



COMMONWEALTH CASINO COMMISSION

Commonwealth of the Northern Mariana Islands
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Minutes

October 25, 2016

Juan M. Sablan, Chairman
Joseph C. Reyes, Vice Chairman
Justin S. Manglona, Secretary
Alvaro A. Santos, Treasurer
Martin DLG San Nicolas, Public Affairs

I. PRELIMINARIES

A. Call to Order

Chairman called the special meeting to order at 10:08 A.M. on October 25, 2016 at the Joeten-Kiyu Public Library (Technology Room) in Susupe, Saipan.

B. Roll Call

Commissioners present were: Juan M. Sablan (Chairman), Joseph C. Reyes (Vice Chair), Justin S. Manglona (Secretary), Alvaro A. Santos (Treasurer), and Martin DLG. San Nicolas (PA & MR Officer). Also present were the Executive Director ("Director"), Edward C. Deleon Guerrero, the Executive Assistant to the Commission, Ruth Ann P. Sakisat, and Legal Counsel, Michael L. Ernest. Also present were all Division Managers.

C. Adoption of Agenda

Chairman Sablan announced that this special meeting was called to discuss several financial matters including the minimum bankroll requirement. He recommended that the agenda of minimum bankroll be discussed in detail in Executive Session. Commissioner Manglona agreed with the Chairman and offered a motion to adopt the agenda, seconded by Commissioner San Nicolas. It was put to a vote and unanimously approved as amended with discussions on the minimum bankroll to be taken up under executive session.

II. REPORTS

A. Report by the Chairman

The Chairman reported that the Commission has been trying to get the Legislature to entertain the CCC's pending bill and have even met with Speaker Ralph Demapan over a week ago. To date, there has been no action on the bill, he said. He added that it may end up being taken up by the new legislature as election is just around the corner and there has been no movement with the bill.

Vice Chairman Reyes shared that he spoke to Speaker Demapan as well about the bill and the Speaker disclosed that it is unlikely that the bill will go anywhere at this time. Vice Chair Reyes added that it may be necessary to bring this matter to the Governor for his preliminary review and to seek his assistance in getting the bill acted on in the 19th Legislature. The Chairman informed the Commission that a copy of the bill was already sent to the Governor. He did recommend the CCC write a letter to the Governor to request his assistance with the bill. He also shared that he will bring this matter up with the Governor when he meets with him on October 27, 2016.

B. Report by the Director

The Director reported the following matters:

CCC Rules and Regulations: On October 21, 2016, the Commonwealth Casino Commission Rules and Regulations were transmitted to the Attorney General's Office permanent adoption filing. Although there are still necessary changes to the regulations, it was necessary to permanently adopt them before the expiration of the emergency regulations. The proposed changes can be taken up during the Commission's November meeting and any future changes can also be addressed at a later date.

Personnel Actions: Personnel actions for contract renewals are being processed.

Dallmeier Training: Chief Ed Cabrera, IT Manager Ian Morrell, Senior Special Agent JB Cepeda and Senior Enforcement Agent Joe Pangelinan returned on October 24, 2016 from attending the Dallmeier Training in Regensburg, Germany. The four trainees will brief the Commission in the next few days what they've learned from

Dallmeier on the monitoring equipment and system for the Grand Mariana. The Chairman asked the attendees to briefly share their experience with the Commission.

Ian Morrell shared that the training was very informative as it covered front and back operations and the set-up of the entire system. He elaborated that the training will help the Commission understand future issues that may arise with the surveillance systems. He added that the system was very intuitive consisting of 2,600 cameras with features such as auto-fail overs including redundancy program set-ups that are almost fool-proof. He commented that the system is very good and between the training he recently attended and the upcoming training prior to the installation of the system, so much knowledge will be gained to know how the system works completely.

Chief Cabrera shared that Dallmeier has been providing surveillance systems to casinos for 10 years now. Their monitoring system is very credible, diverse and a robust. He explained that it may be necessary to revisit the MICS to make changes according to the capabilities of the new surveillance system. He shared that Dallmeier will soon be sending their casino service provider license application to the Commission for review and approval. Chief Cabrera disclosed that the Grand Mariana will be using the SeMSy III (Security Management System) system with a user-level called a SeMSy GUI. He mentioned that the company also has a different program that does Analytics which he also considers to be very good. He shared that he and Ian would like to discuss this further with the Commission as there may be a potential need for this feature.

The Director inquired if the analytics can do facial recognition. Chief Cabrera replied that the system is capable if programmed specifically with that feature. He elaborated that analytics can capture data on the gaming floor in a live event where humans might only be able to detect forty percent of the inconsistencies or variances. With analytics, such occurrences can be detected up to 95 percent. An example Chief shared is if there's a bet and the betting is closed and someone tries to past post. The analytics program will issue an alarm to surveillance and the table game will be stopped as it senses movements. Ian mentioned that the analytics program is called Angel Eye Interface.

Chief Cabrera announced that there will be training for in-users once the shipment arrives. The concept of "Train the Trainer" will be used in training individuals from

IPI security as well as the Commission's Enforcement & Investigations Division. The Chairman thanked the staff for their participation and asked that they share their new found knowledge with all other Commission staff. The Chairman shared that cross training is very necessary in the Commission as staffing is very limited.

III. PUBLIC COMMENTS

Mr. Paul Zak asked how many people will it take to monitor the 2,600 surveillance cameras. The Chairman and the Director declined to disclose the information for security reasons.

IPI Counsel Chuck McDonald informed the Commission that the company has already provided their comments on the DPAC contract. Their comments were transmitted via email on October 25, 2016 to Mr. Matthew Deleon Guerrero who is the Governor's Representative.

IV. OLD BUSINESS - NONE

V. NEW BUSINESS

A. Commonwealth Casino Regulation – Proposed Changes

Counsel Ernest shared that he is working on two proposed changes. One is to amend the vendor license requirement to exempt non-profit entities and to add a blanket exception for anyone else the Executive Director determines should be exempted. By doing this, it will foreclose any need to keep revisiting the issue, he said.

The other proposed minor change is to §175-10.1-1395 sections b through d in which all references to "Casino Service Provider" should instead read "Casino Vendor Licensee". Counsel Ernest apologized for the errors and assured the Commission that making the changes is not of any urgency and in no way affects the current operations.

Commissioner Santos asked if would be wiser to accumulate and consolidate changes until there is stability thereby only one motion be made to change the already permanent regulations as opposed to having the need to revisit it each

time a change is needed. Counsel Ernest replied that it would be entirely up to the Commission to decide how to address future changes.

B. Minimum Bankroll Requirements & Formula – Proposed Changes

After a lengthy discussion on this matter during executive session, Commissioner Santos offered the following in motion:

The minimum bankroll requirement of §175-10.1-560 is suspended effective beginning October 26, 2016 and shall last until the day before gaming commences at the Grand Mariana Resort, after which the Regulation shall again take effect without further action of the Commission. This suspension is subject to the requirements enumerated below.

1. The parent corporation submits itself irrevocably to the jurisdiction of the courts of the Commonwealth of the Northern Mariana Islands.
2. The Licensee must provide an attorney opinion from counsel acceptable to the Executive Director which opines that the resolution has been legally promulgated, and legally binds the corporation to pay all gaming debts of the licensee without reservation.
3. The funds must be available to be paid as ordered by the Executive Director.
4. The Licensee must, by December 1, 2017, provide to the Commission a corporate resolution from its parent company guaranteeing the payment of all gambling debts of the licensee, without reservation or limitation.

The motion was seconded by Commissioner Manglona. It was put to a vote and four Commissioners voted yes. Vice Chairman Reyes abstained from voting.

VI. EXECUTIVE SESSION

The Chairman announced that the meeting will now enter into executive session to consult with Legal Counsel, to discuss the minimum bankroll requirement and to address other financial matters concerning IPI.

Commissioner Santos made a motion to rise into executive session, seconded by Commissioner Manglona. A roll call vote was called with all members voting yes. Executive Session began at 10:30 am.

Commissioner Santos motioned to exit executive session, seconded by Commissioner Manglona. The motion was put to a vote and unanimously approved.

The Chairman called the meeting back to order at 1:20 pm. He announced that a lengthily discussion was taken up on the issue of the minimum bankroll requirement. He stated that the Commission is now ready to act on this matter. (Please see Commission action under V. New Business, item B. Minimum Bankroll Requirements & Formula – Proposed Changes)

A. Report by the Legal Counsel

CCC Rules and Regulations: Counsel Ernest reported that the Rules and Regulations have been transferred to the Attorney General and is now going through a diligent review. He is hopeful the review will be completed and the regulations will be published by October 28, 2016.

IPI Collection Activity: Counsel Ernest shared that he was informed by IPI's Attorney that they received one default judgement and filed two cases against patrons who have not paid. There has been minor collection activity, he added.

Chairman Sablan said that he noticed that collection efforts are more focused on the small amounts. He is concerned why no collection efforts are being done with the bigger amounts. He asked Counsel Ernest to update the Commission on what has been discussed during the collection progress weekly meetings. Counsel Ernest explained that he, Andrew and Richard Chan met a week ago and that there was an improvement with collection activities. He added that the Commission's involvement in this matter was very necessary and crucial as nothing was being done. IPI provided the Commission their standard operating procedures which they claim they will use in the collection process. However, he and the Director have not had the chance to review their submission, he said. He disclosed that many debtors have promised to pay at the end of the October, November and December. He elaborated that the patron with the \$54 million-dollar debt had a guarantor from mainland China who the company will try to collect from. He informed the Commission that the company is engaging in the collection of gambling debts in mainland China contrary to what was disclosed to the Commission earlier in the meeting.

The Director disclosed that Richard Chan has resigned from IPI due to personal reasons. His last day will be sometime in the first week of November. No one has been identified as his replacement as of this time for the position of Chief Financial Officer, he said. Mr. Chan's license from the Commission was extended to November 10, 2016. The original expiration date is October 28, 2016.

Counsel Ernest noted that the Commission is still waiting for several reports and admissions from the licensee with regards to sanctions which he expects to receive within the next few days.

VII. MISCELLANEOUS MATTERS

The Chairman asked the Director to finalize the Commission's annual report before all the information becomes obsolete. The Director informed the Commission that he had already started the annual report and that he is only updating the data. He anticipates it will be completed by the end of December. He noted that the annual report will cover the years 2015 and 2016. Chairman Sablan recommended that annual report also cover the economic benefits the casino industry has brought the island such as employment and others. The Director shared that he is planning on covering the master vendor list by including discussions on the monthly financial contributions to the different business categories. The report will have no reference to business names rather categorized by industries. A section of the report will also make reference to the fees and taxes that have been paid, he added.

Commissioner San Nicolas announced that IPI provided funding for Tinian and Rota to hire twenty (20) FTE's for ninety (90) days.

Counsel Ernest reported that Tinian passed a local bill, signed into law by the Governor, distributing Tinian's share of two-million dollars out of the fifteen-million dollar annual license fee. He then announced that the Senate is acting on a resolution commending BSI on their one year operation and the good job they're doing for the community. The Director noted that the funding for the twenty FTE's Commissioner San Nicolas mentioned is most likely from Tinian's share of the annual license fee.

Commissioner Santos commented that in the less than two years of the licensee's operations, there seems to be a high turnover of employees. He is concerned that three of the top management employees were either relieved of their positions or have resigned. This may be new or not uncommon in the gaming industry but he reflected that during the UNLV training, Mr. Dennis Amerine shared that the turnover can be influenced by a drop in revenue such as the gross gaming revenue (GGR). In some cases, certain individuals connected with making money or losing money are relieved of their duties if management feels they're not doing their jobs. Commissioner San Nicolas noted that in Saipan's case, it's more that US workers are being replaced with Chinese workers as loss of gross gaming revenue is not a factor. Commissioner Santos pointed out that understands that this is not the case on Saipan but that he just wanted to share what Mr. Amerine explained could be contributors of high turnovers. He felt

this issue is very interesting and worth learning more about as it relates to the Saipan operations. Chairman Sablan recalled that the company has mentioned several times that the hiring of contract workers (CW) is only a temporary solution to the manpower demands as more locals undergo training in this new industry on the island. He said he shares the same concerns as Commissioner Santos and that an inquiry will be made to the licensee in the next meeting.

Chairman Sablan shared a concern brought to his attention about the company refusing to pay overtime and instead granting employees compensatory time for what should have been overtime pay. He added that he has been reading into the Fair Labor Standard Act and that the non- payment of overtime could be a violation of the act and federal laws.

Commissioner San Nicolas shared that he would like to know how many employees are being paid in Hong Kong out of revenue derived from the Saipan operations. The Director replied that there is no way the Commission can know the source of revenue those payments are being made from. Commissioner San Nicolas pointed out that the company had earlier disclosed that the Saipan casino operation is their only source of revenue and that they are not engaged in any other businesses in Hong Kong or Macau.

Commissioner Santos shared his assumption that the company may not have liquid assets on island and that it is highly possible that they have holdings after selling natural foods and their other business in Macau. The company more than likely used the capital earned from the sell to invest in other asset holdings such as properties and buildings which don't necessarily translate to money in the bank but are generating revenue in other ways that could be contributing to their liquid cash flow. These assets may be enough to pledge to obtain debt financing, he said. Commissioner San Nicolas commented that if this is the case, the Commission should be made aware. Commissioner Santos then noted that in line with this, it may be necessary for the Commission to hire an expert financial consultant to monitor the licensee's activities once they engage in debt or equity financing and to monitor how the company is doing in the financial market. He recommended that the consultant be hired only on an as needed basis. The Chairman acknowledged Commissioner Santos' recommendation and suggested further discussion on this matter be taken up on the next meeting. He also noted that it may be necessary for the Commission to revisit its budget to determine if enough funding is available.

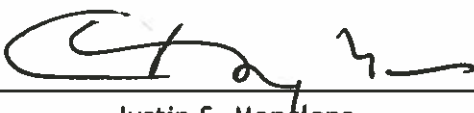
Andrew Yeom, CCC Compliance Manager, suggested that one other creative way to approach this matter instead of obtaining a corporate resolution is to require the listed company to transfer a certain percentage of its shares to the CNMI Government. The

Chairman replied that the suggestion is good but the Commission will still have to vet where the money is coming from. The Commission does not want to be in possession of money that may have been illegally obtained, he stressed. The Director also noted that such a requirement will have to be authorized by legislation and that the Commonwealth Development Authority (CDA) may need to be involved in the management of such shares. However, the Director commented that this concept may be worth looking into. Commissioner Manglona also suggested the Marianas Public Land Trust (MPLT) buy shares in the listed company.


VIII. ADJOURNMENT

Vice Chair Reyes moved to adjourn the meeting, seconded by Commissioner Manglona. It was put to a vote and unanimously approved. The meeting was adjourned at 1:48 pm on October 25, 2016.

Prepared by:  Date: 11/16/16
Ruth Ann P. Sakisat
Executive Assistant to the Commission

Concurred by:  Date: 11/16/16
Justin S. Manglona
Commission Secretary

APPROVED AND ADOPTED ON: 23rd day of November, 2016.

 Date: 11/23/16
Justin S. Manglona
Commission Secretary