because I was involved in
23 discussions too. One of the things -- one of
24 the significant, technological things that was

1 happening is, these credit cards were used with
2 pin numbers. It wasn't just going in and
3 putting a credit card into an ATM. It was
4 putting a credit card into an ATM that had a
5 pin number associated with it. I think we all
6 may know that you -- some credit cards have an
7 option to have a pin number.

8 And so, what happened, when these
9 patrons were going up to the ATM, looked a
10 whole lot like a debit card transaction and
11 functioned a whole lot like a debit card
12 transaction, like, probably, we all think of a
13 debit card transaction. But what was
14 happening on the back end was that these
15 cards, and -- and thank you to the folks for
16 being here, as they've explained to us, the
17 financial institutions, obviously, have
18 evolved so much that product offerings now are
19 that -- you know, whether you call them credit
20 cards, financial cards, debit cards, there are
21 a brunch of hybrid activities on these cards,
22 where you could have one card that can be,
23 again, a debit card, credit card, can attach
24 to a brokerage account, can attach to multiple

1 of -- of financial products, and the ATM
2 itself doesn't know what's going on. The ATM
3 is acting as a communication device between
4 the cardholder and the financial institution.
5 I think you'll probably hear a little bit more
6 about that. But that was one of the
7 challenges we had when we were thinking about
8 this was, it wasn't someone going up with a
9 credit card and just using it like a credit
10 card. They were using it very much like, I
11 think, you folks and I would think of a debit
12 card transaction.

13 MS. WELLS: I mean, I think it would
14 helpful if, the -- the visitors from U.S. Bank
15 and Everi could, sort of, explain to the
16 Commission, you know, the banking industry
17 of -- under definition of a credit card cash
18 advance, and then the technical issue with
19 compliance of the current regulation.

20 MR. SIMMONS: Hi. Good morning.
21 Darren Simmons from Everi in Las Vegas.

22 MR. MALETIC: And David Maletic with
23 U.S. Bank based out of Denver.

24 MR. SIMMONS: So thank you for having

1 us here and helping you all understand a little
2 bit more about the complexity of the payments
3 industry. This is -- this is unique, in terms
4 of the specifics that you want to get into, but
5 not necessarily unique to us because we do
6 operate in multiple jurisdictions where there
7 are all sorts of different regulations around
8 the use of credit and debit cards, and cash
9 advances and the like.

10 So I think what Bruce wanted us to
11 get in more detail around is the definition
12 and the interpretation of a cash advance
13 transaction. So what is offered at Plainridge
14 today, as far as a credit card cash advance is
15 not. We do not do credit card cash advances
16 there.

17 Now, what is -- what is available to
18 you is that certain cards issued by banks
19 could be a credit card, could be a debit card,
20 the functionality of those cards can be
21 linked.

22 So you could have a relationship
23 with your bank, where they issue a card that
24 could give you access to a line of credit, and

1 also could give you access to your checking
2 account or your savings account. And a lot of
3 this is because issuing banks are trying to
4 make it less friction for cardholders and
5 easier for them to use and access cash when
6 they're traveling and using their financial
7 services.

8 So we wanted to clarify the
9 definition around the use of a card for a ATM
10 cash withdrawal transaction, which is what you
11 currently allow today, versus a cash advance.
12 The cash advance transaction that -- in
13 services that we provide, is a different
14 transaction than an ATM withdrawal. Okay.

15 So what we described here with
16 respect to how it's processed in network is,
17 it is -- and every time an ATM transaction is
18 performed, whether it could potentially be
19 used with a credit card labeled, or a debit
20 card label, rides the rails of the ATM debit
21 networks. Okay? And the payment networks,
22 they categorize that transaction specifically
23 as an ATM transaction. And it's described
24 within the specifications of the processing of

1 that transaction as an ATM transaction. So
2 when that issuing bank gets that request to
3 authorize that transaction, they know that
4 this is a ATM cash withdrawal transaction.

5 Now, we differentiate that from a
6 credit card cash advance transaction, which is
7 another merchant category code, and it
8 requires different procedures to complete.
9 That's a transaction that results in much
10 higher fees to the cardholder, requires
11 identification for that cardholder, and gives
12 the cardholder actually access to higher
13 amounts. Typical ATM cash withdrawal limits
14 on a daily basis are three to \$500, which is
15 what's available today at Plainridge.

16 So we wanted to make sure that you
17 were clear with respect to the definition of
18 cash advance, in terms of the payment networks
19 versus an ATM transaction, which was -- which
20 is what available at Plainridge today.

21 CHAIRMAN CROSBY: Just explain,
22 again, the -- I thought you said when you --
23 when an -- when a credit card is inserted in an
24 ATM and it makes a call for a credit cash

1 withdrawal, that, that is a different merchant
2 code and goes through some other different
3 process, right?

4 MR. SIMMONS: So if you know your pin
5 with your credit card --

6 CHAIRMAN CROSBY: Right.

7 MR. SIMMONS: -- okay, banks give you
8 the ability to do an ATM cash withdrawal.

9 CHAIRMAN CROSBY: An ATM cash
10 withdrawal.

11 MR. SIMMONS: Correct.

12 CHAIRMAN CROSBY: Not a credit
13 withdrawal -- I mean, not -- in other words, a
14 debit you're talking about now, not a credit?

15 MR. SIMMONS: So this is the
16 complexity of the language. So in the eyes of
17 the payment networks and the financial
18 institutions, and the card brands that govern
19 this, whether it's a debit card, or whether
20 it's a credit card, when you use your pin in an
21 ATM and request an amount to withdraw cash,
22 that is an ATM cash withdrawal. Now, versus --

23 CHAIRMAN CROSBY: But what was the
24 piece where you said there's a different

1 merchant code?

2 MR. SIMMONS: Right. So -- so that
3 particular transaction, when you put in your
4 card, put in your pin and request an amount, is
5 categorized as an ATM cash withdrawal. It is
6 not a credit card cash advance. It is not a
7 cash advance transaction.

8 COMMISSIONER ZUNIGA: Can you explain
9 the credit card -- card cash transaction?

10 MR. SIMMONS: So -- so that's a
11 different type of transaction, where, in other
12 jurisdictions, we've -- we have the ability to
13 enable the device to give the -- the cardholder
14 or, the patron, the ability to select a cash
15 advance transaction.

16 CHAIRMAN CROSBY: Oh, I see.

17 MR. SIMMONS: Okay? They are
18 prompted, through the screen prompts, to see
19 that there is higher fees associated with this
20 transactions. And, at that point, if the
21 transaction is approved, the cardholder then
22 must go to the cashier cage, bring their card,
23 bring their identification. And, again, as I
24 said, much higher fees.

1 So at Plainridge the ATM fee, I
2 think, is around \$4.00 per -- per transaction,
3 you know, on, say, \$200, average transaction
4 size. If you did a credit card cash advance
5 for \$200, the fee is, probably, \$15.

6 CHAIRMAN CROSBY: Okay. So the --
7 the separate, what you're calling cash advance
8 or -- sorry -- yeah, which you'd call a cash
9 advance, which is this larger transaction,
10 which requires going to the cage, that's
11 something that you can enable in some ATMs, and
12 do enable in other -- in some ATMs, but that
13 functionality does not exist in the ATMs in
14 Massachusetts?

15 MR. MALETIC: That's correct.

16 MR. SIMMONS: Exactly. That's
17 correct.

18 CHAIRMAN CROSBY: Okay. Got it. So
19 that the problem is, the challenge is that
20 the -- the ATM has no way -- in Massachusetts,
21 has no way to distinguish between a cash
22 withdrawal, which is a debit, and a cash
23 withdrawal, which is a credit?

24 MR. SIMMONS: That's decided by the

1 financial institution.

2 CHAIRMAN CROSBY: Right.

3 MR. SIMMONS: Yeah. And I think --
4 you know, the ATM can't prevent you, as a
5 cardholder, if you have a credit card, to put
6 your credit card in and put in your pin, and --
7 and when, during the screen flow, you have a
8 selection of checking or savings. You could,
9 and some banks have this capability with the
10 issuance of cards, is to select checking and
11 get a cash withdrawal transaction. That does
12 exist. There are banks that are issuing these
13 cards, but that's, obviously, unique.

14 COMMISSIONER MACDONALD: But,
15 Mr. Simmons, I thought I heard you say that --
16 that at the ATMs in -- in Plainridge right now,
17 that you cannot -- you cannot make a -- a
18 credit cash advance.

19 MR. SIMMONS: That's correct.

20 COMMISSIONER MACDONALD: If that were
21 so, we wouldn't have -- we wouldn't have -- we
22 wouldn't have the problem.

23 MS. WELLS: It's the definition of
24 what's a cash advance.

1 MR. BEDROSIAN: So -- you and I see
2 someone go to an ATM and -- and this is what
3 happens, this is sort of what spurred this, you
4 see someone go to an ATM, put in a credit card
5 and get cash. That felt like, to us, under our
6 reg., which did not have a definition of cash
7 advance, a cash advance.

8 CHAIRMAN CROSBY: But they call that
9 a cash withdrawal.

10 MR. BEDROSIAN: Right. Exactly.

11 CHAIRMAN CROSBY: It's a cash
12 withdrawal, which is your -- your normal ATM
13 transaction that we think about, just normal,
14 two, 300 bucks with a two, three or \$4 charge.
15 They don't call that a cash advance. They call
16 that a cash withdrawal.

17 A cash advance is a more
18 sophisticated functionality, where you can get
19 relief from your credit card company to take
20 out big money with big fees, which is then
21 ultimately processed at the cage.

22 MR. BEDROSIAN: So Commissioner
23 Macdonald, so this then will go to what
24 Attorney Grossman will get to, which is what

1 was the intent of our statute? I don't think
2 anyone, because we're all learning this
3 together, anticipated the difference in what
4 cash coming out of an ATM with a credit card
5 could actually mean. Maybe it means something
6 to us being new, means something else to the
7 experienced, you know, purveyors of the
8 financial products in the institutions.

9 So -- so we are here because, given
10 the history of the regulation, the concern of
11 the some of the stakeholders, we want to make
12 sure we're being as true to that history,
13 which, of course, you can interpret as we
14 possibly can.

15 And part of the solution we think--
16 and I don't want to jump too far ahead is, we
17 continue to prohibit what's not happening.
18 And that's clear, and that's great. But can
19 we, because of the concern with stakeholders
20 about people basically purchasing money with
21 credit cards, whether it's a high amount, low
22 amount, inhibit, not -- not prevent because
23 it's clear we can't prevent, but at least
24 inhibit that -- those smaller transactions as

1 much as commercially and reasonably possible.
2 And would that, which is what we're suggesting
3 in the modification, satisfy the
4 commissioners, the stakeholders, and everyone
5 who are concerned about this issue?

6 COMMISSIONER ZUNIGA: Can I clarify
7 something, because you mentioned this? It's
8 not a prohibition of the statute. It's a
9 prohibition of the regulation.

10 COMMISSIONER CAMERON: Correct.

11 MR. BEDROSIAN: Yeah, correct.

12 COMMISSIONER ZUNIGA: Which, you
13 know, I think it's the point you made,
14 Mr. Chairman, and I think it's very -- very
15 relevant to consider, it's not against the law.
16 It's the regulation we wrote. With a number of
17 things in mind, that Attorney Grossman can
18 refresh our memories further of the regulation
19 and the like, but I also want to --

20 COMMISSIONER CAMERON: So -- so the
21 better terminology would be a violation of
22 regulation, rather than illegal.

23 MR. BEDROSIAN: That clearly is a --
24 it's a regulatory component.

1 CHAIRMAN CROSBY: It would be a
2 violation on the licensee, not by the
3 individual person.

4 MR. BEDROSIAN: Exactly.

5 COMMISSIONER CAMERON: Of the
6 regulation.

7 MR. BEDROSIAN: Exactly. And the
8 good news is, this is within our control.

9 CHAIRMAN CROSBY: Right.

10 MS. WELLS: I think it would be
11 helpful to the rest of us if Mr. Malitec and
12 Mr. Simmons could, sort of, explain to the
13 Commission why there's not, sort of, an easy
14 solve. Why we can't just, sort of, turn a
15 switch and hit a button, and prevent these kind
16 of cash withdrawals off our credit line.

17 MR. SIMMONS: Yeah. I think what
18 we're seeing is, as technology changes, you
19 know, banks are offering more sophisticated,
20 financial product -- products, you know, to
21 their customers. And these multifunction cards
22 are -- are where it's going. It's really
23 popular in other parts of world, and it's
24 certainly coming here. Further complexity will

1 come with respect to the different form factors
2 on how you can actually initiate a transaction.

3 You know, mobile phones, you've
4 probably seen, recently, a lot of large banks
5 are now giving you the ability to initiate a
6 transaction on a device with a mobile phone,
7 and so you actually never see the card. The
8 banks obviously want to make transactions more
9 secure, you know, less -- make less desirable
10 for a foster trying to get ahold of the cards,
11 and so these different form factors are now
12 becoming available.

13 And, ultimately, as a service
14 provider in this, you know, the complex chain
15 in the transaction, we're not privy to the
16 arrangement you as a cardholder have with your
17 bank and the accounts that you access.

18 We are providing a service into the
19 casino, to the patrons there, where we know
20 what they're performing as an ATM cash
21 withdrawal transaction out of an account they
22 have with their bank, that their bank has said
23 they're good with approving and allowing this
24 customer to get their cash advance. ATM cash

1 withdrawal, there are typical daily limits on
2 these transactions, three to \$500,
3 irrespective of the card, and the fee is, you
4 know, the \$4 ATM fee that you -- that you see,
5 versus, again, what we're trying to talk about
6 here, a cash advance transaction, a
7 more-sophisticated transaction. In fact,
8 that's a purchase transaction. In the eyes of
9 the payments networks and the cardholders,
10 that's actually a purchase transaction.
11 You're buying something. We're not doing that
12 in this case.

13 COMMISSIONER MACDONALD: Let me just
14 follow up once more with Mr. Simmons. If I
15 took my MasterCard, classic credit card, down
16 to Plainridge, put into the -- put it into the
17 ATM, and put in my pin that I know on that
18 credit card, are you saying that the ATM at
19 Plainridge would not process that?

20 MR. SIMMONS: I don't know. You
21 could potentially --

22 MR. BAND: I can say -- it would on
23 certain cards. We've found certain banks and I
24 just --

1 COMMISSIONER MACDONALD: That's what
2 I wanted to clarify.

3 MR. BAND: Yeah. You could,
4 possibly.

5 COMMISSIONER MACDONALD: I've heard
6 you say -- I've heard you say it, and that's
7 why we're here, because that it's been reported
8 to us that -- that --

9 MR. BAND: And that's what our gaming
10 agents did, yeah. But not every card that they
11 used worked.

12 MR. MALETIC: If I can clarify. So
13 from the get-go, we've established only two
14 options for your guests at the -- at the
15 property. They can do a withdrawal from a
16 checking account, or withdrawal from a saving
17 account. So if you're putting in your credit
18 card with a known pin number and it would
19 happen to tie to a credit card, that it would
20 happen to tie to a checking account, then, yes,
21 that transaction could be completed. If there
22 is no checking account, then, in most cases,
23 that transaction is going to be rejected as an
24 invalid transaction.

1 So in banking there's -- there's two
2 roles. And we sit on the role of the
3 acquirer. Our job is to provide the equipment
4 and the means to transfer your request to your
5 bank. And your bank has the decision whether
6 or not to accept that transaction or reject
7 it, based on your relationship with them.

8 So if you didn't have enough money,
9 if you had reached your limit, if it was an
10 invalid type of a transaction, those are all
11 reasons why that transaction could -- could be
12 rejected. But it could also be approved
13 because you actually have a credit card that
14 is tied to a checking account at that
15 facility. But it's not within our capability,
16 as an acquirer, to exhibit that control over
17 the issuing bank, which could be anywhere in
18 the United States, whoever issues cards.

19 MR. SIMMONS: Or around the world.

20 MR. MALETIC: Or around the world.

21 Exactly. And it's their job to -- to make that
22 decision. And that's why it makes it
23 commercially very difficult to weed out a
24 transaction that maybe not should have gone

1 through by the issuing bank. We can't tell
2 them what to do. They're bank -- they're going
3 to do it.

4 COMMISSIONER ZUNIGA: We would have
5 to regulate banks, you know, in order to
6 prevent that.

7 MS. WELLS: So this has been -- and I
8 appreciate the reps from U.S. Bank an Everi for
9 coming, because this has been very confusing.
10 We needed to have a lot of discussion about
11 this, and first we were, sort of, speaking
12 different languages, but we, sort of, got on
13 the same page so I do appreciate that.

14 I think it would be helpful, if
15 Mr. Grossman could chime in just, around the,
16 sort of, the history here, the policy that
17 went into the original reg. to see, you know,
18 what the Commission wants to do going forward,
19 being mindful of the history.

20 MR. GROSSMAN: Thank you. And good
21 afternoon. As Director Wells mentioned, I
22 think it may be helpful, in order to understand
23 the proposal we have before you, to reflect on
24 the policy considerations that went into

1 drafting the original regulation. And to do
2 that, we have to look at what we believed, at
3 the time, to be an ordinary understanding of
4 what a cash advance actually was. And in --
5 well, we understood what a cash advance to be,
6 and I think it still, you know, holds true in
7 many respects. It's an instance in which one
8 takes cash out on their credit card. Where,
9 essentially, what you're doing is buying money.
10 And as such, credit card companies consider
11 that to be a higher-risk transaction, for
12 whatever reason.

13 Accordingly, there are some enhanced
14 fees and interest that gets attached to those
15 types of transaction, as opposed to when you
16 just go to the grocery store and buy groceries
17 on your credit card. In both cases, they're
18 short-term loans, but, for whatever reason,
19 the banks consider taking cash out and -- to
20 be a higher-risk transaction.

21 So there are three characteristics
22 that we understood cash advances to typically
23 all share. For one, they typically had higher
24 fees. So in addition to the ATM fee, which is

1 two, three, \$4, there was an added fee of
2 between two and 5 percent on the amount of --
3 that you're taking out, that you pay. As was
4 mentioned, you know, could be \$15 on a
5 \$300 withdrawal. So that's in addition to the
6 ATM fee that the Everis and U.S. Banks of the
7 world assess.

8 Then, there's a higher interest rate
9 that gets assigned to this type of
10 transaction, when you take cash out on your
11 credit card. Instead of the 16 percent or so,
12 or APR you typically pay on your credit card,
13 cash advances are typically assigned a 22,
14 25 percent interest rate for the benefit of
15 taking that cash out.

16 And, thirdly, typically, the
17 interest will accrue immediately upon you
18 receiving the cash, as opposed to what is
19 typically a 30-day grace period you would get,
20 when you make a regular, ordinary charge on
21 your credit card.

22 So based upon all of those things,
23 what -- there was a concern that those types
24 of fees were considered onerous, they were

1 high interest rates. And for
2 consumer-protection-responsible-gaming-type
3 concerns, the Commission, with the input from
4 different stakeholders, developed this
5 regulation where we said, okay, it's not a
6 goods idea to allow cash advances in the
7 casino, period.

8 Now, we assumed, I think, at the
9 time you kind of just flipped a switch in the
10 ATM and you wouldn't allow cash advances,
11 we've been educated on the actual process now.

12 So what I -- based upon all that, I
13 think what you'll find before you now, the
14 proposed regulation will accommodate the
15 concerns and still, at least, discourage a
16 patron's ability to be able to take cash out
17 on you credit card.

18 As you've heard, it's not
19 technologically, reasonably possible to
20 prevent all what we would initially have
21 considered cash advances for taking place at a
22 casino. So that's why we crafted the
23 regulation, where we said to them, you have
24 come up with a plan to prevent this process

1 from occurring. Here's three things that you
2 must do, but, certainly, there might be other
3 things that may be appropriate as well.

4 We also attempted to future-proof
5 these regulations by taking out the word cash
6 advance. We don't use that term anymore. So
7 to the extent there's any disagreement as to
8 what the term even means, we don't use it
9 anymore. We're really just going at what the
10 main concern is. And that is the withdrawals
11 that are typically characterized by the high
12 interest rates, high fees, and I think we've
13 achieved that here. And we can go through
14 that too.

15 MR. BEDROSIAN: So I think the other
16 thing to point out is, what we are asking for
17 is a vote for an emergency regulation. We've
18 shared this with our licensees. Obviously,
19 while MGM and Wynn aren't operating, they have
20 a future interest in this. So they have
21 participated. I think there's a letter of
22 support. But, importantly, if we're missing
23 something, there will be a comment period, if
24 we have to come back to the Commission with any

1 final comments. So this is a interim step
2 towards getting us, I think, hopefully where we
3 want to be, and/or the Commission, if it
4 decides revisiting some of the policy issues.
5 But given what the regulation intended to do,
6 we're trying to enforce it the best we can.

7 COMMISSIONER STEBBINS: One quick
8 question. In the back of your presentation is
9 Exhibit 2, suggested at Plainridge. So with a
10 quickened option of these on an emergency
11 basis, would the screen that pops up that says
12 casino cash -- the big Ghost Buster sign.

13 MR. BAND: They're already in place
14 by both manufacturers.

15 COMMISSIONER STEBBINS: Okay.

16 MR. BEDROSIAN: And the hard signage
17 too. I mean, around the machines, is -- is now
18 very prominent also.

19 COMMISSIONER STEBBINS: Okay.

20 COMMISSIONER CAMERON: Yeah. I'm
21 also persuaded by the fact that it's our
22 expert's opinion, or to the best of their
23 knowledge, the vast majority of these are
24 linked to a checking account. So it is much --

1 even though it's a credit card, it's used as a
2 debit card. So that's persuasive to me that --
3 that most transactions are really within what
4 we originally wanted to them to be, the intent
5 of the original regulation.

6 CHAIRMAN CROSBY: Anybody else?
7 Comments, questions?

8 COMMISSIONER ZUNIGA: Yeah, I think
9 this clarifies it. And, you know, it's
10 especially encouraging that there's a lot of
11 research and input from, you know, additional
12 stakeholders, not just licensees.

13 I do have a feeling, though, of
14 whether -- even with the regulation as it
15 stands, it's a bit like swimming against the
16 current here. As -- as we're -- we're the
17 only one trying to prevent the use of credit
18 cards at some level, because I'm -- I'm
19 thinking about the -- what's in the framework,
20 in the responsible gaming framework, as in
21 information may work really better in some
22 instances. If I see the display of what I am
23 going to get charged, you know, on a
24 particular transaction, that may be, you know,

1 itself, a -- a tool that works to be, you
2 know, persuasive for somebody to say maybe
3 I'll go -- I'll go cancel.

4 So I think the way that this -- this
5 reg. is -- is written is very -- is very good.
6 It accomplishes everything. But I did want to
7 mention, for the record, that, perhaps, trying
8 to -- to do away with this -- with the use of
9 credit cards, as we were initially intended,
10 is all -- is not that feasible altogether.

11 I went back and looked at -- with
12 the help of Attorney Grossman, had some
13 discussions of that initial meeting, and I
14 remember even mentioning that they could very
15 well be across the street, you know, next
16 door. Somebody could go to a bank and get
17 that before they go to the casino, and get the
18 credit card cash advance in -- in anticipation
19 to the trip to the casino. And that there are
20 other measures that we have put in place,
21 including -- including the Game Sense program
22 and the like, that hinges on informing people.
23 It's not preventing a particular behavior that
24 they could do anyway.

1 CHAIRMAN CROSBY: I would -- I would
2 agree with that. I think, for the short-term,
3 this is an interim solution, which I would
4 certainly be supportive of. I think, maybe in
5 our overall reg. review that we're talking
6 about, doing piecemeal, at least. I, for one,
7 would want to rethink this one too. So I'm
8 with you on that, and I don't know where I
9 would come down.

10 Certainly, the idea of having what
11 the industry considers cash advances, the
12 thousands of dollars out of the credit line,
13 you know, that's problematic, I think. But
14 routine two, \$300, I don't think we should be
15 prohibiting that. But that's for another day.
16 All right.

17 MS. WELLS: Are there any questions
18 about the specific language in the -- in the
19 proposed regs? Under 138.40, really, it just
20 defers now to 138.47. And in Subsection 3, it
21 just, basically, requires the casino to -- and
22 the licensee to have reasonable measures to
23 inhibit the -- inhibit this kind of activity,
24 and there are three different provisions that

1 are required. So I think the whole team is
2 here to answer the questions, if you have any
3 questions about the proposed interim solution
4 here.

5 COMMISSIONER ZUNIGA: Well, the one
6 question I had was on C. That it is designed
7 to inhibit, and I get that. It further goes on
8 to say that, you know, they have to ensure that
9 no transaction like this will take place.

10 But --

11 MS. WELLS: Yeah. This is referring
12 to --

13 COMMISSIONER ZUNIGA: We still --

14 MS. WELLS: Well, this is referring
15 to the cage. So this -- we wanted to
16 specifically enumerate. So that description
17 that Bruce Band gave, where you get the ticket
18 and go to the cage and take money, we want to
19 make sure that that's still --

20 MR. BEDROSIAN: Or you can go right
21 to the cage. Sorry. We want to make sure --

22 COMMISSIONER ZUNIGA: Right. Okay.

23 MR. BEDROSIAN: And there's human
24 intervention there, but we just wanted to

1 articulate that.

2 COMMISSIONER ZUNIGA: Fair enough.
3 Thank you for that clarification. It's for the
4 cage only.

5 COMMISSIONER CAMERON: Just once
6 again, an example of a smart regulation
7 process. I mean, you got educated, you
8 understood where the difference was in
9 language, you brought in the folks that have
10 been doing this routinely to understand, and
11 brought in Attorney Grossman to help you
12 reword. So I think it was well done, and this
13 is -- this is as, to me, as good as it can get
14 under the technological limitations.

15 CHAIRMAN CROSBY: Do we have a
16 motion?

17 COMMISSIONER STEBBINS: Mr. Chair, I
18 move that the commission adopt, on an emergency
19 basis, the recommended changes to 205 CMR 138,
20 under 138.40 an 138.47, and to initiate the
21 formal promulgation process to approve these
22 changes.

23 CHAIRMAN CROSBY: Second.

24 COMMISSIONER ZUNIGA: Second.

1 CHAIRMAN CROSBY: Other discussion?

2 All in favor?

3 MR. MACDONALD: Aye.

4 COMMISSIONER STEBBINS: Aye.

5 COMMISSIONER CAMERON: Aye.

6 COMMISSIONER ZUNIGA: Aye.

7 CHAIRMAN CROSBY: Aye. Opposed? The
8 ayes have it unanimously. And we would invite
9 any constituents out there, who are interested
10 in commenting on this, one way or the other, we
11 welcome that feedback from anybody.

12 MS. WELLS: Thank you.

13 CHAIRMAN CROSBY: All right. Now I'm
14 going to suggest that we adjourn temporarily.
15 How about 1:30? We'll come back at 1:30.

16
17 (A recess was taken)

18
19 CHAIRMAN CROSBY: Okay. I guess we
20 are -- we are ready to convene public meeting
21 No. 194, although I don't hear the mike. There
22 we go. Okay, 194 is -- just after 1:30,
23 although, the mike is in an out.

24 MR. SANGALANG: Okay.

1 CHAIRMAN CROSBY: Now, we're going.
2 And the item on the agenda is the finance
3 division with our CFO, Derek Lennon.

4 MR. LENNON: Good afternoon,
5 Commissioners.

6 CHAIRMAN CROSBY: Good afternoon.

7 MR. MACDONALD: Good afternoon.

8 COMMISSIONER CAMERON: Good
9 afternoon.

10 COMMISSIONER ZUNIGA: Good afternoon.

11 COMMISSIONER STEBBINS: Good
12 afternoon.

13 MR. LENNON: Today I'm joined by
14 Trupti Banda and Agnes Beaulieu. And we're
15 here to follow-up on the Commissions FY'17
16 budget proposal. Just a quick overview, once
17 again, get everyone back in the ballgame from
18 June 9th, from the last time we was here.

19 Budget includes funding for 73 FTEs
20 and one contractor. The split of that is
21 69.25 FTEs for gaming, one contractor, and
22 3.75 FTEs for racing.

23 As far as the process goes, in FY
24 '17 is similar to the '16, the division of

1 administration and finance met with each
2 director to establish budget request, HR did
3 the same thing. Request was then reviewed by
4 me, the executive director, and the treasurer,
5 Commissioner Zuniga. The revised figures were
6 then sent to our licensees and reviewed at a
7 meeting with the MGC offices on May 11th.

8 As a result of that review, we
9 revised our spending estimates down by
10 2.28 million. We submitted this proposal to
11 you two weeks ago on June 9th, asked for
12 public comment. At the time of the writing of
13 the memorandum in your packet, we had not
14 received any public comments. Although,
15 yesterday we received public comment from one
16 of our licensees, which should be in your
17 packet. It came from Wynn Mass. It requested
18 that our --

19 Well, first, let me talk about the
20 letter. The letter that they submitted was
21 extremely professional, and I think it was
22 representative how all of our licensees have
23 been during the budget process. They
24 advocated for their points of view, but in the

1 end, they've been understanding of our
2 eventual decision. The letter asked for an
3 additional \$891,000 of spending reductions, on
4 top of the 2.28, as well as a consideration of
5 moving the MGC's offices outside of downtown
6 Boston.

7 A lot of those - it's up on the
8 board right now - were points that we
9 discussed during our revisions. A lot of
10 those items we cut down to begin with. I
11 think we'll give time, towards the end of this
12 presentation, if you want to discuss any of
13 those items, going further into detail, or why
14 we didn't consider cutting them further.

15 In your packet, you'll find all the
16 materials from the June 9th presentation, just
17 as a refresher, because that was a proposed
18 budget. One thing that did change, we added a
19 revenue source. \$60,000 for travel gaming.
20 We requested a travel gaming consultant. That
21 was pointed out to us by our licensee, Wynn,
22 that we hadn't -- we had broken out the cost,
23 but we hadn't put in the corresponding
24 revenue, so that brought our assessment down

1 from 22.45 to, I think, 22.39 million.

2 But one thing I would like to talk
3 is, there's a new memorandum in the package,
4 and this comes up as many discussions with our
5 licensees come about, the distinction between
6 the gaming control fund total budget and the
7 MGC's regulatory costs.

8 On a duly manner in which the
9 Extended Gaming Act was drafted, the
10 Commission is responsible for assessing costs
11 on licensees. They are not part of our
12 day-to-day regulation of Category 1 and
13 Category 2 casino licensees. The law was
14 drafted with the intent to have the industry
15 fund all of the costs associated with expanded
16 gaming, and the MGC was, basically, the
17 instrument for billing those costs.

18 However, the problem with that -- us
19 being the instrument, is that, when I come to
20 you and present a budget and an annual
21 assessment, the talking point becomes the
22 Massachusetts Gaming Commission costs
23 \$27.17 million to regulate this industry. So
24 what I've put together is a spreadsheet that

1 tries to call out a memorandum that calls out
2 the regulatory cost distinction between our
3 statutory-required costs.

4 And with that statutory-required
5 cost, I tried to put reference so that anyone
6 following here could go back and check --
7 check the general laws to show that
8 8.57 million out of that 27.17 million are
9 statutory-required costs that we don't really
10 control, which leaves a regulatory cost of
11 18.6 million, which is a much different
12 talking point than the 27. almost 2 million.

13 CHAIRMAN CROSBY: I want just to
14 reinforce that, Derek, because this is really
15 helpful to have you make that point. Our
16 operating budget is a little -- is 18-1/2
17 million dollars. And even when I've been
18 traveling, you know, I've been in Vegas, people
19 have made fleeting references to our budgets.
20 And, boy, you guys are expensive regulators. I
21 think there are some issues -- there are some
22 things in Massachusetts, which are
23 extraordinary, but there are
24 function-extraordinary costs, like our public

1 health trust fund, which starts out at around
2 \$5 million. And those are real costs, and they
3 cost to operate real money, there's no question
4 about that, but they aren't part of our budget.
5 They're out of our control. Same with the
6 attorney general, we had zero to say about
7 that. So -- but these numbers get picked up
8 and kicked around and become factoids. And
9 this 27 million or 20-something million has
10 been kicked around a lot. 18 million is an
11 accurate characterization of our operating
12 budget for those items issued in our control.
13 And that's a really important clarification, so
14 thank you.

15 MR. LENNON: So, at this point, I
16 guess, if you'd like to talk about any of
17 the --

18 MR. BEDROSIAN: So if I could jump in
19 a and make some comments. This was my first
20 budget process as executive director. I'd like
21 to thank our CFAO and our Treasurer Zuniga, who
22 were very patient with me. I think we had some
23 good, spirited discussions. I probably asked
24 the same question a number of times, and they

1 were gentle and reinforcing, if they already
2 answered that question about five times.

3 But I would say, the context of the
4 discussion with our licensees, obviously, is
5 important too, and I reinforce what Mr. Lennon
6 said. It was very professional and
7 collaborative, even when we disagreed.

8 Obviously, for two of them, they
9 are -- they are at the beginning point of two
10 construction projects, and there are folks who
11 aren't going to see some revenue for awhile.
12 And I think that was reflected and -- and
13 thought, in some of their comments. And the
14 suggestions they made, if I were in their
15 positions, are not irrational suggestions, and
16 I might be making the same suggestions, if I
17 were in their -- their position.

18 Having said that, Derek and I, with
19 the guidance of Commissioner Zuniga, took
20 those initial comments very seriously and went
21 back, and, you know, scrubbed the budget, we
22 think, fairly, and we had ongoing discussions
23 with many members, directors about cutting
24 their budgets and being more reasonable under

1 the current circumstances. And a number of
2 folks -- everyone -- everyone, I shouldn't
3 say, a number of folks, everyone was aware,
4 chipped in, I think made sacrifices.

5 Particularly, we want to point out Diversity
6 and Workforce Development had a higher budget
7 item. I went back and had discussion with
8 Director Griffin, and I also consulted with
9 Commissioner Stebbins. And -- and there was a
10 significant decrease in that budget.

11 Although, I know that our -- one of our
12 licensees was would like more, but I did want
13 to point it out. There are other areas, too,
14 where -- with Derek and I we went back and --
15 and made cuts to get to that 2 point -- I
16 forget what it was.

17 MR. LENNON: 2.2 million.

18 MR. BEDROSIAN: 2.2 million. So we
19 did hear. They might not think we heard them
20 enough, but we did hear them, and it was a
21 professional process, and we thank them and our
22 staff who were involved in that.

23 CHAIRMAN CROSBY: Just one other
24 contextual thing to mention it, there is --

1 there is a problem for our licensees, our two
2 licensees that are not operating yet. And that
3 is that, for -- for delay -- reasons of delay,
4 having to do everything from the referendums,
5 to our process, to lawsuits, to internal
6 problems, a whole, at least those four
7 variables have caused our launch dates to get
8 postponed, which means that there's that many
9 more years, months or years running without
10 income, which means their expenses upfront
11 prerevenues are increasing. And it puts us in
12 the funny position of thinking we were ramping
13 up to have an organization ready to roll in
14 2016, and it turns out it won't be for awhile.
15 So the delay have cost us all. It's been
16 awkward.

17 You know, there are inefficiencies
18 built into that. And there are certainly
19 understandable concerns for our operators, who
20 are spending tens of millions of dollars in
21 these early years, along -- well, billions of
22 dollars in these early years, and so I'm
23 completely sensitive to it. And I really
24 appreciate that -- that you guys and

1 Commissioner Zuniga took it seriously. You
2 know, we don't consider this free money, play
3 money. We know this is somebody's real money.
4 And these particular -- each one of these
5 millions is a critical part of the calculation
6 of how much money can we afford to invest, in
7 order to get the Commonwealth the product that
8 they want? So we understand, and we're
9 sympathetic to that.

10 And having said all that, and I
11 think, particularly with the reminder that our
12 real operating budget is only about 18-1/2
13 million dollars and the rest of it is beyond
14 our control is -- you guys have done a good
15 job and I appreciate it.

16 COMMISSIONER CAMERON: Having said
17 that I -- and I do appreciate a detailed
18 premeeting to understand the budget better
19 and -- which is very, very helpful to me, but I
20 think we all have to be cognizant of the next
21 couple of years, that, that revenue will not be
22 coming in, and just continue to find ways to --
23 to make sure we're being as efficient as
24 possible, whether that be hiring, whether that

1 be certain programs that we may want to slow
2 down a little bit. Whatever that may be. I
3 think there's always ways to take a look at
4 that. I happen to have an office next to
5 Commissioner Zuniga, so I have some of these
6 conversations, and they are helpful and
7 something we do have to pay attention to.

8 COMMISSIONER ZUNIGA: Are you going
9 to continue an overview, or were we getting to
10 a discussion of some of the line items?

11 MR. LENNON: I think, if you'd like
12 to get into discussion of some of the lines,
13 this is the appropriate time.

14 COMMISSIONER ZUNIGA: Yeah.

15 MR. LENNON: This is the only
16 information from the June 9th. This is the
17 only public comment we received.

18 COMMISSIONER ZUNIGA: Right. Well, I
19 did want to talk a little bit about the comment
20 that we received because it's something I had
21 mentioned. At least on one of the items in
22 the -- on the prior meeting, and that's the
23 grants to the community college number, which
24 they're proposing to eliminate altogether; is

1 that -- am I correct on that, the 225 on the --
2 that would leave --

3 MR. LENNON: So that was actually
4 four separate items that added up to about
5 400,000 to begin with.

6 COMMISSIONER ZUNIGA: Okay.

7 MR. LENNON: If you remember, last
8 year, the workforce and diversity program had
9 \$125,000 in their budget for grants, so to
10 eliminate it completely would get rid of
11 existing funding that they have this year.

12 COMMISSIONER ZUNIGA: Right.

13 MR. LENNON: So what they did was,
14 they consolidated the community college grants
15 with the diversity and opportunity grants to
16 make one line item that went up by 100,000.

17 CHAIRMAN CROSBY: Right. But what
18 the letter suggests eliminating the whole
19 thing?

20 MR. LENNON: Correct. The letter is
21 suggesting cutting from even the
22 sixteen-funding level.

23 COMMISSIONER ZUNIGA: And my point
24 two weeks ago, and one that I think we need to

1 discuss now or eventually, later, is, something
2 I made, which is, I think we need to build a
3 better business case. Document it as to what
4 we are funding, what the intention is on -- on
5 both the supplier diversity and -- and the
6 community college funding, which is --
7 there's -- there's a new element under
8 community college this year that was not last
9 year.

10 And for everybody's understanding,
11 just clarifying what we intend to do, I think,
12 would go a long way towards furthering that --
13 the goals, because I've heard some of them
14 just verbally. I've seen, in the prior
15 presentation -- I remember one in Springfield,
16 when we had a couple of guests come from
17 local, nonprofits to talk about, you know,
18 what they plan to do, which is -- can be
19 summarized as outreach and things like that.
20 Somehow, it occurs to me that, that business
21 case is not permeating. Certainly, even the
22 content -- the comments that we have. So I'd
23 like to have that discussion again.

24 We could approve this budget as it

1 is with -- with the caveat of coming back
2 to -- during the year to get better guidelines
3 as to how we're going to dole out the grants,
4 what is going to be the criteria, who
5 qualifies, who doesn't, because I also fear
6 that \$20,000 at a time to this community, or
7 to this other recipient, or another
8 organization, runs the risk of being, you
9 know, very -- money that just doesn't --
10 doesn't have a lot of incremental benefit.
11 And that's -- that's what I mean by -- by the
12 business case that I was asking last week, and
13 want to continue to point out.

14 COMMISSIONER STEBBINS: I want to
15 jump in because, obviously, I've had the chance
16 to work with Jill, and in thinking about some
17 of the grant funding for this coming year.
18 And, kind of, where we started initially was
19 reaching out to our partners at the community
20 colleges and thinking where we are now. Where
21 our projected opening dates of our two
22 licensees are. What would be some of the
23 things on the workforce development side you'd
24 want to think about or strategically plan for

1 and -- and come up with some budget numbers.
2 And they were kind enough to do their due
3 diligence. They shared some budget numbers
4 with us. We initially, as Derek pointed out,
5 asked for a number, a half or a third of what
6 their proposal was. And then, obviously, have
7 whittled it down since then.

8 I think the number where we are
9 right now, as Derek said, it's only, you know,
10 \$100,000 over - I know, the famous line out of
11 Washington, a hundred thousand, here, a
12 hundred thousand there, pretty soon, you're
13 talking about real money - is really the
14 beginning of this window of time in this
15 two-year period of focusing on workforce
16 development and using the partnership with our
17 licensees to, hopefully, leverage additional
18 money.

19 One of the items particular to the
20 community colleges was having the -- our
21 licensees support a permanent, full-time
22 casino career training institute staff member.
23 Not to fully fund the salary, but to, again,
24 hopefully leverage input or -- or an

1 investment from the community colleges. And
2 that work, which has not been really done on a
3 full-time basis to this point, to be someone
4 working with the community colleges, working
5 the local organizations, keeping an eye on a
6 lot of some of the workforce development
7 strategies that are going to be necessary to
8 get people to a point of being able to enter
9 one of the casino's specific training
10 programs.

11 And, initially, having that
12 conversation to, you know, essentially, again,
13 you know -- you know, I'm going to paraphrase,
14 but to invite the community colleges and say,
15 we want to leverage this relationship with our
16 licensees and with the Commission, but, you
17 know, we'd like you to meet us halfway.

18 So, you know, and I think Jill,
19 based on her experience with the greater
20 Boston -- with the Boston foundation has been
21 pursuing those opportunities. Where we're
22 going to use, even this limited amount of
23 money, I think, to leverage resources from
24 other stakeholders, be they other government

1 stakeholders or other nonprofit agencies.

2 But, again, we have a two-year
3 window, so this is kind of what I would see
4 as, kind of, a ramp-up period where our
5 licensees are going to be partners at the
6 table with us, other stakeholders. We had a
7 great meeting with the governor's skills
8 force -- workforce skills cabinet. They're
9 dedicating some top, local staff to again work
10 on these issues with us.

11 I think what Wynn provided to us,
12 and I appreciate their thoughts, as we all do,
13 I think there's somewhat of a misstatement on
14 their part in that this money is all going
15 towards community colleges. In the past,
16 we've handed out grants to local business
17 organizations to find and recruit minority
18 women and veteran businesses to participate in
19 the construction process.

20 You know, Jill has plans, and she's
21 always been great about coming back before the
22 Commission, before money is released, to talk
23 about some of her upcoming plans. Some of
24 those immediately will be targeted towards,

1 again, minority and women recruitment, veteran
2 recruitment into the construction trades.

3 So it's -- again, you know, you do
4 the math on the 225. I think it's .012
5 percent of what we're asking our licensees on
6 their assessment. But I think as we enter
7 a -- kind of, this two-year-out window,
8 working with them and other stakeholders, I
9 think this is money that can be leveraged for
10 good programs. Hopefully, leverage resources
11 from other stakeholders, either financially
12 and in kind.

13 And, again, I think we'll have us
14 well-positioned with our licensees that, when
15 they start doing a lot of the casino-specific
16 training a year out, or less than a year out,
17 they're going to have a qualified workforce,
18 as well finish up the construction project,
19 and see a -- a solid result in minority women
20 and veterans being involved in the
21 construction process.

22 So it's kind of the expanded
23 nutshell, but I wanted to give you that
24 background as to, kind of, how we landed on

1 this number. And, again, it's a significant
2 reduction from what we originally asked them
3 for.

4 COMMISSIONER ZUNIGA: Yeah, no. And
5 it's also a significant increase from prior
6 year and -- which, you know, I think the -- the
7 question that I've asked, maybe I'm not
8 understanding exactly what the business case
9 is, that is in lieu of, or leveraging the main
10 effort -- the main effort, which resides
11 fundamentally at the licensee level. The
12 person who's going to be doing the recruiting,
13 who's going to be doing the funding, is, by
14 definition, going to be the casino. And we
15 seem to be suggesting that we're going to do
16 part of their job, even though they're telling
17 us we're going to do this job. And that's --
18 that's the -- the essence of what I'm asking.
19 Why are we in a better position than they are
20 to -- to do part of this work?

21 COMMISSIONER STEBBINS: Well, I think
22 there is a business case to be made. You know,
23 we're not trying to take away their immediate
24 hiring from them. I think, all along, we've

1 all understood that, you know, for any of our
2 licensees to get 3,000 qualified people, we've
3 heard the number, if you need 10,000 coming
4 into the funnel, and how well prepared are
5 those folks? You know, just taking a look at,
6 if we invite the community colleges to approach
7 us for half the salary of an individual to be a
8 full-time casino career training institute
9 coordinator, I would say they're getting more
10 bang for their buck by, one, having us leverage
11 what the state college may kick in, and then
12 they get a full-time employee working on their
13 behalf for \$25,000. That's a pretty good
14 business case.

15 COMMISSIONER CAMERON: I have a
16 question about that, Commissioner. They have
17 their own line item, community colleges, from
18 gaming funds, how -- is that not enough to
19 coverer that position; is that the case they've
20 made to you?

21 COMMISSIONER STEBBINS: The -- the
22 only money that has come into the community
23 college fund, as it was laid out in the
24 statute, comes from license fees. And that was

1 one of my questions early on, is, this is going
2 to be great. This is going to be a resource
3 for them. And as Derek and I kind of found
4 out, the money that went into that account from
5 the license fees, and it's not our money to
6 control, was quickly appropriated away by the
7 legislature to kind of help the community
8 colleges recover from previous budget
9 shortfalls.

10 COMMISSIONER CAMERON: So it did not
11 go to --

12 COMMISSIONER STEBBINS: It went to
13 the community college.

14 COMMISSIONER CAMERON: -- specific
15 training for --

16 COMMISSIONER STEBBINS: It did not go
17 to specific training for casino career
18 institute or any -- any related programs?

19 CHAIRMAN CROSBY: We had no input on
20 where it did go.

21 COMMISSIONER STEBBINS: Subject to
22 appropriation. I mean, I'm happy to see the
23 community colleges being made whole, but it was
24 a little out of our control.

1 CHAIRMAN CROSBY: I think
2 Commissioner Zuniga makes two good points. One
3 is, and I think you said this is going to
4 happen in the nature of things. We do want to
5 see the logic and who's getting what, why and
6 to accomplish what. And Director Griffin comes
7 before us all the time, when she's been making
8 these grants, and we get a chance to see them.
9 If we had any problem, we can say so.

10 The second point I think is
11 important, and I kind of intuitively agree,
12 although I don't know the details of these,
13 that you don't want to have so many little
14 grants that you really don't have any throw
15 weight. You know, just -- and I don't know
16 what -- what \$20,000 gets us. I don't know --
17 but, intuitively, it feels like maybe it would
18 be better to have three 50s than -- than six,
19 seven, eight 20s, you know.

20 So I think those are both important
21 points. And I heard you saying that you're
22 comfortable going forward with this, but you'd
23 like to make sure we keep an eye going
24 forward, and I -- I dig that.

1 COMMISSIONER ZUNIGA: Right.

2 CHAIRMAN CROSBY: And just as a, sort
3 of, uninformed piece of context, we met with
4 the -- the community college,
5 Commissioner Stebbins and I met with community
6 colleges, must be pushing four years -- four,
7 five years ago, four years ago, I guess and we
8 talked about implementing this. We knew the
9 community colleges have no money. You now, I'm
10 a former A and F secretary, I know they're just
11 scraping by. And I thought they would have
12 come to us a long time ago for a lot more
13 money. I thought we would be doing a lot more.
14 Like, we would buy the Atlantic Community
15 College curriculum or -- so this doesn't change
16 the legitimacy of your two concerns. It just,
17 in my own mind, I actually thought that they
18 would have come to us for a lot more money a
19 long time ago, quite frankly.

20 COMMISSIONER STEBBINS: I would echo
21 that as well.

22 COMMISSIONER ZUNIGA: You emphasized
23 my point about the grants. And, you know, I
24 would draw the distinct -- the parallel on the

1 community mitigation grants, which is clear
2 guidelines. Frankly, that fund we do control.
3 You know, and there's -- there's a lot of
4 expectations, and et cetera. And there's been
5 a lot of work and thought that continues to be
6 put in place on those guidelines, you know, to
7 eventually allow the grants that we will.
8 That's the sort of parallel that I would like
9 to see along the --

10 COMMISSIONER STEBBINS: After that
11 big diatribe, I mean, I completely agree. And
12 I think it's -- you know, for the ideas that
13 Jill has, you know, a lot of these things will
14 come back before the Commission. You know,
15 we're now kind of coincidentally at a better
16 starting place to work with our licensees on
17 these workforce development issues. I know MGM
18 gets it, because MGM is dealing with issues
19 similar to this, as they prepare to open
20 National Harbor.

21 You know, Wynn is a little bit
22 further out in the time frame, and we'll look
23 forward to working with somebody on their
24 workforce development issues, when that

1 person's on board. But, you know, I agree
2 with you, and I also agree with your point
3 Mr. Chairman. You know dribble, drabbling
4 some money out doesn't have the impact that,
5 you know, a larger amount can have. And we'll
6 keep that in mind as, you know, as receiving
7 requests for money, but also being proactive
8 and putting some RFPs out there.

9 CHAIRMAN CROSBY: Anybody else?

10 COMMISSIONER MACDONALD: Yes. I'd
11 just like to repeat something that I said at an
12 earlier meeting. And that is, in my seven
13 months as a member of the -- of the Commission,
14 amongst the most, if not the most impressive
15 presentations that we've had at -- at our
16 public meetings have been those that -- that
17 Ms. Griffin and -- and Commissioner Stebbins
18 have -- have organized on the efforts that are
19 being made in the area of workforce development
20 and affirmative -- affirmative action.

21 And, to me, it seems like that there
22 is very substantial, concrete, credible
23 evidence out there that we're really, I think,
24 having an impact in proactively stimulating

1 the development of -- of a workforce to be
2 involved in the construction and operation of
3 gaming establishments that, very
4 substantially, advance that portion of the --
5 of the gaming statute that I specifically
6 identified workforce development and diversity
7 as an objective.

8 So I'm very pleased and impressed
9 with what's been done with the money that we
10 have, and the personnel that are on board
11 devoting themselves to -- to this statutory
12 objective.

13 CHAIRMAN CROSBY: Okay.

14 Commissioner Stebbins, do you have a motion?

15 COMMISSIONER STEBBINS: We don't need
16 a motion.

17 COMMISSIONER ZUNIGA: I did want to
18 have a couple of other --

19 CHAIRMAN CROSBY: Sorry. I jumped
20 ahead.

21 COMMISSIONER ZUNIGA: You know, just
22 to address some of the public comment that came
23 in, again, from -- from the one licensee, I can
24 speak to any one of them. We can speak to any

1 one of the items. I see our gaming consultant
2 as a-- as a -- you know, allowance, if you
3 will. It's a budget item. It'll depend on how
4 we utilize them now under the budget of the
5 executive director's office.

6 MR. BEDROSIAN: Yeah. And also to
7 clarify, that you may remember, Commissioner,
8 that they had them in different parts of the
9 budget in former years. And I said, look, that
10 doesn't seem to make sense. Let's pull it all
11 under me. They can -- they can act as a
12 resource to the Commission, to me, and to other
13 parts of the staff. But I think the number --
14 well it didn't go up. It actually went down.
15 But still, it was consolidated under me, which
16 I thought made sense, to just have one
17 ownership of it.

18 COMMISSIONER ZUNIGA: And I do -- I
19 do think that we still need to rely, at least,
20 partially to a lesser degree than we did in the
21 past on some of the -- on some of the -- the
22 help that we -- that we get from them.

23 CHAIRMAN CROSBY: Coming from
24 Commissioner Zuniga, that's big news.

1 MR. BEDROSIAN: Yeah. Well, and I
2 think you all remember, and you probably know
3 much better than I do, if you look at the curve
4 of consultant expenses --

5 COMMISSIONER ZUNIGA: It's at a
6 dramatic -- dramatic downward --

7 MR. BEDROSIAN: Yeah, we've gone
8 down. And we recognize what our licensees are
9 saying about the future, when, at some point,
10 we will be our own entity, consultant-free and
11 do what we do.

12 COMMISSIONER ZUNIGA: The Attorney
13 General's Office is something that we don't
14 control. They, you know, they send us a bill,
15 we pay it.

16 COMMISSIONER CAMERON: Included
17 there, though, is -- is Mass. State Police
18 overtime. And in following up with our IEB
19 team on that particular item, you know, their
20 investigative. They have continued to refine
21 their investigative techniques. Meaning, where
22 they get a bang for their buck, where they
23 think they can be more efficient. Which,
24 Director Wells feels like will have an impact

1 over time. In other words, a more efficient
2 investigation, which, without as many steps at
3 certain places, and I know you've had this
4 briefing, but that should have an impact.

5 So they are looking for efficiencies
6 along those lines. So they're very cognizant
7 of overtime, and all of their spending, and
8 all of their investigative procedures. So I
9 think that's something that's -- it's not
10 taken lightly, and they do have a plan in
11 place.

12 MR. BEDROSIAN: And we also thought
13 about the staffing, especially this fiscal
14 year, because, I mean, really, this fiscal year
15 is a fairly flat year, in terms of -- in terms
16 of preparation, given where the casinos are
17 scheduled. And then, in a year from now, we
18 may be here with a little more clarity about
19 when opening will be and when they need to ramp
20 up.

21 COMMISSIONER ZUNIGA: And I also went
22 wanted to talk about a number that's not here,
23 but I've already talked about it, which is a
24 reduction that you only described of

1 2.2 million from the original -- from the
2 original requests.

3 MR. LENNON: Correct.

4 COMMISSIONER ZUNIGA: Which means, in
5 many ways, that we have tightened up a lot of
6 what we initially thought. It's still a budget
7 number. We may end up coming back, maybe 10
8 months from now, or nine months from now, you
9 know, to ask for a budget revision of some
10 sort. And that was a specific ask of the
11 licensees. They'd rather see the budget tight,
12 and that's -- you know, and have an additional
13 assessment along the year, rather than with
14 some cushion that can later then be returned to
15 them, as we have done in the past.

16 So that's -- that's important to
17 acknowledge. We've -- we've reduced where we
18 thought it was appropriate. Never -- you
19 know, trying to cut just for the sake of
20 cutting. And, you know, what I really
21 throughout this budget, and I think, this is
22 an overall good outcome.

23 MR. LENNON: Yeah, I think that's an
24 important too. There's no built-in deficiency

1 in this budget, but there's a lot of tight
2 measures that we're going to keep an eye on.

3 COMMISSIONER ZUNIGA: In real terms,
4 it's an increase from last year. In many
5 number -- in a number of ways or items.
6 Consultancy's the biggest one, and a number of
7 other areas. We now have to make room for the
8 indirect costs, which also was talked about
9 here. We tried to get that waived from the
10 Commonwealth, as they did in the first few
11 years. So there was a precedent for that. And
12 the new administration did not want to
13 interpret it, the confluence of regulations
14 here at the state level in a different way, and
15 now we have to carry it so --

16 CHAIRMAN CROSBY: For anybody who's
17 watching, this is a -- there's an item of
18 \$1.6 million, which is a, quote, overhead
19 assessment that the state, through The Office
20 of Administration and Finance, doesn't even
21 assess on us. It just scoops it out of our
22 money. We put money into -- into the state's
23 coiffeurs where it gets held for us and the
24 state simply takes it.

1 We don't happen to agree that that
2 is fair or right, or justifiable but -- and
3 we've made that case in writing and orally to
4 the various people at administration and
5 finance, including the secretary. And we will
6 continue to support our licensees, as they
7 continue to try to get back, what,
8 1.6 million, which, as best I understand, is
9 simply an extra tax, which is not authorized
10 under law. So that's the 1.6 million that
11 Commissioner Zuniga is talking about.

12 COMMISSIONER ZUNIGA: And -- and with
13 all of that, we're still, kind of, at a lower
14 level than we were before. And that, as I
15 mentioned last time, means that there's a lot
16 of focus in building here, the capabilities.
17 You know, a lot of -- a lot of assumptions
18 about work that will be done by existing staff,
19 like the vast majority of it, still in
20 anticipation of a number of things that we
21 would have to be ready for, when the other
22 Category 1 open. I had prepared a comparative
23 chart, if people wanted to talk about that.

24 CHAIRMAN CROSBY: I would be

1 interested in just --

2 MR. LENNON: Do you want to take a
3 vote on this first, or do you want to do the
4 comparative chart?

5 CHAIRMAN CROSBY: Let's do the
6 chart -- let's talk about the comparative
7 charge. Just synthesize, what was the net of
8 that? You compared us to three other agencies
9 to sort of -- agencies across the country are
10 billed and funded in different ways.

11 For example, you've heard us talk
12 about the Attorney General's office. That is
13 something that we assess for, so some people
14 look at it as if it were in our budget. Other
15 states, other jurisdictions, the AD -- the
16 money that the Attorney General's Office has
17 to spend on behalf of the casinos is outside
18 the Commission budget.

19 So there's discrepancies like that
20 throughout all these budgets. Makes it hard
21 to compare the -- our Commission's budget to
22 other Commission's budget to get us, sort of,
23 a common sense of whether it's appropriate or
24 not. And Commissioner Zuniga did a really

1 detailed analysis, but I couldn't quite get a
2 takeaway of, sort of, the bottom line what you
3 did.

4 COMMISSIONER ZUNIGA: I'm going to
5 argue that you did, because that's -- that's
6 one of the -- the biggest point about a chart
7 like this is that it's very hard to compare
8 apples to apples. We can do it. And we've
9 attempted to do this. And, by the way, this is
10 a chart that the finance team here had prepared
11 in prior years, so I really took away their
12 format and updated some of the numbers
13 because -- and many of them were still the
14 case.

15 Another -- another big point is,
16 even when we do, when we try to compare them
17 to relevant jurisdictions because, for
18 example, it would very hard, or unfair, I
19 would argue, to compare to Nevada, because
20 Nevada is entirely -- entirely different.
21 Their approach is very different. The number
22 of operators is substantially different.

23 When we compare certain items as a
24 whole, as a part of a discretionary budget, at

1 like topic like responsible gaming, it's
2 really quite similar, I would argue. And
3 they, you know, states value certain things
4 differently and apportion them in different
5 agencies, within state police, or within a
6 commission, or within lottery agents --
7 agency, et cetera. And even when we account
8 for those differences, the overall is quite
9 similar.

10 The big difference still at the very
11 high level for us, is that we are operating in
12 this unique time in which there's only one
13 operator, the Category 2, there's a
14 construction and development of two or more
15 operators. And if we were to take a ratio of
16 regulatory costs to gaming revenues or gaming
17 positions, it would be really unfair to take
18 our 1,250 gaming positions or 160 million in
19 gaming revenues, those regulations become
20 really out of whack.

21 When you do take the revenues that
22 are expected, in other words, on a steady
23 state, we will be right on line with very
24 prospectable peer agencies that we've

1 developed relationships and -- with, and our
2 costs are right in line with what others do.

3 I could gets into the details.
4 Again, Maryland assesses responsible gaming in
5 a different way than we do. They're very
6 comparable, in the end. The tax -- the taxes
7 are substantially different than in -- in one
8 jurisdiction from another. For example,
9 Maryland taxes 67 percent of slots revenue
10 that goes to the state. Whereas, ours is 25
11 percent. That's a substantial difference.

12 So what I attempted to do is get to
13 a ratio that is regulatory costs divided by
14 the revenue that goes back to operators,
15 because if you take the revenues that goes
16 back to operators, in other words, the
17 difference between all the revenue that is
18 generated, minus all the tax that is left,
19 then you get the notion of what it really
20 costs in terms of profit, those regulatory
21 costs to an operator. And when you take that
22 for us, we happen to be on the very low end of
23 other states, like Michigan and Maryland --
24 Pennsylvania and Maryland, I'm sorry, which is

1 the number that appears at the very bottom of
2 the -- of the chart, with the greatest caveat
3 that I already mentioned, which is, I'm taking
4 the projected gaming revenues, not the ones
5 that we currently have. And that is -- at the
6 bottom of the chart, there's a cost of
7 regulation as a percent of revenues generated
8 by other agencies. And I'm sorry for the
9 very, very newly small font for the audience,
10 or even my fellow commissioners, but I tried
11 to put in as succinct form as I could, some of
12 these numbers. I don't know if you can see,
13 Mr. Chairman, the 1.94.

14 CHAIRMAN CROSBY: Yep.

15 COMMISSIONER ZUNIGA: Versus places
16 like Michigan -- I'm sorry, like Maryland,
17 which is a 3.47. And I might mention, you
18 know, Maryland is an -- it's an important case
19 as is Pennsylvania, because both -- both of
20 those states have our current licensees
21 operating in them. MGM is currently about to
22 open National Harbor in Maryland. It's an
23 investment that's larger than what's in
24 Springfield. And I say, you know, it's a good

1 comparison, as is Pennsylvania, where Penn also
2 operates.

3 COMMISSIONER CAMERON: I just want to
4 be careful that it is an apples to apples. I
5 think it's very difficult to do this. And I
6 give you credit for really trying to make sense
7 of it, but I don't want others to think we're
8 calling them expensive, or we're trying to
9 compare ourselves in a way that -- because I
10 just think it is hard to -- to really determine
11 apples to apples so --

12 COMMISSIONER ZUNIGA: Well, on that
13 note, just the point that we made, which is
14 there's a lot of costs that we don't control,
15 it's the same case for other states.

16 COMMISSIONER CAMERON: Right.

17 COMMISSIONER ZUNIGA: So I'm -- it's
18 just a ratio as a guideline. I don't -- I
19 don't mean to make a judgment call about
20 somebody being expensive or not. Perhaps, I
21 mentioned the expensiveness of their gaming
22 revenue, but that's by law in Maryland, as is
23 ours here. It should be noted that -- that,
24 usually, in the gaming industry, as it was the

1 case here, is tied to a minimal investment,
2 which still makes it a profitable operation
3 from an operation standpoint.

4 MR. LENNON: Again, just to -- just
5 touch on Commissioner Cameron's point, in the
6 past we didn't -- we talked about coming up to
7 ratios of trying to -- and we use this more as
8 a thermometer to say, did we see anything
9 that's sticking way out with how we're doing
10 it? And what we saw from the past was, you
11 know, our payroll was drastically lower than
12 other commissions from our growing point, and
13 our contractual costs were drastically higher
14 than other commissions. So what we tried to do
15 with it is to continue to drive down our
16 contract costs and rely more on direct payroll,
17 direct employee cost. But this is mainly just
18 a thermometer. You know, stick your finger up
19 in the wind. What's the temperature feel like?
20 How we doing?

21 And what it really demonstrates is
22 the difficulty. And, you know, it's something
23 we -- I guess that's why we put out that memo
24 of the 18.5 or \$18.6 million. The difficulty

1 when someone comes to us and says, you cost
2 this much, other places cost this much. Well,
3 it depends. You can pick from any piece of
4 the -- of each statute and say, oh, this is
5 part of regulatory, or this isn't.

6 So I think that's -- I think that's
7 a key point that this chart shows. You really
8 can't -- unless you have two of the same laws,
9 you can't judge ourselves.

10 COMMISSIONER ZUNIGA: But that
11 doesn't mean there's no comparison.

12 MR. LENNON: No.

13 COMMISSIONER ZUNIGA: Right? That
14 doesn't mean there's no thermometer or -- that
15 means that, you know, understanding who does
16 what and how is always a good measure of
17 benchmarking. And -- and that's it. I mean,
18 and the main -- mainly takeaway here for me is
19 the one that I said at the very beginning.
20 We're not far off from others, even after you
21 account that we are in this very unique time of
22 dealing with an agency, while two operators,
23 two major operators are not yet open. And we
24 have to keep, you know, a lot of

1 infrastructure, a lot of fixed costs here.

2 COMMISSIONER MACDONALD: I'd just
3 like to say that I -- I find -- I've found the
4 effort that you -- that you made in preparing
5 this to be -- to be very helpful. And against
6 the backdrop of the caveats that you've made
7 very explicit, that -- of the apples to apples
8 and the difficulty of making apples to apple
9 comparison in mind, that this is a -- this
10 is -- can be seen as a work-in-progress. That,
11 from year to year, we may, just by having
12 prepared it, it invites comments from the other
13 jurisdictions. And in my -- in my view it's
14 worth -- it's worth the effort.

15 And it's also gratifying to see that
16 the ratios that you've calculated here, at the
17 very least show us in the -- well within the
18 ballpark of other jurisdictions. And just
19 repeating the other jurisdictions, very
20 significant, it's Michigan Maryland and
21 Pennsylvania. You know, substantial,
22 industrial states. And I find it very -- I
23 find it very helpful.

24 I do have one just question of

1 clarification, and I should have asked you
2 this beforehand. The ratio -- the line item
3 of cost of regulating as a percent of revenue
4 generated by operators and -- versus the cost
5 of regulating as a percentage and gross gaming
6 revenue. I understand the second, the cost of
7 regulating as a percent of gross gaming
8 revenue, but what is the -- the earlier
9 number? Is that -- what does -- what's the
10 difference between one and the other?

11 COMMISSIONER ZUNIGA: The taxes. The
12 taxes and the GRs. So if you take four lines
13 above any one of the charts, the taxes -- the
14 tax revenue generated is typically what gets
15 back -- what goes back to the state. If that
16 number is subtracted or --

17 COMMISSIONER MACDONALD: So you take
18 the gross gaming revenue, and then you
19 subtract --

20 COMMISSIONER ZUNIGA: Subtract the
21 taxes.

22 COMMISSIONER MACDONALD: -- the
23 contribution to the state?

24 COMMISSIONER ZUNIGA: Yes. Then

1 you're left with all of the money that
2 operators have to pay themselves back. From
3 that they have to pay salary, they have to pay,
4 you know, their leases or whatever they have to
5 do, return on investment interest cost, et
6 cetera. So that figure, I would argue, is more
7 relevant to compare as a ratio, because that
8 gets to the profitability of the operators.
9 The cost of regulation as a -- as a ratio to
10 the profitability. Because that is, I would
11 argue a better measure of -- you know the
12 argument that you're costing us a lot of money.

13 COMMISSIONER MACDONALD: And on a
14 further note, I mean, this is part of our
15 packet. This has been distributed to the -- to
16 the public. And it's very important that they
17 understand that this is something which they
18 can -- they can take account of.

19 And just on that point, while I've
20 got the public forum here, the cost of -- the
21 percent as to the metric of the cost of
22 regulating this percent of revenue generated
23 by operators, in the Commonwealth, namely us,
24 that's 2.57 percent. In Michigan, that number

1 is 2.77 percent. In Pennsylvania, it's
2 4.4 percent. And in Maryland, it's
3 7.04 percent. That's impressive.

4 CHAIRMAN CROSBY: Other budget
5 issues?

6 COMMISSIONER ZUNIGA: I want to
7 mention just one thing. I was reminded of --
8 our licenses themselves have, at times, trouble
9 getting to the apples and apples. So in some
10 of the discussions that -- that we've had with
11 them as part of budget process, they do their
12 own analysis, they do their own comparison to
13 other jurisdictions, they take a number from an
14 annual report and what have you, and further --
15 you know, and present it to us as, you know,
16 here you are compared to Maryland, it's a
17 significant difference.

18 For the research, for example, just
19 on that number, proved to me, as I'm
20 reflecting here, that, that number did not
21 tell the whole story. That number is the
22 assessment on licensees. But for budgetary
23 purposes, Maryland also gets an appropriation
24 from -- from the state. So their total budget

1 is not what -- it's not reflected just in the
2 assessment. It should be counted as their
3 total budget, which includes an appropriation.

4 So those -- even the licensees get
5 some of these numbers wrong because it's very
6 difficult to compare one jurisdiction to the
7 next, which is why I think this exercise is
8 very important to continue going as we go.

9 COMMISSIONER STEBBINS: I agree.

10 THE COURT REPORTER: Anything else on
11 budgets? Commissioner Zuniga?

12 COMMISSIONER ZUNIGA: Sure. Then I
13 would move that the Commission approve the
14 fiscal year '17 budget, as presented here in
15 the packet, for a assessment to licensees, as
16 we've done according to our procedures.

17 CHAIRMAN CROSBY: Second?

18 COMMISSIONER MACDONALD: Second.

19 CHAIRMAN CROSBY: Further discussion?
20 All in favor?

21 MR. MACDONALD: Aye.

22 COMMISSIONER STEBBINS: Aye.

23 COMMISSIONER CAMERON: Aye.

24 COMMISSIONER ZUNIGA: Aye.

1 CHAIRMAN CROSBY: Opposed? The ayes
2 have it unanimously. Thank you, Derek and
3 team.

4 MR. LENNON: Thank you.

5 CHAIRMAN CROSBY: Now, we'll move on
6 to Item No. 6, the legal division. General
7 Counselor, Blue.

8 MS. BLUE: Good afternoon,
9 Commissioners. Item 8 on your list is -- you
10 have, in your packet, a request to contribute
11 to the Commission, an antique slot machine.
12 And looking at our statute, pursuant to
13 Section 4 of 23K, Subsection 6, the Commission
14 can accept contributions of money, property and
15 other items of value, so long as they are held,
16 used and applied for the Commission's purposes.
17 So it is up to the Commission to discuss this
18 offer, and to determine whether you are going
19 to accept it pursuant to the statute.

20 CHAIRMAN CROSBY: Thank you.

21 COMMISSIONER CAMERON: So what was
22 the law again, that -- for the Commission's
23 use?

24 MS. BLUE: Well, the Commission can

1 accept contributions of money or property on a
2 number of matters, So long as they become the
3 property of the Commission, and the property is
4 held, used and applied for the Commission's
5 purpose.

6 COMMISSIONER CAMERON: Purpose.

7 MS. BLUE: That's what the statute
8 requires.

9 CHAIRMAN CROSBY: And this was
10 offered to the Commission through me. And it
11 just -- you can see it on the screen. It just
12 seemed like it would be kind of an interesting
13 addition to our front lobby or somewhere.
14 Just, sort of, representative of what we do.
15 It's kind of a fascinating comparison,
16 incredibly interesting to the current slots. I
17 thought it would be a great addition. I talked
18 to it with -- talked about it with
19 Director Driscoll. She agreed. And then
20 talked with General Counsel Blue about making
21 sure we can do it, and that's where we are
22 here.

23 COMMISSIONER MACDONALD: Would you
24 provide the nickels so that visitors here can

1 actually operate the one --

2 CHAIRMAN CROSBY: I don't know if it
3 works or not.

4 COMMISSIONER ZUNIGA: It says a
5 guaranteed payout.

6 COMMISSIONER MACDONALD: Notice the
7 jackpot is \$10.

8 COMMISSIONER STEBBINS: It's
9 interesting.

10 COMMISSIONER ZUNIGA: And there is no
11 appraised value on this, as far as we can tell,
12 right?

13 CHAIRMAN CROSBY: Oh, the woman who
14 offered it to us tried to sell it first. I
15 mean, she's -- her families -- her parents have
16 died and said her -- she's downsizing and she
17 said -- told me that she tried to sell it
18 first, and she probably could have gotten
19 something for it, but she'd rather give it
20 away.

21 MS. BLUE: There's no discussion of
22 value in the statute. It just assumes -- it
23 says something of value, but it doesn't put a
24 limit in the statute on what that value would

1 be.

2 COMMISSIONER ZUNIGA: So whether this
3 is worth nothing or a little bit, it doesn't
4 matter?

5 MS. BLUE: That's right.

6 CHAIRMAN CROSBY: Or even a lot, for
7 that matter.

8 MR. BEDROSIAN: I mean, so we could
9 take a different option. Obviously, lobby is
10 one, conference room is another. In our lab to
11 demonstrate the difference of what currently is
12 functioning versus earlier eras. You know, so
13 there are -- there are certainly, options if
14 the Commission -- obviously, it will stay with
15 the Commission.

16 CHAIRMAN CROSBY: Right.

17 COMMISSIONER STEBBINS: I think it's
18 kind of cool. You know, it certainly -- we've
19 had so many discussions on the evolution of the
20 gaming technology, but, you know, this is
21 certainly a prime example of how far we've
22 come. Let's be clear and send a message to
23 everybody that, because they can't get rid of
24 it on eBay, that we're going to take it from

1 them but --

2 CHAIRMAN CROSBY: You're not inviting
3 other junk to be dropped to our offices?

4 COMMISSIONER STEBBINS: Let's be
5 selective.

6 COMMISSIONER ZUNIGA: Yes. We have
7 to agree on it. I think it's great. I think
8 it could look great on a public space, if we
9 had it somewhere, or wherever we could display
10 it.

11 CHAIRMAN CROSBY: Yep. Okay. There
12 is a motion.

13 COMMISSIONER STEBBINS: Mr. Chair, I
14 move, pursuant to Section 4, Subsection 60,
15 Chapter 23K, that the commission accept the
16 contribution of an antique slot machine. Such
17 antique slot machine to become property of the
18 Commission, and held, used and applied for the
19 Commission's purposes.

20 CHAIRMAN CROSBY: Second?

21 COMMISSIONER ZUNIGA: Second.

22 CHAIRMAN CROSBY: Further discussion?
23 All in favor?

24 MR. MACDONALD: Aye.

1 COMMISSIONER STEBBINS: Aye.

2 COMMISSIONER CAMERON: Aye.

3 COMMISSIONER ZUNIGA: Aye.

4 CHAIRMAN CROSBY: Opposed? The ayes
5 have it unanimously. Can we Tweet that out,
6 Director Driscoll, the picture?

7 MR. BEDROSIAN: Black Beauty has
8 arrived.

9 CHAIRMAN CROSBY: Pardon?

10 MR. BEDROSIAN: Black Beauty has
11 arrived.

12 CHAIRMAN CROSBY: Black Beauty has
13 arrived, right.

14 COMMISSIONER STEBBINS: Plainridge's
15 new software.

16 CHAIRMAN CROSBY: The Commission is
17 going uptown. Okay.

18 MS. BLUE: As Executive Director
19 Bedrosian has said this morning, we took Item B
20 off of our agenda. We will take that up at
21 another date. The remaining two items, C and
22 D, these are the amended small business impact
23 statements for racing regulations.

24 These are regulations the Commission

1 previously passed by emergency. They deal
2 with changes in medication levels with -- for
3 both thoroughbred and harness horseracing, and
4 they also deal with the new helmet rules.
5 We're bringing our helmets up to -- up to meet
6 the national standards. So if you approve the
7 amended small business impact statements and
8 the final drafts that are attached, and we
9 will finish the promulgation process for these
10 regulations.

11 COMMISSIONER CAMERON: Motion,
12 Mr. Chair?

13 CHAIRMAN CROSBY: Sure.

14 COMMISSIONER CAMERON: So I move that
15 the Commission approve the amended small
16 business impact statement and final version,
17 reg. 205 CMR 3.115, 3.295A, 3, and 3.298 and 6,
18 harness horseracing, as included in the
19 package, and authorize the staff to take all
20 necessary steps to file the regulation with the
21 secretary of the Commonwealth and complete the
22 regulation promulgation process.

23 COMMISSIONER STEBBINS: Second.

24 CHAIRMAN CROSBY: No debate? All in

1 favor?

2 MR. MACDONALD: Aye.

3 COMMISSIONER STEBBINS: Aye.

4 COMMISSIONER CAMERON: Aye.

5 COMMISSIONER ZUNIGA: Aye.

6 CHAIRMAN CROSBY: Opposed? The ayes
7 have it unanimously.

8 COMMISSIONER CAMERON: Second motion?

9 CHAIRMAN CROSBY: Please.

10 COMMISSIONER CAMERON: Mr. Chairman,
11 I move that the Commission approve the amended
12 small business impact statement and final
13 version of 205 CMR 4.116C7, and 4.52521, and
14 4.528B, rules of horseracing, as included in
15 the packet, and authorize the staff to take all
16 steps necessary to file the regulation with the
17 secretary of the Commonwealth, and complete the
18 regulation promulgation process.

19 COMMISSIONER STEBBINS: Second.

20 CHAIRMAN CROSBY: Further discussion?
21 All in favor?

22 MR. MACDONALD: Aye.

23 COMMISSIONER STEBBINS: Aye.

24 COMMISSIONER CAMERON: Aye.

1 COMMISSIONER ZUNIGA: Aye.

2 CHAIRMAN CROSBY: Opposed? The ayes
3 have it unanimously. Thank you.

4 MS. BLUE: That does it for the legal
5 department today. Thank you.

6 CHAIRMAN CROSBY: All right. We are
7 moving on to Item No. 7, Ombudsman Ziemba.
8 This says a two-hour -- two-hour --

9 COMMISSIONER ZUNIGA: No, two
10 o'clock.

11 CHAIRMAN CROSBY: Oh, two o'clock.
12 Oh, yes, okay. Thank you. I was about to have
13 a -- suggest a break.

14 MR. ZIEMBA: Despite my past history,
15 I'll be much shorter.

16 CHAIRMAN CROSBY: I was going to send
17 out for dinner.

18 MR. ZIEMBA: Thank you,
19 Commissioners. Commissioners, I'm pleased to
20 welcome Joe Delaney to his first presentation
21 to the Commission. Joe joins us as the
22 Commission's construction project oversight
23 manager. He joined us at the beginning of
24 April.

1 Prior to Joe's arrival here, Joe
2 worked at the Massachusetts Department of
3 Environmental Protection for 10 years, whereas
4 director -- deputy director of municipal
5 services, Joe was part of the management team
6 that oversaw a \$400 million per year program
7 of financial assistance to Massachusetts
8 cities and towns for waste-water and drink
9 water-related infrastructure projects.

10 Joe managed the project development
11 construction, inspection and disbursement of
12 state funding for over \$3 billion in
13 infrastructure improvements since 2006.

14 Joe is a registered professional
15 engineer with a degree in civil engineering.
16 With this background, he previously was a town
17 engineer, assistant director of public works
18 for the town of Reading, where he managed
19 significant capital projects, and had planning
20 design, permitting, bidding and inspection
21 responsibilities.

22 Prior to that, Joe spent about a
23 decade as a private consultant, an engineering
24 consultant, construction and engineering

1 consultant, focusing on environmental
2 compliance and construction quality.

3 We're extremely pleased that Joe
4 agreed to join us here at the Commission with
5 decades-worth of very relevant experience.
6 Joe will give us some detail about his
7 responsibilities as construction project
8 oversight manager, and how he intends to do
9 his very difficulty job.

10 But before he begins, I just would
11 like to take a moment to once again thank the
12 private consultant teams who have helped build
13 our oversight function and have been an
14 intricate part of the development of the
15 Commission itself.

16 PMA Consultants and Pinck and Co.
17 have truly provided excellent advice and
18 service as we have transitioned and are
19 transitioning into our new roles. Their
20 assistance helped the Commission get to this
21 point where we could move to internalize our
22 project oversight management activities.

23 I personally thank Jennifer Pinck,
24 Nancy Stack, Mike Fitzgerald, Dane Wigfall,

1 Melissa Martinez, Margaret Ward, and all of
2 the past and present employees of -- at
3 Pinck & Co. I also thank Steve Rusteika,
4 Chad Crittenden, Angel Arvelo, and
5 Jason Lawson from PMA Consultants for all of
6 their excellent service. I thank them all.
7 And especially Jason and Mike for all the
8 hours they've spent helping us to steer
9 through this process, and all of their
10 dedication and thoughtfulness. And with that
11 is an introduction. I turn it over to Joe.

12 MR. DELANEY: Thank you, Mr. Chairman
13 and Commissioners. And before I start my
14 presentation, I'd like to echo what John just
15 said, especially with -- with Pinck and PMA,
16 with Jason Lawson and Mike Fitzgerald,
17 particularly, who have been working with me
18 very closely for the 2-1/2 months that I've
19 been here, to get me up to speed on this
20 project. They've been absolutely invaluable in
21 doing that, and, you know, they've given me
22 every courtesy and very professional along the
23 way, so I truly am thankful to them.

24 The presentation that I have for

1 you, I tried to narrow things down to a
2 one-pager to tell you what it is that I do,
3 and it's probably not quite possible to do
4 that. But, you know, to boil this all down,
5 my role is to be the eyes and ears of the
6 Commission on site for the duration of the
7 construction, to ensure that all of the many
8 project requirements are being met, and that
9 the projects are being delivered on time, and
10 that, that is being communicated to the
11 commission staff and commissioners so that you
12 know, in almost real time, what's happening on
13 these projects.

14 Now, on your presentation, I -- I
15 identified 11 particular items. The first
16 eight of them relate directly to the Wynn and
17 MGM casinos, and I want to talk a little bit
18 about those duties. I don't think I need to
19 go through each one. There's a couple that I
20 really wanted to focus on as being -- well,
21 they're all important. As being, perhaps, a
22 bit more important to the overall success of
23 this position.

24 And the first one I want to talk

1 about was schedule. There's a lot of shared
2 interest here on the schedule. From the
3 gaming commission to the licensees, to the
4 host and surrounding communities, and to the
5 Commonwealth itself, everyone's key interest
6 is making sure that these project open on
7 time. And I will be spending a good portion
8 of my time monitoring the schedules of our
9 licensees. We get updates every month from
10 our licensees, and we're going to drill down
11 into those to make sure that things are
12 staying on target. If they're not staying on
13 target, finding out why. Finding out what the
14 recovery plans might be from our licensees.
15 You know, I think it's our goal to try to keep
16 the pressure on to make sure these things get
17 done.

18 And I think with that said, given
19 the large amount of private investment that
20 the licensees are putting up on this, I don't
21 think anyone's going to put any more pressure
22 on them than they will themselves, but I --
23 it's -- it's a big role of ours, to make sure
24 that these projects are delivered on time.

1 The second item I'd like to focus on
2 is the-- are the -- are project conditions and
3 commitments.

4 CHAIRMAN CROSBY: Joe, excuse me, let
5 me just --

6 MR. DELANEY: Sure.

7 CHAIRMAN CROSBY: You said, "A big
8 part of our role is to make sure these projects
9 open on time." How do we control that? How do
10 you actually have an impact? You might be able
11 to detect, if it's not going to open on time,
12 but how do you make sure that we make sure they
13 open on time?

14 MR. DELANEY: Well, I think part of
15 it is just that, the constant dialogue that
16 we're having with them. I mean, if they're
17 truly behind, if they're having a long lead
18 item that's going to be delayed, it's going to
19 be -- delay the project, is there anything that
20 I can particularly do about that? I don't
21 think so. You know, if they need elevators
22 manufactured and they can't be manufactured
23 when they need them, they'll be a delay in the
24 project.

1 But I think the idea is that -- that
2 there are -- there are ways to recover, when
3 things start to fall behind. And I -- I want
4 to make sure that our licensees, and that
5 their contractors, are thinking about all of
6 these ways that they can do that.

7 CHAIRMAN CROSBY: Okay. Yep. And
8 anything that can be done marginally is great.
9 But I don't think -- I don't think it's -- I'm
10 not sure it's constructive to suggest that --
11 that we control whether these things are going
12 to be open on time or not. I'm not sure that's
13 a -- we certainly want to, and we're going to
14 work on them as much as we can. But sad to
15 say, as we've seen from any number of lawsuits
16 and internal budgets problems and so forth and
17 so on, you know, the big variables probably are
18 not within our control. So -- and I don't want
19 us to suggest to the public something to the
20 contrary.

21 MR. DELANEY: Absolutely. So the
22 second item that I wanted to talk about was the
23 project conditions and commitments. The day I
24 started on the job here and started looking at

1 all of the licenses, and the host community
2 agreements and surrounding community
3 agreements, and permits, and all of these
4 things, I realized that, you know, these folks
5 are up against, maybe, hundreds of conditions
6 that are on -- on their projects. And, in my
7 initial discussions with them, I discovered
8 that Wynn has over a thousand specific
9 commitments on their projects, and MGM has over
10 700. And each of them -- each of them are now
11 developing databases of all of these
12 commitments that they have, and -- and I expect
13 that one of the large parts of my role will be
14 working very closely with them throughout the
15 course of the project to make sure that these
16 things are closed out appropriately, and that
17 we're not there at the 11th hour trying to
18 scramble to close out all these requirements.
19 The intention is to identify those things that
20 we can close out early in the process, have
21 that done, and I can verify that proper
22 documents are in place and so on, to get that
23 all in place.

24 CHAIRMAN CROSBY: So will you have

1 access to their database, or are you going to
2 have your own database or --

3 MR. DELANEY: I will have access to
4 their database. I'm going to, of course,
5 review permits and other things, and, kind of,
6 spot check that to make sure I'm comfortable
7 they've got -- they've sort of captured all of
8 those commitments. But, in fact, each of the
9 licensees will be setting me up on their
10 facilities with a computer setup, where I will
11 be able to access that, among many other
12 records, to -- to -- just to monitor what
13 they're -- what they're doing.

14 CHAIRMAN CROSBY: This is one where
15 we can play a really huge role. And it just --
16 you know, through no fault, other than just
17 complexity, it's easy to drop the ball on some
18 of these things. And, you know, I'm sure they
19 have systems in place, but we even know from
20 ourselves, you know, we have a number of
21 commitments on our statute and it's hard for us
22 to remember, and they're not 700 or a thousand.
23 So this is a place where I think you can be
24 really tremendous value added.

1 MR. DELANEY: Yes. And the third
2 element I'd like to talk about a little bit is
3 the workforce and supplier diversity. I'll be
4 assisting Jill Griffin in her efforts with
5 workforce and supplier diversity. Certainly,
6 not supplanting anything that she does, but I
7 will have access to all of the records from the
8 project site. Things like certified payrolls,
9 and all of the things that determine the
10 supplier diversity, the workforce diversity
11 goals. And I intend to sit down -- this hasn't
12 happened yet, but I intend to sit down with
13 each of the licensees to, sort of, understand
14 their process on how they aggregate all of this
15 data up into the reports that we get. And I'll
16 be doing some spot checks here and there on
17 certified payrolls and things of that nature
18 to -- just to verify that those goals are being
19 met.

20 The last three bullets are, you
21 know, not directly related to the Wynn and MGM
22 casinos. We do have certain responsibilities
23 at the First Light casino that are outlined
24 and are compact to oversee those project

1 review design plans and things of that nature.

2 I will certainly be involved with that.

3 The -- each of our licensees is
4 required to put aside a portion of their
5 revenues for long-term capital improvements.
6 Now, of course, once a facility opens, we're
7 hoping that they don't need a whole lot of
8 capital improvements right away. But they do
9 need to plan on what these funds are going to
10 be used for down the road, and I expect that
11 will be a portion of what it is that I'm
12 doing.

13 And then, just since I've gotten
14 here, there's been a number of other duties
15 that I've been assigned. I'm -- I'm looking
16 at the long-term monitoring, traffic
17 monitoring, the look-back studies. Plainridge
18 is doing one of those right now. Also looking
19 at the community mitigation fund applications
20 with John and our team here, to make sure that
21 those are appropriate. And also monitoring
22 the work of the Lower Mystic Regional Working
23 Group, and there will be things of that nature
24 as well.

1 COMMISSIONER MACDONALD: Excuse me,
2 Joe, on that one, what is the status of the
3 Lower Mystic Regional Working Group?

4 MR. DELANEY: Well, they're meeting
5 pretty regularly and -- or very regularly, and
6 they're, sort of, honing the scope of work at
7 this point, of the -- you know, the limit of
8 all the intersections that they're going to
9 look at. They're making progress. It's going
10 slow but sure at this point.

11 COMMISSIONER STEBBINS: Joe, one of
12 the things you just talked about is evaluating
13 the community mitigation funding applications.

14 For where those mitigation funds are
15 being applied to infrastructure, improvements
16 off site, would you see yourself, obviously
17 not only looking at the application, but doing
18 some sort of review or monitoring of that
19 improvement project, as they kind of move
20 shovels?

21 MR. DELANEY: Yes. I think -- well,
22 initially, most of the work that's being done
23 is planning. And I expect that I'll be looking
24 at the scopes of work when they come in, if

1 they're doing traffic studies and things of
2 that nature.

3 Further down the road, when -- when
4 the licensees have opened their facilities and
5 we're generating more funds, where we're doing
6 actual construction, I would expect that I
7 will be involved with the design -- you know,
8 reviewing some of the designs, being there out
9 in the field verifying construction and that
10 kind of thing, just as I'm doing now with the
11 offsite improvements for the licensees.

12 COMMISSIONER STEBBINS: One of the
13 things, Mr. Chair, that I mentioned --
14 mentioned to -- mentioned to John, and I asked
15 Catherine to look at, as you know, when we get
16 requests for race course capital improvement
17 funds, if there's money set aside for an
18 outside architect or an engineer, they kind of
19 go by and verify if somebody bought a tractor
20 or not. It's not a significant cost, but a
21 there's a cost associated with that. So I
22 asked Catherine to see if we can look into
23 whether Joe could assume those difficult
24 responsibilities, on top of the other things

1 he's already doing.

2 MS. BLUE: I asked Attorney Torrisi
3 in our group to take a look at that.

4 Unfortunately, the racing statute requires an
5 independent, third-party to review it. And I
6 will agree it's not the most efficient way to
7 do it, but Joe being a member of our staff
8 would not be able to take that role over.

9 COMMISSIONER STEBBINS: More legacy
10 is --

11 COMMISSIONER ZUNIGA: Yeah. I love
12 the idea.

13 MR. DELANEY: But I think now, those
14 items that I presented there, those are the,
15 sort of, the nuts and bolts of what I'm doing.
16 But I think equally as important, or perhaps
17 more important than that is how it's going to
18 get actually done, you know, in the field.

19 And I think the big part of that is
20 the real importance comes through the working
21 relationships that I'm developing, both
22 internally and externally. With the licensees
23 and the contractors, right now I have weekly
24 meetings set up with Chris Gordon at Wynn, and

1 Brian Packer at MGM. And those have been
2 going great. They've been really helpful at
3 getting me information that I need to -- right
4 now. to help me get up to speed, but also to
5 monitor exactly where the construction is. I
6 do weekly site walks, generally, with the
7 contractors, so they're letting me know,
8 really, what's happening on a day-to-day basis
9 when I'm out there. And I think, you know,
10 those working relationship with those people
11 are going to help me a whole lot in letting me
12 get to the information that I need to be able
13 to keep you all informed of what's happening
14 out there.

15 We've also done outreach to the host
16 communities. We've met with the staff in
17 Springfield, the staff in Everett. You know,
18 the contractors have weekly or biweekly
19 meetings with the cities and their building
20 inspectors and other people. I sit in on
21 those once in awhile, just to make sure that
22 that -- those relationships are working well
23 between them.

24 And, also, there's some, you know,

1 relationship with MassDOT, MassDEP, some of
2 the regulators, on -- specifically on the
3 offsite improvements, the traffic improvements
4 that are being done at both Wynn and MGM. We
5 also have, you know, the Chapter 91 licenses
6 and other things with Wynn, with MassDEP. And
7 also, there's the -- just the local traffic
8 engineering departments and so on that need to
9 be coordinated with.

10 And we've also offered, to all of
11 the parties involved, to -- to, you know, act
12 as mediator, if necessary, should problems
13 arise. I think that's some value that we can
14 add. If -- if things aren't going smoothly,
15 to try to help smooth out those wrinkles.
16 There aren't any problems right now, but if
17 that should rise, that offer always stands for
18 them.

19 And then, of course, the other piece
20 is the internal relationships. We have a
21 project management team meeting, biweekly team
22 meeting that Commissioner Zuniga sits on with
23 us, and John and Bruce Band, and Jill Griffin.
24 And that keeps staff informed of what's going

1 on. And I think, in general, just the gaming
2 commission staff that we have, I think we have
3 a great team here.

4 I've joked around with folks that
5 I'm an army of one, but I'm not really an army
6 of one. You know, I think between the
7 ombudsman's office, the executive director and
8 general counsel, there's a pretty deep bench
9 here that I think we can deal effectively with
10 problems that -- that may arise as they come.
11 Thank you very much. I'd be happy to answer
12 any questions.

13 COMMISSIONER CAMERON: Sounds like a
14 busy couple of months. Just overall, it sounds
15 like you're building the relationships you need
16 to build. And it actually sounds like you're
17 enjoying your job too; is that accurate?

18 MR. DELANEY: Yeah, I would say so.
19 It's -- it's been a challenge, I mean, getting
20 up to speed on these projects. They're huge
21 projects. And the folks that I'm working with
22 on the projects are very busy people, but
23 they've gone out of their way to help me get up
24 to speed. And I think -- you know, I think it

1 will be a good working relationship.

2 But, you know, I've made it clear
3 to -- to everyone that I want to operate under
4 the no-surprises rule. If there's anything --
5 if there's anything that I need to know that's
6 going on, on these projects that any of the
7 Commission needs to be informed, again, you
8 know, no surprises.

9 COMMISSIONER CAMERON: And you
10 haven't had any yet?

11 MR. DELANEY: None yet.

12 COMMISSIONER CAMERON: All right.
13 Thank you.

14 COMMISSIONER ZUNIGA: You know, you
15 touched on the a couple of these, on the really
16 nice broad categories that you outlined, but
17 I -- I would emphasize one role that we've seen
18 already come to the -- to the ombudsman's
19 office, and you are clearly an extension of
20 that in the construction period.

21 And that is, lack of information at
22 times, misunderstanding that by one of the
23 multiple stakeholders, many of them external
24 to our licensees, these agreements with

1 interpretations of our host and surrounding
2 communities, have a tendency to come to the
3 commission eventually. As in, what would you
4 guys say, from the city, from the surrounding
5 community, from the licensee. And just having
6 the ability to have been on the ground, those
7 eyes and ears, I suspect -- I know it's going
8 to be invaluable to us to be able to draw on
9 background. What's -- what's behind this
10 request or, you know, or whatever it may be.
11 An opinion or a hearing, or a -- or whatever
12 the case may -- may entail, which was a big
13 part of the -- of why we had, initially, PMA.
14 It was also a little organic because Penn, at
15 the time, was, you know, really off to the
16 races, even while we were in the midst of a
17 referendum, and had to draw on their expertise
18 to kind of figure out this program and what
19 this oversight management role would be.

20 So I think it's -- it's great that,
21 now that we have brought that expertise in
22 house, a little bit of applaud into the prior
23 discussion on the budget, by phasing out, like
24 we effectively doing by June 30th. Both Pinck

1 and PMA, there's a substantial cost
2 effectiveness, because we're bringing a
3 full-time employee with great expertise and
4 are willing to devote a lot of full-time to
5 this effort, whereas, you know, the
6 consultants were only part-time because they
7 have multiple people, et cetera.

8 So I think it's going to serve the
9 licensees well as well. As in, you know, one
10 anticipated event that can quickly -- where we
11 can quickly become informed about background
12 dynamics, et cetera, because that's going to
13 be important.

14 COMMISSIONER MACDONALD: Joe, what,
15 if anything, can you tell us about the status
16 of construction at the First Light casino?

17 MR. DELANEY: I can't tell you much,
18 at this point. I have been down to the site,
19 just drove around the sight a couple of times,
20 and there's clearing going on, some buildings
21 being torn down. But other than that, I can't
22 tell you much -- much more than that at this
23 point. I know the executive director has
24 reached out to them. But right now, that's

1 about all I can say.

2 CHAIRMAN CROSBY: To follow up on
3 Commissioner Zuniga's point, we -- we made the
4 decision to switch from the consultants to an
5 in-house person on the theory that we can do
6 similar work for less money, more efficiently.
7 Can you articulate what we're -- are we going
8 to lose something? Are we going to emphasize
9 differently? Is there going to be a difference
10 between the way -- what you've done, and what
11 -- what they were doing?

12 MR. DELANEY: I think, right now,
13 it's hard to say exactly. I think, further
14 down the road, when the projects are fully
15 under construction, the original proposals
16 probably add more hours on the job. I'm
17 splitting my time between two jobs, and we had,
18 essentially, full-time consultants for each
19 job.

20 So I guess that's going to have to
21 make me, sort of, focus my efforts on, you
22 know -- we first look at, kind of, the surface
23 layer of things and we say, all right, does
24 everything -- does everything look okay at

1 that level? And if we see areas where I'm not
2 real comfortable with that, I'll have to go
3 into more depth at those locations, and dig
4 down to some more -- you know, deeper into
5 some more records and other things, have some
6 more conversations to see if there's really a
7 problem in that area, you know, or not. And
8 if there is, then, we obviously need to try to
9 take steps to see how we can rectify that
10 problem.

11 So I think the consultants were
12 taking more of approach, let's just, kind of,
13 drill down at everything. Where I have to
14 take a -- more of a selective approach to say,
15 okay, are there some areas where we're not
16 getting that level of comfort, then we can
17 drill down in it, rather than just doing a
18 overall drill down into everything.

19 MR. BEDROSIAN: Mr. Chair, one of the
20 things I'd suggest is going to be different is,
21 when you have a consultant who is off site, not
22 part of your organization, in my experience, in
23 the limited time I saw Pinck and PMA, certainly
24 a great job, you tend to get a lot of reports,

1 and a lot of paper comes over your desk.
2 Versus, when Joe is here, my interaction with
3 him has been to pop in the office, you know,
4 what's going on? And you get that organic, you
5 know, I don't want to say more real time, that
6 we weren't in great communication with
7 consultants, but it's a different level of
8 communication, and it's a different dynamic.

9 CHAIRMAN CROSBY: Yep. Interesting.
10 Okay. Anything else? All set? I guess we
11 don't need a vote to accept that. Thank you.

12 COMMISSIONER CAMERON: Thank you.
13 Very interesting.

14 MR. ZIEMBA: Thank you, Joe. Next
15 item, Commissioners, I'm asking for your
16 consideration of reappointment of several
17 members to the local community mit --
18 mitigation advisory committees under the Gaming
19 Policy Advisory Committee.

20 Last year around this time, the
21 Commission appointed Colin Kelly, Kate King,
22 Ellen Petashnick and Rick Sullivan to serve as
23 Commission appointees to the local committees.
24 Their brief bios are included in my

1 memorandum. As you can see, they are very
2 well-qualified to provide the type of advice
3 to the Commission, and to local committees
4 that we've come to expect. I thank them for
5 their willingness to serve in this unpaid,
6 voluntary position that will be tremendously
7 valuable to the Commission.

8 In your memo, I've also described
9 the appointments to getting policy advisory
10 GPAC subcommittees that have, either a
11 commissioner, or a staff, member from the
12 commissioner -- from the Commission serve.
13 Last year, the Commission appointed
14 Commissioner Cameron to represent the
15 Commission on the public safety subcommittee,
16 Mark Vander Linden to serve on the addiction
17 subcommittee, and me to serve on the community
18 mitigation subcommittee. I also note that
19 Commissioner Crosby, by the statute, is a
20 member of GPAC itself.

21 While the representative to the
22 public safety subcommittee must be a
23 commissioner, the other two subcommittees
24 could be represented by a commissioner, the

1 executive director, or other staff member.
2 I'm pleased to answer any questions you might
3 have.

4 CHAIRMAN CROSBY: Anybody?

5 COMMISSIONER ZUNIGA: So these are
6 all reappointments, right, those appointments
7 are only for a year?

8 MR. ZIEMBA: For one year, that's
9 right. And they all serve at the pleasure of
10 the Commission.

11 CHAIRMAN CROSBY: And as before, when
12 we read through these, the ones that -- that I
13 know are impressive, so there's some really
14 good people on here so hopefully we get them --
15 get them to work.

16 COMMISSIONER ZUNIGA: Second.

17 COMMISSIONER CAMERON: Just to
18 comment that I -- I credit John for -- I mean,
19 these people are tremendous. And to be able to
20 get them to serve in this way, I think, is a
21 credit to your skills. And, also, as serving
22 one of these policy committees, public safety,
23 very well-organized. Always prepared, and
24 makes my job much easier by having John,

1 really, do the bulk of the legwork. So I just
2 wanted to comment on how professional a job all
3 of these committees are because of John's
4 leadership.

5 MR. BEDROSIAN: Mr. Chair, the one I
6 might point out as a discussion with Mr.
7 Ziemba, is the community mitigation advisory
8 subcommittee, he has -- he was a designee last
9 year. I think, if there's a commission member
10 who has an interest in that, not that anyone
11 has to, obviously, Mr. Ziemba would be more
12 than willing to work with that person, as a
13 representative of the Commission. But, again,
14 he's also willing to volunteer again.

15 CHAIRMAN CROSBY: Well, let's think
16 about that. Speak up, if anybody's interested
17 on the face of it.

18 COMMISSIONER MACDONALD: I have an
19 interest in it. I don't want to replace John,
20 but I will have an interest in it. We can work
21 together.

22 MR. ZIEMBA: I'll be right there.

23 CHAIRMAN CROSBY: I don't see --
24 that's right. Just like the Lower Mystic

1 Valley, there's me and there's John.

2 COMMISSIONER MACDONALD: Well, I will
3 share a direct communication I had with John
4 because in reading over the -- the memo, I was
5 struck that there's -- there is no local
6 community mitigation participation from
7 Region C, and I was asking him about what the
8 status of that is and --

9 MR. ZIEMBA: So it's got a little bit
10 -- this memorandum, it deals with
11 reappointments from last year's appointees.
12 The Commission hasn't had that discussion
13 regarding Region C and surrounding communities,
14 the definition thereof. There's some
15 significant differences between the surrounding
16 communities and Region A and Region B, and,
17 indeed, even with the slots facility from the
18 compact communities in Region C. I believe
19 that we're slated to have that conversation
20 before the Commission in short order, but this
21 memo really dealt with reappointment of current
22 members there, whose terms are expiring.

23 COMMISSIONER ZUNIGA: And at least
24 considerably, the -- the communication advisory

1 subcommittee could brainstorm on
2 recommendations, let's say, about potential
3 ways to address Region C concerns. Is that --

4 MR. ZIEMBA: That's right.

5 COMMISSIONER ZUNIGA: That's a fair
6 statement?

7 MR. ZIEMBA: That's exactly right.

8 COMMISSIONER STEBBINS: Do you need a
9 motion?

10 CHAIRMAN CROSBY: I don't see --
11 yeah.

12 COMMISSIONER STEBBINS: Mr. Chair, I
13 move that the Commission approve the
14 reappointments of Colin Kelly, Region A;
15 Chamber of commerce representative; Kate Cane,
16 Region B; Chamber of commerce representative,
17 Richard K. Sullivan, Region B, regional
18 economic development organization, and
19 Ellen Petashnick, Region B, human service
20 providers, members of the local community --
21 community mitigation advisory.

22 COMMISSIONER CAMERON: Second.

23 CHAIRMAN CROSBY: Further discussion?
24 All in favor?

1 MR. MACDONALD: Aye.

2 COMMISSIONER STEBBINS: Aye.

3 COMMISSIONER CAMERON: Aye.

4 COMMISSIONER ZUNIGA: Aye.

5 CHAIRMAN CROSBY: Opposed? The ayes
6 have it.

7 MR. ZIEMBA: If we could also
8 memorialize, I think you already have,
9 regarding the appointments to the
10 subcommittees?

11 CHAIRMAN CROSBY: You want to repeat
12 the same sort of motion, you mean?

13 COMMISSIONER ZUNIGA: Yes. We need
14 another, motion.

15 CHAIRMAN CROSBY: Commissioner
16 Stebbins?

17 COMMISSIONER STEBBINS: Oh. And I
18 would also move the Commission approve the
19 appointment of Commissioner Cameron to the
20 public safety subcommittee, Mark Vander Linden
21 to the addiction services subcommittee, and
22 Commissioner Macdonald to the community
23 mitigation advisory subcommittee.

24 COMMISSIONER ZUNIGA: Second.

1 CHAIRMAN CROSBY: Other discussion?
2 All in favor?

3 MR. MACDONALD: Aye.

4 COMMISSIONER STEBBINS: Aye.

5 COMMISSIONER CAMERON: Aye.

6 COMMISSIONER ZUNIGA: Aye.

7 CHAIRMAN CROSBY: Opposed? The ayes
8 have it unanimously.

9 MR. ZIEMBA: Thank you very much.

10 CHAIRMAN CROSBY: Thank you.

11 MR. ZIEMBA: That's my report.

12 CHAIRMAN CROSBY: All right. We have
13 racing folks coming forward. We will be back
14 in a few minutes.

15
16 (A recess was taken)

17
18 CHAIRMAN CROSBY: Now we're
19 reconvening public meeting #194, about 3:05 in
20 the afternoon, June 23rd. And the next item on
21 our agenda is the racing division,
22 Dr. Lightbown, the director of racing.

23 MS. LIGHTBOWN: Good afternoon,
24 Commissioners.

1 CHAIRMAN CROSBY: Good afternoon.

2 MR. MACDONALD: Good afternoon.

3 COMMISSIONER CAMERON: Good
4 afternoon.

5 COMMISSIONER ZUNIGA: Good afternoon.

6 COMMISSIONER STEBBINS: Good
7 afternoon.

8 MS. LIGHTBOWN: Well, the first thing
9 on the agenda is the request by Suffolk Downs
10 for approval of their key operating personnel
11 and racing officials. This is the standard
12 procedures we go through before opening the
13 meet. What I'm anticipating, is that we'll
14 have -- we're getting the applications in now,
15 so I'm recommending that you approve them
16 pending completion of the licensing procedures,
17 and approval by the state police and the
18 background check.

19 COMMISSIONER STEBBINS: And a lot of
20 these people that have come to us before?

21 MS. LIGHTBOWN: Yep. These are all
22 people that are known to us and have been
23 working at Suffolk in the past.

24 COMMISSIONER ZUNIGA: And remind me,

1 the first day of racing?

2 MS. LIGHTBOWN: July 9th.

3 COMMISSIONER ZUNIGA: July 9th.

4 MS. LIGHTBOWN: It's coming up soon.

5 COMMISSIONER ZUNIGA: So needs to be
6 today, this meeting.

7 MS. LIGHTBOWN: Right. That's why
8 they're not -- the licensing isn't completed
9 yet. We're a little -- this meeting's a little
10 further in front of opening than the meeting
11 last year was.

12 CHAIRMAN CROSBY: Right.

13 COMMISSIONER CAMERON: Standard
14 procedure moving forward, so I -- I agree with
15 the recommendation that we approve these.

16 CHAIRMAN CROSBY: You want to, move
17 accordingly?

18 COMMISSIONER CAMERON: I do. I move
19 that we approve Sterling Suffolk Racecourse,
20 LLC request for the key operating personnel and
21 racing officials for the 2016 racing season, as
22 listed in the memo.

23 COMMISSIONER STEBBINS: Second.

24 CHAIRMAN CROSBY: Further discussion?

1 All in favor?

2 MR. MACDONALD: Aye.

3 COMMISSIONER STEBBINS: Aye.

4 COMMISSIONER CAMERON: Aye.

5 COMMISSIONER ZUNIGA: Aye.

6 CHAIRMAN CROSBY: Opposed? The ayes
7 have it unanimously.

8 MS. LIGHTBOWN: So the next agenda
9 item is a request by Suffolk Downs to lower
10 their takeout to 15 percent on all their
11 wagers. This is similar to what they asked for
12 last year for a couple of their racing days,
13 and they were pleased with the results and
14 would like to do it again.

15 Just as a note, Canterbury, in
16 Minnesota has recently reduced theirs and
17 gotten some press from it. They're -- right
18 on their Web site they list that they have the
19 lowest takeout in America now. And -- but
20 they don't have it on both their whips and
21 their exotics. So I think, once this is
22 approved, then Suffolk Downs can claim they
23 have the lowest takeout in America.

24 COMMISSIONER MACDONALD: So what that

1 means is that the -- that more goes to the --
2 more goes to the --

3 MS. LIGHTBOWN: More is returned to
4 the vendor, yes. And the percentages don't
5 come out of the racing commission's share, we
6 still get our same share. So just so you all
7 know, it doesn't affect our share.

8 COMMISSIONER ZUNIGA: And for the
9 record, in the past, when there was a full
10 racing season these takeout was reduced, but
11 only in certain times, right, on certain race
12 days?

13 MS. LIGHTBOWN: Suffolk didn't reduce
14 their takeout before last year. Last year was
15 the first year they began doing it.

16 COMMISSIONER ZUNIGA: Oh, last year
17 was the first year?

18 MS. LIGHTBOWN: Yes.

19 COMMISSIONER ZUNIGA: And they really
20 don't offer this?

21 MS. LIGHTBOWN: Many years ago,
22 Plainridge had done it, but last year was the
23 first time Suffolk had done it.

24 COMMISSIONER CAMERON: And I believe

1 they thought it helped with the racing handle,
2 so they want to do it again this year. So I
3 recommend that we approve this. And I'll make
4 a motion that the Commission approve the
5 request of Suffolk Downs to reduce the takeout
6 of 15 percent of all wagers, win, place, show
7 and exotics.

8 COMMISSIONER STEBBINS: Second.

9 CHAIRMAN CROSBY: Further discussion?

10 All in favor?

11 MR. MACDONALD: Aye.

12 COMMISSIONER STEBBINS: Aye.

13 COMMISSIONER CAMERON: Aye.

14 COMMISSIONER ZUNIGA: Aye.

15 CHAIRMAN CROSBY: Opposed? The ayes
16 have it unanimously.

17 MS. LIGHTBOWN: Thank you.

18 COMMISSIONER CAMERON: Thank you.

19 COMMISSIONER STEBBINS: Thanks for
20 coming in.

21 CHAIRMAN CROSBY: No problem. And
22 you mentioned that 8C is being postponed?

23 MS. LIGHTBOWN: Correct.

24 COMMISSIONER CAMERON: And then, we

1 are to our last item, workforce and supplier
2 diversity, Director Griffin.

3 MS. GRIFFIN: Good afternoon,
4 Chairman Commissioners.

5 CHAIRMAN CROSBY: Good afternoon.

6 MR. MACDONALD: Good afternoon.

7 COMMISSIONER CAMERON: Good
8 afternoon.

9 COMMISSIONER ZUNIGA: Good afternoon.

10 COMMISSIONER STEBBINS: Good
11 afternoon.

12 MS. GRIFFIN: In accordance with 205
13 CMR 135.021, project schedules and reporting,
14 the Commission may create guidelines to aid the
15 Commission in its review and monitoring of the
16 projects. As you remember, I was here June 9th
17 at the commission meeting, and I proposed new
18 reporting guidelines that veer from the
19 existing state regulations. Now, I asked the
20 commission to consider adopting and
21 implementing the supplier diversity reporting
22 guidelines during the design and construction
23 of the gaming establishments. And through your
24 feedback, I have also included the operations

1 phase.

2 So at the June 9th meeting you
3 suggested that we put this matter out for
4 public comment. We did post it Monday,
5 June 13th, and comments were due by June 17th.
6 Included in your packet, are two responses
7 that I received, two formal responses. One
8 letter in support, from MGM. Brian Packer,
9 MGM's vice president of construction, wrote
10 a -- a thoughtful letter, and I'll -- it is in
11 the packet.

12 Another letter from a woman-owned
13 business, Sandra Fabiano, owner of Fabiano Oil
14 who incidentally was our very first nongaming
15 vendor that we licensed. Fabiano Oil has had
16 successful vendor relationships with a couple
17 of our licensees. Ms. Fabiano asked some good
18 questions regarding the background, and the
19 impact that this might have to
20 currently-certified vendors, and whether there
21 would be a time limit proposed.

22 I -- I don't think -- and the folks
23 I have spoken to don't think there will be any
24 impact to currently-certified businesses.

1 And, at this time, I'm not recommending a time
2 limit. Although, we could certainly come back
3 to the issue, and I could bring that back to
4 the Commission at a later time, if we thought
5 that was necessary.

6 COMMISSIONER ZUNIGA: Can I ask a
7 question on -- on that very issue? Is it at
8 least possible that, in her comments,
9 Ms. Fabiano is maybe thinking a potential lost
10 business opportunity, in terms of opportunity
11 costs?

12 MS. GRIFFIN: It is very possible
13 that she's thinking of opportunity costs, and
14 potentially lost business. Although, in my
15 thinking, and the cases that have come up, the
16 examples that have come up, are businesses that
17 have current relationships with the licensees,
18 and it's a matter of reporting and, kind of,
19 taking credit for that work. So that's the
20 case that has come up.

21 I also think that, you know, the
22 goal of supplier diversity is not to -- is not
23 for specific businesses, but for the
24 general --

1 COMMISSIONER ZUNIGA: Use.

2 MS. GRIFFIN: -- use. I'm not
3 speaking very clearly, but, you know, we're
4 interested, generally, in supplier diversity
5 and not in endorsing any specific company.

6 COMMISSIONER ZUNIGA: We're not
7 interested in creating a cartel, if you will.
8 That's not, perhaps, the right word. Of a
9 small number of supplier-diverse businesses
10 that will be the only ones that can do business
11 with the casino, at the expense of the
12 potentially other entrants.

13 MS. GRIFFIN: That's right. That's
14 right.

15 COMMISSIONER CAMERON: Is the
16 certification process a long process?

17 MS. GRIFFIN: It's been said, and it
18 depends on who certifies. I know that the
19 state has looked into speeding up that process,
20 and they've made significant progress. And I
21 know -- so -- so that is the case. But
22 depending on when the process is started and,
23 you know, it can vary, but it can take nine
24 months or even longer.

1 COMMISSIONER STEBBINS: There's some
2 -- as you point out, there's some dynamics in
3 play. We have a licensee that is anxious to
4 count a company, who is probably putting some
5 pressure on a vendor to say, hurry it up and
6 get your certification. You have the
7 certifying agency, which needs to do its due
8 diligence. And then, oftentimes, you'll have
9 somebody seeking certification who kind of gets
10 -- puts in half the material and has to come
11 back and fill out some additional paperwork.

12 So, hopefully, all these dynamics
13 are moving people to do this as quickly as
14 possible, and really not allow anybody to lose
15 out on an opportunity for business.

16 MS. GRIFFIN: Right. Oftentimes the
17 certification involves, not just the
18 application, but a site visit, an
19 investigation, while these projects are very
20 fast-paced and on their own timeline. So I
21 think that's the -- maybe the difference
22 between other projects.

23 COMMISSIONER CAMERON: So we're not
24 concerned that someone says they're in process,

1 but, really, they haven't gotten their
2 paperwork in, but, yet, they're getting credit.
3 Do you know? It's more --

4 MS. GRIFFIN: So we're recommending,
5 right, we're recommending they don't get credit
6 until they're actually certified. So, really,
7 the onerous is on our licensees. They cannot
8 count, you know, the diverse business, or the
9 business as diverse until they have the
10 certification in hand, and then they can go
11 back, get back --

12 COMMISSIONER CAMERON: Right. That's
13 the -- I thought that was the case, that they
14 can go back.

15 MS. GRIFFIN: Right.

16 COMMISSIONER CAMERON: And so,
17 there's no incentive for one to just drag their
18 feet, really, because they need to get that
19 certification that in order to eventually get
20 credit and back credit. So it's not a question
21 where someone can drag their feet, which I
22 think might be what this -- this letter is kind
23 of referring to. Is there's something, where
24 did this come from? You know, is there a time

1 limit? So I think -- I think you've considered
2 all these things, it sounds like.

3 MS. GRIFFIN: Right. You know, I --
4 outline I did a -- quite a bit of due diligence
5 and talked to my people, you know, and based on
6 that feedback, I'm not really concerned. You
7 know, some of the certifying agencies that we
8 accept actually said thing like this is -- this
9 is very forward-thinking, and they thought it
10 that it might encourage businesses to get
11 certified. It may increase the pool of the --
12 of certified businesses. But, you know, to
13 Commissioner Zuniga's point, I think it
14 increases the pool, but we're not increasing
15 the minority businesses. They're just becoming
16 certified and recognized so --

17 COMMISSIONER CAMERON: Right.

18 COMMISSIONER ZUNIGA: There's another
19 potential here that I mentioned last time, when
20 you introduced this first idea of the meet two
21 weeks ago. And that is, that we have the
22 ability, remember, to license some of these
23 vendors. It doesn't meant that we're going to
24 license everybody, because they could be

1 nongaming vendors, and we could decide that
2 they be registered only. But the prospect of
3 having to be licensed by the Commission as
4 well, I think is a strong incentive to, you
5 know, to not play games, if that's a concern.

6 And the other piece that I've also
7 -- I've also mentioned, is a lot of what the
8 certifying agencies do is, some, not all, of
9 what our own IEB does, corroborating
10 ownership, that there's no, you know, no front
11 person, for example, looking at Articles of
12 Incorporation and things that like. And those
13 are the things that I would really like us to
14 continue to think about, understanding what
15 one does and the other one doesn't in these
16 dual roles that we have. And this could be a
17 really good pool of companies for us to -- to
18 do that.

19 MS. GRIFFIN: And we've had initial
20 conversations. I've mentioned it, also, to
21 Director Wells, so we'll get that meeting
22 going.

23 COMMISSIONER ZUNIGA: Right.

24 COMMISSIONER STEBBINS: You know, to

1 the point that, you know, on construction
2 projects, I think there's been a long tradition
3 of engaging minority and women-owned
4 construction companies, or subcontractors in
5 construction projects.

6 Where this is new, and where this is
7 helpful is veteran-owned businesses and
8 companies that'll be on the operational side
9 that never had a benefit from being registered
10 before, you know the floors to the linen
11 company or what have you. And fortunately,
12 now, with the construction window, hopefully
13 this is, you know, another early, wake-up call
14 for them to get into the process so that they
15 don't have to worry about this issue.

16 MS. GRIFFIN: Yeah, I do agree with
17 you, Commissioner Stebbins, that the veteran
18 business enterprise is where I think we'll see
19 most of the action.

20 COMMISSIONER STEBBINS: And I think
21 that's what sparked MGM's inquiry at the
22 beginning.

23 MS. GRIFFIN: Exactly. I did want to
24 mention that I also received feedback from

1 Jenny Peterson from Wynn Boston Harbor. And
2 she indicated that she thought these
3 recommendations looked good. She did suggest a
4 minor change in streamlining the reporting
5 requirement.

6 So rather than indicating footnotes
7 and that sort of thing, she suggested that the
8 gaming licensee shall notify the director of
9 work force supplier and diversity development
10 in writing, the company name in dollar value
11 applied towards the diversity spends, so all
12 of these changes. And I thought that sounded
13 good, but I leave that for you.

14 COMMISSIONER CAMERON: So you agree
15 with her recommendation?

16 MS. GRIFFIN: I thought it sounded
17 like a good idea.

18 COMMISSIONER STEBBINS: Mr. Chair, I
19 would move the Commission approve the supplier
20 diversity certification and retroactive
21 reporting guidelines for construction and
22 operations, as outlined in the memo included in
23 our packet.

24 CHAIRMAN CROSBY: Second?

1 COMMISSIONER CAMERON: Second.

2 CHAIRMAN CROSBY: All in favor? Aye.

3 MR. MACDONALD: Aye.

4 COMMISSIONER STEBBINS: Aye.

5 COMMISSIONER CAMERON: Aye.

6 COMMISSIONER ZUNIGA: Aye.

7 CHAIRMAN CROSBY: Opposed? You win.

8 MS. GRIFFIN: Thank you.

9 CHAIRMAN CROSBY: All right. I think
10 we're ready to call a day.

11 MR. BEDROSIAN: Mr. Chair, I just
12 note for the record that I anticipate that our
13 next regularly-scheduled meeting will probably
14 be July 21st. But, obviously, if anything else
15 comes up that demands the Commission's
16 attention, we would meet before that.

17 CHAIRMAN CROSBY: Right. So for July
18 and August, we're going to be skipping our
19 second meetings. So instead of having,
20 generally two meetings every month, we going to
21 have one for July and August. The next one is
22 July --

23 MR. BEDROSIAN: Twenty-first.

24 CHAIRMAN CROSBY: Twenty-first.

1 Okay. Motion to adjourn?

2 COMMISSIONER CAMERON: Move to
3 adjourn.

4 COMMISSIONER ZUNIGA: Second?

5 CHAIRMAN CROSBY: All in favor?

6 MR. MACDONALD: Aye.

7 COMMISSIONER STEBBINS: Aye.

8 COMMISSIONER CAMERON: Aye.

9 COMMISSIONER ZUNIGA: Aye.

10 CHAIRMAN CROSBY: All right. Thanks
11 everybody.

12

13 (Proceeding concluded at 3:20 p.m.)

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1 GUEST SPEAKERS:

2 Paul Mathews, CEO, Playstudios

3 Josh Swissman, Senior Vice President of Loyalty

4 Marketing, MGM

5 Jed Nosal, Esq., MGM

6 Chris Sheffield, Managing Director,

7 Penn Interactive Adventures

8 Carl Sottosanti, Esq., Penn International

9 Jim Baldacci, Chief Compliance Officer,

10 Penn International

11

12 MASSACHUSETTS GAMING COMMISSION STAFF:

13 Edward Bedrosian, Executive Director

14 Justin Stempeck, Esq., Staff Attorney

15 Karen Wells, Director of Investigations and

16 Enforcement Bureau

17 Bruce Band, Deputy Director of Investigations and

18 Enforcement Bureau

19 Michael Sangalang, Digital Communications

20 Coordinator

21 Derek Lennon, CFAO

22 Catherine Blue, General Counsel

23 Todd Grossman, Deputy General Counsel

24

1 MASSACHUSETTS GAMING COMMISSION STAFF CONT'D:

2 Joseph Delaney, Construction Project Oversight
3 Manager

4 Alex Lightbown, DVM, Director of Racing

5 Jill Griffin, Director of Workforce, Supplier and
6 Diversity Development

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C E R T I F I C A T E

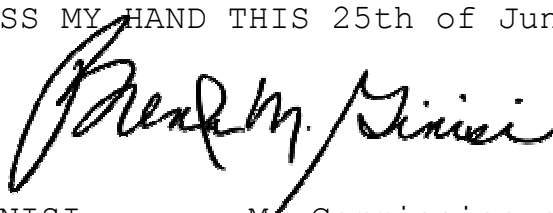
I, Brenda M. Ginisi, Court Reporter, do hereby certify that the foregoing is a true and accurate transcript from the record of the proceedings.

I, Brenda M. Ginisi, further certify that the foregoing is in compliance with the Administrative Office of the Trial Court Directive of Transcript Format.

I, Brenda M. Ginisi, further certify that I neither am counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken and further that I am not financially nor otherwise interested in the outcome of this action.

Proceedings recorded by verbatim means, and transcript produced from computer.

WITNESS MY HAND THIS 25th of June 2015.



BRENDA M. GINISI

My Commission expires:

Notary Public

June 18, 2021