



MEMORANDUM

TO: Hannah Smith, Ohio Casino Control Commission

FROM: Jeffrey R. Kasler

DATE: September 13, 2012

RE: **CSI Review – Gaming Equipment, Internal Controls, and Table Games**

On behalf of Lt. Governor Mary Taylor, and pursuant to the authority granted to the Common Sense Initiative (CSI) Office under Ohio Revised Code (ORC) section 107.54, the CSI Office has reviewed the abovementioned administrative rule package and associated Business Impact Analysis (BIA). This memo represents the CSI Office's comments to the Agency as provided for in ORC 107.54.

Analysis

The proposed rule package consists of nine rules. Two are new rules and seven are amended. The general intent of the rules in this package is to establish minimum internal control standards (MICS) for financial and gaming activities occurring at casino facilities in order to ensure the integrity of casino gaming and protect casino patrons.

Regulatory Intent

The Commission has a constitutional and statutory mandate to ensure the integrity of casino gaming. The proposed rules in this package pursue that mandate with a specific focus on the MICS for financial transactions occurring at casino facilities, for the conducting of table games and slot machines, and for the protection of patrons and members of the public. What follows is a snapshot of the proposed rules in this package:

Rules 3772-10-18, 3772-10-28, 3772-11-11, 3772-11-13, and 3772-11-42 are amended rules. Two of them propose technical amendments that clarify an existing rule. The other three actually decrease the regulatory requirements placed on casino operators and vendors from the existing

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rule, a result of stakeholder feedback as well as the experiences gained by those casino facilities that are now open to the public.

Rule 3772-9-05 is a proposed amended rule pertaining to the notification time requirement for the transporting of slot machines.

Rule 3772-9-12 is a proposed new rule requiring gaming vendors to ensure that electronic gaming equipment can support a game authentication terminal (GAT).

Rule 3772-9-13 is a proposed new rule relating to the MICS for redemption kiosks. Rule 3772-10-05 is related, though it is a proposed amended rule, as it pertains to the retention of records from transactions conducted at a redemption kiosk.

Development of the Regulation

The Commission contacted its stakeholders either via telephone in late June or via email in mid-July and asked for feedback on the proposed rules. The Commission did not submit the rules in this package to its members for approval until after the stakeholders had reviewed and commented upon them.

The stakeholders contacted by the Commission include Penn National Gaming and Rock Ohio Caesars (both operators) and the following gaming-related vendors: Aristocrat Technologies, Inc.; Bally Gaming; IGT; Konami Gaming, Inc.; Spieho International; and WMS Gaming, Inc.

The stakeholders had no comment or input on the bulk of the rules with the exception of rule 3772-9-12 (requires gaming vendors to ensure that electronic gaming equipment can support a GAT). With regard to that particular rule, two gaming-related vendors expressed concerns. The first concern centers on the manner and timeframe in which currently used software would be prepared to support a GAT. As a result of this concern, the Commission changed the proposed rule so that current software may be used until it is revoked or an operator chooses to replace it. The second concern pertains to the 20-minute authentication time limit imposed by the rule. In response, the Commission will allow gaming-related vendors to request variances and waivers in the future, should this time limit prove to be burdensome.

Beyond stakeholder input, the Commission relied on the regulatory framework already in place within other jurisdictions where the stakeholders currently operate. This list includes Colorado, Kansas, Indiana, Illinois, Maryland, Missouri, Nevada, New Jersey, and Pennsylvania.

Adverse Impact

Some of the proposed rules have no impact on the regulated community, others have an adverse impact, and some actually have a positive impact through the decrease in regulatory requirements.

Rules 3772-9-12 and 3772-9-13 have adverse impacts on the affected businesses. Rule 3772-9-12 requires that electronic gaming equipment can support GATs. The Commission notes that the software necessary to ensure compliance with this rule is routinely updated for the gaming equipment, and it estimated the software replacement could cost an operator or the vendor (depending on who incurs the cost) about \$3,000 per machine. Beyond that, any labor costs associated with software replacement would be minimal. It appears as though the costs identified above are acceptable to the operators and gaming-related vendors.

The Commission notes that the impact of rule 3772-9-13 is likely to be minimal because the provisions for keeping redemption kiosks in compliance and outlined in the proposed rule are already part of an operator's current practice. That said, the Commission estimated the cost of certifying a new kiosk at \$5,000 - \$6,500 per kiosk. The cost of certifying a modified kiosk is a bit less, estimated at \$3,500 - \$4,000 per kiosk. Ultimately, this also appears to be a cost that is acceptable to the operators and not outside the norm of similar costs incurred in other jurisdictions.

Rule 3772-10-18 offers operators a cost savings. By decreasing the number of locks needed on a bill validator canister from two one, this proposed rule reflects the current operating environment, as operators previously requested and were granted waivers allowing for the use of only one lock. The Commission estimated that an operator pays approximately \$11 per lock. The Cleveland casino facility, as an example, has 4,166 bill validator canisters. By requiring only one lock instead of two on those canisters, that facility would save almost \$46,000. Additionally, there may be a residual savings on labor and maintenance, as the number of locks that potentially require service is decreased by half.

Rule 3772-10-28 allows operators to immediately implement certain internal controls, rather than having to wait approximately 30 days for Commission approval. While it is difficult to quantify the positive impact of easing the regulatory burden on operators outlined in this proposed rule change, there would be a time savings incurred by the operators.

Rule 3772-11-13 reduces the number of reserve chips casino operators must purchase. The proposed rule directs that instead of having reserve chips of all denominations on hand, operators are only required to have reserve chips in denominations of \$25 or higher on hand. This proposed change would significantly reduce an operator's cost of compliance, by an estimated \$118,000 per facility.

Recommendations

For the reasons described above, the CSI Office has no recommendations.

Conclusion

Based on its review of the proposed rule package, the CSI Office recommends the Commission should proceed in filing the proposed rules with JCARR.

Cc: John Barron, Deputy Executive Director and General Counsel
Mark Hamlin, Lt. Governor's Office