

**TESTIMONY OF MISSISSIPPI GAMING COMMISSION**  
**EXECUTIVE DIRECTOR, CHUCK PATTON**

The responsibility of any gaming regulatory agency is defined by the Legislative and Executive Branches of state government involved in development of the legislation that authorizes gambling. The Judicial Branch makes decisions that further clarify the law. In each jurisdiction with legalized gaming we see a different approach to gaming because of the viewpoints of the citizens in that jurisdiction. In Mississippi our mandate was clear, the state's leadership wanted to maximize the benefits to the state such as job creation, economic development and revenue enhancement while restricting gaming to the state's three southern most counties and counties along the Mississippi River.

We are particularly concerned about the people who are involved in the business of gaming with arguably the most stringent legal standards for industry employees. To the extent we have been successful is easily demonstrable.

Since the passage of the Gaming Control Act in 1990 and the opening of the first dockside casino in 1992 we have experienced the so-called "Mississippi miracle." A phenomenal rate of unfettered, yet untainted growth and development that has never been and never will be experienced in any other gaming jurisdiction. The industry has matured from small-scale riverboat operations to highly complex, full service resorts. Mississippi's casino square footage surpassed New Jersey's in less than three years and is second to only Nevada. In that same time frame, Mississippi became the third largest jurisdiction when considering gross gaming revenues. The industry directly employees 34,000 people with an annual payroll of more than \$600 million. Government assistance such as Temporary Assistance to Needy Families has been reduced in every county where gaming is legal, in some cases up to 56%. We have seen

child support payments increase, double in one county, where casinos are located. The casino industry has made more than three billion dollars in capital investments in Mississippi in six years, which has translated into thousands of construction jobs. The industry has paid more than one billion dollars in taxes and that money has paid for improvements in our schools and the tools needed to fight crime by our law enforcement agencies throughout Mississippi. Furthermore, the gaming industry has introduced additional sales and income taxes that have reached more than \$140 million annually which has further fueled incredibly healthy Mississippi's economy.

The Mississippi Gaming Commission has completed more than 2,100 background investigations and while we have found individuals with inappropriate backgrounds attempting to infiltrate the industry we have been successful in keeping those individuals out of the industry.

We hear from time to time complaints that we are too close to the industry we regulate. We look at the people who make those comments. It is not the industry that has invested more than 3-billion dollars, much of it reluctantly but forced by regulations our commission adopted to provide this investment. It is not the more than 400 people who have been arrested for violations of the Gaming Control Act. It is not the licensees who have been fined for violating our regulations. It is people who have been and are opposed to gaming and would prefer to see the industry, authorized by law, eliminated through regulation. The fact is that they are unable to point to a single instance where this "industry cosiness" has resulted in a violation of the Gaming Control Act, regulations or in any way violated our trust with the people of Mississippi nor can they give a single instance in which we have been remiss in our duties.

In conclusion, in our minds the subject of promoting versus regulating the industry is moot. We have responsibilities spelled out by the law and we have assembled a highly qualified staff of law enforcement officials who carry out and enforce the provisions of that law.

**(GROUP PHOTOGRAPH OF THREE COMMISSIONERS)**

**Chairman W. W. Gresham, Jr.**

Chairman Gresham was born in Indianola, Mississippi where he has lived all of his life. He is a World War II and Korean Conflict veteran, in 1980 Mr. Gresham retired from the Mississippi Army National Guard as a Major General. Mr. Gresham is the president of Gresham Petroleum Company and Gresham Service Stations, Incorporated both of Indianola, Mississippi.

**Robert C. Engram; Captain USN (Ret.)**

Captain Engram was born in Lake Worth, Florida. He retired in 1970 from the United States Navy as a Captain and served in the Pacific during World War II and the Korean and Vietnam Conflicts. Upon retirement from the Navy, Captain Engram became Port Director of the state Port at Gulfport. In 1978 he went to work for Stevedoring Services of America where he serves as Vice President and is responsible for the development of international trade through the state of Mississippi.

**Commissioner Victor P. Smith**

Commissioner Smith was born in Birmingham, Alabama. Mr. Smith is the Chairman of the Board of Smith Production Company; the Chairman of the Board of Country Place, Incorporated; and the Chairman of Lakeshore Pointe, L.L.C. Mr. Smith has been actively involved in independent oil exploration and production for over 40 years.

## **MISSISSIPPI GAMING COMMISSION MISSION STATEMENT**

The mission of the Mississippi Gaming Commission (MGC) is to enforce the Gaming Control Act and Charitable Gaming Laws of the State of Mississippi. The MGC will establish and enforce regulations under the authority of those laws in such a manner that will ensure the integrity of the State of Mississippi and maintain the public confidence in both the charitable gaming and casino gaming industries by working in conjunction with the industry. The Mississippi Gaming Commission will work in concert with international, national, state, county, local regulatory and law enforcement agencies to establish a safe and crime free environment. In addition, the MGC will ensure economic development that is in both the best interest and safety of the citizens of the State of Mississippi.

Dear Commission Member:

The Mississippi Gaming Commission is proud to present "Regulating Gaming in Mississippi: The First Five Years."

Since the passage of the Gaming Control Act in 1990 and the opening of the first dockside casino in 1992 we have experienced the so-called Mississippi miracle. A phenomenal rate of unfettered, yet untainted growth and development that has never been and never will be experienced in any other gaming jurisdiction. The industry has matured from small-scale riverboat operations to highly complex, full service resorts. Mississippi's casino square footage surpassed New Jersey's in less than three years and we became the third largest gaming jurisdiction, in terms of gross revenues, in that same time period.

When I was hired as deputy director of the Mississippi Gaming Commission we had a vision to create an agency that would be one of the premier gaming regulatory agencies in the country. We envisioned an agency that would ensure the integrity of the casino operators and protect the best interests of the people of our state. Now, five years later, I believe that we have come a long way toward the achievement of that objective.

When this commission came into existence we looked to Nevada, the oldest gaming jurisdiction in America, as a model but also looked for ways to adapt our regulatory structure to fit Mississippi. In the early days we focused on development of the law enforcement arm of the agency. We hired veteran police officers with years of experience to enhance investigative division of the agency. Since then our emphasis has shifted to the audit capability of the commission, rather than seeking law enforcement officers we are hiring individuals with accounting experience.

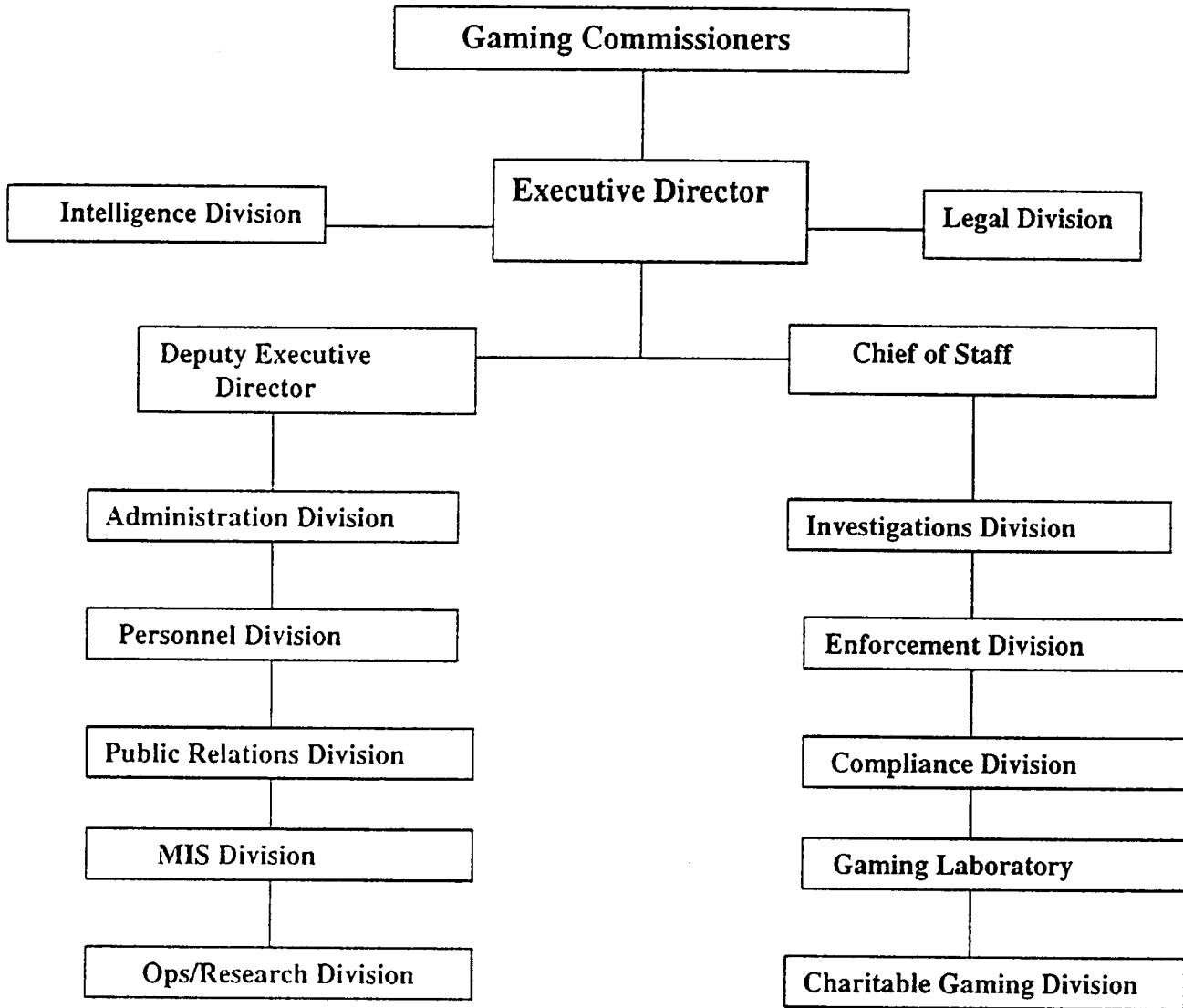
To date, we have avoided corruption within the industry and we are as comfortable as we can be that we have kept people with criminal backgrounds out of the casinos in Mississippi.

The industry has stabilized in Mississippi. This year will be the first year we have not opened a new casino. During 1997 and 1998 we have seen most existing properties concentrate on expansion and further development.

The mission of the Mississippi Gaming Commission has not changed since we began. Our commission is here and dedicated to service to the people and we will make ourselves accessible to accomplish that ideal.

Sincerely,

Charles O. Patton  
Executive Director  
MISSISSIPPI GAMING COMMISSION



DIVISION RESPONSIBILITIES

## COMPLIANCE DIVISION

The Compliance Division is charged with the responsibility of ensuring adherence to Mississippi Gaming Commission (MGC) Regulations with regard to financial matters by casino properties. It is significantly important because the financial arena presents many opportunities to defraud the state. Routine audits by a qualified team are essential to maintaining the integrity of all financial aspects of gaming operations and to keep organized criminal elements from infiltrating the jurisdiction. The Compliance Division is broken into Sections, each of which specializes in certain activities related to gaming operations.

The MGC employs auditors with gaming expertise in order to ensure the proper recording of revenue for tax purposes and to verify compliance with Mississippi Gaming Commission Regulations and each property's Internal Controls. The Division has set forth certain reporting requirements to detect management fraud, skimming or other illegal activities. In its first two years of operation, the MGC Compliance Division has completed 36 audit engagements; including 5 fraud audits, 13 interim audit engagements, 12 bankroll verifications and 6 comprehensive audits.

The Corporate Securities Section of the Compliance Division is responsible for the investigation of financial matters of publicly traded and privately held concerns that wish to be licensed by the MGC. The complete corporate investigation includes inspection of all corporate records, SEC filings and financial statements, etc. The Corporate Securities Section has, to date, completed over 132 corporate investigations, including gaming operators, manufacturers and distributors.

The Associated Equipment Section of the Compliance Division is concerned with the approval of any computer or electronic equipment used in gaming as it relates to gaming revenue or tracking of funds through a casino property. This Section certifies the correctness of operation of such equipment through audits and field testing of the equipment.

In addition to the above, the Compliance Division compiles monthly condensed financial statements and Industry Performance Analyses (30 to date); reviews and approves any changes to casino properties' Internal Controls (over 160 to date); ensures compliance with Title 31 regulations and is responsible for tracking all junket activity in the State.

## ENFORCEMENT

The Enforcement Division's responsibilities can best be categorized as follows: Regulatory Compliance; Criminal Enforcement; Patron Disputes, Complaints & Appeals; and Gaming Work Permits. The Regulatory Compliance program of activity encompasses the MGC's authority to enforce the regulations set forth by the Commission

and includes regulatory inspections of gaming operators as well as manufacturers and distributors. Inspections often include verification of surveillance coverage, inspection of gaming equipment and slot machines; examination of gaming records and basic review of the operation of a casino property. From January 1, 1994 through mid-August 1998 nearly 2,400 cases were opened and investigated by MGC Enforcement Agents.

The Enforcement Division is also charged with Criminal Enforcement of the Gaming Control Act, which includes theft of funds; patron and employee cheating; underage gaming and conspiracy to commit violations of the Gaming Control Act.

In addition, the Enforcement Division is responsible for handling any patron disputes or complaints. The Division will, at the request of a casino patron, investigate fully and resolve any alleged wrongdoing or questionable practices on the part of the casino. This process often reaches the hearing level, wherein MGC Agents testify, the Hearing Examiner assigned by the Attorney General then renders judgements.

Finally, the Division is responsible for processing applications and maintaining files for the more than 19,500 casino employees who are required to hold valid gaming work permits. This process includes fingerprinting and photographing the applicant, collecting and accounting for all fees related to the permit and conducting personal interviews with certain applicants.

## **GAMING LABORATORY**

The Laboratory provides the Commission with the expertise necessary to conduct extensive machine testing functions to ensure that all gaming devices are operating within the regulations set forth by the Commission. The Lab also reviews proposed electronic games to determine whether they are new games or variations of existing games; if new, the games are tested to ensure that they meet MGC minimum standards. Since its inception, the MGC Gaming Lab has tested and evaluated over 175 new games, evaluated and approved 3,909 modifications to existing games, tested and approved 5 Wide Area Progressives and has supplied expert testimony in 31 court cases and administrative law hearings concerning illegal gaming and patron disputes.

Further, the Laboratory establishes and maintains procedures for field verification of electronic gaming devices and associated equipment, as well as verification procedures for Jackpots exceeding a predetermined limit of \$50,000.

In addition to its primary duties relative to legalized gaming, the Laboratory assist in the evaluation and seizure of electronic devices suspected of use in illegal gaming activities. Representatives of the Lab have successfully testified in numerous cases involving the use and distribution of illegal slot machines statewide.

## **INVESTIGATIONS DIVISION**



The Investigations Division is charged with completing background and financial investigations of persons that have potential control over or within casinos, applicants for licenses, other Commission approvals and reporting all material fact to the Commission. This Division investigates all applicants for gaming, manufacturer and distributor's licenses, findings of suitability, key employee licenses and other gaming related investigations as assigned by the Executive Director. The Investigations Division is also responsible for maintaining all records of gaming applicants, as well as other documents filed with the MGC. The Investigations Division has completed over 2,120 individual background investigations for findings of suitability and key licenses.

## **INTELLIGENCE DIVISION**

It is the responsibility of the Intelligence Division to gather information pertinent to gaming related criminal activity as defined by the Mississippi Gaming Control Act, MGC Regulations, Charitable Gaming laws or any local State or Federal laws concerning gaming. Information gathered by the Intelligence Division is evaluated and cross-referenced with existing reports and disseminated as needed to MGC law enforcement personnel and other relevant law enforcement agencies and jurisdictions.

The Intelligence Division serves as the liaison between the MGC and other State, local and Federal law enforcement agencies and has Memoranda of Understanding with many foreign countries and other gaming regulators in the United States. Intelligence Agents also conduct investigations at the direction of the Division Chief and Executive Director. To date the Intelligence Division has either participated in, or conducted numerous special operations resulting in the seizure of over 500 illegal gaming devices, and the dismantling of many illegal bookmaking operations statewide.

The Division has been credited with several breakthrough investigations. In 1995, MGC Intelligence Agents uncovered a national slot cheating ring that had been operating for nearly five years in jurisdictions across the country; another investigation netted information and arrests of individuals using a previously undetected method of cheating slot machines with altered tokens.

## **CHARITABLE GAMING DIVISION**

The Charitable Gaming Division is responsible for the regulation and monitoring of charitable bingo in the State of Mississippi. The Division's duties include background and financial investigations of operators, commercial lessors, manufacturers and distributors of bingo equipment; as well as recommendations for licensure, financial analysis and enforcement of the Charitable Gaming Law.

## **EXECUTIVE DIVISION**

The Executive Division oversees the daily operation of the Mississippi Gaming Commission and provides administrative support to the various Divisions within the Commission. The Division is responsible for developing policies to guide the direction, growth and development of the agency to ensure the integrity and maintain the public trust in the industry.

## LEGAL DIVISION

The Legal Division, which is staffed by the Office of the Attorney General, represents the Commission and the Executive Director in all legal proceedings to which they are a party and advises Commission staff in all administrative matters.

## SIGNIFICANT EVENTS IN THE HISTORY OF GAMING IN MISSISSIPPI

1992 –

Mississippi's First Dockside Casino opens.

1993 –

The Mississippi Gaming Commission becomes an agency independent of the Mississippi State Tax Commission.

Governor Kirk Fordice appoints commissioners Stuart C. Irby, W. W. Gresham Jr. and Capt. Robert C. Ingram.

Retired Air Force Major General Paul A. Harvey is hired as Executive Director.

1994 –

The Mississippi Gaming Commission adopts the "infrastructure regulation" which requires that at least 25% of the cost of any casino property development be borne by permanent, landbased infrastructure development.

The gaming industry in Mississippi realizes growth unprecedented by any other gaming jurisdiction in the United States; MGC Agents conduct a casino opening every 14.7 days for a period of 8 months.

Mississippi becomes the third largest gaming jurisdiction in the United States in terms of gaming revenue: and the second largest when considering casino square footage.

The Mississippi Gaming Commission forms its Intelligence Unit.

1995 –

A survey conducted by a Mississippi newspaper reveals the growing acceptance of casino gaming in Mississippi.

The MGC establishes Key License requirements for certain employees of gaming operations.

The MGC forms the Compliance Division and establishes its Gaming Laboratory.

Grand Casinos, Inc. begins development of the world's largest waterborne casino in Tunica County, Mississippi.

1996 –

The MGC begins annual sponsorship of the Mississippi Council on Compulsive Gambling.

The United States Congress forms the National Gambling Impact Study Commission.

The Mississippi Gaming Association is created.

Mirage Resorts breaks ground on the \$660 Million Beau Rivage Resort and Casino; Mississippi's first Mega-Resort and the largest one-time investment by any company in Mississippi.

1997 –

An Arthur Anderson study reveals that in the Biloxi / Gulfport market "Non-gaming service jobs increased by over 30% and unemployment decreased faster in the market than in the country as a whole."

By the end of the 4<sup>th</sup> Quarter, casino capital investments-to-date reach the \$2.6 Billion mark, casino room inventory increased 24% to over 7,200 rooms.

54 Million people visit state-regulated casinos in Mississippi, over 70% were from out-of-state.

President Clinton finalizes appointees to National Gambling Impact Study Commission.

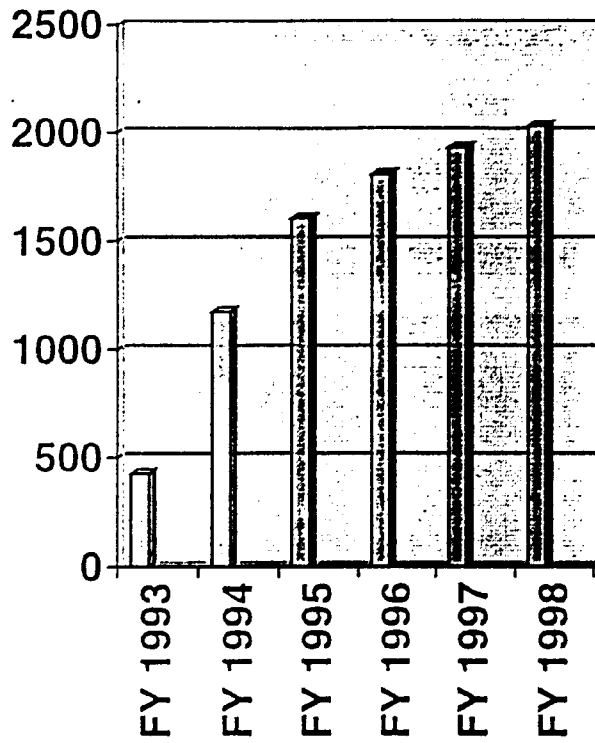
1998 –

Major General Paul A. Harvey resigns as Executive Director of the Mississippi Gaming Commission; Charles Patton is named Executive Director.

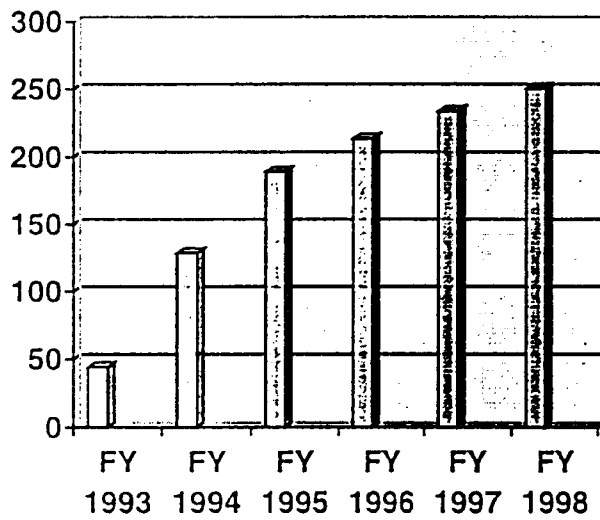
Initiative and referendum movement begins to put casino gaming up for statewide vote.

1<sup>st</sup> Quarter industry performance analysis reveals that the gaming industry in Mississippi is still posting quarter over quarter double-digit growth.

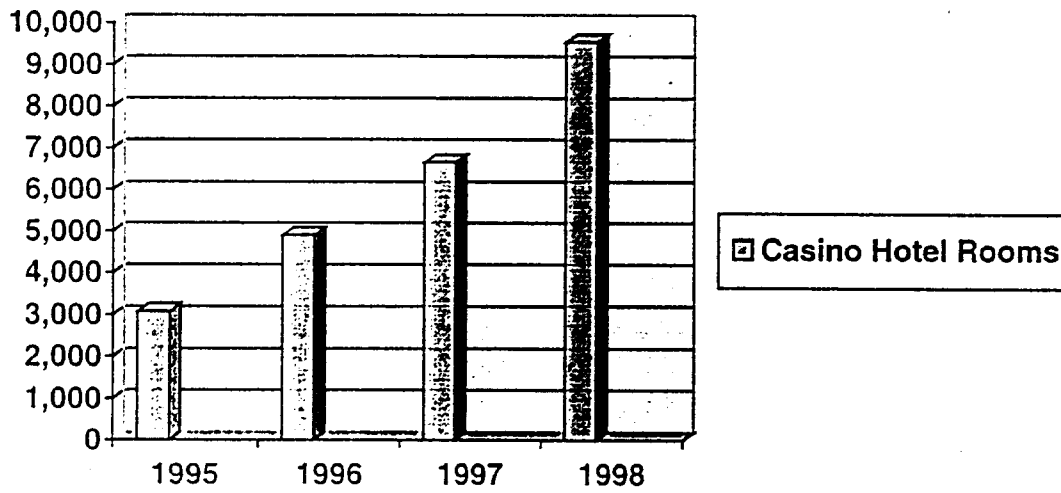
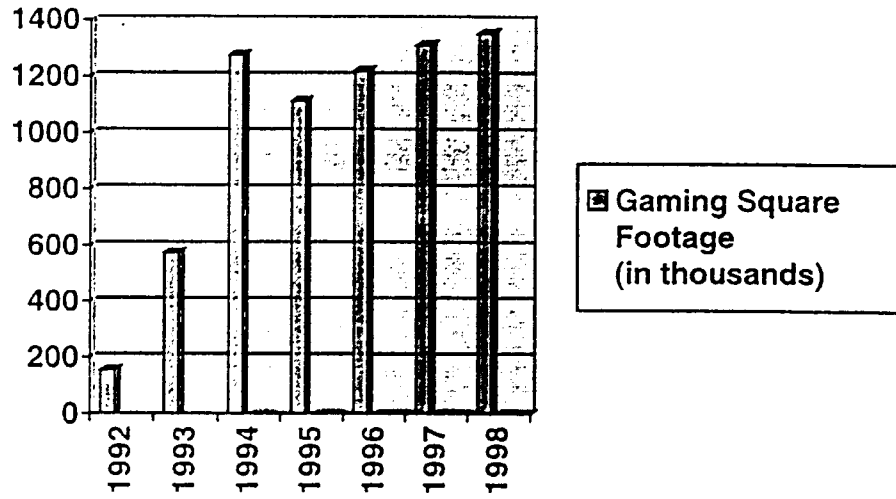
Hilton announces plans to merge with Grand Casinos, Inc.; upon completion of the merger, Hilton will become the world's largest gaming company.



■ Gross Gaming Revenues (in millions)



■ Gaming Tax Revenues (in millions)



## 1. BIO

Stuart W. Bowen, Jr., is the Deputy General Counsel for Litigation to Governor George W. Bush and has worked in the Texas Governor's Office since January 1995. Among his duties, Mr. Bowen serves as Governor Bush's chief legal advisor on gambling issues. In fulfilling that role, he has worked in the legislative, regulatory, and Indian gaming arenas to advance the Governor's policies against the expansion of gambling in Texas. Those efforts have included forming and advising the Governor's Task Force on Illegal Gambling, which, over the past year, has addressed how the State can best reverse the recent increase in illegal gambling device use in Texas. Before coming to the Governor's Office, Mr. Bowen served as an Assistant Attorney General of Texas, as a briefing attorney to the Texas Supreme Court, and as an intelligence officer for the United States Air Force. Mr. Bowen received his J.D. from Saint Mary's Law School in San Antonio, where he served on the law journal's editorial board.

## 2. TALKING POINTS

- I. **Background on Gambling in Texas:** The Texas Constitution of 1876 contains a prohibition against "lotteries" similar to that found in many other states' constitutions. The prohibition has been amended several times to allow raffles, bingo, and the State lottery. The provision reads as follows:

### Article III, Section 47 - LOTTERIES AND GIFT ENTERPRISES; BINGO GAMES

(a) The Legislature shall pass laws prohibiting lotteries and gift enterprises in this State other than those authorized by Subsections (b), (d), and (e) of this section.

(b) The Legislature by law may authorize and regulate bingo games conducted by a church, synagogue, religious society, volunteer fire department, nonprofit veterans organization, fraternal organization, or nonprofit organization supporting medical research or treatment programs. A law enacted under this subsection must permit the qualified voters of any county, justice precinct, or incorporated city or town to determine from time to time by a majority vote of the qualified voters voting on the question at an election whether bingo games may be held in the county, justice precinct, or city or town. The law must also require that: (1) all proceeds from the games are spent in Texas for charitable purposes of the organizations; (2) the games are limited to one location as defined by law on property owned or leased by the church, synagogue, religious society, volunteer fire department, nonprofit veterans organization, fraternal organization, or nonprofit organization supporting medical research or treatment programs; and (3) the games are conducted, promoted, and administered by

members of the church, synagogue, religious society, volunteer fire department, nonprofit veterans organization, fraternal organization, or nonprofit organization supporting medical research or treatment programs.

(c) The law enacted by the Legislature authorizing bingo games must include: (1) a requirement that the entities conducting the games report quarterly to the Comptroller of Public Accounts about the amount of proceeds that the entities collect from the games and the purposes for which the proceeds are spent; and (2) criminal or civil penalties to enforce the reporting requirement.

(d) The Legislature by general law may permit charitable raffles conducted by a qualified religious society, qualified volunteer fire department, qualified volunteer emergency medical service, or qualified nonprofit organization under the terms and conditions imposed by general law. The law must also require that: (1) all proceeds from the sale of tickets for the raffle must be spent for the charitable purposes of the organizations; and (2) the charitable raffle is conducted, promoted, and administered exclusively by members of the qualified religious society, qualified volunteer fire department, qualified volunteer emergency medical service, or qualified nonprofit organization.

(e) The Legislature by general law may authorize the State to operate lotteries and may authorize the State to enter into a contract with one or more legal entities that will operate lotteries on behalf of the State. (Subsec. (a) amended and (b) and (c) added Nov. 4, 1980; Subsec. (a) amended and (d) added Nov. 7, 1989; Subsec. (a) amended and (e) added Nov. 5, 1991.)

A. During the first decade of the 20<sup>th</sup> century, race-track gambling was legalized in Texas and then promptly repealed. For the next 20 years, repeated efforts were made in the Legislature to pass it again, all failing. Then, in 1933, the Legislature passed a bill again allowing racetrack gambling. Then-Governor Alfred opposed such gambling and, by 1938, he was able to engineer its repeal. Thereafter followed 50 years of repeated efforts to re-legalize pari-mutuel wagering on horse-racing in Texas. Finally, in 1986, during a special session, the Legislature approved pari-mutuel wagering.

B. The argument for racetrack gambling was that it would be an economic boon to the State and would create jobs. In fact, the racetracks in Texas have generally failed to live up to this promise and many have faltered into bankruptcy.

C. The Legislature proposed a constitutional amendment to article III, section 47, of the Texas Constitution in 1979 to permit charitable bingo. That amendment was approved by the voters in 1980. In 1989, the Legislature proposed another amendment to permit charitable raffles and the voters approved of it. Finally, in 1991, the voters of Texas approved an amendment allowing the Texas Lottery.



## II. Current Gambling Issues in Texas

- A. The Texas Penal Code's definition of gambling device was amended by the Legislature in 1995 ostensibly to clarify the fact that the prohibition only extended to gambling machines and not to entertainment devices. This vague amendment however has resulted in confusion over what is a gambling device thus prompting an influx of gambling devices known as "eight-liners" into the State. Governor Bush has led the effort against these gambling devices. The controlling provision reads as follows (N.B. paragraph B is the source of Texas' problem on gambling devices):

### Texas Penal Code Section 47.01(4)

"Gambling device" means any electronic, electromechanical, or mechanical contrivance not excluded under Paragraph (B) that for a consideration affords the player an opportunity to obtain anything of value, the award of which is determined solely or partially by chance, even though accompanied by some skill, whether or not the prize is automatically paid by the contrivance. The term:

(A) includes, but is not limited to, gambling device versions of bingo, keno, blackjack, lottery, roulette, video poker, or similar electronic, electromechanical, or mechanical games, or facsimiles thereof, that operate by chance or partially so, that as a result of the play or operation of the game award credits or free games, and that record the number of free games or credits so awarded and the cancellation or removal of the free games or credits; and

(B) does not include any electronic, electromechanical, or mechanical contrivance designed, made, and adapted solely for bona fide amusement purposes if the contrivance rewards the player exclusively with non-cash merchandise, prizes, toys, or novelties, or a representation of value redeemable or those items, that have a wholesale value available from a single play of the game or device of not more than 10 times the amount charged to play the game or device once or \$5, whichever is less.

- B. During the 1997 legislative session, Governor Bush proposed the introduction of legislation to ban "eight-liners." After a hard-fought battle, the Bill was filibustered to death. The battle, however, was not over. The Governor, soon thereafter, ordered the formation of a task force to examine and report on illegal gambling in Texas.

- C. The Governor's Task Force on Illegal Gambling was formed in August 1997 and has met four times over the past year. Senator David Sibley of Waco has chaired the Task Force, which includes representatives from the Legislature, members of interested State Agencies, prosecutors, law enforcement

representatives, a representative from a religious organization, and the executive director of a gambling treatment facility. The Task Force has looked at a variety of gambling issues in Texas but has focused primarily on the "eight-liner" issue. The Task Force's report is due at the end of September.

D. The other major issue currently confronting the State is that of Indian Gaming. Two tribes in Texas currently operate casinos. Both appear to be in violation of either state or federal laws. Governor Bush has taken the lead to address this matter with the state and federal attorneys general.

III. **Social Impact of Gambling in Texas:** See attached report from The Texas Commission on Alcohol and Drug Abuse.

IV. **Conclusion:** Texas has long maintained a general public policy against gambling. That generalized policy has been modified in the past 20 years with the approval of bingo, pari-mutuel wagering, charitable raffles, and the lottery by Texas' voters. Notwithstanding these modifications, Texas continues to resist any encroachment of gambling interests into the State most notably in the State's efforts stop the use of illegal gambling devices like "eight-liners."