

WASHINGTON STATE GAMBLING COMMISSION

Our Mission:

Protect the Public by Ensuring That Gambling is Legal and Honest

Comfort Inn & Conference Center

1620 - 74th Avenue SW

Tumwater, Washington 98501

(360) 352-0691



COMMISSION MEETING AGENDA PACKET

THURSDAY, January 16, 2014

FRIDAY, January 17, 2014

COMMISSION MEMBERS

Mike Amos – Chair

Margarita Prentice – Vice Chair

Kelsey Gray

Christopher Stearns

Geoffrey Simpson

EX OFFICIO MEMBERS

Senator Steve Conway

Senator Mike Hewitt

Representative Bruce Chandler

Representative Christopher Hurst

DIRECTOR

David Trujillo



STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

Commission Meeting Agenda
Commission Meetings are Open to the Public

Visit our web site at www.wsgc.wa.gov

Location of Meeting:

Comfort Inn Conference Center
1620 - 74th Avenue SW
Tumwater, WA 98501
360-352-0691

Date and Time of Meeting

Thursday, January 16, 2014
1:30 p.m.

Informal Study Group Session

10:30 a.m. – 11:30 a.m. – Charitable/Nonprofit and Commercial Operators Study Session

1:00 p.m. - Game of the Quarter – Mini Baccarat - Demonstration by Staff

- PUBLIC MEETING -

Please note, agenda items may be taken out of sequence at the discretion of the Chair.

1. **Lummi Nation Compact Amendment** *David Trujillo, Director*
2. **Director's Report** *David Trujillo, Director*
 - a) Correspondence
 - b) News Articles
 - c) Monthly Update Reports
3. **Legislative Update** *Amy Hunter, Administrator*
4. **Electronic Gambling Lab Report** *(PowerPoint Presentation) Paul Dasaro, Administrator*
5. **Approval of Minutes – October 9 and November 14 Commission Meetings**

- ADMINISTRATIVE PROCEDURE ACT PROCEEDINGS -

6. **New Licenses and Class III Employees** *Tina Griffin, Assistant Director*

Please turn cell phones off during meeting sessions

7. **Defaults**

Melinda Froud, Lead Staff Attorney

- a) Tung P. Le, Card Room Employee, Revocation
- b) Kao C. Saechao, Card Room Employee, Revocation
- c) Juan R. Correa, Class III Employee, Revocation
- d) Hong T. Nguyen, Card Room Employee Applicant, Denial of Licensure

8. **Commission Memorandum:**

Melinda Froud, Lead Staff Attorney

- a) John S. Sagatu – Update to Commission on Fines & Fees Payment

Rule Up For Final Action

9. **Petition for Rule Change from the Public: Ashford Gaming, LLC** *Mark Harris, Assistant Director*
Allowing a new type of wager for the card game Mini-Baccarat.

Filed 7/22/2013 as a Pre-Proposal Statement of Inquiry (CR-101) under WSR #13-15-118. Proposed Rule Making (CR-102) under WSR #13-19-057 with a published date of 9/16/2013.

- a) Amendatory Section: **WAC 230-15-040** Requirements for authorized card games.

Rule Up For Discussion

10. **Staff Proposed Rule Change**

Amy Hunter, Administrator

Allowing pull-tab prizes of \$20 or less to be added to cash cards used in electronic video pull-tab dispensers.

Filed 9/17/2013 as a Pre-Proposal Statement of Inquiry (CR-101) under WSR #13-19-073. Proposed Rule Making (CR-102) under WSR #13-23-054 with a published date of 12/04/2013.

- a) Amendatory Section: **WAC 230-14-047** Standards for electronic video pull-tab dispensers.

Rule Up For Discussion and Possible Filing

11. **Petition for Rule Change from the Public: Steve Berven, Pull-Tab licensee.**

Increasing the threshold for recording identification information for punch board/pull-tab winners from \$20 to \$50. *Mark Harris, Assistant Director*

Filed 12/03/2013 as a Pre-Proposal Statement of Inquiry (CR-101) under WSR #13-24-081.

- a) Amendatory Section: **WAC 230-14-110** Recording winners.
- b) Amendatory Section: **WAC 230-14-115** Defacing winning punches or pull-tabs.
- c) Amendatory Section: **WAC 230-14-265** Retention requirements for punch boards and pull-tab series.

- PUBLIC MEETING -

12. **Other Business/General Discussion/Comments from the Public**

- ADMINISTRATIVE PROCEDURE ACT PROCEEDINGS -

Upon advance request, the Commission will pursue reasonable accommodations to enable persons with disabilities to attend Commission meetings. Questions or comments pertaining to the agenda and requests for special accommodations should be directed to Gail Grate, Executive Assistant at (360) 486-3453 or TDD (360) 486-3637. Questions or comments pertaining to rule changes should be directed to the Rules Coordinator and Public Information Officer at (360) 486-3466.

HEARINGS ARE SCHEDULED TO BEGIN ABOUT 3:00 P.M.

13. Petitions for Review:

Greg Rosen, Assistant Attorney General

- a) Katie A. Bowman, Class III Certification, Revocation
- b) Terri Mullins, Card Room Employee, Revocation

14. Executive Session to Discuss Pending Investigations, Tribal Negotiations, and Litigation

15. Adjourn



Washington State Gambling Commission

Lummi Nation Compact Amendment Hearing

Dave Trujillo, Director

Thursday – January 16, 2014



Indian Gaming Regulatory Act (1988)

IGRA

“...in a state that permits
such gaming for any
purpose by any person,
organization or entity...”



IGRA

- Gaming activities allowed if not specifically prohibited by federal or state criminal law
- State must negotiate compacts in good faith
- Promotes tribal economic development, self sufficiency, and strong tribal governments

Class III Gaming

Includes Casino Games

(Tribal, State, And Federal Regulation)



State's Public Protection Interests

Respect-Based Regulatory Partnership

- No Criminal Involvement
- Gaming Conducted Fairly And Honestly
- Gaming Limited To Authorized Activities
- Minimize Negative Community Impacts On Local Law Enforcement And Emergency Services



Washington State Tribal Gaming Compact Approval Process

- Compact negotiated by Commission Director
- Compact submitted to Commission And Legislature
- Legislature has 30 days to review and comment



Washington State Tribal Gaming Compact Approval Process

- Commission Has 45 Days To:
 - Hold Public Hearings
 - Forward To Governor; Or
 - Return To Director For Further Negotiations
- Governor Reviews And Has Final Execution Authority
- Tribe Forwards To Secretary Of Interior



Proposed Compact Amendment

- Existing Compact was signed in 1995.
- The Compact was amended in 2000 and 2007 for Appendices X and X2 authorizing the Tribal Lottery System (machine gaming).
- The proposed amendment modifies the Section II.J of Compact:
- “Gaming Facility” means the building or portions thereof in which Class III activities as authorized by this Compact are conducted on Lummi Nation Lands.

Proposed Compact Amendment

- The Lummi Nation operates a hotel, event center and spa connected to its casino. The proposed amendment clarifies where gaming may occur.
- The amendment is consistent with compacts for other tribes that have two gaming facilities or resorts or event centers connected to their casinos.



Washington State Gambling Commission

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Gambling is Legal and Honest”*



Questions?

FEDERAL UPDATE
December 18, 2013
(New information is in italics)

INTERNET GAMBLING

H.R. 3491 - Internet Gambling Regulation and Tax Enforcement Act of 2013

On November 14, 2013, Rep. McDermott (D-WA) introduced this bill amending the Internal Revenue Code of 1986 to regulate and tax Internet gambling. Rep. McDermott introduced H.R. 2230 in 2011, which died. H.R. 3491 is nearly identical to H.R. 2230. The bill text can be found at: [H.R. 3491](#).

Bill Summary: *The bill amends the Internal Revenue Service Code by imposing a four percent¹ federal tax on Internet gambling licensees, and giving states the option of taxing these licensees at eight percent.² Deposits to state and tribal governments would be made automatically every month by website operators, in lieu of those governments imposing other taxes of their own. The automatic tax deposited for states and tribes would be optional. Licensees are required to withhold taxes from net online winnings and give information about gamblers to the government to help ensure the collection of taxes.*

The bill directs the Secretary of the Treasury to make grants to states to carry out an American Heritage Program through state arts agencies, and allocates .5% of the tax revenues received after December 31, 2012, that are attributable to Internet gambling, to the American Heritage Block Grant Fund to finance the American Heritage Program.

The bill also amends the Social Security Act to establish the Transitional Assistance Trust Fund to finance state plans for transitional education and job training assistance to individuals who are, or were formerly, in foster care. 25% of the tax revenues received that are attributable to Internet gambling are allocated to the Trust Fund.

Latest Major Action: *11/14/2013 Referred to House Committee on Ways and Means and the Committee on Education and the Workforce.*

Status: *Referred to Committees.*

H.R. 2666 – Internet Poker Freedom Act of 2013*

On July 11, 2013, Rep. Joe Barton (R-TX) introduced this bill to establish a program for State and Tribal licensing of internet poker. The bill text can be found at: <http://www.gpo.gov/fdsys/pkg/BILLS-113hr2666ih/pdf/BILLS-113hr2666ih.pdf>

¹ H.R. 2230, introduced by Rep. McDermott in 2011, imposed a two percent tax.

² H.R. 2230 allowed states and tribes to impose a six percent tax.

Bill Highlights:

Unlicensed Internet Gambling Prohibition and Qualified Regulatory Authority Requirements

- Prohibits unlicensed Internet gambling facilities, but the prohibition does not apply to Internet gambling facilities operated by persons located outside of the U.S. with bets initiated, received or otherwise made by individuals outside of the U.S.³
- Requires the Secretary of Commerce to establish an Office of Internet Poker Oversight within the Department of Commerce. This office would oversee qualified state agencies that issue licenses to Internet poker facilities (which can only accept wagers in connection with Internet poker.) The National Indian Gaming Commission oversees qualified federally-recognized Tribes. The Secretary, in consultation with the Commission, must prescribe minimum standards for a qualifying regulatory authority agency, which address:
 - The authority's number of experienced gaming regulatory agents
 - The length of time the authority has regulated other forms of gaming
 - The authority's experience and willingness to work with federal authorities
 - Prohibiting conflicts of interest to ensure authorities are not controlled by persons with significant ownership interest in entities regulated under this bill
 - The authority's experience in conducting rigorous suitability reviews
 - The authority's enforcement investigative authority and authority to impose penalties
- One year from the date the Secretary prescribes final regulations, the Secretary may give an authority 60 days notice to withdraw its qualification if the Secretary determines that the authority is not in compliance with the minimum qualification standards. Authorities that receive such a notice may not issue any new licenses until the Secretary determines the agency is in compliance. Authorities have 180 days to come into compliance. (Entities with licenses issued by a subsequently withdrawn qualified regulatory authority must stop operating, return all monies or place funds in escrow, and apply for a new license from a different qualified regulatory authority.)

Internet Poker Facility Licensing Program

- A licensee may accept wagers for Internet poker from persons located within the U.S. and may offer related services if its Internet poker facility license is in good standing.⁴
- Persons seeking a certificate of suitability from a qualified regulatory authority to provide services to an Internet poker facility as a significant vendor do not require a license.
- Licensees cannot accept wagers from persons located on state or Tribal lands with wager limitations within that jurisdiction. State or Tribal notices to establish, repeal or amend a limitation shall apply 60 days after the later of: a) the date the notice is provided to the Secretary; or b) the effective date of the limitation (or repeal or amendment of the limitation).

³ *Internet gambling facility means an Internet web site (or similar facility), having transmissions that cross State boundaries, through which wagers are made, whether transmitted by telephone, Internet, satellite, or other wire or wireless means of communication.*

⁴ These facilities provide bets only with respect to a game, hand, tournament, or other contests of poker.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

Applications & Suitability

- Persons seeking a license must submit to the qualified regulatory authority the following information:
 - Financial and criminal history about the applicant and senior executives and directors
 - The applicant's organization and related businesses and affiliates
 - Disclosure of other applications or licenses submitted under this bill
 - The applicant's plan for complying with all requirements and its agreement to be subject to federal court
- The qualified regulatory authority shall conduct an investigation to determine the applicant's suitability and establish standards and procedures for conducting background investigations.
 - Applicant must be a person of good character, honesty and integrity.
 - Applicant's prior activities and associations must not pose a threat to the public or to effective regulation or create the danger of illegal practices in conducting business and financial arrangements.
 - The applicant must: be capable and likely to conduct licensed activities in accordance with the Act; have or obtain adequate business competence and experience to operate an Internet gambling facility; and have or obtain financing from a suitable source.

Disqualifying factors:

- Fails to provide information necessary to determine license suitability.
- Provides untrue or misleading information regarding a material fact necessary to determine license suitability.
- Has been convicted of an offense punishable of imprisonment of more than one year.
- Is delinquent in filing any federal or state tax returns or in paying any taxes, penalties, or interest.
- Has not agreed to submit to personal jurisdiction in the U.S.
- The qualified regulatory authority must also consider if the applicant operated an Internet gambling facility prior to the bill and the scope of the applicant's activities. Qualified regulatory authorities must also determine that applicants have sufficient safeguards, including mechanisms to collect or report all taxes relating Internet poker, prevent fraud, ensure that Internet poker is fair and honest, and prevent the use of bots.⁵

Vendors

- A qualifying body shall issue a certificate of suitability to approved significant vendors.
- Licensees must notify a qualified regulatory authority of all persons that are not significant vendors who provide services to the licensee. The qualified regulatory authority can, on a case-by-case basis, require that the vendors meet suitability standards.

Opt-Out

- States and Tribes are automatically included under the bill and individuals within their jurisdiction are authorized to place wagers with Internet poker facilities, unless the Governor, Tribal chief, or

⁵ Bots - a software programs that make bets or wagers according to an algorithm.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

other chief executive officer informs the Secretary in writing, identifying the nature and extent of the limitation.

- Licensees cannot accept bets from persons located in an area that has given notice of Internet poker limitations.

User Fees and License Issuance

- The qualified regulatory authority shall determine and assess user fee costs to licensees and significant vendors, based on the State's administration costs. Additionally, the Secretary shall notify the State of its costs to be collected by the State from licensees and vendors.
- A qualified regulatory authority may issue Internet poker facility licenses to applicants that:
 - Own or control a casino or card room at least 10 days before the bill enactment date;
 - Owned or control a casino or card room for five years prior to submitting an application or to applicants;
 - Are owned or controlled by a person who meets the above requirements; and
 - For five years prior to submitting an application, manufactured and supplied gaming facilities with no less than 500 slot machines or qualified mobile gaming systems.
- After two years, the Secretary may authorize licenses to applicants who do not meet the above requirements (after public notice and comment).
- The Secretary can revoke licenses if there is reason to believe the recipient does not meet suitability requirements. The Secretary may not overturn a decision by a qualified regulatory authority to deny or revoke a license. If a qualified regulatory authority revokes or denies a license and another qualified regulatory authority grants the license within 12 months of the first authority's action, the Secretary shall conduct a suitability review.

Administrative Provisions

- A qualified regulatory authority shall make an initial determination of whether a game, hand, tournament or other contest is Internet poker.
- If a licensee challenges the authority's determination, the Secretary shall conduct a review.

Enforcement

- The Secretary or the qualified regulatory authority that issued the license may suspend or revoke a license. (Entities that have authority over licensees independent of this bill may take action under their own laws.)
- Disciplinary actions require a formal complaint, processed according the qualified regulatory authority's laws.
- Licensees may appeal in the U.S. District Court for the District of Columbia.
- The Secretary or a qualified regulatory authority can impose civil money penalties in the amount involved in the violation or \$250,000 for an individual and \$75,000 for a corporation. In the alternative, qualified regulatory authorities can also impose or other amount as allowed by state or tribal law, whichever is greater. Penalties issued by qualified regulatory authorities shall be determined and disputed of per that authority's law.
- The Secretary may assess a civil money penalty on an unlicensed entity for the amount wagered during the time a license was needed or \$1,000,000 per day that the entity accepts wagers when a license was needed. Funds collected by the Secretary shall be deposited into the U.S. Treasury.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

Problem Gambling

- Qualified regulatory authorities would ensure that each licensee develops a Compulsive Gaming, Responsible gaming, and Self-Exclusion Program.
- Qualified regulatory authorities must establish and maintain a list of persons self-excluded from playing at Internet poker facilities; current lists shall be sent weekly to the Secretary.
- The Secretary, the qualified regulatory authority, and the State or Tribe shall not be liable to any self-excluded person for failures withhold or restore gaming privileges. (Licensees may be liable to the extent provided by state or Tribal law.)
- Persons who are delinquent on child support shall be included on the list of excluded persons.

Prohibitions

- Credit cards are prohibited for the wagers and payments to settle bets.
- It is a violation to operate places of public accommodation (including clubs with dues-paying members) where computer terminals or similar devices are made available to be primarily used to access Internet gambling facilities.
- Players must be at least 21 years of age.

Cheating

- Criminal penalties will be imposed for cheating, including electronic devices, and software, the use of which would include a ban from play, fines and up to three years in prison.

Construction/Relation to Other Law

- The bill supersedes State or Indian law regarding Internet gambling facilities and licensing, to the extent such laws are not inconsistent with the bill.
- The bill does not affect state or Tribal lotteries.
- Equipment used by licensees under the bill shall not be considered a gambling device under the Johnson Act.
- The bill does not affect non-Internet gaming activities under IGRA, and Internet poker facilities shall not be considered Class II or Class III. Tribes operating a facility under this bill do not require a Compact amendment.
- The fact that a State has prohibited Internet wagers or that a State is a qualified body does not require a Compact amendment.

Other Provisions

- Regulations – The Secretary must prescribe regulations 180 days after enactment and must submit a report to Congress within one year after the date the first licenses are issued to report on licensing and regulation of Internet poker.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

- Financial Transaction Providers - Financial transaction providers shall not be held liable for activity in connection with wagers permitted by this Act unless the provider knew or had reason to know that the transaction was conducted in violation of the Act or other Federal or State law.
- List of Unlicensed Internet Gambling Enterprises - The Director of the Financial Crimes Enforcement Network shall identify unlicensed Internet gambling enterprises not later than 120 days after enactment of the Act and submit a list to the Secretary (to be updated every 60 days).

Latest Major Action:

7/11/2013 - Referred to the Committee on Energy and Commerce, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

H.R.2282 - Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013

On June 6, 2013, Rep. King (R-NY) introduced a bill to regulate Internet gambling (excluding sports wagering), to provide consumer protections, and for other purposes. The bill can be found at: <http://www.govtrack.us/congress/bills/113/hr2282/text>

Bill Highlights:

- Office of Internet Gambling Oversight
 - Provides a general prohibition for Internet gambling facilities serving the U.S. except as authorized. The Secretary of the Treasury shall:
 - Establish an Office of Internet Gambling Oversight within 180 days of enactment and appoint an executive director.
 - Prescribe regulations and standards within 270 days of enactment.
 - Publish required information for applications within 150 days of enactment.
 - The Secretary shall designate this office as a qualified body to issue licenses for and regulate Internet gambling facilities.
- Qualified Bodies
 - The Secretary shall designate, within 270 days of enactment, state agencies and tribes as regulatory bodies under the Act. Applications must be submitted within 180 days of enactment and subsequent applicants may also be approved.
 - The Secretary shall prescribe strict threshold requirements for designation as a qualified regulatory agency, including:
 - The agency's number of experienced gaming regulatory agents
 - The length of time the agency has regulated other forms of gaming
 - The agency's experience and willingness to work with federal authorities
 - The agency's experience in conducting rigorous suitability reviews
 - The agency's enforcement investigative authority and authority to impose penalties
 - Qualified bodies must opt in and can't be controlled or owned by a person with a license. (A non-controlling investment in government pensions, annuities, etc., is okay.)

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

- The Secretary may withdraw a qualified body's designation if it is not in compliance, or give an opportunity to come into compliance within 90 days. The affected body may appeal.
- Licensing Program
 - The Secretary is responsible for:
 - Reviewing and qualifying Internet gambling facility licensees.
 - Reviewing and qualifying regulatory bodies and ensuring the bodies comply with requirements and carry out their enforcement functions.
 - Prescribing regulations and employing trained enforcement agents.
- Licenses:
 - Qualified bodies can issue a license to operate non-sports related Internet gambling facilities.
 - Licensees may accept Internet gambling bets from persons located within the U.S.
 - Licensees may only accept bets from persons outside the U.S. if the transaction complies with the Act and the activity is legal in an individual's jurisdiction.
- Applications for an Internet gambling facility must include the applicant's:
 - Financial information
 - Organization and related businesses
 - Criminal and financial history (also required for executives and directors)
 - Plan for complying with all applicable requirements and regulations
 - Certified consent to personal jurisdiction by federal and state courts of the approving qualified body with respect to civil actions.
- Each qualified body must report all applicants and dispositions to the Secretary, and must establish standards for conducting background checks.
- With the exception of information that is already public, records shall be confidential. The Secretary or qualified body must not disclose information without a court order if the record is an application, financial/earning information, or criminal record.
- Qualified bodies must carry out investigations with the same degree of diligence. Qualified bodies that issue casino licenses must use the same level of review for Internet gambling facilities.
- Suitability:
 - An applicant must be a person of good character, honesty and integrity.
 - An applicant's prior activities and associations must not pose a threat to the public or to effective regulation or create the danger of illegal practices in conducting business and financial arrangements.
 - The applicant must: be capable and likely to conduct licensed activities in accordance with the Act; have or obtain adequate business competence and experience to operate an Internet gambling facility; and have or obtain financing from a suitable source.
- Unsuitability:
 - Fails to provide information necessary to determine license suitability.
 - Provides untrue or misleading information regarding a material fact necessary to determine license suitability.
 - Has been convicted of an offense punishable of imprisonment of more than one year.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

- Is delinquent in filing any federal or state tax returns or in paying any taxes, penalties, or interest.
- Has not agreed to submit to personal jurisdiction in the U.S.
- Has knowingly accepted sports wagers from persons outside the U.S., or has affiliated with anyone who has accepted such wagers.
- Significant Vendors
 - Perform duties on behalf of licensees, which may include managing or administering wagers and games, maintaining game software, providing trademarks, or providing other products and services.
 - A qualifying body shall issue a certificate to suitable significant vendors, which may be revoked if such vendor fails to maintain suitability.
- Other Vendors
 - Licensees must notify the body that issued its license of all persons that are not significant vendors that: provide customers to the licensee's Internet gambling facility; offer wagers on the licensee's behalf or offer wagers under their own names but use the licensee's Internet gambling facility; license intellectual property to the licensee; or own a substantial interest in a person who provides such services.
 - A qualified body may determine, on a case-by-case basis, that a vendor meet suitability requirements if the vendor creates a substantial risk of circumvention or poses a threat to the licensee's gaming integrity.
- Enforcement Actions
 - If the Secretary or qualified body determines that a licensee is no longer suitable, the Secretary or qualified body may take action necessary to protect the public, including suspension of the license.
 - The Secretary may allow a licensee to continue operating by imposing conditions on the licensee under the penalty of suspension or revocation, including identifying any unsuitable person(s) and establishing safeguards to ensure that person(s) is excluded from any interest in the licensed activities.
 - If the licensee is unsuitable because it accepted sports wagers, the Secretary or qualified body may revoke its license.
- Assessments for Expenses
 - The administrative costs with respect to each licensee shall be determined by each qualified body in an amount appropriate to meet the expense of administering, reviewing or examining the license.
 - Expenses for general administration to be paid by licensees and significant vendors and collected by the qualified bodies shall be determined by the Secretary.
 - Amounts assessed shall be used only for the expense incurred by the qualified bodies in connection with the licenses and shall not be construed to be Government funds or appropriation monies.
 - If a licensee fails to pay a final assessment, the qualified body may pursue collection in the appropriate United States district court.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

- **License Revocation**
 - The Secretary may suspend or revoke licenses if the licensee doesn't meet suitability requirements, but may not overturn a qualified body's decision to deny or revoke a license or certificate of suitability.
 - If a qualified body denies or revokes a license and another qualified body grants a license within 1 year, the Secretary shall review the license or certificate of suitability.

- **Safeguards**

The qualified body must prescribe regulations requiring licensees to have standards to ensure:

 - The participants wagering are not younger than 21 years old.
 - Prevention of fraud, money laundering, tax evasion and terrorist financing.
 - The participant is physically located in a jurisdiction that permits Internet gambling.
 - All taxes related to persons engaged in Internet gambling are collected at the time proceeds are paid.
 - All taxes owing by the licensee are collected and disbursed and adequate records are maintained.
 - Games are fair, honest, and prevent cheating.

- **Other Provisions**
 - Remote gaming equipment must be maintained within the U.S., and a qualified body may require the licensee to locate remote gaming equipment within the qualified body's territory.
 - Licenses are issued for a 5-year term and may be renewed. Qualified bodies may approve a license transfer.
 - The Secretary shall maintain a list of all licensed Internet gambling facilities.

- **Legal Challenges to Game Authorization**
 - The issuing qualified body will determine whether a game is authorized. Challenges must be made to the Secretary, who has 30 days to make a determination. Appeals made be made by a qualified body or a licensee through judicial review. (U.S. District Court may allow the game pending review.)
 - Actions by a qualified body may be challenged by licensees only as permitted by the laws of that body's State or Tribe.

- **Disciplinary Action, Penalties and Enforcement**
 - The Secretary or the issuing qualified body may initiate disciplinary proceedings through a written complaint that includes the proposed penalty. Final action is subject to appeal through a judicial proceeding. Revoked licensees must return customer funds or place them in escrow if a return is not feasible due to a change in customer address, bank details, etc.
 - Qualified bodies or the Secretary may assess the greater of the amount involved in the violation, or \$250,000 for an individual and \$750,000 for a corporation.
 - For failure to maintain a license, the Secretary may assess the greater of the amount wagered during the unlicensed period or \$1,000,000 per day during the unlicensed period
 - Qualified bodies shall enforce these provisions under State or tribal law, including review and disbursement. The Secretary shall recover penalties it assesses through district court, if the licensee fails to pay, with payment to the U.S. Treasury. The Secretary shall consider

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

mitigating factors, such as the size of financial resources, gravity of the violation and history of previous violations.

- Problem Gambling
 - Qualified bodies shall prescribe regulations to develop a Problem Gambling, Responsible Gambling and Self-Exclusion Program that each licensee must implement as a condition of licensure. These regulations shall provide for a program to notify the public of the self-exclusion list.
 - These programs must provide responsible gambling materials, make individualized gambling options available, such as limits for wager losses or frequency of play, and ensure the information is made available in the same languages as offered by the Internet gambling facility.
 - Qualified bodies shall maintain lists of persons that are self-excluded from gaming activities at all licensee sites. The Secretary shall maintain and make available a master list; notwithstanding state or tribal law, the list is not subject to public inspection.
 - Individuals may request placement on such a list, and may agree that during voluntary exclusion, prohibited persons shall not collect any winnings or recover any losses resulting from prohibited gambling activity. (Winnings would be subject to forfeiture.)
 - Qualified bodies shall not be liable to any self-excluded person that may arise from allowing such person to play. However, they may be liable under the law of the qualified body.

- Opt-Out Provision
 - The bill would permit States and Tribes to “opt-out” within 120 days of enactment, so that licensees would not be allowed to accept wagers from persons residing in States or tribal lands if the Governor or Tribe provides the required notice.
 - State opt-out provisions shall not apply to Internet gambling facilities on Indian lands within that state, which shall be governed by the Tribe’s intent as communicated to the Secretary.
 - It shall be a violation for any licensee to knowingly accept wagers made by persons located within any State or Tribal land for which a notice is in effect.
 - The AG or a tribe’s chief law enforcement officer may bring an action on behalf of the body’s residents if the State/Tribe has been adversely affected by a violation of this section.
 - No action by a State or Tribe shall affect non-Internet gaming activities under IGRA or State gaming compacts, and new negotiations are not required.

- Sports Betting and Public Internet Parlor Prohibitions
 - No provisions shall be construed to authorize licensees to accept sporting event wagers.
 - It is a violation to operate a club or similar establishment where computers are available primarily for accessing Internet gambling facilities.

- Cheating
 - No person shall knowingly violate the rules of play or knowingly use a mechanical device (including software programs) for the purpose of gaining an unfair advantage.

- Report on Threats to Operation
 - The Director of the National Institute of Standards and Technology shall submit to Congress a report on threats to the integrity of Internet gambling facilities.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

- Orderly Transition
 - Qualified bodies shall, to the extent practical, issue multiple licenses to ensure a competitive market. Licenses shall first be issued 270 days after enactment of this Act.
 - Unlicensed facilities shall stop offering Internet gambling within 30 days after the date of enactment and provide notice to persons with outstanding sums on deposit, along with instructions for requesting the return of the funds.

- Annual Reports
 - The Secretary shall submit to Congress an annual report on the licensing and regulation of Internet gambling facilities, including the amount of assessments collected, an estimate of the income tax revenue collected, a list of qualified bodies, and a description of each type of game offered.
 - The Secretary shall submit to Congress an annual report on commercial and regulatory practices carried out to protect consumers with respect to Internet gambling.

- Independent Testing
 - The Secretary shall require independent testing of hardware, software, communications equipment and other necessary devices for Internet gambling facilities.
 - Laboratories must be accredited, competent and qualified to test and evaluate equipment. Labs cannot be owned by an Internet gambling facility, vendor, manufacturer or retailer.

Latest major action: 7/15/2013 Referred to the House Judiciary Committee's Subcommittee on Crime, Terrorism, Homeland Security, and Investigations.

Related Bills: H.R. 2666.

TRIBAL BILLS

H.R. 1225 - Samish Indian Nation Homelands Act of 2013*

On March 15, 2013, Rep. Larsen (D-WA), introduced a bill directing the Secretary of the Interior to place approximately 16 acres located in Skagit and San Juan Counties, Washington, into trust for the Samish Indian Nation. The bill can be found at: <http://www.govtrack.us/congress/bills/113/hr1225/text>
This bill does not authorize the tribe to conduct any gaming activities.

Latest Major Action: 7/23/2013 – House subcommittee actions.

S.477 - Tribal Gaming Eligibility Act*

On March 6, 2013, Sen. Feinstein, (D-CA), introduced a bill to amend the Indian Gaming Regulatory Act to place restrictions on the conduct of gaming on lands taken into trust for an Indian tribe after October 17, 1988, as part of a land settlement claim, an initial reservation of a newly recognized tribe, or restoration of lands for a tribe with restored federal recognition.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

The bill can be found at: <http://www.govtrack.us/congress/bills/113/s477/text>

Bill Summary: The bill would prohibit gaming on such lands, with specified exceptions, unless the Secretary of the Interior determines that the land is eligible for gaming and the tribe demonstrates: (1) a substantial, direct, modern connection to the land as of October 17, 1988; and (2) a substantial, direct, aboriginal connection to the land. (The Secretary and the state in which the gaming is proposed can still allow gaming on lands acquired for a tribe after October 17, 1988, if they concur that it is in the best interest of the tribe and its members.)

Latest Major Action: 3/6/2013 Referred to Senate committee. Read twice and referred to the Committee on Indian Affairs.

H.R. 279 - To amend the Act of June 18, 1934, to reaffirm the authority of the Secretary of the Interior to take land into trust for Indian tribes. *

On January 15, 2013, Rep. Cole (R-OK) introduced this bill, which can be found at: <http://www.govtrack.us/congress/bills/113/hr279/text>. The bill amends the Indian Reorganization Act to make it applicable to all federally recognized Indian tribes, regardless of when any tribe became recognized. (This effectively overrules the Supreme Court's decision in *Carcieri v. Salazar*, which held that the Secretary of the Interior could not take land into trust for a specified tribe because that tribe had not been under federal jurisdiction when the Act was enacted.)

Related Bills: [H.R.666*](#)

Latest Major Action: 1/31/2013 Referred to House subcommittee. Status: Referred to the Subcommittee Indian and Alaska Native Affairs.

H.R.666 – To amend the Act of June 18, 1934, to reaffirm the authority of the Secretary of the Interior to take land into trust for Indian Tribes.*

On February 13, 2013 Rep. Markey (D-MA) introduced this bill which can be found at: <http://www.gpo.gov/fdsys/pkg/BILLS-113hr666ih/pdf/BILLS-113hr666ih.pdf>

Amends the Indian Reorganization Act to apply the Act to all federally recognized Indian tribes, regardless of when any tribe became recognized. (This effectively overrules the Supreme Court's decision in *Carcieri v. Salazar*, which held that the Secretary of the Interior could not take land into trust for a specified tribe because that tribe had not been under federal jurisdiction when the Act was enacted.)

Additionally, this bill ratifies and confirms any action taken by the Secretary pursuant to such Act for any Indian tribe that was federally recognized on the date of that action.

Latest Major Action: 2/22/2013 Referred to House subcommittee. Status: Referred to the Subcommittee Indian and Alaska Native Affairs.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).

H.R.2442 - Duwamish Tribal Recognition Act

On June 19, 2013 Rep. McDermott (D-WA) filed this bill which can be found at:
<http://www.gpo.gov/fdsys/pkg/BILLS-113hr2442ih/pdf/BILLS-113hr2442ih.pdf>

This bill extends federal recognition to the Duwamish Tribe. It would also establish certain requirements of the Tribe, such as adopting a constitution, identifying its members, and delineating its aboriginal homelands. Within 10 years of the enactment, any lands within the Tribe's service area (King, Kitsap, Pierce, Lewis and Mason Counties) and/or lands identified as aboriginal homelands that the Tribe transfers all title to the Secretary of Interior lands must be taken into trust for the Tribe.

Latest Major Action: 6/25/2013 Referred to House subcommittee. Status: Referred to the Subcommittee Indian and Alaska Native Affairs.

SPORTS WAGERING

H.R. 625 - Sports Gaming Opportunity Act of 2013*

On February 13, 2013, Rep. Lobiondo (R - N.J.) introduced a bill to amend chapter 178 of title 28 of the United States Code to permit States, during a 4-year period, to enact statutes that exempt from the operation of such chapter, lotteries, sweepstakes, and other betting, gambling, or wagering schemes involving professional and amateur sports. The bill can be found at:
<http://www.govtrack.us/congress/bills/113/hr625/text>

Latest Major Action: 4/8/2013 Referred to House subcommittee. Status: Referred to the Subcommittee on Crime, Terrorism, Homeland Security, And Investigations.

* This bill is very similar to one introduced during the 112th Congress (2011-2012).



STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

January 3, 2014

TO: **COMMISSIONERS**
Mike Amos, Chair
Margarita Prentice, Vice-Chair
Kelsey Gray, Ph.D.
Christopher Stearns
Geoffrey Simpson

EX OFFICIO MEMBERS
Senator Steve Conway
Senator Mike Hewitt
Representative Christopher Hurst
Representative Bruce Chandler

FROM: Amy B. Hunter, Legislative Liaison 

SUBJECT: LEGISLATIVE UPDATE

The regular 60-day session is scheduled to begin on Monday, January 13, 2014. About 75 bills have been pre-filed. None of the pre-filed bills are directly related to gambling; two companion bills relate to training for public officials, which would include Commissioners. I will provide a full report of any new bills introduced that might impact the Commission at the January 16, 2014, meeting.

Pre-Filed Bills.

SSB 5964/HB 2121 - Requiring training of public officials and employees regarding public records, records management and open public meetings.

This bill was requested by the Attorney General. It requires the Attorney General's Office to develop and implement training programs for public officials for the legal requirements in the Open Public Meetings Act and the Public Records Act. The training may be Internet-based and must be completed when initially appointed and every four years after this.

The bill also has training requirements for public records officers. Similar bills have been introduced in the past.



Bills with Direct Gambling Impacts Carried Over from the 2013 Session.

There were a few gambling-related bills introduced in the 2013 session, which will be eligible for action during the 2014 session. At this point, we do not believe these bills will be moving forward; however, we will be watching them during the session.

1. **HB 1295 - Modifying the powers and duties of the gambling commission.**
(Commissioners took a “neutral with concerns” position on the bill at their February 2013 meeting and took an “against” position at their May meeting)
2. **HB 1824 - Reducing the penalty for a person conducting unlawful internet gambling in his or her primary residence for recreational purposes.**
(Commissioners took a “neutral” position on the bill at their February meeting and asked staff to pass on that the Commission’s enforcement efforts have been focused on Internet gambling providers).
3. **2SSB 5552 - Improving child support collections by requiring reporting of compensation and establishing an intercept program.**
(Commissioners took a neutral position on the bill at their February meeting and suggested any system be tied to when W2G’s are filed).

Agency Request for Authorization for Fee Increase.

The Commission’s request for authorization for a fee increase was included in the Governor’s budget, which was released in the middle of December. We will be reviewing the House’s and Senate’s budget bills, when they are introduced, to see if this provision is included.

Confirming Legislative Process for Positions on Bills.

At the January meeting, I would like to check in with you to see if the legislative process we have used for the last several years meets the needs of the Commission. Normally, if there is a hearing on a gambling-related bill and the Commissioners have not had a chance to review it because of the timing of Commission meetings, I would only testify on technical aspects of the bill. I always make it clear that the members are a part-time Commission and have not met yet to take a position on the bill. Past committees have been very interested in the Commissioners’ position, so I would continue to bring bills forward to you, even if the initial hearing has already passed.

If staff recommend a position on the bill, I will review that during the legislative report.

If the Commission supports a bill, staff would typically work with the Chair of the Commission to draft a letter of support for the Committee Chair. The letter would be used as the basis for a "position statement," which we would post on the agency's website. The Commission would normally take a formal vote if they want to support a bill. Past Commissioners have followed a similar process if the Commission is against a bill or is in support of the current law instead. If staff recommends a neutral position on a bill, normally there is not a vote.

Staff proposes following this approach this session. The Commissioners can always change this approach as session progresses.

Attachments



Washington State Gambling Commission

Mission Statement:

*"Protect the Public by Ensuring That
Gambling is Legal and Honest"*

Electronic Gambling Lab

January 16, 2014

Paul Dasaro, Administrator

Summary

- Tribal Lottery Presentation review
- Lab roles
- Gambling equipment approval
 - Findings
 - Timeline
 - Common problems
- Global Gaming Expo
 - Gambling technology trends
 - Staff activities

Tribal Lottery System Review

- Structure
 - Manufacturing Computer
 - Central Computer
 - Player Terminals
 - Electronic scratch tickets
- Approval process overview
- Process improvements and successes

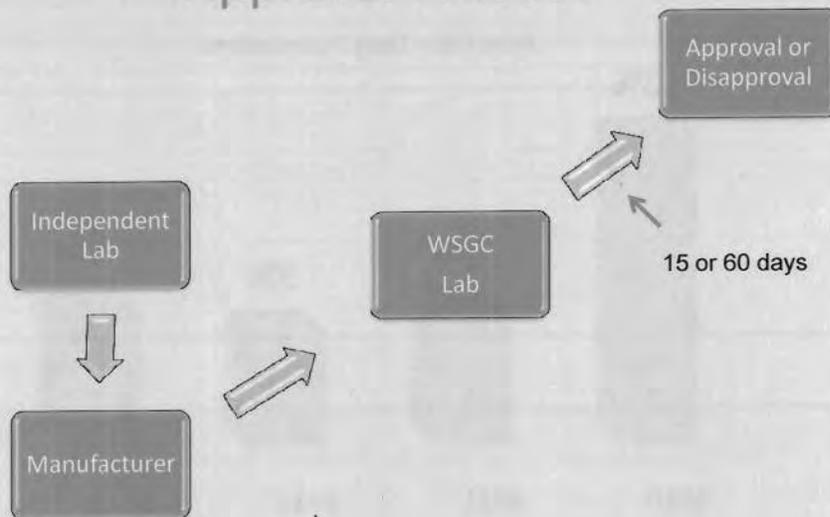
Electronic Gambling Lab Supporting Gambling Regulators



Lab Roles

- Independent lab oversight
- Compliance testing
- Inspections
- Internal controls
- Incident analysis and investigations
- Manufacturer assistance
- Security standards
- Regulator training
- Technical expertise

Tribal Lottery Systems Approval Process



Submission Difficulties

Technical Problems

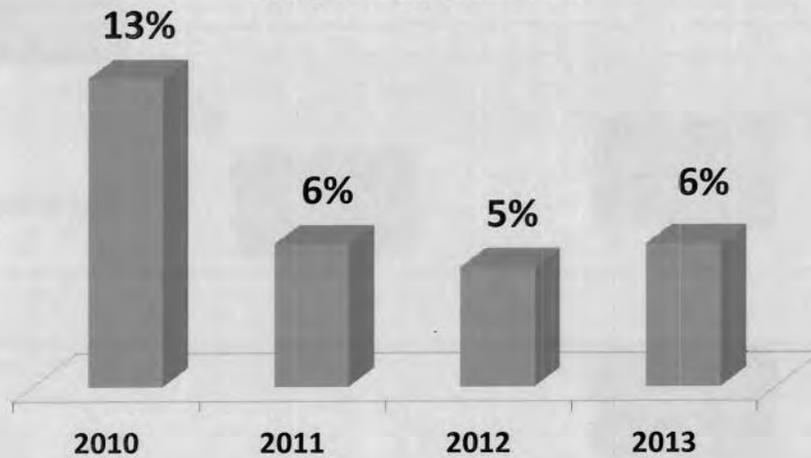
- Documentation
- Testing materials
- System set up
- System reliability
- Response to inquiries

Compliance and Regulatory Problems

- Structure
- Data protection
- Reporting
- Player feedback

Tribal Lottery Systems Non-Compliance Findings

New (60 – Day) Submissions



Tribal Lottery Systems Average Processing Times



Average processing times from Jan 1, 2010 to Nov 1, 2013

Modifications (15 days)	New Systems (60 days)
8.5 days	35 days

Non TLS Gambling Equipment



Testing and technical advice for the Gambling
Equipment Team and Agency Leadership

Non-TLS Equipment

- Testing for:
 - GET testing parameters
 - Compliance (WAC, RCW, Compact)
 - Security
 - Regulation
- Reporting

Global Gaming Expo (G2E)

Meetings



Meetings with regulators, licensees, and manufacturers

Global Gaming Expo (G2E)

Training



Attend training on subjects relating to gambling regulation

Global Gaming Expo (G2E) Technology Trends

- iGaming



Global Gaming Expo (G2E) Technology Trends

- Skill based machine games



Global Gaming Expo (G2E) Technology Trends

- Table game technology



Global Gaming Expo (G2E) Technology Trends

- Bonusing



Questions?

MINUTES
OCTOBER 9

**WASHINGTON STATE
GAMBLING COMMISSION MEETING
STRATEGIC DISCUSSION
WEDNESDAY, OCTOBER 9, 2013
DRAFT MINUTES**

PUBLIC MEETING

Chairman Mike Amos called the Gambling Commission meeting to order at 9:45 a.m. at the Spokane Davenport Hotel and introduced the members present.

MEMBERS PRESENT: **Commissioner Mike Amos**, Selah
 Commissioner Margarita Prentice, Renton
 Commissioner Kelsey Gray, Seattle
 Commissioner Chris Stearns, Auburn
 Commissioner Geoff Simpson, Issaquah
 Senator Steve Conway, Tacoma

STAFF: **David Trujillo**, Director
 Mark Harris, Assistant Director – Field Operations
 Tina Griffin, Assistant Director – Licensing Operations
 Julie Lies, Assistant Director – Tribal & Technical Gambling
 Amy Hunter, Administrator – Communications & Legal
 Callie Castillo, Assistant Attorney General
 Gail Grate, Executive Assistant
 Michelle Rancour, Administrative Assistant

Welcome

Director Trujillo welcomed everyone to the Commissioners' strategic topic discussion. He explained that at the June Special Commission Meeting there was indication of a desire to talk about strategic items and how certain items may impact how the Commission does or should do business in the future. The discussion is scheduled to last until 12:30 p.m. If it looks like it will take more time than that, the Commissioners may decide to continue the discussion at the November Commission meeting. Director Trujillo explained that he had sent a suggestion of various strategic topics to the Commissioners and Ex-Officio members for their consideration.

The first topic simply had to do with technology in general; the second item had to do with working within the legislative environment; the third topic was problem gambling; the fourth topic was conducting the business of the Gambling Commission, which he thought meant not the Commissioners per se, but how staff works; the fifth item was legislative reports; and the sixth item was technical assistance and training. Those topics were ranked by importance, so the four

items that would be discussed at this meeting were technology, working within the legislative environment, problem gambling, and conducting the business of the Gambling Commission. Director Trujillo explained that, because the schedule was quite ambitious, he had previously communicated with Commissioner Gray who has much experience in helping discussions move along.

Strategic Discussion

Commissioner Gray explained the goal was to have an open discussion, whether or not a conclusion or decision was made. The ideas and suggestions would be recorded and may turn into decisions later. Commissioner Gray suggested the Commission read the series of questions within the technology topic area (excerpted in text box below). (Handout with questions on all topics is attached and incorporated by reference herein.)

1. **Technology**

The same technological pressures that citizens are placing on state government to modernize the way it conducts business are the same pressures and expectations we are facing as changing technology reinvents the gambling industry every year.

I-582 and I-583 are current initiatives that propose allowing online intrastate poker. How do we prepare for this possibility without looking as if we are promoting it or somehow sanctioning it?

Digital currencies are becoming more common. Some are supported by government, such as the MPeso in South America, and others are not, such as the decentralized Bitcoin. As these become more and more prevalent, how do we keep informed of this technology and how do we ensure this technology does not enter Washington gaming unless the Legislature authorizes it.

How do we continue to plan for rapid advances in technology on mobile gaming devices such as cell phones, notebook/notepad computers, or Google Glass that can impact WA gambling, as well as electronic enhancements to traditional gambling games?

How do we address the gambling industry's desire to be able to enhance their gambling products with advanced technology?

Senator Conway indicated he was interested in the whole online gambling issue in terms of what was going on in Delaware, Nevada, and New Jersey, and also to figure out how to anticipate what may be happening as people are online.

Commissioner Gray asked Commissioner Simpson if his idea was to really review the RCW.

Commissioner Simpson affirmed, noting that the last time the RCW was modified with regard to technology changes was Substitute Senate Bill 6613, which was Senator Prentice's bill in the 2006 legislative session.

Director Trujillo thought it was important to step back before the RCW in question, moving straight to the Constitution of the state of Washington. Article 2, Section 24, Lotteries and Divorce, from that Constitution were included in the agenda packet. It is important to understand the foundation from which the Commission began to operate. Section 24 says the legislature shall never grant any divorce. And lotteries shall be prohibited except as specifically authorized upon the affirmative vote of 60 percent of the members of each house of the Legislature, or notwithstanding any other provision of this Constitution by referendum or initiative approved by 60 percent affirmative vote of the electors voting thereon. That is the foundation from which the Gambling Commission came from and from which everything else now flows.

The legislative declaration, which is RCW 9.46.010, describes a little bit about what the Commission is to do. Then there are about 21 sections in RCW 9.46.070 that define the Commission's powers and duties. The Legislature determined the Gambling Commission was a law enforcement agency, which is a healthy distinction from a criminal justice agency. In 1988 came the Indian Gaming Regulatory Act. That framework provided the foundation for the Tribal Compact environment that the Commission operates under. RCW 9.46.240 was brought forward with the change and citizens believed it was only the State Legislature that was making internet gambling illegal. But it was the Constitution that declared that if it was not specifically authorized, it was not legal. This simply clarified it into one of the most clear internet statutes in the nation.

Senator Prentice recalled that all the Legislature did was insert the word "internet." She said she was approached by Jerry Ackerman of the Attorney General's office, who asked her to do that legislatively because there was a lawsuit involving the World Trade Organization and they wanted the state to be consistent. It seemed innocuous, but there were a lot of people who thought the Legislature was taking their rights away from them. That was why it was extremely important. If it was not specifically permitted, it could not be done anyway, but the hysterics that went around nationwide was pretty surprising.

Commissioner Gray explained that she would like the Commission to have a discussion on these topics, but would like to first get some of the ideas down on paper and then open it up for a discussion. Internet gambling is coming into the United States, whether it comes into Washington or not is another question. To answer the question that Senator Conway proposed, the Commissioners have an obligation to discuss the topic and figure out what the expectations are. Commissioner Gray asked the Commission to write down a couple of their thoughts with respect to the two questions that were asked: what should be one change the Commission would like to see made that would enhance the role of the Commission to deal with this changing environment; and how to anticipate and what to expect with respect to online gambling as it relates to other states.

Senator Conway said there was some history around internet interstate compacts and revenues with the Horse Racing Commission who does online gambling on horse racing in

this state. That is something that goes on and the state has a share of that revenue. If this becomes big, and Washington citizens engage in it, revenues will pour into the other states and Washington State is not going to be happy about that. Online gaming came about with horseracing because people were participating in the internet. The Horse Racing Commission went to the Legislature who changed Washington law to ensure that the state captured the revenues to help that industry. He said he was just raising that point as a strategic problem.

Chair Amos suggested adding a discussion about how to capture monies for revenue for Washington State when this comes – and it will be here. He thought it would require somebody who had technical knowledge on how to track people on home computers that are online playing poker with somebody in Mississippi. Somebody like Special Agent Dibble, who is really sharp in computers, could tell the Commission how to track that.

Commissioner Simpson said that, when looking at the bill that Senator Prentice had passed, one of the things it did was to specifically add the words "the internet," "a telecommunications transmission system," and "or similar means." He thought one clarification that could be made to this RCW was to make it clear that Washington does not allow any kind of new forms of gambling. Currently the RCW says "whoever knowingly transmits or receives gambling information by telephone, telegraph, radio, semaphore, the internet, a telecommunication transmission system, or similar means." Commissioner Simpson suggested simply changing "or similar means" to say "or any other means." That could end any possibilities that there was some other technological advancement along the horizon that the Commission was not going to anticipate. The other thing that bill did was to change it from a gross misdemeanor for a person guilty of this to a Class C felony. If the state is experiencing difficulties with people who are disregarding the law and conducting illegal online gambling in Washington, then this Commission should consider changing the penalty for that. If it is not appropriate, then the Commission should recommend the language be changed in order to stop the illegal activity.

Commissioner Gray asked if Commissioner Simpson was suggesting the Commission look at Substitute Senate Bill 6613 and enhance it so there would not be any internet gambling.

Commissioner Simpson replied that was the intention of the bill. It had been silent on internet gambling, so Senator Prentice's bill specifically called out internet gambling. He suggested this discussion be about those things the Commission did not have any way of anticipating. He thought the Commission could strengthen that RCW just by saying Washington State does not allow gambling by any other means than was currently allowed. That would be something for the AG's office to look at. **Commissioner Gray** added that if, as Commissioner Amos said, the Commission anticipates there would be online gambling, it would then require some change in that legislation. **Commissioner Simpson** replied that online gambling was already illegal in Washington and is a Class C felony if convicted.

Commissioner Gray asked if he was suggesting changing that, which would require changing the law. **Commissioner Simpson** affirmed, if the state wanted to allow online gambling, which he did not think it should, the Legislature would have to change the law.

Commissioner Prentice suggested assessing where the people of Washington State were in terms of gambling before the Commission plunged ahead that far. She explained the Legislature was having hearings all over the state at that time. There was one consistent message that came through, and it was very broad: where the state was, whatever was being done right then, it might be more than some wanted, but it was okay, but do not plunge any further. That was in 2006, and as time has gone on, people may have changed in their acceptance. Commissioner Prentice recalled that when the Lottery first came in the implication was that it was going to go to education, but the actual bill did not say that. So there was always a disconnect between what the public thought and what the Legislature knew. Commissioner Prentice did not want to create that kind of animosity and suggested making it very clear that the Commission was doing this, but that there was acceptance from the people of the state of Washington. The public needs to know what the Commission is doing.

Commissioner Stearns commented on the suggestion about how the state captures revenue, how to track it, and what was one change the Commission would like to see to enhance their ability to work in this environment. He thought they should discuss how to allow the Commission to recommend a strategy for the state to authorize and regulate internet gaming, which he thought was the future. He did not want to ignore it; he thought the Commission needed to be experts on it. He said he liked the idea of holding the kinds of hearings where they become experts at the issue. Commissioner Stearns also thought it would be a great idea to have a professional economist work with the Commission so they could better understand the economic environment and the implications for the state.

Commissioner Gray agreed with Commissioner Stearns and thought it would be good to become experts on it and perhaps as a Commission look at bringing in an expert to talk to them about the future and how to capture those revenue funds.

Senator Conway thought if the Legislature wanted anything, the Gambling Commission could do a strategic study of the impacts of the changes that are going around the internet. He said an example would be what the Legislature was doing with regard to trying to get to a streamlined sales tax and a destination sales tax as a way of capturing the lost revenue going on by people going on the internet and purchasing goods out of state. Congress is considering major legislation around that. The fact is the internet has become the way business is being done. It is obvious that people go online and they do not understand that they cannot do something because they do not know the RCWs. Senator Conway recalled that at the July Commission meeting, the Commission talked about how internet gaming could be tracked and how the Gambling Commission tracks it, which was a very interesting discussion. He thought that, with more states considering online gaming, he anticipates this to start tumbling and much like horse racing, the state will be drawn into it. Senator Conway thought strategic planning by the Commission around this and understanding what was actually going on currently would be very helpful to the Legislature.

Commissioner Gray said what she was hearing was that one of the things the Commission could do that would also be helpful to the Legislature would be to undertake a real look at online gambling, what its impact would be, and the possible revenues.

Senator Conway added that involved in that, as Commissioner Simpson suggested, was whether the RCWs needed to be changed. He asked if the Commission needed to anticipate further change. He thought it was wise to plan for this because it is here and it is reshaping how the state currently collects sales taxes. The reality is that people are doing more on the internet and they use it constantly; it is becoming part of our world and younger people are always on the internet. It is just good public planning.

Commissioner Gray suggested tapping into some of the experts the Commission has to look at online gambling across the country.

Director Trujillo thought this discussion illustrated why this was a good topic of discussion. The Commission is fairly knowledgeable of gambling and has such diverse thoughts on it and he could only imagine what the public thinks about it, since they do not really have as much of a background as the Commission does. He shared that having been in this for awhile, he could see that there are technological pressures to be faced at some point. Washington is a very conservative state when it comes to gambling, evidenced by two public opinion surveys that basically said the citizens were okay with where gambling is currently, but they do not want to see it expand. Plus there were the initiatives that were put forward that failed because the people did not vote in favor of them. Knowing that, and recognizing what is happening outside the boundaries of Washington, is something the Commission needs to reconcile a little bit, even if it is just to change the statute to clearly say absolutely no way, or to step on the other side a little bit and provide information that the Legislature could use to make good informed decisions. There is a difference between internet gambling and intranet gambling, which is what the states are moving forward with. Intranet gambling is within the boundaries of the state. Director Trujillo expected to see the states have the ability to enter into compacts with other states. As Washington legislators begin to field questions in the upcoming session, it is good to have this discussion. Staff gets these questions all the time and the Commissioners will also be getting these questions from the public and constituents. It is a good topic from the standpoint of bringing this up as an awareness topic for discussion.

Ms. Hunter said she thought it was a testament to this Commission and ex-officio members that they were taking the time to have this discussion. She really appreciated it because it brought up all of these things that people are hearing about. In meetings with legislators, staff is asked very direct questions about what they think about internet gambling. She recalled someone asking her what her best advice would be to the legislators if they were to allow internet gambling. It would be helpful to know where the Commissioners are on that issue. Sometimes in those discussions, Ms. Hunter felt like she was on this line and was not sure which side of it she should be on because she was not sure where the five Commissioners and

the four ex-officio members really were on the issue. The Commission wants the Legislature to make good informed decisions, so some of the discussion about the economic impacts would be really important. It is also important from the perspective of the licensees and the Tribes that are currently involved in gambling to understand how that would impact them, because these are the people the Commission have worked with for a long time. She thought the Commission could appreciate all of the economic impacts of their businesses, regardless of which part of the industry is offering that gambling. Ms. Hunter thought that, particularly with a couple of the initiatives that are out there, legislators want to know what is going on in other states and she was never quite sure how much information the Commission wanted staff to provide in response to those questions. She has had questions about what the Commission thought of the initiatives, about Delaware's approach, about Nevada's approach, and about New Jersey's approach. Ms. Hunter appreciated the discussion, finding it very interesting. She said it was much easier to shop on the internet than to drive to the stores, so there are a lot of purchases made that way; it is true that the internet is where people are going.

Senator Conway indicated he thought it would be good to include the article about where, in Nevada, people can use their cell phones to legally gamble. He asked what was going to stop Washington citizens who are using their cell phones in Nevada to gamble from continuing when they get back home in Washington where it is illegal. Nevada's move online with gambling activity is just going to spread. He asked how the enforcement was for this and thought the enforcement side of this was another strategic issue. Senator Conway said he was not trying to judge what the Commission should do here, but he thought they needed to strategically discuss what the impacts would be when people do this. He felt it was fascinating and it was going to spread. He recalled when this internet discussion was started. The federal government had a really clear federal objection to anyone getting involved in internet gaming. It seems like now that legal environment is changing and states are entering into internet gaming. Senator Conway thought the Legislature would need help, and he warned they were looking for revenue in Olympia because of the needs of the state and schools because other things are stripping Washington's revenue capabilities. This is a high issue in Olympia and it is going to come up. He said some guidance on these issues from the Gambling Commission would especially be helpful. Help from the Commission on that issue was going to be critical in the future, and he thought it was strategic planning, as much as anything.

Commissioner Stearns said there are these two initiatives that are in various stages, which might create some kind of a timeline. He indicated his preference was that the Commission be able to weigh in and assist the Legislature. There are all these questions and all these issues, and then the Commission makes a recommendation. It looks like there is a timeline and he did not agree that this gets to be studied for five years.

Assistant Director Harris responded that his staff is currently tasked with the internet gambling regulation. They are looking at what other states are currently doing to find the good, the bad, and what the problems are. He thought the wait and see approach was good on

the Commission's part to see where the other states jump in, what the shortcomings are, and the different approaches taken. One state is looking at more of a revenue generator and the regulation approach is secondary. They have all had some kinks they are working through, and AD Harris thought that was good to see. When the Commission has to go forward and do something, they can actually find the best method that works for the Commission and learn from the states that jumped in right away. The Commission staff is quite prepared for some of the problems that would be encountered. He said there are ways of determining if people are still gambling on their cell phones inside Washington State, like geo-location etc. He thought a couple of states use two methods to confirm where somebody is, and another state will use three methods. So the more methods they have, the more reliability there is to it. The Gambling Commission has the potential, the experts on staff that could give the Commission an Internet Gambling 101 class – the nuts and bolts of how that actually works.

Commissioner Stearns asked if Assistant Director Harris could set something up for the Commissioners. **Assistant Director Harris** replied something could be set up either informally or formally.

Director Trujillo said that Gambling Commission agents have had great success in the enforcement of illegal internet gambling because the strategy has not been focused on players, but rather on operators and providers, especially those currently within Washington State. He thought that at one point there were several thousand operators that would accept internet bets from within Washington State. After Gambling Commission enforcement activities partnered with the other states, that number is now under 500, which may still sound like a lot, but it is much less than it was previously. As long as outside operators or vendors have a hope of obtaining a license in another state to conduct this activity, they are likely to look at the Washington State statute and see that it is very clear that they probably should not allow bets coming from Washington citizens because it is illegal. Therefore, if they want to have a chance of obtaining a license in one of these other states, they probably will not accept those bettors. That has also been part of the Gambling Commission's success, because of the clarity of the current Washington State statute.

Assistant Director Griffin explained she has been watching and monitoring the licensure activity for the three states that have gone forward with online gambling to see what they are doing in terms of who they are licensing and how that is progressing.

Assistant Director Julie Lies said her staff was focusing a lot on online gambling. She thought the Commission needed to focus on the technological advances to existing gambling activities. There are a lot of people out there that are trying to add the bells and whistles as they try to attract the same types of customers in a brick and mortar location as they would online. That was another important part that the Commission needed to keep an eye on as well.

Commissioner Prentice pointed out that she thought that, although they were doing this in Nevada, they were broke. She wondered if there was sufficient revenue to make it worth it. She said one of the things that concerned her was that kids were adept at this too and she thought the Commission should take a big look at that. She said she realized that the Commission has tended to be more conservative, but all states were not equal. Washington gambling laws started in different way, so what people tolerate or even know -- and she thought that some of those states that were plunging into it did not really know what they were doing. In some states it was not regulated at all, so Washington is well ahead by having its 1973 law in place even before the Indian Gaming Regulatory Act (IGRA) hit. It was not that Washington State was so grand, it was just that it has been a lot more cautious, which has been fortunate. She always said that the state, with that awful situation in King County where they cheated so much, had a good law. That is where this state is, and it is better regulated than a lot of other states.

Commissioner Gray captured some of what has been brought up so the Commission could continue with their discussion: look at a study of the impacts of internet gambling, both economic and the full range of impacts; look at some other states and what they are doing, how they are regulating, and whether it works, including the good and bad of that – there may be some folks within the Commission that could help with that; review the legislation and see what might be needed in terms of changes; connect with the Commission’s partners, clients, and the people that staff currently work with, both in terms of tribes and house-banked card rooms; and look at enforcement. She also heard that the timeline was pretty close and that this needed to begin shortly since there were at least two initiatives currently concerning online gambling, and that the Commission needed to study this and become more aware in terms of their own knowledge about internet gambling and its impacts.

Commissioner Simpson said he thought it would be a mistake for Washington State to begin to allow internet and online gambling. Not only would it negatively impact those people that are conducting brick and mortar operations here in state, it would transfer money out of state, and it would be much more difficult to enforce winnings and whether they were conducting it legally – are those people in the Cayman Islands who are running poker games cheating the people here in Washington. He said the Commission, as it moves forward, should be very cautious about those things. Another topic he thought deserved consideration was a broader discussion of what gambling is. People can go online and find a site that lets them play some kind of gambling operation, like an online slot machine, which does not cost them anything. They can buy credits and can continue to play. He did not know if that was actually gambling. He did not think Washington State statute was very clear about what exactly does constitute gambling. Is it the purchase of credits online? Is it the ability to win something of value? People are always dreaming up new ways of doing things on the internet. He asked if Director Trujillo thought that was something the Commission should discuss.

Director Trujillo affirmed that was correct. People are creative and staff receive questions all the time about whether this online game, or free play, or if social gaming qualifies as

gambling. Staff looks at prize, consideration, and chance. If any of those elements are not included, then it is not considered gambling. However, as time goes on and people become more creative, the lines become blurred. Some of the questions staff receive from legislators are from other questions they receive from their constituents who would like to come do business in Washington State, but they are not sure if what they are doing is gambling or not. Generally speaking, staff does not look at social gaming and make a determination that it is not gambling, but instead staff does the reverse by providing the three components of gambling. Then if it meets the definition of gambling, staff lets them know it is gambling and they will enforce the law. Part of that is because there is a whole exploding realm of technology that is a resource impact. Another part is that every single case is unique and there are always different nuances to every scheme. Director Trujillo pointed out this was one of the topics that was included for later.

Commissioner Gray said that Commissioner Simpson was pretty clear about not allowing online gambling and asked if he would be willing to have the Commission look at and examine the economics and the kinds of impacts on both Gambling Commission clients and partners, and the kind of enforcement issues.

Commissioner Simpson agreed he thought it was worth looking at. He added that he would also like to discuss the impacts on problem gambling and the economic impacts on families and underage gambling. He thought it was a real problem because it was too easy for somebody to just get online and gamble away the rent money. It takes more effort to get in the car and go down to the nearest gambling facility.

Senator Conway added to his earlier comment about people being able to use their cell phone to gambling in Nevada. They are going to allow access to online poker with the cell phone, but what about after they have used their cell phones on vacation in Nevada, is that signal going to be blocked? Are they going to suddenly say those cell phones are now outside of Nevada and so the signal is blocked? He asked if that was a federal law, if it was interstate commerce. **Assistant Director Harris** replied they do have that capability. Part of one of the aspects in Nevada is geo-location, so if that person's cell phone shows they are outside of Nevada, then they would not be able to participate. The trouble Nevada is running into is with people that live a couple miles inside the border of Nevada not being allowed to gamble because they are close to the border and the geo-location cannot determine where those people are located. They would rather exclude somebody as opposed to include them.

Senator Conway asked if they had the capability to put a block on a bet coming from outside Nevada. **Assistant Director Harris** affirmed, adding that just as with any technology, if someone wants to spend enough money and be creative enough they could probably get around it. **Director Trujillo** added that he believed those were operator or vendor blocks – it is not the government imposing those blocks. **Assistant Director Harris** affirmed.

Commissioner Prentice said she thought one of the things being overlooked, even since the 2006 law that was referred to, was at that time it seemed like life was simple. It was against federal law. Times have changed. The rug has sort of been pulled out from under and they said now it was up to the states to decide, which is why that proliferation is being seen out there. She thought the Commission needed to keep their bearings as they plunge ahead and see where they fit in and if there were going to be other stuff being done at the federal level.

Commissioner Stearns asked if Commission staff work with Senators Cantwell and Murray or the Representatives and whether they ask about the internet gaming. **Director Trujillo** replied that, generally speaking, Gambling Commission staff has not worked with Washington State representation in Washington, D.C. Contact has been with local legislators here in Olympia. Staff often tries to balance how to approach something without appearing to drag the Commission along and over-step staff's authority, which then translates to a HB1295 initiative like last year. It is all an interesting balancing act.

Commissioner Gray asked if it was possible to ask staff to basically put together a study where the Commission could add some of these questions; maybe have an economist or someone familiar with online gambling to come in and provide that data so the Commission can move forward to come up with recommendations for the Legislature or ideas for the staff. **Director Trujillo** replied that staff could do something; although, he was not exactly sure how complete it would be based upon the timeline. He thought that providing factual data versus recommendations at this point would be advisable. **Assistant Director Harris** pointed out there might not be a lot of data out there, since this is a fairly new activity, and the states have only been conducting it for less than a year at this point. That might be a little bit of a constraint on what is available within the United States. He said he knew there were a couple of provinces in Canada that have been doing it a little bit longer, but within the United States, it would be a very short period of time for assessing that data. There is not going to be much data available.

Commissioner Stearns thought there was a lot of pre-packaged information put together that is out there. For instance there was a whole online gaming association in Congress at the G2E.

Assistant Director Harris indicated that, if the Commission was looking for statistics inside the United States, only a small amount might be available at this point because the activity has not been conducted for very long.

Commissioner Gray thought it might be helpful to the staff if each of the Commissioners gave their ideas of where they might look for information to the staff. For example, some of the Commissioners may know some congressional people who might have staff that is aware of some of the internet gambling. They could go to them and ask them to come in fill the Commission in on what they see as the future. She asked about the online gaming association

that Commissioner Stearns mentioned. **Commissioner Stearns** he replied it was a daylong session at G2E, that the AGA's annual conference had a whole day session on it.

Commissioner Gray said, to wrap this topic up, she was sensing there was a conclusion that the Commission needed to look further into internet gaming and that they would ask staff to put together some kind of factual information on potential economic impacts, social impacts, and enhanced internet. They would be reviewing the legislation and providing the Commission with an opportunity to talk with some of the clients that they currently serve.

Director Trujillo said AAG Castillo said a motion was not necessary because this was just a discussion and that a suggestion is just fine.

Commissioner Gray asked if there were any other comments on technology or internet gaming. She knew there was at least one question about digital currencies and asked if staff was familiar with that. She asked if Director Trujillo wanted to talk a little bit about internet currencies.

Director Trujillo responded it was just another example of what is proliferating out there. Eventually, digital currencies such as Bitcoin, which is probably one the Commission may be familiar with because it has been in the news recently, is a decentralized digital currency that is used to purchase goods from one person to another and has the value of whatever people decide its value is. Because it is decentralized, there is no one place for federal agencies to step in and regulate. However, they have had recent meetings with the Department of Justice. Another one is called MPeso, which is changing life in South America. He thought that one was a government-sanctioned digital currency. There are more out there and it will be interesting to see how that manifests itself in Washington State. People will go to legislators or Commissioners and ask if they think it is something that can be utilized in Washington State. The answer would be "probably not."

Senator Conway pointed out an ad he has seen where someone transfers money from their banking account directly to another person using their cell phone. He asked if that was what Director Trujillo meant by "digitized." **Director Trujillo** replied that was probably not the same thing. That would simply be electronically transferring money from one account to another account. That is money; this is something that does not have the foundation as tangible money but is more like a barter system that has the value that people determine the value is.

Commissioner Simpson explained it would be like a group of people getting together and deciding that certain rocks were worth a certain amount and the more rocks someone had, the more currency they had. **Director Trujillo** agreed. It is essentially utilized on the internet and is making its way into various gambling arenas as well with all the technology there is out there. Part of what Washington State is looking at is how to utilize this technology to best serve its citizens who, for the most part, will begin accessing services on mobile devices. That

encourages repackaging of computers and cell phones, which then encourages repackaging of electronic gambling, which has changed so much in the past few years and will continue to change.

Commissioner Gray thought that was another topic area was how the Commission addresses the gaming industry's desire to be able to enhance their gambling products with advanced technology, which comes before the Commission regularly. How does the Commission address that regularly in either a new game, or an update on a current game, or a new way to play an existing game?

Commissioner Simpson said that, as a new Commissioner, he had a hard time envisioning a method or some broad policy that the Commission could employ that would work. Because every new technology is individual in its nature, the Gambling Commission, by necessity, needs to examine each one and determine whether they believe it is something that should be allowed in Washington State. Aside from his general belief that the Washington State should not allow online gambling, some of the proposals the Commission has received to allow different types of games shows they are highly individualized, and he did not know how the Commission would take a shotgun approach to that.

Commissioner Prentice said she was looking at what she saw as a consistently slippery slope. There was a time not so long ago, when Congressman Barney Frank was the advocate for internet gambling. He is now retired and not there anymore. But at the time it was against federal law, but that was changed. The President was approached about that and then they said it was up to the states. So there are things changing that people really have no control over. The political discussions are out there and the Commission has to live with them also. She thought she knew what the law was, and then the rug was pulled out from under her. She said the Commission needed to pay attention to what was happening out there and what the stresses and the urges were. She also kept thinking she did not know who it was that was getting rich because she saw some states really struggling. She recalled the last initiative that failed by 61 percent, so she was concerned with the receptiveness of the public and whether they really wanted this. She admitted she had no idea how the signature gathering was going on with the initiatives that are currently out there because she has not seen any of them. She asked if Ms. Hunter knew.

Ms. Hunter replied she assumed Commissioner Prentice was referring to the poker initiative. She said she did not know, but staff did contact the Secretary of State's office to see if there were any types of check-in processes and there are not. The Secretary of State's office did not know how many signatures had been gathered; although, one of the organizations put out a statement to their members letting them know they needed more money in order to work on signature gathering and that they did not have that funding. **Commissioner Prentice** said she has not seen any signature gatherers at the grocery stores or any place else, which indicated to her that it was kind of sluggish with no momentum for it.

Commissioner Simpson asked if it was possible to hear from the public about that. **Director Trujillo** replied that would be the prerogative of the Commission. **Commissioners Simpson and Prentice** both said they would be interested in hearing what anybody had to say.

Commissioner Gray asked if there was anybody in the audience that would like to speak to this issue of technology and what they think would be coming forward. **Commissioner Prentice** added she was sure the public had opinions on this issue.

Mr. Victor Mena, Chief Operating Officer for Washington Gold Casinos said the topic being discussed is a very broad in scope. The topic in his mind in terms of what is – they are kind of linked. The Commission is discussing how the online gaming aspect is somehow in time going to be part of reality. He thought that, in time, things that are done in his industry would have to evolve as well as part of that reality. There are some products that we use that he has found could be a little antiquated; pull-tabs is an example of something that is fairly archaic and very cumbersome to deal with from the standpoint of being able to accurately determine that the product's integrity is still there. Something as simple as opening up a bag of pull-tabs and having the humidity factor of that bag's tickets evaporate over the course of two weeks to show that now they have fewer tickets than they originally started with, but that bag had never been touched. He thought that type of issue was one of inaccuracy that lends itself to the question of gambling; the integrity of what takes place gets questioned based on the fact that somebody could say they have a shortage, but the reality was that they did not have a shortage. The reality was that the product itself was flawed from the standpoint of being able to monitor the product. It is cumbersome to do it correctly because it is a bag of 6,000 tickets and somebody has to take the time to count those tickets. Those types of things could absolutely be looked at as ways to enhance and change, and control and regulate much more accurately. That was just one example, but obviously there are other examples of how the integrity of certain products could be corrected.

He said he has looked at things in the industry as far as table games that are completely electronic. And this Commission, a few years ago, looked at a product that was very similar to that. The integrity of that game gets controlled by technology so they would not have a card missing, per se. And this happens in his world when a dealer makes a mistake washing a deck on a table and a card slips under the rail because the dealer was unaware, brought the cards back in, and started to deal a game. Now the integrity of that game was compromised. It is human error; it happens, and it is not intentional. A table game like what was demonstrated to the Commission a few years back would actually control those types of human errors. So, in retrospect to the Commission's question, he thought that, in time, technology would be needed to keep gambling safe and honest.

Commissioner Gray thanked Mr. Mena and asked if there were any other comments from the audience; there were none. She moved on to the next topic.

2. Working Within the Legislative Environment

We are responsible for regulation and enforcement of licensed gambling activities, unlicensed but authorized gambling activities, and illegal gambling crimes. However, our funds only come from licensed activities, a declining revenue source. Every time we stop an illegal or unauthorized venue, theoretically, gamblers move back into the legal regulated environment. Also, free online games are becoming prevalent resulting in legislators and staff continually faced with vendors who want a determination that their product is not gambling. How do we connect our funding source to our legislative mandate and changes in stakeholder expectations?

How can we build confidence in the Legislature that the Commission can regulate gambling without additional legislative restrictions?

Today, we can effectively enforce the laws against illegal online/electronic gambling but if our funding is declining how do we remain effective in this role as well as be poised to regulate it should the Legislature wish to authorize online gaming?

Commissioner Gray asked the Commission to read the paper on working with the Legislature, (excerpted in text box above) which includes an introduction that says “the Commission is responsible for regulation and enforcement of the licensed gaming activities, unlicensed but authorized gambling activities, and illegal gambling crimes. However, Gambling Commission funds only come from licensed activities, which is a declining revenue source. Theoretically, every time the Commission stops an illegal or unauthorized venue, gamblers move back into the legal regulated environment.” Also included in this topic were two or three questions, and an RCW. She asked the Commission to jot down some ideas around the question of how the Commission could enhance the confidence of the Legislature that the Commission is effectively regulating gaming. The RCW has to do with working with the Legislature, building confidence in the Legislature, and effectively enforcing the laws against illegal gaming.

Chair Amos called for a break at 10:55 a.m. and reconvened the meeting at 11:15 a.m.

Commissioner Gray pointed out that one of the questions asks how the Commission could build the Legislature’s confidence in the Commission that it can regulate gambling without additional legislative restrictions. Today, the Commission can effectively enforce laws against illegal online electronic gaming, but its funding is declining. She asked how the Commission could remain effective in this role, as well as be posed to regulate it, should the Legislature wish to authorize online gaming. She asked Director Trujillo to provide some information about RCW 9.46.070 for fees and how those are established.

Director Trujillo reported the Commission has an interesting fee structure, which the licensees would probably say was probably the most complex fee structure they deal with

when it comes to city, county, and state governments. An initial applicant has to look at that fee structure and try to guess how they were going to operate in a given year because the license fee is based on a class activity, which is based on the actual gambling that is conducted throughout the year. Then they have to renew their license prior to their year end, which means they have to look at their numbers to determine if they will come close and whether they need to pay more to increase the license fee class or less to decrease the license fee class. That can be problematic because the Gambling Commission sends out a renewal notice based on what staff estimated that person's license class was going to be at the end of the year. But staff does not actually know what their license class is until they report their activity for the year, which is after the fact. So it is an interesting structure that has been in place for many years.

When it comes to how best to utilize the fee structure in a declining license scenario, which is what staff is undergoing right now, staff has looked at restructuring the fee schedule, but with any restructure, some fees go up and some go down. The Commission has a broad mandate, which is unlicensed and authorized activities, licensed activities, and illegal activities. But the Gambling Commission's funding source only comes from licensed activities. So, as the Commission moves forward into the future, the question comes up on how best to operate that. Within the Commission's powers and duties is their authority to set fees or a schedule that covers Commission activities. That has changed over the years, but basically the fee structure has remained the same. It is a complex fee structure that is not easy to work through.

Commissioner Prentice wondered if it was possible to put together a brief summary that would answer some of the things being discussed today, particularly with all the questions that have come up as to who the Commission is and what the Legislature knows about it. She recalled that in her early days on the Commission, the legislators thought they were supporting the Commission and were surprised that was not the case. She noted that most of the legislators were extremely ignorant, even those that thought they knew. They think they know, and they sort of like it or do not like it. The Commission could at least give them something accurate for now to say this is how it is done. Commissioner Prentice suggested the Commission start sharing the information with the Commerce and Labor committee, which she thought still had gambling within them, and then see where that leads. She knew they have had some big discussions at some time or another, like a "Gambling 101," but only those that have a high interest attend.

Commissioner Simpson agreed there were so many things that legislators have to try to be knowledgeable about that it is very difficult, especially when they are first starting. He thought it would be good for legislators to have a clear understanding that this agency is totally dependent on fees. Every day, the average legislator probably gets thousands of pages of information given to them. But all the Commission can do is provide the information and hope they understand. **Commissioner Prentice** suggesting putting the information in a notebook and they could look it up when they need it.

Commissioner Gray explained she would like the Commission to discuss the questions about how to build confidence in the Legislature that the Commission is doing the job that it needs to do and how best to do that, given the lack of knowledge, the lack of updates, and the changing environment.

Director Trujillo thought it came on the heels of the legislation that was introduced last year. While the Commission and staff are very conservative, deliberate, and methodical in their approach, it certainly did not appear that way in the legislation that was introduced, which he thought was kind of the origin of this particular thought topic.

Senator Conway said he thought at times there has been an issue of communication with the between the Commission and the Legislature. So often that occurred around some gambling expansion type of issues that were in the Commission and then the legislators heard about them, which then creates mistrust. Keep in mind, the state has a pretty high bar when it comes to gambling expansion. Even in the Legislature, nothing is passed without a high bar of votes. Something as controversial as the expansion of gambling cannot be passed, for example, three to two at the Commission meeting because then the Legislature is going to say "wait a minute. You know, we have a much higher bar when it comes to the expansion of gambling in our voting." Senator Conway thought that was where some of the suspicion in recent years around what was going on with the Commission came from. He said he wanted to share that with the Commission because the Legislature really feels it is their role to expand gambling, not through a Commission decision. He said in his years here, that was one major issue he has seen in Olympia.

Commissioner Gray asked if they knew what expansion of gambling was.

Senator Conway replied they usually have to have a ruling by the Secretary of the Senate currently as to whether a particular decision is an expansion of gambling. He said he was not sure what that means at the Commission's level, but assumed their legal counsel would be evaluating whether a decision would constitute an expansion of gambling. Of course, the Legislature has many bills that come to the floor that are challenged on the grounds that it is an expansion of gaming. It is a high bar in the state Legislature. It is an issue the Commission has to be sensitive about when they are talking about relationships with the Legislature. Because if the thought is to move a gambling expansion issue through this Commission, then they are going to run right into the Legislature and efforts to curb or roll back the authority of the Gambling Commission. He said those are the kinds of issues recently that have come up.

The other piece is interaction with the Legislature through the Gambling Commission. For years Senator Conway said he chaired the House Commerce and Labor Committee. At the time, it was great because then Representative Alex Wood was on the Gambling Commission and would report back to the chairman of the committee about what was going on with the Gambling Commission. And then Senator Margarita Prentice played that role completely with the Senate. But the Commission has no control over the ex-officio members who are the

ones that provide the linkage to the Legislature. It is important to try and build that linkage if the Commission is involved in that. Senator Conway thought that, as long as the Commission had those linkages, everyone knew what was going on and what debates were going on, and that works. Sometimes legislators that are not on the committees that deal with the gambling issues get appointed to the Gambling Commission. Senator Conway has observed through the years that, when that happens, there is a breakdown of communication. He pointed out that he had no knowledge of what they are currently doing at the Lottery Commission or the Fish and Wildlife Commission – commissions really exist in a world of their own. Even though legislators do not read every report that comes to them unless they are very interested in the issue, there needs to be some way of communicating with the Legislature what is being done on the Commission level.

Ms. Hunter agreed with what Senator Conway said about the link between the ex-officio members being really critical. She thought there have been a couple of things in the past few years that have made more things that the Commission has to do. When Senator Conway was in the House, he chaired the Commerce and Labor Committee for many years before he was elected to the Senate. The Gambling Commission had two years where it went to the State Government and Tribal Affairs Committee before that was changed to the Government Accountability and Oversight Committee. Staff was constantly building those relationships with legislators and staff. At meetings with legislators, staff give them a two-page legislative newsletter that is put out twice a year and includes what has been going on at the Commission. Staff also gives them a brochure that answers those basic questions about the Commission that staff gets from legislators. She thought the role of the ex-officio member was critical and it was great when they were able to help convey that, which was easier when they were on the committee. Three of the current ex-officio members are on the committees. Representative Hurst is the chair of the House committee where the gambling bills go and Senators Conway and Hewitt are both on the Senate committee, which really helps a lot. Ms. Hunter said she has some good information available on those rulings in the Senate about expansion of gambling. It comes up definitely in the Legislature, but it does not come up for the Commission in the same way. Jerry Ackerman had talked about that quite a bit as the Commission has had different decisions before them dealing with expansion of gambling.

Commissioner Gray said she had a question that deals with the Legislature and really goes back to the discussion about the technological changes. Proposals for technological changes have come before the Commission and they have to ask if that would be an expansion of gambling, if enhancing the technology of a game meant that was enhanced gambling. She thought it would be really nice to have access to the Legislature to help them understand what it was that the Commission was being faced with and were being asked to make those kinds of decisions as to whether a technological change was enhanced gambling.

Commissioner Stearns asked if Ms. Hunter felt the Commission's reputation in terms of law enforcement was really strong and solid and what its reputation was with the Legislature.

Ms. Hunter replied she thought it was good. She said she had talked with staff about this last week at some staff training. It was sometimes actually good when the legislators did not know exactly who someone is because that means that people have not been complaining about you. She explained the first thing she usually covered was that the Gambling Commission was not the Lottery or the Horse Racing Commission. She has had many legislators tell her over the years that they know the Gambling Commission is a small agency that regulates a big industry, and that people do not complain about the Gambling Commission to them, which is good. She thought that, overall, it was pretty positive and she felt good about what staff does. Elections occur every two years, so there was always a new wave of people coming in. Ms. Hunter said she has done legislative work for the Commission for about 15 years and so those faces have changed a lot. When there is a big election with a lot of new people, then staff is out meeting with those new people and letting them know who we are. Staff does a lot more in the legislative outreach each year. Ms. Hunter explained she works on legislative issues almost every single day. Staff gets a good reception when they meet with legislators, regardless of their party.

Chair Amos asked if Senator Conway considered the request yesterday for an increase in the bet on a Baccarat game as an expansion of gambling. **Senator Conway** replied it was the sort of issue that comes up and they have to seek legal counsel on it. He gave an example of a bill that the Gambling Commission was neutral on – the Special Olympics raffle bill – that bill was a major change in how raffle was conducted in this state, was subject to a challenge on the floor of the Senate, came through committee without being challenged, got to the floor of the Senate and it was challenged as an expansion of gaming. The President of the Senate ruled it to be an expansion of gaming and so that was the sort of thing that goes on – would a particular game be subject to that challenge if it had to be authorized by the Legislature? That is where legal counsel is critical in terms of their evaluation. He said the House and Senate are a little different. The Lieutenant Governor, President of the Senate, has very distinct rulings. A bill could get passed through the House without a challenge, but then when it gets to the Senate it could get challenged, and probably vice-versa too. So this issue of expansion of gaming is a big issue in the Legislature. In answer to Chair Amos' question, that is where legal counsel comes in – to determine if a certain type of gaming constitutes a major change in the way the state does gaming and, as a result, would it be considered an expansion of gaming. That is what happens with those rulings in the House and Senate. It is important for the Commission to understand that process. He assumed the Attorney General was here for that very reason, in part to evaluate those issues. The enhanced raffle was considered to be an expansion of gambling and the state has had raffle businesses forever. This new way of conducting that raffle was considered a gambling expansion by the President of the Senate, and as a result, it was subject to a 60 percent rule. Senator Conway said that, because it was hard to know exactly how those rulings were going to come, but it was an issue the Legislature looks at very carefully.

Commissioner Prentice responded it truly depends on whether they believe it is or not, where they are coming from, and what their perspective is. She recalled one of the initiatives where

the proponents of it here said it was just a shift from one kind of gambling to another, and then it failed. At the Commission meeting in Yakima, she overheard the proponents at the next table say they did not get their message out. She recalled thinking the public felt it was an expansion of gambling. Whatever legal counsel might have said, they believed it was and that was why it went down. The Commission can be very technical about it, but they did not accept it, they did not want it, and it did not fly.

Commissioner Simpson said he was not on the Commission at the time, but understood there was something that concerned some legislators that the Gambling Commission did last year prior to the legislative session that prompted this legislation. He thought that was part of the checks and balances of the system here. The Legislature set up the Gambling Commission to be a separate entity that has specific authority and if the Legislature feels the Gambling Commission oversteps that authority, they can communicate in ways like dropping legislation to abolish the Gambling Commission. He said he once co-sponsored a piece of legislation with Steve Conway's seat-mate to make it a Class C felony to commit fiscal note fraud because it felt like some agencies were manipulating fiscal notes so that the legislation would not pass. So there are lots of reasons people file bills. He said the Commission had to be cognizant of the fact there was a wide variety – there are probably at least 98 different points of view in the House on gambling and 49 in the Senate – so it has to be recognized that the Legislature has their authority, and the Commission has theirs along with mandates they are subject to.

Commissioner Gray said she thought the way the Commission approached an issue, the kind of questions they asked – for example, Commissioner Prentice had said if the Commission asked the public if they wanted gambling to expand in Washington State, they may say no. On the other hand, if the Commission asked how the tax revenue from gambling or new technology in gambling could be accessed, the Commission may get an entirely different answer. It all depends on the question that was asked and how the question was asked. She asked if it was appropriate for the Commission to go through Senator Conway to ask the Legislature or the Committee a question. **Senator Conway** replied he did not recall, but he thought Commissioner Simpson was probably right about the Commission having their authority. He did not remember the Gambling Commission ever coming to him, even informally, asking if he would see whether something was going to be considered an expansion of gaming. **Senator Conway** referred to the mini-baccarat the Commission was looking at yesterday. He said part of the role of the Attorney General's representative was to play that role with the Commission to evaluate whether a particular proposal would be considered a gambling expansion. And then, within the Commission's authority, he assumed they would use that legal counsel for that purpose. Then the Legislature would look at it with their checks and balances, and if they considered it to be a gambling expansion, that would be when the Commission would probably see legislation appear. But that is a big issue. Gambling expansion is probably the biggest issue this particular Commission has to manage. From the legislative perspective, he thought the statute was pretty clear that was a legislative prerogative. Whether something is considered to be an expansion of gaming is the key issue.

Director Trujillo added that he certainly welcomed Commissioner Simpson as an addition to the Commission. He thought that what also may have occurred was that the rule process that was behind the legislation that was introduced last year was not a quick rule process, by any means. It was not three months, or six months, or nine months – it was at least two years. Commissioners and staff recognized that it was somewhat controversial. The petitioner withdrew it, made some corrections, and brought it back. That was the type of process the legislators were not a part of – not the Commission ex-officio members, but the committee members that then went to hear that particular bill. So the Commission, with Senator Prentice as a long-serving ex-officio, has been very methodical in its approach. The Commission does depend heavily on staff, initially, to look at their expertise to see whether something is compliant with current rules. If staff has any doubts whatsoever, they look to our legal representatives. It is really only then that something comes before the Commission for their thoughts. So, it is a check and balance system even before it makes its way to the Legislature.

Commissioner Prentice thought it was really important to remember the history of where the ex-officio members came from and why they are on the Commission. At the time when the Indian Gaming Regulatory Act (IGRA) came about, there was discussion within the Legislature as to how they were going to deal with it. One of the things that was brought up by Senator Jeannette Hayner, who was in charge, was that they did not want the whole Legislature voting on tribal compacts, and it made a lot more sense to have somebody from each caucus on the Commission. Commissioner Prentice said she was the first ex-officio to start attending the Commission meetings regularly. She said she was viewed at first with great suspicion and she was not necessarily welcome. But, those were necessary positions; it was not as if it was all cut and dried and the ex officio members understood what they were about. Commissioner Prentice thought that the ex officio members have been enhanced by regular attendance. It is their role to keep the Legislature informed as to what the Commission was doing. She said opening it up made a huge difference, which she has been around and watched it evolve.

Commissioner Gray said what she heard was the way to be sure the Legislature had confidence in the work the Commission does is to make sure they understand the work the Commission does, how they approach their work, and the limits the Commission undertakes, and to use their ex-officio members as much as possible to relay that information because that was the reason they were on the Commission.

Commissioner Simpson commented that Ms. Hunter does an outstanding job of outreach to the Legislature. That was his experience – he saw Ms. Hunter lots of times this last session up there working every day.

Senator Conway agreed, adding the continuity of having Ms. Hunter there has been really important.

Commissioner Gray asked if there were other comments about how the Commission might interact with the Legislature.

Senator Conway suggested talking a little bit about the funding of the Gambling Commission. He thought it was a major problem and very important on how it was funded. There have been a number of sweeps of the gambling account during bad state budget times, which raises a whole different perspective than what has been talked about. The other piece of this, of course, is the license fee issue that is always one that gets generated inside. It is important to understand that in the Legislature, there are very separate committees that deal with these things too. The Gambling Commission's budget gets swept by Ways and Means staff who does not always talk with the ex-officio members when they do that. Margarita Prentice was lucky because she was the ex-officio and she was on the Gambling Commission.

Commissioner Prentice replied she did not know how lucky that was because she could only fight it off one year. It looked as if the Commission was protecting this huge amount of money and everybody else was hurting, so it happened anyway.

Senator Conway suggested keeping in mind that, whenever the Commission raises license fees, the legislators hear about it because they have constituents who go to them and say what they see going on at the Commission. That is a whole other process, aside from gambling policy. The funding of the Gambling Commission is another major issue of legislative involvement and he urged the Commission not to lose perspective on that. He thought Ms. Hunter might like to comment on that. She is the one that has to run by the Ways and Means Chairs to ask what they are doing sweeping the gambling fund again this year. The people that pay for those fees are the ones who actually should be a little alarmed because they pay their money for enforcement purposes. The basic reason the Commission has license fees is to pay for enforcement activity. He thought that was in the statute. When the Legislature sweeps those funds, they are sweeping the funds that are used for enforcement. In Olympia, there are also several levels of policy involvement, especially in funding. There is the Ways and Means staff, which is OPR staff, and there is also the staff that serves the committee from the partisan perspective. It is important to have a relationship with this full staff to understand clearly what is going on. It is a very complicated challenge, but one of the reasons the Gambling Commission has been struggling with funding is the Legislature has been sweeping the gambling fund, and there lies part of the reason for fee increases, which everyone here probably has some concerns about. Senator Conway said he just raised this because he thought it was another critical relationship with the Legislature.

Commissioner Gray said the Gambling Commission has declining revenues because of the declining operations.

Commissioner Simpson explained that, as he read the statute, he thought it was the responsibility that was given to the Commission when the Gambling Commission was created to make sure there was the provision of the funding necessary to carry out the mission of

keeping corruption out of gambling and so forth in Washington. It is a responsibility of this Commission to provide that funding, but there are a lot of moving pieces. In some cases, there are increasing costs, like health care costs rising every year. For employers, that is a big cost driver, and some portions of the gambling that is legal in the state has seen a decline. Commissioner Simpson said it reminded him of a game one of his kids had called something like SimCity where the person who is operating the city is able to set the level of taxation. If they make taxes too high, then their citizens start revolting, but if they are too low, then they do not have enough. It is a delicate balancing act to be able to accomplish what is needed to be accomplished and not be too oppressive with the fees. He said he did not know enough yet to be able to make good decisions about the structure or about who is being taxed and how much. He looked forward to learning more about that and having a much greater understanding of the Commission's existing structure and who was paying for it. He has visited the Gambling Commission offices and discussed these things with the staff, and thought they have done a very good job of working hard to become more efficient and do more with less. Commissioner Simpson said he believed that the Commission is reaching a point where they can no longer continue along the path of not hiring additional people when someone leaves or allowing positions to go unfilled. So the Commission has a responsibility. He thought he needed a better understanding of the existing structure and the history of it, so that he could make a reasoned decision about how to proceed and how to adequately fund the activities the Commission is responsible for taking care of in the future.

Commissioner Stearns agreed the Gambling Commission was getting close to the point where its funding was affecting its ability to do what it is supposed to do. He also thought the funding and the revenue issue in terms of at what point does the Commission endanger the public by not doing its job. He knew there were similar questions when looking at the military and how much they could cut before it started creating problems for the country's safety. It is important to be aware that there probably is a threshold and if the Commission goes under that, it is not going to be able to carry out its mission.

Commissioner Gray wondered if there were additional ways to enhance the revenue of the Gambling Commission, which is currently done through fees.

Senator Conway responded that one perspective he has shared with a number of folks was that he believed the Gambling Commission was in charge of a large chunk of industry in this state. These are businesses and a lot of people have employment through these businesses. In Pierce County, their casino employment is probably one of their biggest categories right now. It used to be the tide flats. Between health care and the casino, that is where a lot of the employment is, which requires the Commission to examine its responsibilities in that arena. A lot of people get their jobs there and depend upon those jobs. It is not just enforcement activity anymore; it is also responsibility for a chunk of people who are working at jobs and people at businesses as well. Senator Conway thought that was something that has changed considerably from the 1970s, 1980s, and 1990s. The employment at their major casinos is huge in the communities now. This is an enhanced role that is being played by the growth of

the gambling industry, which is probably worthy of saying, given that, is there more that the Commission needs to be doing. And if so, do fees solely for enforcement by statute meet the need. He said the Commission could ask the tribes how many people were employed at these casinos, but there are a huge number of people who are working and getting jobs from these casinos. It varies, but by virtue of that, this has become a major industry in this state for employment.

Commissioner Prentice commented that she hoped time did not run out before they really get to what she saw as one of the major stresses, which is because of the Indian Gaming Regulatory Act. IGRA is a federal act and the Commission had to deal with it. The tribes were able to have whatever gambling was occurring within Washington State, so because casino nights were allowed, that was what really brought it all in. She remembered it was an attempt at having some equity. Card rooms were allowed five tables at the time and then were expanded to 15 tables. They never were intended to be the same thing, but it was also trying to deal with some of the hostility that was seen from communities that were going to have tribal gambling. It was very real in those days and people kind of act like that never happened, but it did. The Commission also has to keep in mind that it has to deal with the federal law; it cannot be avoided. It does not matter who hates it, it is just simply there and the law must be abided. Commissioner Prentice said one of the things she wanted to comment on earlier was that the Commission does deal with the Attorney General's office, but she could remember one time where the Commission felt strongly enough, and that was the Quinault Tribe and whether or not there had been an unbroken ownership in a flea market, which was where their big casino is. The Commission disagreed with the AG's office and did it anyway, and the Governor at that time agreed with the Commission. So there was plenty of give and take. They were not the same thing, and Commissioner Prentice thought the Commission had to remember that the federal law applies, and they have attempted to live with it. Washington is in a lot better shape than some states because there was already a Gambling Commission attempting to deal with those things. Commissioner Prentice said she was not astute enough to tell the industry what efficiencies were necessary. Obviously, they are concerned or they would not be here. She thought the Commission was open to any ideas that might be given and the industry can help with this.

Director Trujillo referred to talking about the openness of the Commission and said one of the questions in topic number 4, which will not be covered today, was how the Commission staff does business. Within that was a suggestion Chris Kealy made last month that had to do with independent audits and whether staff could do something there or not. Director Trujillo said he wanted to share with Mr. Kealy that his suggestion did make it into the list of discussion topics although it was probably not going to make it into today's discussion. He did not want Mr. Kealy to have to repeat himself if he did not need to.

Commissioner Gray called for public comment.

Mr. Chris Kealy operator of the Iron Horse Casino in Auburn, a former president of the Recreational Gaming Association (RGA), and the current past-president, said so many subjects had been covered today and he was sitting there wondering if the Commission was going to let the public comment, and now he was not sure how to cover them all. He explained they were in a phase of what he called re-regulation, which was his new buzz word, and he was going to sell it to the Commission today. This Gambling Commission in 2001 supervised approximately 21,000 people. Today, tribal gaming units in general have done a good job themselves and are regulating a huge portion of this activity. Mr. Kealy said, to Senator Conway's point, that the activity being seen in Pierce County is enormously under the purview of the Puyallup Tribal Nation and under their regulatory body. The Commission helps that body, so is now a supplemental agency, where in 2002 it was that regulatory body. He thought that after seeing that re-regulation shift, this body lost a significant portion of its mission. That is just the reality of it. So this agency has gone from 170 or 190 people to about 146 FTEs today, and it was his thorough suggestion that it needs to be about 80 FTEs because the mission has shifted and public demand on gambling was and is huge. It was, and it was ignored, but now it is acknowledged and taxed, or organized in ways that policy makers have chosen to let the activity occur. So there is no particular interest in running an illegal gambling operation because they do not have a customer base. They have a source for what they want to do. So the regulation, or the need for the Gambling Commission in their mission surrounds money laundering and protecting our country's assets via terrorism, drug money laundering, and other activities that clearly are not even really a part of, but people are vulnerable to, because it is heavy cash businesses. Mr. Kealy said understanding what the mission is today versus ten years ago is the first step to then identifying what this agency really needs to look like. As they watched the mini-casinos melt down, it was not just that. It was a policy decision on where the activity would occur and then who, in fact, would regulate it, which happens to be their tribal partners in this process. He said the Commission has got to identify the problem before they start guessing at solutions. He said he has heard the Commission ask several times, what do they do to increase revenue. The market has shifted, and the people that are responsible for that activity are not the Commission anymore.

Ms. Dolores Chiechi, Executive Director of the Recreational Gaming Association, stated this process was very encouraging and, in fact, it appears as one of the vision statements on the website that states "anticipating and responding to the evolving gambling industry," is actually coming to bear now. She has been watching that statement on the website for a number of years and saying when might that happen. As Mr. Kealy mentioned, there has been a lot of statements made, and conversations and topics. And as her mind was buzzing, she finally just started jotting down some things. In regard to the initiatives and them being touted as public opinion, or what the public wanted at that time, if you look back to history, the tribes ran two initiatives and both of them were defeated by over 70 percent. The public said no, they did not want them to have slot machines. The tribes negotiated through the friendly lawsuit and they obtained slot machines. When the card room industry, along with another entertainment industry, ran Initiative 892, they got it on the ballot and were all excited about that, but they did not have any money left. There was \$6.7 million spent to defeat the Initiative. That was

the adjustment of the public opinion. Had the industry had \$6.7 million of its own to run its own "yes" campaign, it may have come out a little differently. So it was much easier to get a no vote than it was to get a yes vote. Ms. Chiechi wanted to make clear that it should not be touted as a public opinion and what the public wanted, because the public got one message, they did not get the other message.

As far as expansion of gambling, it has been stated what is an expansion of gambling, but it has never been defined. Past attorneys from this Commission have attempted to define it, the Attorney General's office attempted to put it in a category, and the President of the Senate has certainly made rulings on a number of occasions. But when the house-banked card room legislation was passed, that issue was never raised, nobody asked the question, and the card room industry was created to be what it is. Every time the Commission approves a new location, is that an expansion of gambling? Every time they approve a new game, for example the third bet on the mini-baccarat, is that an expansion of gambling? She thought it was really a squishy subject. Unless and until somebody challenges it in court and there is an outcome, it is really a squishy outcome of what that looks like, who is defining it, and what does it mean. Ms. Chiechi said she did not know how to answer that unless there was a court battle on that issue, but she did not think anybody had the money or the desire to go into court and get that outcome.

Ms. Chiechi noted that Commissioner Simpson had stated that it was the design of the Legislature to create a separate agency that was separately funded and was not part of the Legislature. And that has worked. For 30 plus years, this agency has done what it has done under the guise of the powers and duties that have been handed down by the Legislature to say this is what they want the Commission to do, this is what they do not want the Commission to do. All it takes is someone to write a letter or call a legislator and say, "Do you know what they're doing over there? No, I don't; tell me. Well here's what they're doing." That's what they learn, and they knee-jerk react, and the Commission gets a letter saying cease and desist or else. What they do not get is the other side of the story, or sitting in the room of the ex-officio members who actually hear the full picture of the two-year dialogue that occurred. All it takes is for a legislator to hear from an opposing view that they should be concerned. And guess what? The legislator is going to come to the Commission and say "What are you doing? I don't really know the whole story, but I just know I'm being told I shouldn't like it." So that is where the politics of this Commission and the Legislature get kind of merged together.

As far as what the Commission's duties should be or what their relationship in the legislative environment should be, Ms. Chiechi thought what Ms. Hunter, the past director, and the current director have done in meeting with legislators and informing them and educating them, that has to take place just within this Commission. There are five Commissioners who come from all walks of life who do not understand a lot about gambling. She said she would not use the word ignorant, they just do not know what they do not know. When it comes to mini-baccarat, they do not know how it is played. Ms. Chiechi thought that, perhaps monthly they have a "game of the month" and set it up at the back with the layout, and either the licensees

or the staff shows the Commission how it is played. Ms. Chiechi said she would benefit from that because she does not know how mini-baccarat is played. That was the purview of her members to know how that operates. But it makes sense for this Commission to have that education level. And it cannot be expected for 149 people in Olympia to understand it, when some of the Commissioners and staff do not understand it. So there is a good symbiotic relationship that could take place with the industry. There are decades of experience in the audience that come and sit, and just cringe when somebody asks about a mini-baccarat game and the Commission is regulating it. Ms. Chiechi thought there was an opportunity there for a lot of shared information and a lot of education that could take place within this Commission. She said the industry does its best to try to educate legislators as well. So, when the Commission's bill comes up, they have a reason to go talk to the legislators. If there is no bill to talk about, it is likely they legislators are not really interested to have a conversation with Commission staff.

Ms. Chiechi thought the path this Commission appears to be on is taking a more proactive approach to the Legislature in getting to them and saying they would like to come and inform them about what the Commission is up to, rather than waiting for staff to be asked to come forward and give a presentation at a hearing or a work session. Perhaps having conversations that are more broad and specific as well would give the legislators a better understanding of what this Commission does and that it knows what it is doing. When the bill was up for a hearing, there were some mis-statements made by some testimony. And the staff of that committee had no idea that they were mis-statements so the legislators walked away believing what those statements were. It just goes to show if that bill were to pass – they get a mini-baccarat bill, the Commission has how many weeks to get ten legislators that are on that committee to understand and the staff of that committee to understand what that bill would do and what the game would do. It makes Ms. Chiechi very concerned that the Legislature would consider shifting the authority away from this body. The Gambling Commission has the methodical approach of months of discussion, staff analysis, staff presentations, questions and answers, and demonstrations that help the Commission to make an informed decision. By no means would Ms. Chiechi say that this Commission has been knee-jerk or not methodical in its approach to making those decisions. She wanted to just say, as well, the ex-officio roles are huge because it helps the committee; it helps the Commission when they attend, and listen, and pay attention, and then go back and report to their committee what is going on. That committee is a little bit more informed than if that ex-officio chose not to attend and not to communicate back what was happening. Ms. Chiechi thought there were some of those processes that could be reinforced, but she was also very encouraged by this process and the fact that the audience, the public, and the industry are allowed to comment and participate. She thanked the Commission for their time.

Commissioner Stearns said he wanted to follow-up on Ms. Chiechi's comments. When he worked in Congress on the committee that dealt with gaming, there was no way they could have done their job except for the fact that they traveled the entire country and exhaustively studied security, the money, and the games. He did not know how many casinos and how

many other operations he visited, in addition to holding hearings on it, but just having that knowledge was absolutely critical.

Commissioner Gray repeated what she had heard. One of the effective ways of dealing with the Legislature is to make sure the Commission was informed, that they understand the games, and that they take advantage of anything they can, and to use the legislative liaisons to get information to the Legislature.

Mr. Martin Durkan Jr., representing the Muckleshoot Tribe, stated there was obviously a diverse opinion on these issues. He said he was not interested in rewriting history or having a different understanding of what has taken place in gaming and initiatives over the past 20 years. The Commission itself has done independent surveys. They speak on their behalf on their own. A survey obviously is only a point in time. The Commission could certainly do another one, but Mr. Durkan thought they would find that the numbers were relatively the same in terms of where the public is on the amount of gaming that is taking place in the state of Washington. Mr. Kealy and Ms. Chiechi are quite correct in that everyone knows internet gaming is coming. And if it is about new revenue, the opportunity for new revenue for Washington State and for the Commission is with new games and new market sectors. And so the Commission's preparation for that is very wise because it certainly is coming eventually and they have to be prepared for it.

Mr. Durkan said he worked hard with Ms. Hunter last session trying to get the salary freeze lifted for the gaming agents because the Commission was not retaining some very well-qualified staff. And the Legislature needs to be aware that the Gambling Commission has to be competitive in the wage market to retain these people because they are going to go to other police agencies to get better compensation. So there is a lot of brain trust here and it functions well, and they have done a great job regulating the state of Washington. But if the Commission loses more people, there is going to be a problem. The tribes are concerned about the overlap with the Tribal Gaming Agency because they have their own gaming commissioners and their own gaming agency. There is a duplicated process that is going on with the Commission, and as they move forward in the next few years, if the tribes begin to open Compacts, the Commission is going to see a number of tribes wanting to regulate themselves. And that will be a big loss of funding for the Commission. So the Commission has to look at those issues. And Compacts are going to be reopened and renegotiated, and things are going to change, probably more than Mr. Durkan realized and more than the Commission realized. He said he had a small comment on the mini-baccarat. He was not alluding that it was an expansion of gaming, and he did not believe it was. He said he had a problem with somebody that was not licensed in the state proposing a game. He would think that someone would need to be licensed to propose a game, to even evaluate a game, a game that is not licensed anywhere else. The letter from Nevada said they did not license him – they said they did not require a license. Mr. Durkan said his tribe's gaming officials were concerned that nobody would play it and it would be hard to regulate, so they would not do it. That was his comment and that was what he meant. He did not think it was an expansion of

gaming. Like Senator Conway said, it was an evolving issue with the Legislature. He thought the reason the raffles were scoped was because of the size of the prize. It was a major prize and a major change. Mr. Durkan believed the Commission was going to see a lot more expansion of raffles and a lot of nonprofits wanting to do that. So that raffle business has to be watched; not that it impacts the tribes, the card rooms, or anybody else, but it is a big number. Mr. Durkan asked what happens if they never sell enough tickets or they never win the condo. It is very interesting. He thanked the Commission.

Commissioner Gray asked if there were any other comments on this topic; there were none.

3. **Problem Gambling**

These days, it seems almost everyone knows of someone with a gambling problem. What is our role in this area?

There is a massive increase in online play for points. Such vendors are positioning themselves should internet gambling become legal. Does this tie to problem gambling? Even though there is no charge for the activity, players often buy enhancements that increase their activity. While there may be a legal distinction between such a purchase and a gambling activity, the problem gambler may not see a difference. Is this something we should be looking at?

Online Penny Auctions are not considered gambling by the letter of the law; however, many people consider the activity to be very similar to gambling. This may result in increased problem gambling. Is this something we should be looking at?

Commissioner Gray introduced the third topic (excerpted in text box above): problem gambling, both in terms of the kinds of problem gambling that is seen today and the continued – and again it goes back to internet gambling and if it becomes legal, what kind of problem gambling would there be. There are penny auctions now that are not considered gambling, but is that in fact enhancing the gambling problems? She opened it up to a discussion about problem gambling and the role the Commission might have in that issue.

Chair Amos asked what online penny auctions were. **Director Trujillo** replied it was something he did not quite understand, and asked if Assistant Director Harris would like to try to explain it in a way that might be understandable. **Assistant Director Harris** explained there have been some ads on TV for penny auctions. Basically, they start out by giving people a certain number of free bids and each bid goes up by a penny. After that, each time someone places a bid there is a fee charged for placing the penny bid. So, technically someone could win something like a cellphone for \$5 if they happened to be the last bidder. But then they also have paid the fees to place the penny bids. Basically, it is like an auction, but people are paying a fee each time they bid, and the bids usually just go up a penny.

Chair Amos asked if it was basically like buying off eBay. **Assistant Director Harris** replied it was similar to that, except there was a fee for each time someone places a bid on the item that they might not necessarily win. So, even if someone has placed a couple bids, they get charged for those bids – even if they are not the end winning person for the item, they are still paying that fee to place those bids. **Director Trujillo** asked if that fee could be several dollars. **Assistant Director Harris** affirmed. **Director Trujillo** said it may cost someone to bid a penny, \$3, \$4, or \$5. And then if they want to bid that again, it would cost them that fee again, so it just continues to go up. So in the end, it may cost \$5 for the item, but that was not the true cost because it cost \$5 in pennies, plus all the fees that were paid for the bids. And in the end they win the prize. **Chair Amos** asked if that was going on in this state. **Director Trujillo** affirmed, adding that it is currently a consumer protection issue under the Attorney General's office. **Director Trujillo** said it was very similar to gambling and there were not a lot of people who report those items to Commission staff as gambling issues. Staff would then refer them to the Attorney General's office, but as Commissioner Gray talked about, it may be enhancing a gambling problem.

Commissioner Gray asked if there were any comments about the gambling problems that are in Washington.

Director Trujillo said Dolores Chiechi and Maureen Greeley from Problem Gambling have made presentations to the Commission. Tribal representatives have described the programs that they are in charge of, and Ms. Chiechi and Ms. Greeley have partnered with them a couple of times.

Commissioner Gray thought the question for the Commission was whether there were attempts to deal with problem gambling within the gambling industry. She opened the discussion up to what the role of the Gambling Commission was with respect to problem gambling.

Senator Conway said that, having been in Olympia, Commissioner Prentice and he both were there when the problem gambling issue really took off in the 1990s. That was when the Legislature finally got around to putting together some funding mechanisms for problem gambling. And keep in mind that that became the method. Then the Compacts picked up on it and started placing problem gambling into the Compacts. He thought one way in which an industry ensures the public that it is sensitive to the problems it creates is to be engaged fundamentally in the problem gaming issue. The stories are sad – stories of people who have lost their home, lost their lives, or been put in jail because of a problem gambling problem. Senator Conway said the gambling industry is expanding in Washington State and the question was whether sufficient resources and strategies were being generated to address it. As a legislator involved in this for years, Senator Conway thought the Legislature was looking for that kind of role. When he looked at the statute, he did not think it says the Gambling Commission will be the agency that manages problem gambling. He thought it was almost a health care issue, a DSHS issue in fact. But the gambling dollars are not with DSHS. and he

thought it was their game really to bring together the parties to work on problem gambling. **Director Trujillo** affirmed there was no specific mandate in the statute that the Gambling Commission shall be in charge of a problem gambling program.

Senator Conway said he was reminded a little bit about liquor. Liquor has all of its consequences. And of course what has happened very carefully with the liquor issue is that the liquor tax revenue was used to address the problem drinking and everything that came from all of that. He said that, to him, problem gambling was a similar kind of challenge, because it was critical. The public thinks the revenues to address problem gambling issues are generated by the industry that was created the problem. Senator Conway thought therein lies the issue that the Commission is trying to get at here, what the role of the Gambling Commission is in this. To some degree, it was the responsibility of the state to address the problem, but he did not think anyone was saying that problem gambling was not with us. One of our legislative bodies saw what happened here just recently, and it is not as if problem gambling was not out there. The question is the industry needs to be responsible and to ensure that their resources are being developed to address those problems and help control them.

Commissioner Gray asked if there were any other comments, or any comments from the audience.

Ms. Chiechi introduced herself again and stated that on behalf of the Problem Gambling Advisory Committee, of which she had been the Chair for a number of years, it was the advisory committee that works within the Department of Social and Health Service's (DSHS) program to monitor, direct, and make recommendations to the state agency with regard to the program that is funded by the industry. The industry pays that .13 percent--horse racing, lottery, bingo, charities, pull-tabs, and card rooms. And then the tribal revenues by way of their Compact agreements also contribute. These are ways which help the public with problem gambling. As far as what role the Commission should play, she thought the Commission has played a tremendous role in coordinating and collaborating with not only the Problem Gambling Advisory Committee and the state program, but also the Evergreen Council on Problem Gambling, which is the nonprofit entity in our state, which is internationally known as one of the top go-getters after this issue. Ms. Chiechi said she would encourage a similar communication, shared information, and also offer the opportunity for the Council, as well as the state program, to come with ideas and concepts to staff and present those as opportunities where there can be partnerships between the Gambling Commission and the programs that currently exist. She then explained that the state program had recently done a sole service contract with Evergreen Council to provide much of the services, the treatment, the training, the awareness campaigns and prevention. The program is successful, the funding is there, and if there was more money that could be contributed, it certainly would be put to good use. She thought a continued collaboration with the Gambling Commission would be a benefit, and thanked the Commissioners.

Commissioner Simpson asked if Ms. Chiechi could give an example of someone who was being assisted by the Problem Gambling and how they become engaged with the program and the process.

Ms. Chiechi replied there was a 1-800 number that was required by all gambling entities. They are required to have one as it is in the statute. The Gambling Commission has the fliers, brochures, and posters that are to be put near all of the gambling activities that occur in the state. For example, a person calls the 1-800 number 24-hour hotline and is referred either to a Gamblers Anonymous, or to a counselor, or a treatment center. In fact, treatment is free. If a problem gambler calls the state and says they have a problem, they will communicate and work with the Evergreen Council. The Evergreen Council has sent a number of people out of state because currently they do not have an in-state residential treatment center. The Evergreen Council has counselors that will see someone two or three times a week. They also supplement that with Gamblers Anonymous meetings. But the Evergreen Council has the funding through the tribal contributions and other contributions that actually send people away for a 30-day out-of-state inpatient intensive treatment.

The Evergreen Council has also created what they are calling therapeutic justice in Pierce County. For example, if someone who embezzled funds can show that the reason and the cause was because they had a gambling addiction, they could actually get a reduced sentence, and it is kind of like drug court where if you can prove that you are not using, and you are going to treatment, and you are staying off the drugs, they can diminish your fine, or diminish your penalty. Of course, problem gamblers are still going to have to pay restitution and do not get off the hook. It is challenging, however, because there is no drug test for problem gambling. Evergreen Council is talking about doing a lie detector or stress test to see if a person is telling the truth if they have gambled or not. Progress is being made and Ms. Chiechi is hoping they are expanded around the state, as well as tribal court systems. The only program that utilizes the lie detector test that exists in the nation is actually in Amherst, New York. It is a tremendous program. They have had a great deal of success with folks that have gone through that program.

The Council is making progress towards those types of processes. And as Senator Conway mentioned, it is a mental health issue. Recently the DSM-5, which is the diagnosis for the mental health community, has determined problem gambling could be an addiction and it is not just this weakness that people have. Take into consideration how far the medical profession has come with alcohol and drug addiction into believing that it is not just a weakness and admitting it is a brain chemistry thing, and they have found the same thing with problem gambling. Even though the program has come a long way, it is still further behind alcohol and drug addiction. There are advocates out there that are promoting that problem gambling is an issue and the public needs to be cognizant of it and do what is right for the people that are affected. Ms. Chiechi affirmed that families are also allowed for treatment, and that family members could call. But a person cannot be committed to a treatment unless they want to go. Next month their industry is going to be doing problem gambling training for

its employees to become responsible gaming certified. And they are doing that in concert with the Evergreen Council, who would be happy to come as regularly as they are invited and present to the Commission updates on those activities.

Commissioner Prentice suggested that the Evergreen Council come periodically to update the Commission. She referred to the hearings in which she participated in a number of years ago regarding problem gambling where it only skimmed the surface. The problem is extremely serious and it destroys lives. **Ms. Chiechi** replied that the Problem Gambling Advisory Board was also offering those updates in communication with the legislative committees as well to keep them abreast of what is happening out there. **Commissioner Gray** agreed with Ms. Chiechi.

Senator Conway asked if the problem gambling mission had some national notoriety. **Ms. Chiechi** replied, absolutely. **Senator Conway** commented that the statewide organization had its meeting in Seattle recently. He asked if the Evergreen Council has the staff support to be doing the kind of background that other countries are doing to address problem gambling as far as the best practices initiative. **Ms. Chiechi** responded that the conference was a National Conference, and Seattle was the host for the National Conference. There were attendees from Australia, Canada, New Zealand, and all over the world. And, the Evergreen Council's Executive Director, Maureen Greeley, was recently elected their president of the National Council. There is a great deal of resources and information sharing, and the excitement around that conference, and people networking, and sharing those best practices so they know what is happening in other areas so that they are not reinventing the wheel. That is absolutely taking place. The Council is expanding its staff to manage that. It is a tremendous thing to see because five years ago, staff was ready to close the doors at the Council because there was not enough money. Now they are looking at buying a building to be able to operate out of and have come that far. And it goes to say too that the tribes have been a great contributor to those programs by way of their Compacts. They have given more money to the Council than has gone to the state, but now that there is a sort of shared collaboration. It really does not matter where the money goes because it is all being spent on the proper things.

Senator Conway commented that according to Ms. Chiechi, regarding the regulatory side, there is great cooperation between the tribes and the Evergreen Council's programs on the issue of problem gambling. **Ms. Chiechi** replied yes, absolutely. That is one area they can all agree on.

Closing

Commissioner Gray thanked Dolores Chiechi for her comments and mentioned they were almost out of time. Commissioners and staff covered three topics and she said she would write a summary on the strategic topic of technology. Although there was not a vote, there was an agreement that the Commissioners need to have more education on the economics and all the impacts of what the new technology might bring; to look at what other states are doing; review the legislation; talk with our partners and clients about the new technology and online gambling. She

asked that staff put together some kind of information so the Commissioners' could have some facts and these facts could then also be shared with the legislature and our legislative representatives. While working within the legislative environment, there is still the question of the definition of the expansion of gambling; this would come directly from Legislature. Commissioners would look for a better understanding of funding, and be able to understand and look at connecting our representatives with the Legislature to make sure that the Legislature understands what the Commissions' role would be, and understand what the Legislature expects from the Commission. There was a suggestion from Commissioner Prentice to assemble a one-page document that could be modeled after the brochure that Ms. Hunter has to hand out to legislators.

Commissioner Simpson commented that he was going to be in Olympia working as well during the session, and he would be pleased to assist Ms. Hunter. If there was a circumstance where she had to testify on legislation from a staff point-of-view and would like one of the Commissioners to be there to answer questions or testify from a Commissioner point-of-view, he would be happy to help. **Commissioner Gray** thought it would be really helpful, and asked if others would be willing to assist Ms. Hunter with the Legislature.

Commissioner Prentice replied she would be happy to help, but did not want to overlook the potential for help from the Attorney General's office. **Commissioner Gray** agreed they should include Assistant Attorney General Callie Castillo to provide some information on the expansion of gambling. As discussed, the third topic was on problem gaming, and what they learned was that there is a lot being done now, both in cooperation between the tribes and the house-banked card rooms. The discussion will be reflected in the Commission meeting minutes and when they are done it would be useful to have a one-page summary as Commissioner Prentice mentioned. Commissioner Gray said she would be willing to work with staff on it. Commissioner Gray also stated there were two more topics that they did not have time to cover today, but they could discuss in the future. She then asked if there were any comments about this process or anything else.

Commissioner Prentice thanked Commissioner Gray for her preparation for the meeting. She also stressed the importance of the strategic session and understanding it would bring to the Commissioners.

Commissioner Gray thanked Director Trujillo for all the preparation work for this portion of the meeting.

Chair Amos thanked Commissioner Gray and asked if there was anything else from Director Trujillo. **Director Trujillo** replied there was nothing further.

Adjourn

Chair Amos thanked the Commissioners for their good work and adjourned the meeting at 12:40 p.m.

Minutes were submitted to the Commission for approval by:
Michelle Rancour, Acting Executive Assistant

At the 2013 October Gambling Commission meeting we will devote 3-4 hours to a Strategic Issues Discussion. Please review the suggested topics and questions below. We are asking you to:

- Identify those topics that should be discussed on the second day of the October Commission meeting in Spokane.
- Rank these topics and questions 1-4, one being most important.
- Identify any additional topics or questions that you feel should be addressed in October. Feel free to modify or add questions to the topics suggested below.

For topics not identified as immediate we may discuss in November or hold follow up discussions as needed.

October 9, 2013 Strategic Issue Discussion

Goals:

- Build awareness of the issues and decision topics that Commission members may be addressing in the near future.
- Understand legislative concerns and direction and how these affect the decisions and work of the Commission.
- Identify and discuss emerging issues.
- Provide direction for Commission staff as they develop the 2013-17 agency Strategic Plan.
- Provide an opportunity for the public to have input on the Strategic Issues of the Commission.

Timeframe: 12 months, impacting the Commission work for up to 4 years.

Potential Strategic Issue Topics

Technology (1)

The same technological pressures that citizens are placing on state government to modernize the way it conducts business are the same pressures and expectations we are facing as changing technology reinvents the gambling industry every year.

I-582 and I-583 are current initiatives that propose allowing online intrastate poker. How do we prepare for this possibility without looking as if we are promoting it or somehow sanctioning it?

Digital currencies are becoming more common. Some are supported by government, such as the MPeso in South America, and others are not, such as the decentralized Bitcoin. As these become more and more prevalent, how do we keep informed of this technology and how do we ensure this technology does not enter Washington gaming unless the Legislature authorizes it.

How do we continue to plan for rapid advances in technology on mobile gaming devices such as cell phones, notebook/notepad computers, or Google Glass that can impact WA gambling, as well as electronic enhancements to traditional gambling games?

How do we address the gambling industry's desire to be able to enhance their gambling products with advanced technology?

Other topics and/or questions you feel should be brought into this discussion -



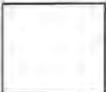
Working within the Legislative Environment (2)

We are responsible for regulation and enforcement of licensed gambling activities, unlicensed but authorized gambling activities, and illegal gambling crimes. However, our funds only come from licensed activities, a declining revenue source. Every time we stop an illegal or unauthorized venue, theoretically, gamblers move back into the legal regulated environment. Also, free online games are becoming prevalent resulting in legislators and staff continually faced with vendors who want a determination that their product is not gambling. How do we connect our funding source to our legislative mandate and changes in stakeholder expectations?

How can we build confidence in the Legislature that the Commission can regulate gambling without additional legislative restrictions?

Today, we can effectively enforce the laws against illegal online/electronic gambling but if our funding is declining how do we remain effective in this role as well as be poised to regulate it should the Legislature wish to authorize online gaming?

Other topics and/or questions you feel should be brought into this discussion -



Conducting the Business of the Gambling Commission (3)

How do we continue to maintain positive working relationships with Tribes while, maintaining tribal sovereignty, ensure compact compliance, and adapting to changes in the industry?

State government is preparing for the ability of WA citizens to be able to access state government services from anywhere via their mobile device. As a government agency, how do we prepare to meet this expectation?

As one of Washington's public safety agencies, how do we ensure we are woven into the state's overall public safety framework without overstepping our authority?

Given the rising cost of CPA independent audits, does it make sense for smaller house-banked card rooms to “opt in” to an alternative where these operators pay for regulatory work to be performed by commission staff that examines their financial position at fiscal year end?

Our development of the My Account concept is an example of increasing efficiency. What are other ways the agency might increase efficiency?

Other topics and/or questions you feel should be brought into this discussion -

Legislative Reports (4)

RCW 9.46.090 requires the Commission to issue certain reports to the Legislature. Staff provided annual reports to the Legislature for many years. Over time, these reports became the gambling activity statistical booklets that are now available online. Is it time to check in with the Legislature to see if our reporting is meeting expectations? Also, does the Commission wish to advise the Legislature of recommendations of the Commission?

Other topics and/or questions you feel should be brought into this discussion -

Technical Assistance and Training (5)

What do licensees expect from the agency and how do we improve our technical assistance and training to them or others considering authorized gambling?

Other topics and/or questions you feel should be brought into this discussion -

Problem Gambling (6)

These days, it seems almost everyone knows of someone with a gambling problem. What is our role in this area?

There is a massive increase in online play for points. Such vendors are positioning themselves should internet gambling become legal. Does this tie to problem gambling? Even though there is no charge for the activity, players often buy enhancements that increase their activity. While there may be a legal distinction between such a purchase and a gambling activity, the problem gambler may not see a difference. Is this something we should be looking at?

Online Penny Auctions are not considered gambling by the letter of the law; however, many people consider the activity to be very similar to gambling. This may result in increased problem gambling. Is this something we should be looking at?

Other topics and/or questions you feel should be brought into this discussion -

Please identify additional topics and/or questions you feel should be brought into our Strategic Issues Discussion:

With regard to the Legislature, we have 9.46.010 (legislative declaration) and 9.46.070 (Commission's powers and duties) to guide us. With regard to Governor Inslee's launch of the new Results Washington Initiative there are three of five goals that we might think about with respect to our own agency goals. They are prosperous economy; healthy and safe communities; and efficient, effective and accountable government. Governor Inslee's other two goals are world-class education and sustainable energy & clean environment.

MINUTES
NOVEMBER 14

**WASHINGTON STATE
GAMBLING COMMISSION MEETING
TUESDAY, NOVEMBER 14, 2013
DRAFT MINUTES**

- PUBLIC MEETING -

Chairman Mike Amos called the Gambling Commission meeting to order at 1:30 p.m. at the Tumwater Comfort Inn Conference Center and introduced the members present.

MEMBERS PRESENT: **Commissioner Mike Amos**, Selah
 Commissioner Margarita Prentice, Renton
 Commissioner Chris Stearns, Auburn
 Commissioner Geoff Simpson, Issaquah
 Senator Steve Conway, Tacoma
 Representative Christopher Hurst, Enumclaw
 Representative Gary Alexander, Olympia

STAFF: **David Trujillo**, Director
 Mark Harris, Assistant Director – Field Operations
 Tina Griffin, Assistant Director – Licensing Operations
 Julie Lies, Assistant Director – Tribal & Technical Gambling
 Amy Hunter, Administrator – Communications & Legal
 Callie Castillo, Assistant Attorney General
 Michelle Rancour, Acting Executive Assistant

Staff Accomplishment: Cathee Gottfryd Recognized for 30 years of State and 15 years Gambling Commission Service.

Director Trujillo recognized Cathee Gottfryd for almost 15 years service with the Gambling Commission. Ms. Gottfryd enjoys entering contests like the one in Portland last summer where she participated with 1,200 other redheads that attempted to break the Guinness Book of World Records for the most natural redheads at an event. She also entered her cat named Bentley in a photo contest with the Washington State Lottery called Cats versus Dogs. There were 1,355 total entries and the top three cats and top three dogs with the most votes will be pictured on an upcoming scratch ticket. He thanked Ms. Gottfryd for her time with the Gambling Commission.

Agenda Review/Director's Report

Director Trujillo commented there was a large turnout for this morning's study session and thanked all the attendees who were part of that study session. It was refreshing to see such a large turnout. He briefly reviewed the agenda and noted a couple staff requested changes. The report by Administrator Paul Dasaro on the Electronic Gambling Lab would be presented in two

parts: part one at this meeting and part two at the January meeting. The approval of day two, the October 9 Strategic Session, minutes would be held over until the January Commission meeting.

Director Trujillo pointed out a request by the Lummi Tribe to amend its Tribal-State Compact. The Governor's Office forwarded that request to the Gambling Commission with directions to move forward with Compact amendment negotiations. Director Trujillo pointed out a recent news article about Chairman Brian Cladoosby who is now the President of the National Congress of American Indians.

House-Banked Card Room Multiple Ownerships

Director Trujillo explained the House-Banked Card Room Multiple Ownerships report was provided as a follow-up to Senator Conway's questions about the House-Banked Card Room Activity Summary Report that was presented at the October meeting. The memorandum reflects two different types of information. One is for house-banked card room businesses in which the businesses and the premises have common ownership, or the business owns the premises. The second is for house-banked card rooms that are commonly owned by a single person or persons. Attachment A indicates which businesses and premises have an ownership in common and Attachment B is broken up by the common ownership. For example, Nevada Gold has 11 properties; Evergreen Gaming has 4 properties; and Steve Michael has 3 properties. The report was not meant to convey anything besides information.

Senator Steve Conway asked which year the net income was for. **Director Trujillo** replied he thought the net income was for fiscal years ending 2013. **Assistant Director Griffin** said it was for fiscal years ending in 2012. She explained that each organization can have its own fiscal year end so not all of them are December 31 or June 30. The information is for whatever fiscal year that entity had that ended in 2012. **Senator Conway** assumed all the businesses listed were still operating except one that ceased operation under Steve Michael on September 30. **Assistant Director Griffin** affirmed that was correct. **Senator Conway** said it was important for the Commission to understand the industry here as much as anything. He said the list was a section of the industry, not all the card rooms were seen, and he was curious to what extent, when all the different card rooms were listed, of those that have relationships between or a similar owner in different places. **Director Trujillo** agreed, adding that recognizing those relationships was important to be able to understand the industry in its entirety.

Director Trujillo shared that he was asked how a business that continues to lose money year after year stays in business. He explained he equated it, on a very much reduced scope, to a person that has two rental properties; a rental property that constantly loses money, coupled with a rental property that sometimes makes money. In the long run, they kind of break even, even though one was always losing and one was making a profit. That is a very simplified explanation for various circumstances that could lead to a year after year loss.

Chair Amos welcomed Representative Gary Alexander to the meeting.

Director Trujillo reported the monthly update reports were fairly standard. He pointed out some news articles, which demonstrate why it was so important for the Commission to have the strategic discussion last month. There were several articles regarding the state of Washington. There was so much happening around the country, and just being aware of that helps the Commission respond to what could be coming this way. Director Trujillo drew attention to the following news articles:

- The Gambling Commission issued a verbal warning to organizers of a poker event to raise funds for the re-election campaign of a Battleground city council member because the way they were doing the event was not correct.
- “Franklin County Court Administrator investigated for running an illegal betting pool.” In Washington, it should not have been done the way that it was.
- The Nisqually Tribe’s Red Wind Casino’s expansion and the Centennial Accord that was held there recently.
- The Tulalip Tribe’s gift giving of \$6.9 million to nonprofits.
- G2E and the state of online gaming in 2013 was a fairly lengthy article, but it explains what was going on in Nevada, New Jersey, Delaware, California, online gaming, and casino gaming. It really is a synopsis of what is occurring nationally or beyond the boundaries of Washington State.
- The Drawing Dead article was a poker documentary and showcased two opposing points of view. One point of view was a person who was on track to be another Tiger Woods, who had suffered a heart attack at a very early age and found he had the ability to make money in online poker and did very well at it. Contrast that with another person who basically did a walk-across-America to draw attention to problem gambling by showcasing his own problem with gambling.
- A general article about a study from the Economic Times about Americans spending \$2.6 billion gambling online in 2012. Director Trujillo said he had not looked into the veracity of the study but thought it was a very interesting article.

Director Trujillo said that staff would continue to include the news articles in the agenda packets. He asked if there were any comments about these news articles based on the strategic topic discussion at the October meeting.

Commissioner Stearns thought the Wall Street Journal article was interesting. When they looked at 4,222 casino customers just 2.8 percent or 119 customers provided half of the casino’s income and 10.7 percent of the customers provided 80 percent of the casino’s revenue. That shows what the breakdown is of people who gamble and people who help sustain the industry.

Director Trujillo agreed it was very interested reading.

Business Licensing Services

Director Trujillo explained the memorandum in the agenda packets goes along with continuing efforts to inform the Commission of staff’s work with the Business Licensing Services. In 2009, the Legislature tasked the Office of Financial Management with

consolidating, or looking at consolidating, business licensing functions that are performed by various state agencies. Staff began exploring that option soon thereafter with Department of Licensing's Master License Services, which then moved to the Department of Revenue with Business Licensing Services (BLS), who staff has continued to work with. Assistant Director Griffin and her team have met with them many times since 2010. At the last session, there were some requirements that state agencies were supposed to provide to Business License Services, or Department of Revenue, just to keep the project moving. One of the reasons it was difficult for the Gambling Commission as an agency to initially participate was the complicated structure of its license fee system. That, coupled with the Department of Revenue's computer system, did not mesh well. The Department of Revenue was in the midst of transitioning from their old system to their new system. Staff will continue to explore and partner with them, and may be able to take advantage of that system beginning in 2017 when the Department of Revenue gets it online. Washington State is moving towards providing unique services to its citizens or consumers and "My Account" is the Gambling Commission's version of providing that unique service to those who access that system.

Chair Amos asked if there were any questions; there were none.

Problem Gambling Public Service Announcement (PSA)

Director Trujillo introduced Ms. Susan Newer who was in the audience and who prepared the information for this topic. Ms. Newer prepares many of the periodicals that are shared with the Commission. There were two PSAs, one was for underage gambling and the other was for dog fighting. He introduced Ms. Maureen Greeley, President of the National Council on Problem Gambling, who has offered to come up and share some information with the Commission. One of the bullet points on page 3 of the memorandum explains that three of the reporters requested to collaborate with the Gambling Commission on a dog fighting case. Agents in the eastern regional field office coordinated a ride along with KOMO when arrests were made at a cock fighting bust in August 2013. At 11:30 last night, KOMO aired a follow-up to that, which Director Trujillo would like to show. It is a very short presentation, but it is very interesting. He explained there was a Romanian princess involved, which KOMO refers to as the backyard princess. Not only were the PSAs well received, which can be seen by the comments, but it resulted in some follow-up and raising the awareness.

Commissioner Stearns said it was better than some other ones. **Director Trujillo** explained that once the video was shared with the Commission, Ms. Maureen Greeley would like to come up and share some things with the Commission.

[The KOMO4 video on cock fighting was played.]

Director Trujillo said the video was a result of something that Gambling Commission agents worked on with several other agencies; it had multi-agency and multi-state impacts.

He said staff has enjoyed and are proud of the partnership with the problem gambling organization and that it was nice that Ms. Greeley was present today.

[Four Public Service Announcements were shown]

Ms. Maureen Greeley explained the background on the PSAs. She said the newer (inaudible) with Cheryl Wilcox (inaudible) partnerships (inaudible) to test the waters. She wanted to see (inaudible) some of the (inaudible) radio and television; would she see a change in the number of people who were actually seeking treatment. They got that with the dog fighting, in addition to a lot of people calling her. That was a very emotional one for people because some people did not want to see the dogs or be shown that side of life, and other people called saying they thought they knew where somebody was doing dog fighting or cock fighting. Ms. Greeley was able to share that information with the Gambling Commission. Those partnerships were greatly successful and, in fact, a couple of the PSAs were going to continue to air through the end of the year, which she was excited about. It did push the needle. Ms. Greeley said she talked with Cheryl Wilcox yesterday at the Problem Gambling Advisory Committee Meeting. Assessments were up in Washington State on average 15 percent and a couple of their treatment providers saw an increase of up to 50 percent of people seeking treatment. So they knew that it was successful in getting awareness out there and in getting the Helpline number out there so people could seek help. She hoped to be able to continue to do that, but it does take money and it does take partnership. Ms. Greeley was hoping to be able to continue to partner with both Division of Behavioral Health and Recovery (DBHR) and with the Gambling Commission. She wanted to share with the Commission some of the other partnerships, which she was very excited about, because she knew there was a commitment to continue to look at problem gambling and responsible gaming.

Ms. Greeley said they were in Spokane this time last month for the fifth annual Tribal Problem Gambling Awareness Conference hosted by the Kalispel Tribe. The conference is highly supported by Washington Indian Gaming and by a number of tribal family health (inaudible) behavioral health services programs. Some people from Vancouver, BC, who work with First Nations and aboriginal groups, asked to meet about the first international conference on First Nations and tribal problem gambling and responsible gaming. Ms. Greeley was excited about how much that has grown.

Ms. Greeley said she was talking to a number of people last week through the Recreational Gaming Association membership. Washington Gold and Great American properties were the first to step out and actually host a responsible gaming training for their employees. Ms. Greeley said they trained more than 1,200 employees at Washington Gold and Great American properties in Washington last week. Along with Victor Mena and Dolores Chiechi, she has been trying for about five years to get the responsible gaming certification program launched in this state, so it was very exciting for her to share with the Commission that it is now officially launched in a very great way. Ms. Greeley asked if there were any questions about the PSAs or the problem gambling programs in Washington State.

Senator Conway said he was curious if the program was reaching out to the language specific stations as well (inaudible) Spanish speaking or (inaudible). **Ms. Greeley** replied that because of budget, they had not in the past, but they are partnering again with the Division of Behavioral Health and Recovery (DBHR) and they just mentioned yesterday that they were going to try their first Spanish PSA. They have done a number of different Asian dialects in print publications, but have not done anything but some posters and brochures in Spanish. They have an opportunity to do a PSA in eastern Washington, which will probably be airing in March in conjunction with Problem Gambling Awareness Month. Ms. Greeley said she would love to do more.

Commissioner Stearns said he lives in Auburn near the casino. Currently at the Muc Mart (Muckleshoot Market) there is a huge banner and a little further up the street by the Federal Aviation Administration (FAA) is another banner. They are really excellent pieces of work. **Ms. Greeley** thanked Commissioner Stearns, adding the Muckleshoot banner goes all the way around its fence right at the gas station there. The Muckleshoot and Tulalip Tribes have some major programs with outreach and awareness in their own communities. (Inaudible) was the first Tribe to do (inaudible) billboards and banners, so Ms. Greeley has had a lot of (inaudible). Some have cultural (inaudible) and some are just for the general (inaudible). It was a really (inaudible) continue that with them as well.

Chair Amos thanked Ms. Greeley for her presentation.

Ms. Amy Hunter said she wanted to publicly thank Ms. Susan Newer for all of her work (inaudible). Ms. Newer gets little bits and pieces of ideas from people, but she is really the one working very closely with the Council. Ms. Newer really has (inaudible) true love for animals, and when they were looking for different topics to have, she talked about animal fighting (inaudible) other literature that she had received. Ms. Newer did a lot of additional follow-up so they could do that, and it was really great to see it be so successful. Ms. Hunter wanted to thank Susan for all of her work, not only on this but on all of the different publications that the Commission sees. Ms. Hunter said she really appreciated all Ms. Newer's expertise.

Director Trujillo asked the Commission's permission to finish the strategic discussion at the January meeting because the minutes were just completed yesterday. He also suggested holding two or three topics throughout the year to look at what was happening and to determine how best to respond. A suggestion was made at the October meeting to have a game of the month for demonstration purposes, so staff was anticipating sharing a non-proprietary game beginning in January, and then have a different one every couple of months thereafter, which would help with the foundation for making decisions in the future. **Chair Amos** replied he thought that was an excellent idea. **Commissioner Stearns** also thought it was a good idea.

Electronic Gambling Lab Report (PowerPoint Presentation)

Mr. Paul Dasaro, Administrator of the Electronic Gambling Lab (EGL), thanked the Commission for the opportunity to come before them today and talk a little bit about Tribal Lottery Systems (TLS), the gambling lab, and the work that his staff does in relation to them. Ms. Dasaro explained he has been the administrator for five years, and prior to that he was the lab senior engineer for eight years. He worked in private industry as an IT specialist before his state service.

Mr. Dasaro reported the Electronic Gambling Lab is responsible for conducting technical evaluation and analysis of electronic gambling equipment. The lab is a sub-unit of the Tribal and Technical Gambling Division under Assistant Director Julie Lies, and is the subject matter experts on electronic gambling. They provide technical support to tribal and state gaming agents with electronic gambling regulation, and also provide the technical expertise necessary to enhance and improve the regulatory process. The lab is composed of six engineer staff, a senior engineer position that is currently vacant, and the lab administrator. Because of the highly technical nature of their work, all lab staff are titled as engineers, but are officially Information Technology Specialists who are IT jacks-of-all-trades. While many IT people specialize in one particular field, lab engineers must be knowledgeable in many different technology disciplines because virtually all electronic gambling equipment is run by computers and many of them are very complex. To successfully regulate these systems, the lab engineers must be able to understand all aspects of their operation, including hardware, software, databases, networks, and security.

On average, staff process about 600 equipment submissions, investigations, and inspections per year. The vast majority of their work, over 98 percent, is dedicated to Tribal Lottery Systems (TLS), which are an electronic version of electronic scratch lottery tickets. Paper scratch tickets can be purchased from retail locations over the counter or from vending machines and then are scratched by the player to reveal the whether they are a win or loss. The TLS are an electronic model of this basic process. Although they appear from the outside to be slot machines, they operate under the hood very differently. In Las Vegas style slot machines, the win or loss result is generated from a piece of software that sits inside the machine and players are essentially playing against the machine, not against other players. In TLS, the win result comes from a centralized computer system that acts as an electronic model for the processes of creating and distributing physical scratch tickets. Since multiple machines are pulling results from the computer system, players are essentially competing against each other for the winning results. At its most basic level, the system consists of a manufacturing computer that creates and randomizes the win/loss results and the scratch tickets, and a central computer that distributes the scratch tickets to player terminals on the floor as players play. The player terminals resemble slot machines. Because Tribal Lottery Systems are not allowed to dispense cash to players, a cashless accounting system is connected to the machines on the floor.

Inside a stand-alone slot machine is a random number generator, which is a piece of software or firmware that is responsible for generating random win/loss results that are delivered to the player. As the player plays, the random number generator is working to

create those win/loss results, so essentially the player is playing against the machine. In the TLS world, things are much more complex. There is a manufacturing computer usually in a back room in the facility that is responsible for creating and randomizing those tickets, and a central computer that is responsible for delivering the tickets to the machines on the floor. The manufacturing computer creates the tickets and delivers them to the central computer where they sit in static form. The tickets are not randomized at that point; they just stay in the same format. Then the player terminals on the floor receive the tickets from the central computer as players play. Each time a player hits the button, whatever ticket happens to be next in line gets delivered to the machine, so the players are essentially competing against other players for those winning tickets.

All the TLS requirements are defined within Appendix X2 of the Tribal-State Compacts. Appendix X2 is a very detailed technical standard and establishes the requirements for the structure, operation, security, reporting, testing, and approval processes for Tribal Lottery Systems. It also establishes the number of machines that are allowed per tribe, regulatory fees, payments to charities, community impacts, and creates a dispute resolution process. Appendix X2 and its predecessor, Appendix X, were the result of agreements between tribal leaders and the Governor. Tribal Lottery Systems and some of the requirements of Appendix X2 are quite unique within the global gaming industry. Only a few other jurisdictions in the world are mandated to use these types of systems. Most other jurisdictions use slot machines or something similar. Tribal Lottery Systems account for well over 90 percent of tribal net receipts from casino gaming that occurs under the Tribal-State Compacts in Washington. Section 10 of Appendix X2 establishes the testing and approval requirements for all TLS equipment. An independent lab must first certify that the equipment complies with the technical standards of Appendix X2. Currently, there are three independent labs authorized to provide testing.

Sometimes the phrase "sponsoring tribe" was used by the industry in Washington State. The sponsorship concept arose from the Appendix X2 requirement that independent lab fees must be paid by a compacted Tribe. That process is intended to ensure the independence of the testing labs. In addition to the independent lab certification requirement, Appendix X2 mandates that the state gaming agency, the Gambling Commission, must approve or disapprove TLS equipment. While Appendix X2 allows the state to perform its own testing to determine compliance, the majority of equipment submissions, around 75 percent, are not substantively tested by EGL prior to approval. EGL staff relies in those cases primarily on the independent lab results. The equipment submissions that EGL does not test are generally those that staff has determined to be a relatively small risk to the Tribes and to the public. Some examples of that would be new game themes and minor software modifications. For those components and features that were deemed to be high risk, EGL does perform some testing on them. This testing verifies the independent lab results and helps to keep them accountable. It also allows EGL to gain a deeper understanding of the technology. That knowledge is critical in establishing EGL's own regulatory processes, including performing inspections and providing internal control recommendations. The

testing has allowed EGL staff to identify non-compliance in almost every new TLS that has been submitted into the state.

Appendix X2 also establishes time limits on the Gambling Commission issuing its approval, and if those time limits expire with no action from EGL, the equipment is automatically considered to be deemed approved. The limits are 15 calendar days for modifications of existing equipment and 60 days for new systems. No other gaming test lab, public or private, with the possible exception of New Jersey, operates with a statutory or compact mandated time limit, the expiration of which results in an automatic approval of the gambling equipment. That puts a lot of pressure on EGL staff.

The lab's most important role is supporting tribal and state gaming regulators and their work of regulating the equipment. As the agency subject matter experts, staff provides many services that help to ensure the Washington Tribal Lottery Systems are well regulated. When new technology is proposed by the manufacturers, EGL staff is often asked to perform a preliminary analysis to determine if there were any potential problems with security or compliance before they enter their development and submission process. EGL staff's technical knowledge of the systems helps gaming agents to investigate compliance related incidents and, occasionally, criminal cases. EGL works with tribal gaming agencies and the manufacturers to identify the cause and to implement fixes statewide. EGL staff identifies risks to the systems that could put the system or patrons at risk. Doing so has allowed staff to find things that could allow potential attackers to cheat the games, steal money from the casinos, or cover-up these activities. EGL also provides training to both tribal and state regulators as part of division-sponsored TLS classes and, informally, an individual tribal gaming agency basis. Intermediate and advanced TLS training classes give gaming agents in-depth, hands-on experience with the systems that they do not typically get in a live casino environment. EGL is also involved in technical inspections, which are absolutely critical for regulating TLS, in cooperation with regulatory staff. EGL helps them in the development of those inspection checklists.

EGL assists regulatory staff in the development of internal control recommendations, which can be used by tribal gaming agencies as they develop their own controls. Staff also keeps abreast of developments in computer security. Most EGL staff is trained in common hacking techniques and security weakness and use that knowledge when analyzing TLS systems, security standards, and recommending improvements to them.

Mr. Dasaro cleared up some misconceptions. EGL is not purposefully replicating the testing of the independent test labs, but relies on the independent test labs for the majority of the low-risk submissions that come into the lab. EGL's review and testing procedures are primarily focused on identifying the best way to regulate the technology for the high risk submissions that are tested. The procedures are necessary to gain an in-depth understanding of that technology. EGL does not test or review things that are outside state jurisdiction, such as player tracking systems, slot management systems, or Class II electronic bingo. Staff does ensure that any communications between those systems and the TLS are well

protected and does not in any way influence the operation of the gambling system. EGL also does not perform quality assurance testing for the manufacturers, determine if the game is pleasing to the eye, or if it appeals to the 21 to 30 year old age demographic. EGL's focus is on compliance, security, and ensuring that TLS is well regulated.

Various process changes have been instituted over the years to improve the submission times, while at the same time maintaining effectiveness. Many of these changes were in direct response to suggestions expressed by manufacturers and tribes regarding EGL processes. Those changes have allowed a quite significant time reduction to almost half of what the Compact mandated time limits were. One change was a required action notice, which was if staff encountered a problem with an equipment submission that prevented continuing the review. Typical problems include mixing documentation, inoperable software, and communication problems within the system, which are pretty frequent. Almost 25 percent of all the submissions received have these issues. A required action notice must be issued on those. Because of the tight timelines, staff does not have much time to fiddle with ensuring that it is up and running and working properly, but it keeps the process moving forward and keep things going through the system and getting approved.

EGL also performs documentation-only reviews on something that is considered to be low risk and is submitted by the manufacturer. EGL staff reviews the independent lab certification and the manufacturer's documentation, and then issues an approval. About 70 to 75 percent of total submissions are processed in this manner. A peer review is an internal process where new system submissions, especially the more complex ones, are reviewed by another engineer in the lab who is looking for problems with the submission, clarifications of documentation, and making sure that all the steps were followed during the testing process. Changes are being made with how staff plans and prepares for major submissions through project management techniques, which was a specific recommendation from a manufacturer. Mr. Dasaro thought it would definitely help in making sure that those submissions were planned accordingly.

Testing teams have been formed by cross training staff. Previously there was one person assigned to one manufacturer, but now Mr. Dasaro has expanded that to have two or more staff trained on specific manufacturers. That gives flexibility so one engineer could keep the process moving forward in case another engineer is busy or on vacation. He has also made various changes to how submissions are processed administratively that have also helped keep things pretty efficient. EGL's work helps keep Washington one of the most effectively regulated gambling jurisdictions in the country. Identifying major non-compliance issues in most of the new TLS has helped ensure that the systems are safe for players, that they meet the standards set forth in the Compact, and that they minimize the financial risks to the Tribes that are operating them. Problems that are identified in the lab generally get fixed before the TLS are installed, which helps keep the systems more reliable before they are put out in the field. Process changes have improved submission processing time to the point that the vast majority of submissions are completed well within the Compact mandated time limits of 15 and 60 days, and have allowed more efficiency in getting submissions out the

door and keeping things moving. Knowledge of electronic gambling gives the agency a valuable tool in dealing with the challenges of technology, which is a constant thing heard in the gaming industry. Technology is becoming everything, and the complexity of this technology will continue to grow. To effectively regulate it, staff definitely needs to understand it at the deepest possible level.

Commissioner Simpson asked if there was a range of payouts that were required of the Tribal Lottery System. **Mr. Dasaro** replied that Appendix X2 mandates a minimum payout percentage of 75 percent, which means that during the life of the game, which is the stack of tickets that have been created, 75 percent of that value has to be returned to the players in the form of prizes. What has been seen in actuality is similar to commercial gaming jurisdictions where the actual payout percentage averages around 90 to 92 percent, which is still a pretty good guaranteed return to the casino of between 10 and 8 percent.

Commissioner Simpson said that, if the minimum was 75 percent, whoever was operating the system could decide what theirs was going to be up to that requirement. **Mr. Dasaro** affirmed. The way it usually works is the manufacturers establish a range of payout percentages that are available to the operation, and then the operation could choose among those. Typically, the payout percentages available are between 88 and 95 percent, but can sometimes be lower or higher.

Commissioner Simpson asked about a graphic Mr. Dasaro showed that described the way the information flowed from one computer to another and then stacked the tickets in there in a randomized order. He thought the timing of when the player pushed the button was really the determination of whether they were a winner. There must be some other randomization if they are simultaneous. If there are 1,000 people playing and 100 of them push the button at the exact same time, there must be some other randomization that is taking place in the background. **Mr. Dasaro** responded that he was explaining a computer network, which is kind of like having a website and 100 people on the internet and they all happen to click on it at the same moment. The system threads this information out, so whichever message it first receives, will be processed first – it is in milliseconds, so it would be possible there could be 100 people that could do that. The system knows, and as soon as it receives that message from that machine, it responds. It cues everything in a certain order and sends it out in whatever order it was received so there should not be any randomization at that point. Whatever the system receives next is the next one that it sends out. **Commissioner Simpson** said it was literally the length of wire between that and that. **Mr. Dasaro** affirmed it could definitely have an impact. The quality of the network switches that exist in the system and the speed of the computers that are processing that information all have an impact.

Senator Conway said he has never visited the Electronic Gambling Lab and asked if once a game was approved, it was approved for all the tribes. The testing certification and approval – a lot of the tribes use the same games. **Mr. Dasaro** affirmed. The manufacturer submits it to the EGL, then staff performs the review and approves it. It would be approved for all of Appendix X2. It would be available for any of the tribes that would want to put it into play.

Senator Conway asked if EGL would be testing the main computer or all the hardware. **Mr. Dasaro** replied that every component that goes into the systems get tested either by EGL, an independent lab, or by both depending on the relative risk of what was submitted. **Senator Conway** asked if EGL does site visits after they have tested a game, or if they do random audits. **Mr. Dasaro** replied that the Tribal Gaming Unit, which contains the Gambling Equipment Specialists, actually does the audits. They are a group of gaming agents who are specifically trained to perform audits of the systems in the field. They get training from the lab, but are also sent to advanced information technology training. That team is primarily responsible for conducting the reviews in the field and work with the tribal gaming agencies. Besides the training, they are provided with checklists to perform the audits. The systems are inspected on a fairly regular basis.

Senator Conway said he was interested in Mr. Dasaro's comment about hacking, and asked if the National Security Administration could be hacked, how did Mr. Dasaro know there was not hacking going on using the computers here. He asked how that was monitored. **Mr. Dasaro** replied it was the kind of thing that certainly keeps him up at night. One unique advantage in Washington State was that the Tribal Lottery Systems were physically isolated from most external networks. If someone were going to hack into the system, typically they would have to be a trusted insider or something like that. The only way to get to the system was to be physically present in the casino and get past the physical security that exists that would allow them to plug in. A lot of staff time is spent reviewing the new and more complex systems, looking at how a system is secured, and what the relative risks were to hacking and viruses. That is a lot of what is done as far as inspection checklists, internal controls, and things of that nature to ensure that that possibility is as minimized as it possibly could be.

Chair Amos said he had been thinking about this for awhile and Mr. Dasaro had said that the random number generator sends it to a main computer and players are playing against other people. He asked if there were 10 or 15 lone wolf TLS machines on a bank were they all playing against each other. He asked whether, if there were other types of machines that were involved in winning against the Lone Wolf, it was the Lion King or whatever that was. **Mr. Dasaro** explained that in Washington State, the way the TLS work is there is a particular game theme like Lone Wolf, or whatever, but most of the time those machines on that particular bank on that particular game theme are all playing from the same group of tickets. It was certainly possible with the many different types of technology implementations that there are multiple different game themes that are all pulling from the same tickets, but generally speaking, each game theme has its own set of tickets that it uses for play. One of the misconceptions that Mr. Dasaro has seen when out at the casinos is players will go up to a machine, play on that machine for awhile, and then walk over to the machine next door with the same game theme, and start playing from that one, looking for the lucky machine. But what they do not realize is that, because the machines are Tribal Lottery Systems, each machine still pulling the win/loss results from the same location so it does not matter which machine they are sitting at, the results were going to be the same. If

was all dependent on when one player pushes the button relative to the other people who happen to be playing the bank at that same time.

Commissioner Stearns asked if Mr. Dasaro got the chance to give the manufacturers feedback on how to make their games better. **Mr. Dasaro** replied he does not really give them information on what games work better; the real focus was on the compliance aspect of it. If EGL sees something during their testing that was more physical or more visual, something that might be appealing or was weird, staff would definitely let the manufacturer know. On an informal basis, manufacturers were certainly told whether staff loved a certain game or hated a certain game, but that has no impact on what the manufacturers decide to put out.

Senator Conway asked if the payout was per game. **Mr. Dasaro** replied the payout was usually per game set, which is one stack of scratch tickets. Usually one machine will be able to play multiple different game sets depending on the bet amount, so if players bet one credit, their payout percentage may be 90 percent. If players go all the way to the maximum bet, which could be 45 credits or 90 credits, that payout percentage would be higher. Usually the payout percentage is dependent upon the bet level the player was making; how much they were betting. Typically the more they bet, the higher the payout percentage, or the more they lose. **Senator Conway** asked if, when talking about the payout per game, it had nothing to do with any other timeframe except the game's timeframe. **Mr. Dasaro** affirmed it was basically whatever was going on at that time. **Senator Conway** said there could be a game sitting there and not being played for months, much like the pull-tabs where some pull-tabs are gone through real fast, while other pull-tabs are gone through real slow, so it could be the same with these games. **Mr. Dasaro** affirmed. There were games out there that had been there since he started 13 years ago and there may be machines that still had the same game set running on it for 13 years straight. It just depends on how much play it gets.

Commissioner Simpson asked whether, in pull-tabs, there was some kind of indication of what the winning percentage was. There are a total number of tickets, the total payout, and they even show what has been won, so players can calculate. **Mr. Dasaro** replied he was not much of an expert on pull-tabs, but he knew that when a certain dollar value was won on pull-tabs, it was required that the dollar value to be marked off the flare that was displayed to players. Somewhere there was going to be a flare that showed what win amounts were available in that set of tabs, and when one of those wins got hit, the operator had to mark it off the flare. **Commissioner Simpson** asked if there was any similar requirement with the TLS. **Mr. Dasaro** replied there was not, it was one of the things that Appendix X2 did not address. If there is a single jackpot scratch ticket in a game set, and there are a million tickets in the game, and that jackpot is the first ticket that comes out, the other players are not going to know that. The casino is not going to know that either, because that information cannot be available to anybody until the game set is completed. There could definitely be a prize listed on the flare of the game that was unavailable to the players because it had already been played out.

Chair Amos asked if there were any other questions; there were none. He thanked Mr. Dasaro for his presentation.

Approval of Minutes - October 8, 2013, Regular Commission Meeting

Chair Amos asked if there were any corrections to the minutes or a motion. **Senator Conway** pointed out a correction to his title; he should be listed as Senator not Representative.

Commissioner Stearns made a motion seconded by **Commissioner Prentice** to approve the minutes from the October 8, 2013, Commission meeting as corrected. *The vote was taken; the motion passed with four aye votes.*

- ADMINISTRATIVE PROCEDURE ACT PROCEEDINGS -

New Licenses and Class III Gaming Employees

Assistant Director Griffin explained that a new house-banked card room application was received on November 4, 2013, for the Lucky Ridge Casino in Kennewick, which brought the total number of licensed and operating house-banked card rooms to 53. She pointed out a pre-licensing report for WMS Gaming, who is a Tribal Lottery System manufacturer. WMS has been licensed since 2000, but Scientific Games, a publicly traded company, recently purchased 100 percent of the shares of WMS, thereby triggering a licensing event. Staff's pre-licensing investigation included an onsite review at Scientific Games headquarters in Alpharetta, Georgia, and all substantial interest holders were identified and qualify. The source of funds was investigated and determined they were from qualified sources. AD Griffin noted that Special Olympics was listed for their enhanced raffle license on the New Licenses and Class III Gaming Employees list, which was the first time an enhanced raffle license had been issued. Staff recommended approval of all new licenses and Class III gaming employees listed on pages 1 through 21.

Commissioner Simpson made a motion seconded by **Commissioner Prentice** to approve the new licenses and Class III employees listed on pages 1 through 21 *The vote was taken; the motion passed with four aye votes.*

Garfield High School Parent-Teacher-Student Association - Raffle Plan Approval

Assistant Director Griffin reported that Garfield High School's Parent-Teacher-Student Association (PTSA) submitted a request to exceed the raffle prize limit. Commission rules limit the value of a single raffle prize to \$40,000 unless the licensee can show good cause. Prior to offering raffle prizes, the licensee must submit a written raffle plan for review and approval. The information required in the raffle plan is outlined in WAC 230-11-067. AD Griffin reported that Garfield High's PTSA was committed to helping ensure the best possible education and experience for its students. They try to raise about \$300,000 a year to assist with teachers' classroom equipment and supplies, provide money for special programs to help students that are behind their peers academically, and support student clubs and sports. Garfield High PTSA

would like to offer a Tesla S sedan worth about \$90,000 or \$50,000 in cash as the grand prize. The drawing would be held in conjunction with their annual school auction on February 28, 2014. Raffle tickets would be sold for \$100 each and three smaller prizes would be offered in addition to the grand prize. If ticket sales fall below 900 tickets, Garfield High PTSA anticipates the grand prize to be offered would be \$40,000 in cash, rather than the car. Garfield High PTSA has a class F raffle license through October 14, 2014. Staff recommends Garfield High PTSA be allowed to exceed the raffle prize limit as requested.

Commissioner Stearns asked what happened last year in terms of regulatory, what the result was. **Assistant Director Griffin** replied a warning letter was issued.

Commissioner Simpson said he was curious where the prize limitation came from and what the rationale was behind the Gambling Commission saying \$40,000 was the magic number.

Assistant Director Griffin replied she did not have that information off the top of her head.

Senator Conway replied it was statutory. **Commissioner Simpson** asked when it was put in place. **Director Trujillo** thought that particular requirement had been there as a check and balance, because the Legislature wanted a second set of eyes to take a look at raffle plans that were greater in scope, involved a large raffle prize, or involved large raffle prizes within a year period. **Senator Conway** added the Legislature actually dealt with raffles a lot. And you know, (inaudible) -- it's statutory. He recalled one issue where state employees wanted to have a raffle but it was in the statute that they could not. The Legislature has had considerable discussion around raffles at different times and will be looking at enhanced raffles next. **Senator Conway** thought the limit was in the statute and that it had been changed recently. The Legislature does adjust the raffle prize up at times. **Assistant Director Griffin** affirmed the raffle prize limit had recently been raised. Having the \$40,000 individual prize limit go before the Commission for approval was kept, but the license year limit was increased to \$300,000 from \$80,000 before they had to come before the Commission for approval. So any licensee that wants to offer prizes more than \$300,000 during their license year has to come before the Commission for approval.

Assistant Director Griffin said that Mr. Sherburn, a representative from Garfield High School Parent-Teacher-Student Association, was present to answer any questions.

Commissioner Simpson asked if it would be permissible for Garfield High to hold five \$40,000 raffle events in a year if they had a certain amount of money they wanted to raise. Was there a limitation on the number of those? **Assistant Director Griffin** replied there was not a limitation on the number of raffles they could hold. The raffle license was based on gross receipts. The limitation is only on the raffle prize that was going to be offered -- a single prize of \$40,000 or more or \$300,000 in overall prizes throughout the year. Prior to raising the limit, there were a few licensees that came before the Commission to ask for approval to offer raffle prizes in excess of \$80,000 during their license year. AD Griffin thought the last request that came before the Commission for approval for offering prizes cumulatively over \$80,000 in their license year was Rocky Mountain Elk Association. She recalled that presentation, noting the association offers smaller raffles continuously throughout the year at their dinners and other various events that they hold. **Commissioner Simpson** asked if the Gambling Commission goes back and audits

the raffle itself to make sure everything was done properly after all the tickets were sold. How does that work? **Assistant Director Griffin** affirmed staff does. **Assistant Director Mark Harris** added that agents perform routine spot inspections or module inspections on smaller raffles. Records inspections are also done on the larger raffle operators every three to four years. **Commissioner Simpson** asked if a specialized one like this would automatically trigger an inspection. **Assistant Director Harris** replied they would most likely already fall under that category range of license class where staff would do a records inspection just based on their volume.

Chair Amos asked if there were any questions of the petitioner; there were none. He thanked Mr. Sherburn for coming to the meeting.

Commissioner Stearns made a motion seconded by **Commissioner Prentice** to allow the Garfield High School's Parent-Teacher-Student Association to exceed the \$40,000 raffle prize limit. *The vote was taken; the motion passed with three aye votes. Commissioner Simpson voted nay.*

Special Olympics of Washington - Enhanced Raffle Plan Approval

Assistant Director Griffin said this was the first enhanced raffle to come before the Commission. It is different than the regular raffles. RCW 9.46.0323 is the most recent legislation that authorizes the Commission to approve up to four enhanced raffles per calendar year; two in Western Washington and two in Eastern Washington. The location is determined based on where the grand prize drawing was to be held. As outlined in the RCW, enhanced raffles can only be conducted by a bona fide charitable or nonprofit organization whose primary purpose is serving individuals with intellectual disabilities. Enhanced raffles may offer a grand prize up to \$5 million in value and ticket prices cannot exceed \$250. The enhanced raffle may include additional related smaller raffles, or drawings, with related entries such as an early bird, refer-a-friend, or multiple ticket drawings, which are specifically defined and outlined in the RCW. The bona fide charitable or nonprofit organization can contract with a call center to receive enhanced raffle ticket sales, but the call center cannot solicit sales. The call center has to be licensed by the Gambling Commission, and it does not have to be in the state of Washington. The bona fide charitable or nonprofit organization can hire a consultant licensed by the Gambling Commission to run the enhanced raffle. The bona fide charitable or nonprofit organization is ultimately responsible for ensuring the enhanced raffle is conducted in accordance with state laws and rules, and they have to be the primary recipient of the funds raised. They also have to provide a dedicated employee to oversee the enhanced raffle operations, and must have the enhanced raffle and smaller associated raffles independently audited, and provide those audit reports to the Commission. By December 2016, a report must be submitted to the Legislature on enhanced raffles. The legislation expires June 30, 2017.

Assistant Director Griffin explained that WAC 230-03-152 outlines the plan that the nonprofit organization must submit to the Commission for their approval in order to begin their enhanced raffle. She said representatives from the Special Olympics were present to share a what their mission is and what they are planning on using the proceeds for. After their presentation, AD

Griffin said she would then wrap up and give a brief overview of the raffle plan they submitted to staff. She introduced Beth Wojick, the President and CEO of Special Olympics Washington.

Ms. Beth Wojick, President and CEO for Special Olympics Washington, thanked the Commission for taking the time to review their request. She reported the Special Olympics was on a mission to provide athletic experiences for those who are intellectually disabled. Less than 1 percent of the population is born this way. There are about 60,000 intellectually disabled citizens in Washington State and the Special Olympics is currently serving 10,000, so they have a long way to go. The other thing that is interesting about her organization is that most of their competitions take place in recreation centers, so they are kind of segregated from the school day. When their athletes are seen around town with the medals on, it seems kind of cute, but it really changes lives and builds self-esteem. And if Special Olympics can be done within a school day, their kids become typical kids, just like everybody else. They are not in the trailer in the back, but are wearing a school uniform and competing in soccer. It is a phenomenal thing to see and it is called Project Unify. Project Unify outcomes include self-esteem for Special Olympics athletes, but also for the typical athletes that compete on the unified sports teams. They grow as mentors for the athletes too, and it actually changes the DNA of a school system. So it can be seen how things spontaneously combust, even without the Special Olympics' support, such as at a unified dance that the partners would put together for the athletes. Ms. Wojick has seen it firsthand, and has had great experiences with Seattle Public Schools. They are now working statewide to increase their athlete base. Ms. Wojick explained the proceeds from this raffle would be used to help increase their athlete base so they can serve more athletes every day. Special Olympics is free for their athletes; they do not pay a dime. Money is raised to currently support all of the competitions for 10,000 athletes, but Special Olympics would like to serve a lot more. That was why they wanted to do the enhanced raffle. She asked if there were any questions and thanked the Commission for their time.

Chair Amos thanked Ms. Wojick.

Assistant Director Griffin reported the grand prize would be a house valued up to \$5 million, an annuity, or cash. Upon receiving Commission approval for the enhanced raffle, Special Olympics would finalize and secure the house and submit final documents outlining the number of tickets to be made available and the break-even ticket sales based on the value of the house they secure. The enhanced raffle sales will begin in late January 2014 and the grand prize drawing would be held in King County on May 31, 2014. Tickets will be sold for \$150 each, with discounted packages available. There will be three early bird drawings and two smaller associated raffles as part of the enhanced raffle. In total they will be offering 1,406 prizes. Lori Friedt, Vice President of Finance and Administration for Special Olympics Washington, will be the dedicated employee overseeing the enhanced raffle operations. Raffle Administration, Inc. from San Francisco, California will be managing the enhanced raffle for Special Olympics. They hold a service supplier license that was just approved in the package. They will be managing the gambling activity and are contracted to receive 10 percent of the gross revenue of the enhanced raffle ticket sales. Cornerstone Administrative Services out of Portland, Oregon is the licensed call center for the enhanced raffle, and has contracted with Special Olympics to

receive all of the ticket sales on behalf of the nonprofit. For this service, they will be receiving about 3 percent of the gross phone sales for the enhanced raffle. Staff recommends approval of Special Olympics Washington's enhanced raffle for Western Washington.

Senator Conway asked if the Commission would monitor this, to a (inaudible). **Assistant Director Griffin** affirmed, adding the Special Olympics has not secured the house. **Ms. Wojick** affirmed they would be monitored greatly and frequently, which they are used to because they are a nonprofit. There are a few items that are yet to be secured in their plan that the Commission will be receiving 15 days out from the raffle. They need to secure the house and some of the other prizes, and get everything in order for the actual raffle itself. She said they were well on their way for those plans right now and she thought the Commission would be receiving them sooner rather than later.

Assistant Director Griffin explained that once licensing staff gets the finalized plan, Field Operations agents would take over. AD Griffin thought the field agents had already begun working on things a little, but will obviously then have to work more diligently with them. The independent audit report, which was outlined specifically in the RCW, is due to the Commission within 60-90 days after the raffle. And then there is the follow-up and ongoing regulation and regulatory enforcement of a nonprofit licensee. Staff would have to make sure that significant progress was met for the nonprofit and that they were still meeting their stated purpose.

Senator Conway asked if staff would be monitoring the out of state side of the raffle as well. **Assistant Director Griffin** replied they were licensees; that both the call center and the manager are licensed. The individuals at the call center that will be handling the enhanced raffle sales will have to qualify and be individually licensed, because they will be taking and receipting sales for the raffle tickets. **Senator Conway** asked if it was only people from Washington State who could participate in the enhanced raffle. **Assistant Director Griffin** affirmed. **Director Trujillo** asked if AD Griffin's staff actually went onsite to the call center. **Assistant Director Griffin** affirmed. The pre-licensing investigation of the call center included an onsite visit. Special agents in the Financial Investigations Unit had been there, and special agents from Field Operations have been there or will soon be going. **Assistant Director Harris** confirmed the field agents would be going after the raffle had started to do an onsite visit at the call center. **Assistant Director Griffin** added the call center was in Portland, Oregon. **Director Trujillo** said it was very similar to licensed manufacturers that are housed out-of-state. There are ongoing in-state requirements, and then agents periodically conduct onsite visits as well.

Senator Conway explained for the sake of those in the audience that this came before the Legislature last session and was passed as a statutory authorization. It is a large raffle. Raffle prize limits were discussed earlier and this goes far beyond those limits. It is basically a new experiment in raffles and the purpose is great. Everyone knows the importance of the Special Olympics, and he thought most of the people in the Legislature recognize the great value that Special Olympics does, and they wanted to find additional revenue for them. The question here is just making sure it operates smoothly and that there is appropriate oversight because of the size of the raffle prizes.

Commissioner Simpson made a motion seconded by Commissioner Prentice to allow Special Olympics to conduct an enhanced raffle in Western Washington. The vote was taken; the motion passed with four aye votes.

Default: Mario I. Gastelum, Card Room Employee, Revocation

Ms. Amy Hunter reported that Mario Gastelum was working as a card room employee when he falsified poker tournament records and took about \$600 of prize money from tournaments at RC's Casino during the last year. When the agents talked with Mr. Gastelum, he admitted he had done this and estimated that he had done it several times and took about \$600. The Director issued charges by regular mail and certified mail. The certified mail card came back signed by Mr. Gastelum, so it is known that he did in fact receive the charges. The charges let Mr. Gastelum know that if he failed to respond, this would likely result in a default order revoking his license. He did not respond, so he waived his right under the Administrative Procedure Act. Staff recommends the Commission revoke Mario Gastelum's card room employee license.

Chair Amos asked if there were any questions; there were none. He asked if Mario Gastelum or a representative was in the audience; no one stepped forward.

Commissioner Prentice made a motion seconded by Commissioner Simpson that the Gambling Commission revoke the card room employee license of Mario Gastelum. The vote was taken; the motion passed with four aye votes.

Rule Up For Discussion and Possible Filing

Staff Proposed Rule Change - Clarifying requirements for authorized card games

Amendatory Section: **WAC 230-15-040** - Requirements for authorized card games

Assistant Director Harris reported this proposal was to help clarify that more than one "envy" and "share the wealth" bonus feature is allowed to be offered on a single card game, to add some definitions, and to make clarifications to bring the rule in line with current practices. This includes adding definitions on separate game, bonus features, and "envy" and "share the wealth" bonus features. It clarifies that card games and bonus features must be approved by the Director or the Director's designee. The prize in a bonus feature is based on achieving a pre-determined specific hand, and bonus features may not be combined with progressive jackpots. Approved card games must be operated as documented on the agency website. Only one player may place a wager on a wager area in the game of mini-baccarat. Other card game features that do not require a separate wager are considered bonus features. For variations of the game of Pai Gow, a player may blank the game every other hand, as approved in the card game rules. "Envy" and "share the wealth" bonus features were first authorized in house-banked card games in April 2000 as part of the card room enhancement program for house-banked card games. Including the definitions and making these clarifications in the rule will help reduce questions staff receive from licensees. Staff recommends filing the petition for further discussion.

Chair Amos asked if there were any questions; there were none. He called for public comments.

Mr. Victor Mena asked if this rule would impact any existing games. **Assistant Director Harris** replied it should not change anything; it is just clarifying what has consistently been done in current practice but that had not been addressed in a rule. **Mr. Mena** asked if the existing games that have been approved up to this point all comply with this rule. **Assistant Director Harris** affirmed, with the exception of the part about more than one "envy" or "share the wealth" feature being offered on a card game, which is something that is a little bit new. **Mr. Mena** questioned more than one "envy." **Assistant Director Harris** replied more than one "envy" or "share the wealth." In the past, it had been interpreted to mean that players could only place an "envy" or a "share the wealth." Staff recently got a different ruling on that which says that the rule could mean that players could have one or more on it, so that verbiage is just being clarified in the rule so that it is clear what it means.

Director Trujillo suggested AD Harris explain "envy" or "share the wealth" in practice. **Assistant Director Harris** explained that an "envy" or "share the wealth" would be if in a card game a player places a \$10 wager, and if some other activity or hand gets a different -- say four aces on it -- because the player had the wager out there that was a certain dollar amount, that entitled them to an additional payout of the initial dollar amount, or if another player's hand had four aces. A "share the wealth" would be if their hand had their aces, they would get an additional payout in addition to everybody else who had a wager out there above that certain dollar amount. It is not a new wager; it is if an existing wager on a current game exceeds a certain dollar amount, then it entitles that player to the additional payout. "Envy" would be if somebody else's hand has it; "share the wealth" the player would also get paid out if it was on their hand. An example would be if a player places an initial wager out there of \$5 in Pai Gow poker that would allow them to play the game. If there is a requirement of the game that says if a wager is placed out there of \$10 or more, that would allow the player to get paid out on an additional prize amount based on the outcome of somebody else's hand. So if the person beside them at the table had four of a kind and there was an "envy" pay scale that said they would get paid \$25 out on that result if they had placed a wager out there more than \$5, then they would get that payout. **Director Trujillo** said they were envious of somebody else's win. **Assistant Director Harris** affirmed, adding it was paid out based on the outcome of somebody else's hand. "Share the wealth" is pretty much the same idea, except they can also get it paid out if their hand also had the four aces in there. In the past, staff thought there could only be one of those. So there could be an "envy" payout based on four aces on that game but if somebody wanted to put an "envy" payout of a full house out there too, they could not put both of those on the same game, at the same time, based on the way the rule was interpreted. But now it has been clarified that the rule actually would allow them to do both of those, so this proposal is clarifying that the existing rule allows them to do that. That is a roundabout way of getting there.

Mr. Mena said that satisfied his question.

Assistant Director Harris offered to bring to the next meeting an actual example to document and show the Commission how to do it with a PowerPoint presentation or something else. **Chair**

Amos said the January meeting would be perfect. **Commissioner Stearns** suggested demonstrating it with cards.

Mr. Monty Harmon, Harmon Consulting, said he was speaking on behalf of Safari 21, which is a game of his that the Commission had approved. At present, trying to describe something from this podium with regard to a game and how it operates seems to be very confusing. He was glad that staff was proposing to go forward with some game-of-the-month where the Commission gets to experience the betting and how this all functions. Mr. Harmon saw this subject as important to the card rooms in the sense that card rooms are allowed to have social card games. By putting the definitions in the rules, it has caused certain parameters that have restricted the creativity of the industry, which could restrict the products that are offered by the industry. Specifically, the game Safari 21 has multiple betting spots within a betting area so players can place chips on several different spots in an area in front of them on the table for one game. The illustration Mr. Harmon said he would use is a roulette table. If someone wanted to play roulette and they were limited to a \$300 bet, they could put \$10 on red, \$10 on black, \$10 on a specific number, and that is how the game of roulette is played. With his game, players have a 21 hand and then they also have the ability to stratify their bet up above on this roulette game. Safari 21 was approved in 2006 and was operated within the state legally under the rules at the time. As the rules have changed to accommodate different bets for these creative ideas that the industry has come up with, staff's interpretation for how Safari 21 can be operated has changed, and it cannot be operated in the way it was originally designed.

Mr. Harmon thought it was really important, conceptually, for the Commissioners to understand how the games operate. And before they pass a particular rule with definitions in it, they should have the game-of-the-month experience to help understand exactly what it is that is been approved and why, and what is not being allowed, or what the restrictions are, and if there is a reason to even define and restrict what kind of a social card game this Commission would like the card room industry to have. Mr. Harmon thanked the Commission for listening and asked if there were any questions.

Commissioner Stearns asked if Mr. Harmon was for or against this rule change proposal. **Mr. Harmon** apologized to staff because he had been rather busy with some other duties, and enjoyed a vacation recently and is now back and fresh. He said he did not want his boxing gloves on at all. He appreciated and applauded staff's intent to put things out in front. Mr. Harmon said he was against this particular rule because he saw it as restricting and defining what a social card room was in a tighter definition than he would like to see. If he, as a licensee, came before this Commission in the future with this rule approved, say in six months, and he had a newly created game that needed a change to this rule, Mr. Harmon believed this Commission could say this was an expansion of gambling because what is being done is redefining this particular definition within the rule. That caused Mr. Harmon concern, and he thought it put before the Commission several issues as people create new games if the rule is defined too tightly. Mr. Harmon encouraged the Commission to consider possibly allowing staff to continue to work with the definition on social card games, and let the industry determine what flexible rules or what kind of games it would like to see. He did not know that the Commission could

define what future creative people will come up with, but he knew that social card games were allowed. Mr. Harmon said he was against this rule change.

Assistant Director Harris rebutted Mr. Harmon's statement a little bit. If this rule did not go forward, all these things in it are current practice, so it would move forward the way it is right now. So by not approving it, all it will not do is put it into a rule form; it wouldn't change anything as far as a regulatory standpoint from staff. So what Mr. Harmon proposed would actually open up what type of games would be out there. It actually would require a change to this rule and would be a lot more substantial than what staff is proposing, which is to just put what is currently being done into the rule, and what is currently allowed into the rule, and not go any further than that.

Chair Amos asked AD Harris if, as a staff member, he wanted this filed for further discussion. **Assistant Director Harris** affirmed.

Commissioner Simpson made a motion seconded by **Commissioner Prentice** to file for further discussion the proposed amendment to WAC 230-15-040 to clarify the rule to allow more than one "envy" and "share the wealth" bonus feature, etc. *The vote was taken; the motion passed with four aye votes.*

Staff Proposed Rule Change - Allowing pull-tab prizes of \$20 or less to be added to cash cards used in electronic video pull-tab dispensers

Amendatory Section: **WAC 230-14-047** - Standards for electronic video pull-tab dispensers

Ms. Hunter explained this proposed rule change would allow pull-tab prizes of \$20 or less to be added on to cash cards when they are used in electronic video pull-tab dispensers. Most prizes are below \$20, which was mentioned in the earlier discussion about when prizes have to be marked off flares. The topic for this rule change proposal will be familiar to many of you, as the reason for the rule change was an issue that the Commission has been dealing with for several years now. This rule change is in response to a recent Thurston County Superior Court decision where the Court directed the Commission to allow a specific electronic video pull-tab dispenser that would permit the purchase of a pull-tab at the dispenser. The new part is it would allow pull-tab winnings of \$20 or less to be added on to a cash card at the dispenser.

The history of the court case shows that this case also went to the Washington Supreme Court. Rather than include every decision that had occurred along the way, on advice of the Assistant Attorney General, staff thought it was probably best to include the Washington Supreme Court case, which was the final order, and then to include the most recent Superior Court case. The Commission's review of this issue actually began eight years ago in 2005 and has led to several court proceedings that have involved many different legal issues. In the rule summary, which hopefully is laid out fairly succinctly, staff tried to focus on how they relate to cash cards. The rule summary has the procedural history of how the case started out with staff disapproval, and then the manufacturer submitted a request to the Commission for a declaratory action back in September 2005. The Commissioners chose to refer the case to an administrative law judge

(ALJ) for an initial order. The ALJ made his initial order but neither party was satisfied with it, so both the manufacturer and the Commission sought final review by the full Commission. The full Commission, as it existed in August 2006, upheld the ALJ's determination that this particular system violated what were then the Commission's current regulations and the Commission specifically disavowed part of the order from the administrative law judge. In August 2007, it went into the judicial process, and the Thurston County Superior Court found that cash cards were equivalent to cash and merchandise and, therefore, were lawful under the Commission's regulations. The Commission appealed this decision to the Court of Appeals who held that "substantial evidence did not support the Gambling Commission's determination that the pre-paid cards failed to satisfy the regulatory definition of cash." The Commission appealed this decision to the Washington Supreme Court who ruled in January 2013, almost two years ago, and affirmed the lower court's ruling. They found that "the Commission erred in concluding that the VIP machine violated then in force regulations." The Supreme Court remanded the matter back to the Commission for proceedings commensurate with its opinion. In March 2013, the Commission issued a final order on remand and ZDI sought judicial review of that decision. In August 2013, the Superior Court for Thurston County reversed the Commission's final order on remand, and among its findings, it concluded that the VIP system was not a gambling device and should be allowed. The Superior Court signed its order on October 18, 2013.

In 2008, the Commission adopted the WAC 230-14-040 setting out the standards for electronic video pull-tab dispensers. At that time, the Commission specifically decided not to adopt language to allow dispensers to add prizes of \$20 or more onto the cash cards. The impact of this rule change is that it would now be complying with the Thurston County Superior Court's Order and would allow the specific manufacturer in question here to basically operate their pull-tab dispenser to have the prizes go back onto the cash card. Ms. Hunter thought it was important for the Commissioners to know that, as the rule change is worded, it would allow other manufacturers to develop similar pull-tab dispensers. Staff has no way of predicting whether any other manufacturer would do this or not. Ms. Hunter emphasized that this was a pull-tab dispenser, which have been out there for many years; it is just a question of the features that are on them. Staff recommends filing this rule for further discussion.

Chair Amos asked if there were any questions; there were none. He called for public comment.

Ms. Joan Mell stated she was the attorney who had been representing ZDI for the past eight years and the person the Commission would like to get out of their lives. She testified this was not the way to do it and said she was here to urge the Commission not to file this rule proposal at this time, and instead entertain ZDI's invitation, which she assumed had been conveyed to the Commission, perhaps in executive session. She wanted to make a record of it. ZDI would like to sit down with the Commission and agree upon a rule that would satisfy ZDI's various challenges. What was not provided in the staff report was that this particular rule change does not resolve the ZDI litigation and is not needed for ZDI to be able to operate its technology. The Court has ordered that. ZDI has the blessing of the Court in permitting them to operate the technology they had previously challenged the Commission on, so this rule is not needed to resolve that issue. This particular rule was the subject matter of a pending case before Division

II where ZDI had directly challenged the entire section, in addition to a separate rule that defined the term "cash." That other definition was not included in this proposal, so there is a question as to the interplay between those two that does need to be resolved. ZDI would recommend that that definition, which is a very strange definition that was contrived to address some of the arguments ZDI was making at the time, really should be repealed as well.

Ms. Mell said she assumed there certainly was language that ZDI could agree to, if there was a desire to have a rule proposal. But ZDI would urge the Commission to not bring this before the Commission because it would get very confusing for the Commission as it was the first time this rule was proposed. She said Director Trujillo would remember; he had to dance between the original version that was set, and then they got into Alternative 1, and Alternative 2. Ms. Mell said she would just really urge the Commission to sit down with her so they could come to an agreed proposal within the next ten years, that they could really get behind the Commission and support them in their regulatory control. The industry was not against that. She thought what the industry was against, and certainly ZDI was challenging very specifically, was this concept that the Commission is implementing rules that say "you can only do this and you can only do that." When looking at the language here, one of the challenges that was being argued in the Division II case was that this rule says "may incorporate only the features below and not perform additional functions," which is somewhat the same issue that the Commission was struggling with in the prior rule that was proposed in Mr. Harmon's argument. It is very hard, as a regulatory Commission, to say people could only do what was written in the rule because it is a live and thriving industry. In order to make it an industry that serves its purpose, and the purposes that the Legislature has authorized the games to achieve – charitable, nonprofits, commercial stimulants – it has to be ever-changing, and developing, and innovating. If they are stuck with a rule that says it is only x, y, and z, Commission staff are stuck constantly with legal challenges trying to interpret what the words in the rule mean versus what the game is that is actually played and how it is implemented, and what the technology does. It is virtually impossible to describe in a rule the ZDI VIP.

The better recommendation and the better approach as a regulatory body for the Commission that will give the staff the flexibility to implement their expertise and make recommendations to the Commission on technology would be to have a standard that says any feature on any game, including electronic video pull-tab dispensers, must not take away from the regulatory control of the activity. It must enhance the regulatory control of the activity. That has historically often been the legal standard, or the administrative standard, so that it could be measured whether or not these proposals that the industry brings forward would be a good idea. Ms. Mell urged the Commission to not accept this, to come to the table with her and maybe some of the stakeholders, work with the language, and then hopefully it would put to rest this Division II case. There was another question that the Division II case also raised that was not addressed by this specific rule challenge, which was what the voting requirements were. Ms. Mell said there was an issue before the Commission on whether or not it takes three members to adopt a rule such as this. That seemingly was something that probably could be agreed upon and implemented by way of a WAC, and it is not in this proposal. Ms. Mell thanked the Commission for their time.

Commissioner Simpson said he was curious about the voting requirement and asked Ms. Mell to explain that a little bit more. **Ms. Mell** responded that when this rule was adopted there were only three members present, and there were two votes in favor and one against. The Gambling Act, RCW 9.46.095, has a provision that specifies for rule proposals that relate to the regulation of licensing there needs to be three votes. Ms. Mell contented that those three votes needed to be unanimous so there was unanimity among those three so there truly was a majority of the voting members weighing in on the issue. There is an interplay legal argument with the Administrative Procedure Act (APA) wherein because the Commission is a multi-member body – a multi-member body is considered and defined as an agency head – an agency head is defined as each and every one of the Commission, so that would be five voting members, so three is a majority. The Commission needs to do rule changes by majority. So that is the issue and the staff's position has been no, two is enough because two is a majority of three; there were three present; that was sufficient. **Senator Prentice** said that was a quorum. **Commissioner Simpson** thought that was interesting. **Ms. Mell** said it was interesting and, unfortunately, the APA does not help them because there is no voting requirement raised in the statute that specific.

Commissioner Simpson asked AAG Castillo about that issue. He said he knew that in the legislative committees it has to be a majority of committee members voting in the affirmative to pass a bill. So if there were only three people that showed up to a committee meeting, they could not just have two vote yes and have it pass. They have to actually have a majority of the full committee vote in favor of it. He said he was curious and asked if the RCW was silent about this. **Assistant Attorney General Castillo** responded that, with respect to the state's position on this legal matter, she would be happy to advise the Commission in terms of an executive session with respect to the litigation questions because this was actively in litigation. **Commissioner Simpson** said okay. **Commissioner Prentice** said the staff recommended that the Commission file it for discussion next month. **Chair Amos** affirmed. **Ms. Hunter** corrected that the recommendation was for the Commission to file it today for discussion, and then it could be on the January agenda. **Commissioner Prentice** replied that was what she meant. **Director Trujillo** pointed out that this rule proposal could be discussed for multiple months. Because it was a staff petition, it was not filed one month, discussed one month, then approved or not approved in the third month. It could be filed one month, discussed one month, discussed the next month, discussed the next month, etc., then approved or not approved. There is time to have discussion on the rule proposal.

Commissioner Prentice made a motion seconded by **Commissioner Stearns** to file for further discussion the proposed amendment to WAC 230-14-047. *The vote was taken; the motion passed with four aye votes.*

Director Trujillo explained that with rule petitions, fairly non-controversial ones would be filed for discussion before the Commission, then the following month it would be discussed at the study session, and then the third month it would come before the Commission for approval. Because this rule petition appears to be somewhat controversial, Director Trujillo asked if the Commission wanted it on the agenda for discussion at the January meeting, rather than just at

study session. And if there was continual discussion that the Commission would like to have based upon the rule summary, it would be included.

Chair Amos affirmed this should be discussed further at the January meeting.

Other Business/General Discussion/Comments from the Public

Chair Amos opened the meeting for other business, general discussion, and comments from the public. There was none. He called for a ten minute break at 3:45p.m. and reconvened the meeting at 4:02p.m.

Petitions for Review:

- a. **M&R Euroimports, d/b/a Classic Island Casino, Card Room, Revocation**
Greg Rosen, Assistant Attorney General was present for the state, as well as **Attorney Mike McAleenan**, representing M&R Euroimports.

AAG Rosen and Attorney Mike McAleenan provided their arguments in the Petition for Review. A recording and transcript of the hearing is available upon request.

At the conclusion of the arguments, **Chair Amos** asked if there were any questions. There were none.

- b. **Terri M. Mullins, Card Room Employee, Revocation**

Chair Amos asked if Ms. Terri M. Mullins was present or a representative on her behalf. No one stepped forward.

Commissioner Prentice asked what the Commission's correct action would be for this petition. **AAG Castillo** replied it would be up to Mr. Rosen about whether he wanted to continue to argue this case or just rely on the briefing for this Commission to decide. **AAG Rosen** replied he would like to make a brief record, if the Commission permitted. **Chair Amos** agreed a brief would be fine.

AAG Rosen testified his briefing was before the Commission. He wanted to emphasize the point that the mere compilation of the amount of fines that Ms. Mullins has as a result of her civil infractions and her criminal cases is not in and of itself the issue in terms of revocation. The issue is under the WAC and whether the compilation of those fines, specifically her prior activities and compiling those fines and not paying them, and having that large debt, whether that debt creates or increases the likelihood of unfair or illegal practices, methods, and activities in the conduct of gambling activities in order to relieve her significant financial pressures. The real gist of his theory of this case was that Ms. Mullins could engage in unfair illegal practices in the conduct of gambling activities in order to assist her in paying that large debt. **AAG Rosen** wanted to be clear on the record that there was no evidence to support that Ms. Mullins' had done so, but the WAC provides for revocation if that risk exists. It creates or increases the likelihood of that happening, and **AAG Rosen**

believed that large debt that Ms. Mullins' has does create that risk. AAG Rosen wanted to make sure the Commission was fully informed of Ms. Mullins' pending Chapter 13 bankruptcy that was filed on March 24, 2010 and is still pending at this time. He was sure the Commission had the record as to Ms. Mullins currently participating in a pending Chapter 13 bankruptcy. The Commission was probably aware that the fines that Ms. Mullins accrued as a result of her civil traffic infractions cases. If she successfully completes the bankruptcy, all of those fines would be successfully discharged in the bankruptcy; however, the fines that Ms. Mullins accrued in her three criminal cases are not dischargeable. Criminal fines are never dischargeable in a bankruptcy. AAG Rosen pointed out that Ms. Mullins had not made any payments for quite some time in any of her three criminal cases in which she owes a total of \$1,196. If Ms. Mullins had made some payments, or had demonstrated some tangible efforts in that regard, AAG Rosen said he may or may not be moving for revocation. But despite the fact that Ms. Mullins is in bankruptcy, she still needs to pay the fines that are owed in her criminal cases. Ms. Mullins did not dispute that at the administrative hearing, but said she would pay the criminal fines that were outside the bankruptcy.

AAG Rosen said he had checked with Special Agent Kevin Maxwell last week to see if Ms. Mullins had made any payments. Agent Maxwell informed AAG Rosen that Ms. Mullins had not made any payments, so his understanding was that Ms. Mullins still owed \$1,196 on her three criminal cases, which are not dischargeable in bankruptcy. The only other theory that AAG Rosen had that justifies revocation in Ms. Mullins' case was that because she has not paid off her fines, she has knowingly disregarded the Court Orders at the state level, which also justifies revocation. AAG Rosen summarized that he would respectfully request that the Initial Order by the Adjudicative Law Judge that ordered revocation be adopted by the Commission.

Commissioner Stearns asked what the three criminal cases were. **AAG Rosen** replied First Degree Negligent Driving, Hit and Run Unattended, and Driving While Suspended in the Third Degree. The First Degree Negligent Driving and Driving While Suspended in the Third Degree were misdemeanors, so the maximum penalty was 90 days in jail and a \$1,000 fine. AAG Rosen said his recollection for a Hit and Run Unattended was a gross misdemeanor, so the maximum penalty was one year in jail and a \$5,000 fine, unless those penalties had changed in the last few years. He thought that everything else that Ms. Mullins owed was based on a criminal traffic infraction of some sort.

Chair Amos asked if there were any other questions; there were none. He asked AAG Castillo what the Commission's next action should be. **AAG Castillo** recommended the Commission go into closed executive session for their deliberations.

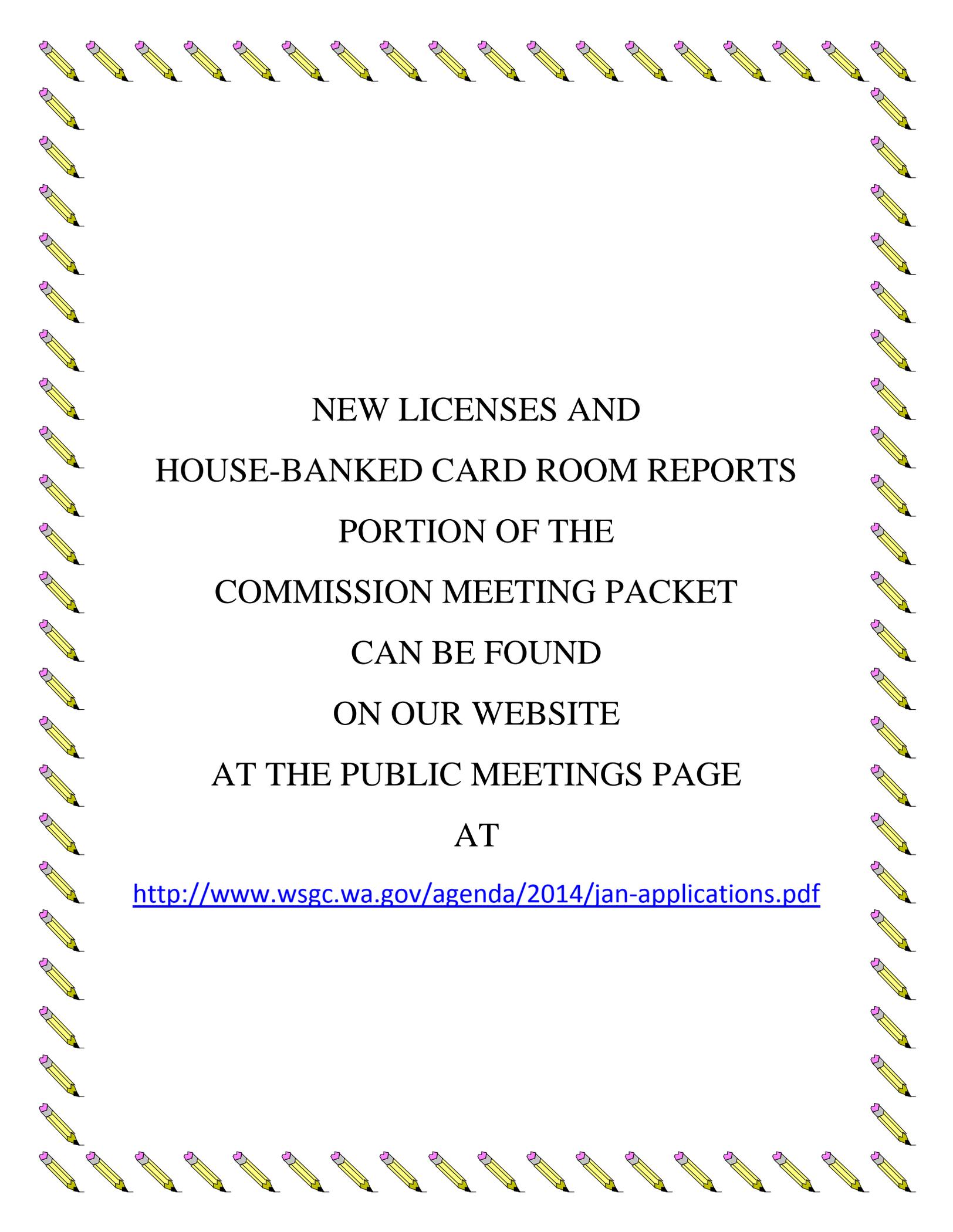
Executive Session to Discuss Pending Investigations, Tribal Negotiations, and Litigation

Chair Amos announced that the Executive Session was expected to last approximately 40 minutes and at the end of the executive session the public meeting would be resumed solely for

the purposes of adjourning. At 4:40 p.m. the Commission went into an Executive Session to discuss pending investigations, tribal negotiations, and litigation.

Adjourn

Chair Amos adjourned the meeting at 5:05 p.m.



NEW LICENSES AND
HOUSE-BANKED CARD ROOM REPORTS
PORTION OF THE
COMMISSION MEETING PACKET
CAN BE FOUND
ON OUR WEBSITE
AT THE PUBLIC MEETINGS PAGE
AT

<http://www.wsgc.wa.gov/agenda/2014/jan-applications.pdf>



STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

December 10, 2013

TO: COMMISSIONERS
Mike Amos, Chair
Margarita Prentice, Vice Chair
Kelsey Gray, Ph.D.
Christopher Stearns
Geoffrey Simpson

FROM: Jennifer N. Stretch, Paralegal 
Communications and Legal Division

SUBJECT: DEFAULT HEARING – TUNG P. LE, 2013-01204

BEFORE THE COMMISSION – JANUARY 2014

I. Summary of Case

Tung Le under-reported \$492 in tips from June 8, 2013 to June 10, 2013. Additionally, Mr. Le currently owes \$3,509.35 in court-ordered fines and fees that have been sent to collections due to nonpayment. As a result of his fines and fees in collections, he has two Failures to Appear on his record.

II. Recommendation for Default Proceedings

On November 1, 2013, Assistant Director Mark Harris issued a Notice of Administrative Charges to Mr. Le by certified and regular mail. The certified mail came back signed by Mr. Le. The administrative charges notified Mr. Le that failure to respond would result in the entry of a default order revoking his license.

Commission staff attempted to make a reminder call and left a message with Mr. Le letting him know he had until November 24, 2013, to respond. Mr. Le did not respond to the charges. By not responding, Mr. Le waived his right to a hearing, and the Commission may enter a final order in default pursuant to RCW 34.05.440. Therefore, this case is before you for entry of a default order.

Staff recommends that the Commission revoke Tung P. Le's card room employee license.





STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

December 10, 2013

TO: COMMISSIONERS
Mike Amos, Chair
Margarita Prentice, Vice Chair
Kelsey Gray, Ph.D.
Christopher Stearns
Geoffrey Simpson

FROM: Jennifer N. Stretch, Paralegal 
Communications and Legal Division

SUBJECT: DEFAULT HEARING – KAO C. SAECHAO, 2013-01919

BEFORE THE COMMISSION – JANUARY 2014

I. Summary of Case

The licensee is not qualified to be licensed based on a 2003 federal conviction for Bank Embezzlement. The licensee took \$24,422 for his own personal use while employed as a teller manager at Bank of America. The licensee later violated the terms of his probation in 2007 and 2008 by gambling in card rooms, as documented by Commission Special Agents. The licensee obtained his license by failing to disclose his conviction on his application. Licensing staff did not receive information about the licensee's conviction until after the license was issued.

II. Recommendation for Default Proceedings

On November 8, 2013, Director David Trujillo issued a Notice of Administrative Charges to Kao Saechao by certified and regular mail. The certified mail came back signed by Mr. Saechao. The administrative charges notified him that failure to respond would result in the entry of a default order revoking his license.

Commission staff attempted to make a reminder call and left a message for Mr. Saechao letting him know he had until December 1, 2013, to respond. Mr. Saechao did not respond to the charges. By not responding, Mr. Saechao waived his right to a hearing, and the Commission may enter a final order in default pursuant to RCW 34.05.440. Therefore, this case is before you for entry of a default order.

Staff recommends that the Commission revoke Kao C. Saechao's card room employee license.





STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

December 11, 2013

TO: COMMISSIONERS
Mike Amos, Chair
Margarita Prentice, Vice Chair
Kelsey Gray, Ph.D.
Christopher Stearns
Geoffrey Simpson

FROM: Jennifer N. Stretch, Paralegal 
Communications and Legal Division

SUBJECT: DEFAULT HEARING – JUAN R. CORREA; CR 2013-01917

BEFORE THE COMMISSION – JANUARY 2014

I. Summary of Case

Juan R. Correa conspired with another employee at the Legends Casino to manipulate the weekly Players Club Drawing to produce a certain predictable winner. After the winner claimed their cash prize, they would give a portion of the winnings to Mr. Correa. The total loss to the casino was at least \$64,000.

II. Recommendation for Default Proceedings

On November 6, 2013, Director David Trujillo issued a Notice of Administrative Charges to Mr. Correa by certified and regular mail. The certified mail came back "Unclaimed-Unable to forward." The charges sent by regular mail were not returned, so we presume he received them. The administrative charges notified Mr. Correa that failure to respond would result in the entry of a default order revoking his certification.

Commission staff attempted to make a reminder call and left a message with Mr. Correa letting him know he had until November 29, 2013, to respond. Mr. Correa did not respond to the charges. By not responding, Mr. Correa waived his right to a hearing, and the Commission may enter a final order in default pursuant to RCW 34.05.440. Therefore, this case is before you for entry of a default order.

Staff recommends that the Commission revoke Juan R. Correa's certification.





STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

December 10, 2013

TO: COMMISSIONERS
Mike Amos, Chair
Margarita Prentice, Vice Chair
Kelsey Gray, Ph.D.
Christopher Stearns
Geoffrey Simpson

FROM: Jennifer N. Stretch, Paralegal 
Communications and Legal Division

SUBJECT: DEFAULT HEARING – HONG T. NGUYEN, 2013-01204

BEFORE THE COMMISSION – JANUARY 2014

I. Summary of Case

The applicant is not qualified to be licensed based on criminal charges issued in 2005 for her involvement with bookmaking and operating a lottery. After a two-year investigation by Commission Agents, the applicant, her then-live-in boyfriend, and two card room employees were charged with felony bookmaking (professional gambling). Although the applicant completed a diversion program and had her criminal charge dismissed, the applicant remains unqualified due to her prior involvement in professional gambling.

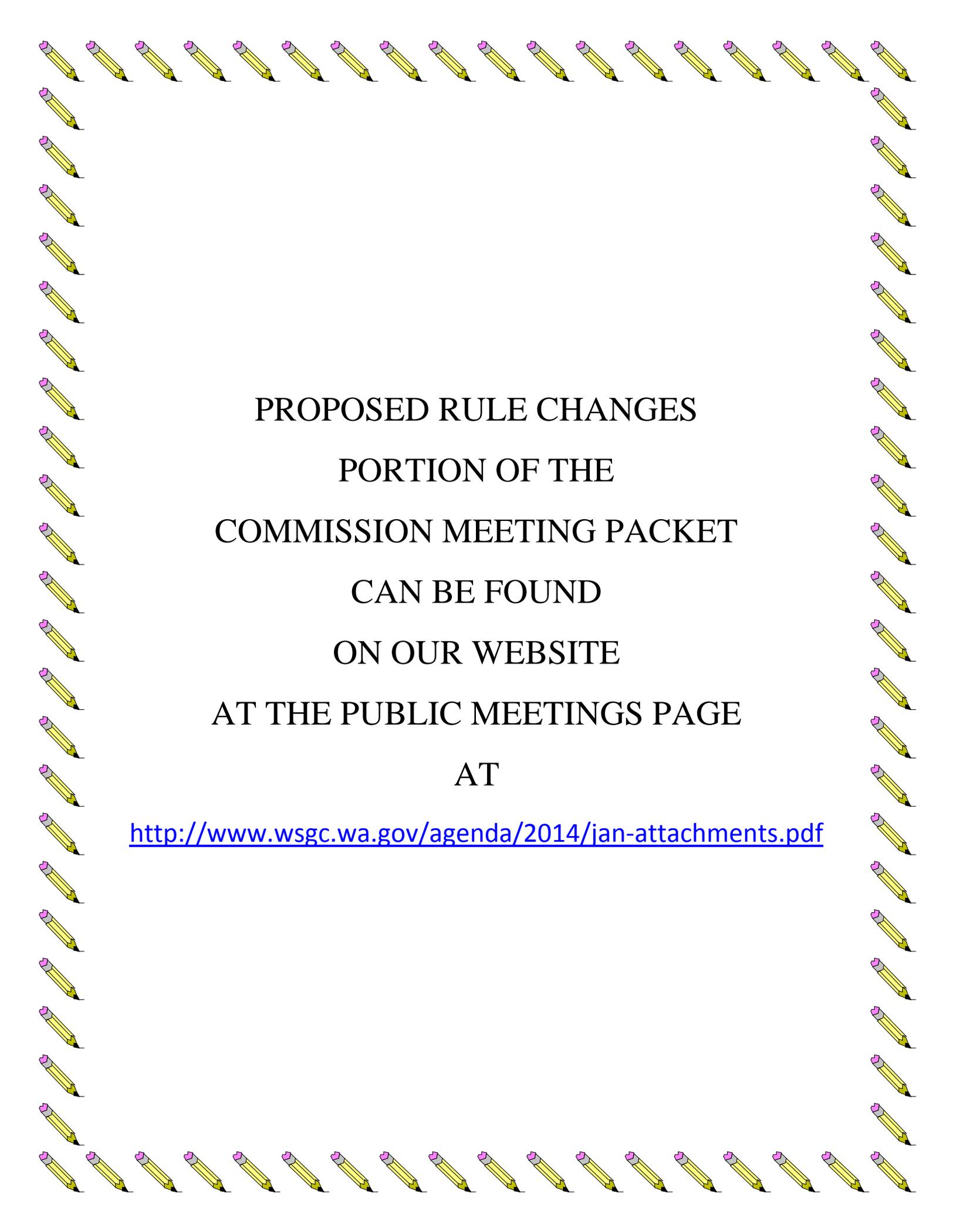
II. Recommendation for Default Proceedings

On November 4, 2013, Director David Trujillo issued a Notice of Administrative Charges to Ms. Nguyen by certified and regular mail. The certified mail and regular mail was not returned. The administrative charges notified Ms. Nguyen that failure to respond would result in the entry of a default order denying her application for license.

Commission staff attempted to make a reminder call and left a message with Ms. Nguyen letting her know she had until November 27, 2013, to respond. Ms. Nguyen did not respond to the charges. By not responding, Ms. Nguyen waived her right to a hearing, and the Commission may enter a final order in default pursuant to RCW 34.05.440. Therefore, this case is before you for entry of a default order.

Staff recommends that the Commission deny Hong T. Nguyen's application for a card room employee license.





PROPOSED RULE CHANGES
PORTION OF THE
COMMISSION MEETING PACKET
CAN BE FOUND
ON OUR WEBSITE
AT THE PUBLIC MEETINGS PAGE
AT

<http://www.wsgc.wa.gov/agenda/2014/jan-attachments.pdf>



STATE OF WASHINGTON
GAMBLING COMMISSION

"Protect the Public by Ensuring that Gambling is Legal and Honest"

Commission Meeting Agenda
Commissioner Strategic Session is Open to the Public

Location of Meeting:

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501
(360) 352-0691

Date and Time of Meeting

Friday, January 17, 2014
10:00 a.m. – 2:00 p.m.
NOTE LATER START TIME

- PUBLIC MEETING -

Please note, agenda items may be taken out of sequence at the discretion of the Chair.

1. Welcome

Mike Amos, Commission Chair

- a) The Strategic Session discussion will relate to the Commission's responsibilities, relationships, and policy considerations. No other business will be conducted.
- b) Goal – provide an opportunity for Commissioners to talk with each other and staff about important issues facing the Commission.

2. Strategic Discussion

- a) The Commission's first Strategic Issues discussion was on October 9, 2013, when these topics were discussed:
 1. Technology, including Internet Gambling
 2. Working within the Legislative Environment
 3. Problem Gambling
- b) It is expected the Commissioners will discuss the topics below at this meeting; other strategic issues may also be discussed:
 1. Conducting the Business of the Gambling Commission
 2. Legislative Reports
 3. Technical Assistance and Training

3. Comments from the public

Please turn cell phones off during meeting sessions

At the 2013 October Gambling Commission meeting, Commissioners, Ex-Officio member Senator Conway, and staff devoted 3-4 hours to a Strategic Issues Discussion, and focused on three topics: technology, working within the legislative environment, and problem gambling. The suggested remaining topics and questions below.

January 17, 2014, Strategic Issue Discussion

Goals as outlined in the October 9, 2013, agenda:

- Build awareness of the issues and decision topics that Commission members may be addressing in the near future.
- Understand legislative reporting and direction and how these affect the decisions and work of the Commission.
- Identify and discuss emerging issues.
- Provide direction for Commission staff as they develop the 2013-17 agency Strategic Plan.
- Provide an opportunity for the public to have input on the Strategic Issues of the Commission.

Timeframe: 12 months, impacting the Commission's work for up to 4 years.

Conducting the Business of the Gambling Commission

How do we continue to maintain positive working relationships with Tribes while, maintaining tribal sovereignty, ensure compact compliance, and adapting to changes in the industry?

State government is preparing for the ability of WA citizens to be able to access state government services from anywhere via their mobile device. As a government agency, how do we prepare to meet this expectation?

As one of Washington's public safety agencies, how do we ensure we are woven into the state's overall public safety framework without overstepping our authority?

Given the rising cost of CPA independent audits, does it make sense for smaller house-banked card rooms to "opt in" to an alternative where these operators pay for regulatory work to be performed by commission staff that examines their financial position at fiscal year end?

Our development of the My Account concept is an example of increasing efficiency. What are other ways the agency might increase efficiency?

Legislative Reports

RCW 9.46.090 requires the Commission to issue certain reports to the Legislature. Staff provided annual reports to the Legislature for many years. Over time, these reports became the gambling activity statistical booklets that are now available online. Is it time to check in with the Legislature to see if our reporting is meeting expectations? Also, does the Commission wish to advise the Legislature of recommendations of the Commission?

Technical Assistance and Training

What do licensees expect from the agency and how do we improve our technical assistance and training to them or others considering authorized gambling?

With regard to the Legislature, we have 9.46.010 (legislative declaration) and 9.46.070 (Commission's powers and duties) to guide us. With regard to Governor Inslee's launch of the new Results Washington Initiative there are three of five goals that we might think about with respect to our own agency goals. They are prosperous economy; healthy and safe communities; and efficient, effective and accountable government. Governor Inslee's other two goals are world-class education and sustainable energy & clean environment.

Recap of Gambling Commission's 10/9/13 Strategic Issues Discussion

Technology & Internet Gambling Discussion:

Commissioner Gray summarized the Commission's discussion:

- Look at a study of the impacts of internet gambling by an economist or someone familiar with online gambling to provide factual information on impacts, including economic and social impacts. This information could be used so the Commission can move forward with recommendations for the Legislature or ideas for the staff.
- Look at some other states and what they are doing, how they are regulating, and whether it works, including the good and bad of that.
- Review the legislation and see what might be needed in terms of changes.
- Connect with the Commission's partners, clients, and the people that staff currently work with, both in terms of tribes and house-banked card rooms.
- Look at enforcement.
- This may need to begin shortly since there were at least two initiatives currently concerning online gambling.
- The Commission needs to study this and become more aware in terms of their own knowledge about internet gambling and its impacts.

Working within the Legislative Environment Discussion:

Commissioner Gray summarized the Commission's discussion:

- The way to be sure the Legislature has confidence in the work the Commission does is to make sure they understand the work the Commission does, how they approach their work, and the limits the Commission undertakes.
- Use the ex-officio members as much as possible to relay that information to the Legislature.
- Make sure the Commission is informed, that they understand the games, and that they take advantage of anything they can.
- There is still the question of the definition of the expansion of gambling; this would come directly from Legislature.
- Commissioners would look for a better understanding of funding and an understanding of what the Legislature expects from the Commission.

Problem Gambling Discussion:

Commissioner Gray summarized the Commission's discussion and comments from the public:

- The industry should ensure the public that it is sensitive to gambling problems created and be engaged fundamentally in the problem gambling issue.
- Potential for opportunities for the Problem Gambling Advisory Committee and the Evergreen Council on Problem Gambling to come up with ideas and concepts and present them as opportunities for partnerships between Gambling Commission and these programs.

- A lot is being done now, both in cooperation between the tribes and the house-banked card rooms to address problem gambling.

WASHINGTON STATE GAMBLING COMMISSION
2014 Commission Meetings

January 16 & 17

Note: Meeting is a week later than usual.

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

February 13 & 14

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

March 20 & 21

Note: Meeting is a week later than usual.

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

April 10 & 11

Vancouver Heathman Lodge
7801 NE Greenwood Drive
Vancouver, WA 98662 – (360) 254-3100

May 8 & 9

Doubletree by Hilton/Phoenix Inn (Tentative)
415 Capitol Way North
Olympia, WA 98501 – (360) 570-0555

June

NO MEETING

July 11 (One-day Only)

Grand Mound Great Wolf Lodge
20500 Old Highway 99 SW
Grand Mound, WA 98531 – (360) 273-7718

August 14 & 15

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

September 11 & 12

Comfort Inn Conference Center
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

October 9 & 10

Spokane Davenport Hotel
10 South Post Street
Spokane, WA 99201 – (509) 455-8888

November 13 & 14

Comfort Inn Conference Center (Tentative)
1620 74th Avenue SW
Tumwater, WA 98501 – (360) 352-0691

December

NO MEETING

No Meetings in June or December
Revised 01-03-14

CONTACT Michelle Rancour (360) 486-3447
michelle.rancour@wsgc.wa.gov

**The next meeting of the
Washington State
Gambling Commission
will be held**

Thursday, February 13, at 1:30 p.m.
Friday, February 14, at 9:30 a.m.

Comfort Inn Conference Center

1620 74th Avenue SW
Tumwater, WA 98501
(360) 352-0691

For Reservations:

The Comfort Inn Conference Center

www.choicehotels.com/hotel/wa126

360-352-0691

OR

The GuestHouse Inn & Suites

www.guesthouseintl.com/hotels/tumwater

360-943-5040

The Public is encouraged to attend.
Please feel free to post this notice at your business.