

1 CHAIRPERSON JAMES: Mr. Smith?

2 MR. SMITH: Madame Chair, Commissioners, it's a
3 pleasure for me to here before you today. I had the opportunity
4 in January at your first meeting to speak with you in Atlantic
5 City about the social and economic impacts of gaming in Atlantic
6 City and I'm pleased to be here today to talk about regulation,
7 actually the third part of the report that we had previously
8 presented to this Commission.

9 And I know that you're all glad to see me here today,
10 not because of anything that I've ever done in my life or
11 anything that I'm going to say to you this afternoon, but because
12 I happen to be the last speaker on the last panel of the last
13 public hearing that you're going have to sit through. And having
14 been a public official for over 20 years, I do recognize the
15 importance of public hearings and appreciate them. But I also
16 recognize the stamina and the perseverance that it takes to sit
17 through those hearings. And I think you're all to be commended
18 for the fine job that you've been doing.

19 During the course of my tenure as chairman of the
20 Casino Control Commission in New Jersey over the last four years,
21 I had the opportunity and the pleasure to meet with many
22 delegations from jurisdictions throughout the United States and
23 throughout the world that were interested in establishing gaming.

24 Usually they had either been to Nevada before coming
25 to New Jersey or when they were done in New Jersey they were
26 going to Nevada to review both systems of regulation.

27 And there is one thing that I learned in talking to
28 all these different groups that came to New Jersey and that was

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1 that each jurisdiction is different, they have different needs,
2 they have different expectation, they have different social and
3 political circumstances that they have to deal with. So we
4 didn't say to any of the groups exactly what I thought the best
5 form of regulation for them would be.

6 I simply laid out the options. Many of the options
7 for example relate to tax structure. What kind of rate, tax rate
8 are you going to assess the industry? Well that depends perhaps
9 on whether it's a monopoly situation or a non-monopoly situation.
10 Are they going to dedicate the taxes to any particular use, like
11 we do in New Jersey to programs for senior citizens and disabled
12 citizens. Or will those revenues go to the general state
13 treasury. Will you have a separate tax for inter-structure
14 improvements, for example like we do in Atlantic City to improve
15 the city.

16 And then there were other options that I would set
17 forth related to regulation and there are two basic models of
18 regulation in the United States and that's the Nevada Model and
19 New Jersey Model. And most jurisdictions don't follow either
20 model precisely but they take bits and pieces of both to, to best
21 suit their particular circumstances.

22 All regulation, however, focuses on two things; that
23 is maintaining the integrity of the industry and that is as I
24 refer to it keeping the bad guys out, keeping out the criminal
25 elements; and setting the rules of the games and procedures to
26 control the games so that the people have confidence that when
27 they go into a casino in your particular jurisdiction that they
28 are not being cheated. And the other aspect which was mentioned

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1 earlier was keeping proper account of the revenues so that the
2 state gets its full and fair share.

3 New Jersey has the largest, most expensive system of
4 casino regulation in the world. Over 700 employees regulate 12
5 casinos. The budget between the Casino Control Commission and
6 the Division of Gaming Enforcement is approaching \$55 million per
7 year and none of that comes from tax dollars it all comes from
8 the industry that we regulate.

9 Now why was the New Jersey system set up to be so
10 strict, it was because the legislature back in the late 1970's
11 when they were formulating the system to regulate gaming were
12 extremely concerned about keeping out organized crime. And, New
13 Jersey was starting with a clean slate. There was no gaming when
14 the basic regulatory and statutory structure was put into place.

15 Now why is New Jersey system so expensive? Well in
16 my view there are two basic reasons for that. New Jersey
17 requires the presence of inspectors in casinos 24-hours a day and
18 New Jersey registers or licenses every business entity that does
19 business with a casino whether it's gaming or non-gaming.

20 The inspectors at the Casino Control Commission
21 represent just about 50 percent of the employees there, 160
22 inspectors. We have a booth, a presence on the floor of each
23 casino and what the inspectors do are a number of things. They
24 track the revenues. They are on the floor of the casino when the
25 money is collected from the slot machines, the bill changers, and
26 the tables. They are in the soft count room 100 percent of the
27 time. They are in the hard count room with high the denomination
28 tokens are being counted. And they certify the count each day.

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1 They are trained in the games. They observe the
2 games being played on the floor to be sure that the casinos are
3 playing by the rules. And they also mediate disputes between
4 customers and the casinos.

5 The Casino Control Commission also has a financial
6 evaluation unit that regularly audits each and every casino.

7 The licensing is the other key element of the
8 regulatory system. The front door of the industry as I put it,
9 is closed to criminal elements by licensing everyone involved in
10 gaming, from dealers to cocktail waitresses, to the most senior
11 official in the casino companies. Mr. Lanni knows well the
12 scrutiny which these officials undergo.

13 They must meet the standards of honesty, integrity,
14 good character, financial stability, and responsibility. There
15 are benefits from the employee licensing system beyond integrity,
16 beyond keeping out criminal elements.

17 For example, in New Jersey a dealer cannot be
18 licensed if he has outstanding taxes to the state of New Jersey
19 or to the federal government, or if he owes child support or if
20 he owes student loans that are in default or if he owes a debt to
21 the Motor Vehicle Department or a welfare agency. Those people
22 must make arrangements to pay those debts often in the form of
23 wage attachments before they are able to be licensed.

24 The back door of the industry as I refer to it, is
25 closed to criminal elements in New Jersey by licensing the
26 entities that do business with the casinos. We refer to them as
27 casino service industries or for short, CSI's, and that is gaming
28 and non-gaming entities. You can't sell a pencil to a casino in

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1 New Jersey unless you are at least registered with the Casino
2 Control Commission. And once you reach a certain financial
3 threshold, for example, \$75,000.00 worth of business in one year
4 with one casino; then you must be licensed and undergo complete
5 and thorough scrutiny of the regulators.

6 The importance of that system was driven home to me
7 about two years ago when we had a wholesale seafood company that
8 was selling seafood to some of the casinos and reached one of the
9 financial thresholds, we told them you must now apply for
10 licensure or you must stop doing business.

11 They applied for licensure and the background
12 investigation done by the Division of Gaming Enforcement showed
13 that one of their sales representatives was the reputed head of
14 an organized crime family in Philadelphia. What we did was issue
15 an order to the casinos that they could not do business with that
16 company and the back door of the industry was affectively closed
17 to that company.

18 There are also restrictions on the regulators
19 themselves. They must under-go thorough background checks by the
20 state police and the attorney general's office. There are
21 pre-employment and preliminary restrictions, and post-employment
22 restrictions.

23 Every employee of the Casino Control Commission and
24 the Division of Gaming Enforcement except for clerical and
25 secretarial, must file annual financial disclosure statements
26 with the state.

27 All employees are restricted from gambling in
28 Atlantic City. They are restricted from taking active part in

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1 political campaigns and the Commissioners themselves have even
2 more restrictions. For example, we cannot eat in a casino
3 restaurant. We cannot stay in a casino hotel. We cannot even go
4 to a show in a casino. There are very clearly defined lines
5 between casinos and regulators.

6 You may have noticed that I have not said New Jersey
7 is the best system of casino regulation because there is no one
8 system that is best for every jurisdiction. Every jurisdiction
9 is different.

10 Could you imagine if Nevada tried to put inspectors
11 in each casino, 24-hours a day, like in New Jersey. Nevada would
12 have to have 10,000 or more inspectors on staff. Now what if
13 Nevada tried to license non-gaming entities doing business with
14 their casinos? They would have to hire literally thousands and
15 thousands of investigators to do the background checks.

16 New Jersey system is just not practical when applied
17 to Nevada's circumstances. But New Jersey's system fit New
18 Jersey's needs when it was put in place and it has evolved and
19 changed over the years so that it fits New Jersey's needs today.

20 Finally I wish to emphasize that I believe that
21 Nevada's system, New Jersey's system, and other states' systems
22 that are in place are effective for maintaining the integrity of
23 gaming operations and no one system can be applied universally.
24 Thank you.

25 CHAIRPERSON JAMES: Thank you, Mr. Smith.

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