



# COMMONWEALTH CASINO COMMISSION

Commonwealth of the Northern Mariana Islands

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## MINUTES August 26, 2021

### I. PRELIMINARIES:

#### A. Call to Order

Chairman Edward DeLeon Guerrero called the meeting to order at 10:05 am on Thursday, August 26, 2021 at the Commission's 2<sup>nd</sup> Floor Main Conference Room at the Springs Plaza in Gualo Rai, Saipan. The meeting was also on video conference.

#### B. Roll Call

Commissioners present at the meeting were: Edward DeLeon Guerrero (Chairman), Rafael Demapan (Vice Chairman), Ramon Dela Cruz (Secretary), and Mariano Taitano (Treasurer). Commissioner Diego Songao (Public Affairs) was not present in the meeting due to personal matters off-island. His absence was excused by the Chairman.

#### C. Adoption of Agenda

Commissioner Taitano made a motion to adopt the agenda, seconded by Commissioner Dela Cruz. The motion was put to a vote and unanimously approved. The agenda was adopted as presented.

#### D. Adoption of Minutes: July 29, 2021

Commissioner Dela Cruz made a motion to adopt the Minutes of the July 29, 2021 meeting, seconded by Commissioner Taitano.

Discussion: Commissioner Dela Cruz noted that there were some minor typographical errors in the minutes. He said he has already made the corrections and forwarded them to Ms. Ruth Ann Sakisat. The Chairman added that he had made some minor corrections as well and the minutes being voted on already reflect the changes.

The motion to adopt the minutes was put to a vote and unanimously approved. The minutes of the July 29, 2021 was adopted as presented.

### II. PUBLIC COMMENTS

1. Representative Edwin Propst, member of the 22<sup>nd</sup> House of Representatives and Chairman of House Standing Committee on Gaming, thanked the Commission for the work they do and shared his appreciation for the working relationship they, along with the Director, have maintained. He then thanked the Commission for including the status of the tower cranes as part of the agenda (IV. Miscellaneous Matters A.1.b). He noted that the residents and businesses in the area have expressed their concerns to him about the potential damage the tower cranes would cause, especially if a typhoon hits.

In reference to the status of unpaid payroll and severance pay (IV. Miscellaneous Matters A.2.b), Representative Propst stated that he continues to receive messages and emails from many of the former IPI employees who remain unpaid. He asked that the Commission continue to request for the payments to be made. He reiterated that these employees have been

promised an amount of money to be paid to them and they still have not received it.

Representative Propst discussed Saipan Local Law 22-6, stating that he wants to set the record straight about what was mentioned in the papers and elsewhere. He said it was mentioned that the bill, which was first introduced as HB 22-8, was rushed to be passed and signed into law, but that is not the case. He clarified that HB 22-8 was pre-filed on April 14, 2021 and then introduced in a House session on April 23, 2021. He added that it was transmitted for action on June 18, 2021 and signed into law on August 2, 2021. Representative Propst further stated it has been difficult to deal with the e-gaming industry, especially because Gus Noble is a paid consultant for e-gaming but isn't yet a registered lobbyist. He stated that by the law and statute, if a person is trying to influence the legislature on any laws or bills, they must register with the board of elections. He shared his concern that Mr. Noble has yet to do so. He then stated that he is happy to answer any questions that the Commission may have, and thanked them for the opportunity to speak.

### III. REPORTS:

#### A. Report by the Chairman

The Chairman shared that after reading SLL 22-6, he wasn't sure about its application to the exclusive casino licensee, and therefore requested for a legal opinion from the Attorney General. He noted that the AG has issued an opinion which concluded that the local law does not apply to the exclusive casino licensee and that PL 18-56 exempts the exclusive licensee from the application of this particular tax. He further noted that the local law cannot supersede CNMI-wide law. He thanked the AG for the quick turnaround in issuing his opinion.

The Chairman reported that the Department of Finance (DOF) is switching over its financial management system from JD Edwards to Munis. He stated that there are different components that they are looking into which include procurement and would eventually incorporate human resources. He noted that although PL 21-38 authorizes the Commission to handle its own procurement process, it does not currently have its own internal capabilities to do so. To that effect, the Commission will continue to utilize the existing service provided by the Department of Finance for procurement matters until such time they are able to operate on their own. The Chairman further reported that the Commission attended training provided by DOF for the Munis system, and they expect to begin the transition sometime in October.

The Chairman reported that the annual exclusive license fee of \$15.5M was due on August 12, 2021 and the \$3.1M casino regulatory fee is due on October 1, 2021. He reminded IPI of these due dates while stating that it is unfortunate that even the previous year's license fees remain unpaid. He stated that the Commission's funding is slowly being depleted and they have not received assistance from the general fund aside from the \$1 that was appropriated. He said the Commission may need to further tighten its belt, suggesting that they turn off the air conditioning and possibly holding monthly meetings via video conference instead of having a physical meeting.

The Chairman stated that he would like to find out the status of the appeal during executive session.

The Chairman shared that there has been an increase in the threat of the COVID-19 pandemic and the quarantine protocols have reverted back to becoming mandatory for incoming travelers, as opposed to allowing at-home quarantine.

The Chairman shared that in last month's meeting, the Commission heard reports from the Executive Director and Mr. Vince Babauta, DEI Manager, regarding the tower cranes. He noted that there was concern about the safety of the cranes as there were falling pieces that were found. The Chairman expressed the urgency of this matter and in getting it resolved before

someone gets injured. He told IPI that there is no longer a need for further discussion, they need to take action. He further noted that the Commission staff and the Director met with DPW and conducted a walkthrough of the site, which resulted in the letter that is under item IV.A.b of today's agenda. He added that during this part of the agenda, he would like to also hear from the DPW representatives who are present in the meeting.

The Chairman reported that in the Commission's comments to the legislature on internet gaming, it initially included the possible financial implications. However, because the Commission did not want to mislead the legislature, it was taken out of the final version submitted. He then stated that the financial portion will be presented today purely for knowledge and exposure on the industry. He further noted that there are many different ways internet gaming could be implemented and it would help to know who the operators are and whether it would be exclusive or restricted in its number of licenses.

The Chairman reminded the Director and staff about the Citizen-Centric Report which is due on October 30, 2021. He added that the next Commission meeting will be held on Wednesday, September 29, 2021.

#### **B. Report by the Executive Director**

The Director reported the following:

- **CCC Budget:** For the month of July 2021, the Commission's total expense was \$190,145.00.
  - 77.25% Personnel Wages and Benefits
  - 22.75% Board Compensation, Office Rental, and Other Operational Costs
- **Staff Reduction:** The Director reported that as of today the Commission is down to 15 employees excluding legal counsel, after completion of all the terminations, separations, and minor rescindments. He shared that despite these unfortunate ordeals, he is happy to announce that Mr. Leonard Leon has officially become the permanent Manager for the Division of Compliance. He noted that Mr. Leon held the role of Acting Manager for about a year already and congratulated him on the well-deserved promotion.
- **House Bill 22-47:** The Director shared that the Commission's comments on HB 22-47 were forwarded to the House Gaming Committee last month. He noted that many of the Commission's concerns were addressed and would need clarity. As mentioned by the Chairman, there will be a presentation on internet gaming later on in today's meeting. The Director noted that the Commission staff worked on the research to get a general idea of the potential economic impact internet gaming may have. He said they should all be mindful that the data gathered is forecasted and could be wrong.
- **CCC FY2019 Audit Report by Deloitte:** The Director reported that the audit for FY2019 has been completed and did not find any major issues in the Commission's operations, but the Audit Report noted that the future of the Commission's budget is a concern beyond summer 2022. He noted that they have to work with many different moving parts surrounding the exclusive casino license, whether it be finding amicable solutions and/or revocation of its license and taking on new bids for a license.
- **Status of Judicial Review of IPI's Appeal:** The Director shared that on August 18, 2021 the Commission received meeting transcript files from IPI to review for accuracy, which the Commission staff worked diligently on and forwarded back to legal counsel with corrections on August 24, 2021. He noted that the files would likely be used in future court proceedings as some type of evidence, adding that he would like Counsel Blaise to give an update on what the next steps in the matter are.

The Chairman thanked the Director for his report and stated that in regards to the internet gaming, there are a lot of questions that need to be clarified. He noted that if Representative Propst is still present later on in the meeting, he hopes to discuss it. He further stated that the Commission initially wanted to discuss the matter during executive session, but were informed by legal counsel that it should be discussed in the public session.

#### IV. MISCELLANEOUS MATTERS:

##### A. Casino Licensee - Imperial Pacific International (CNMI), LLC ("IPI") - Updates:

###### 1. Imperial Pacific Resort & Hotel ("IPR"):

- a) Status of IPI's request for extension of the IGF construction deadline per Casino License Agreement Amendment #6.

Mr. Tao Xing, IPI VP of Marketing, reported on the extension by stating that on June 25, 2021 the Governor forwarded the AG's opinion which stated that the Lottery Commission is the valid entity to approve the CLA extension. To that effect, IPI submitted their request to the Lottery Commission on July 28, 2021 and as of yet, they are still awaiting a response. The Chairman asked if the Lottery Commission gave IPI any information as to when they will be able to meet, to which Mr. Tao replied no, but they will continue to follow up. The Chairman then asked if IPI is prepared to address the issue, if the government refuses to acknowledge or grant the extension. Mr. Tao responded that they will have to explore their options so that they can move forward. The Chairman asked if IPI is prepared to present its financial capabilities to proceed with construction in the event that they do get approved for the extension. Mr. Tao said absolutely, noting that they will submit all the documents required by the Lottery Commission. He added that their current request is for an extension of five years. The Chairman pointed out that in the requests that were submitted, there was no reference as to where IPI plans to get the funding to resume construction. Mr. Tao stated that once they have all the information, they will package it along with the project plan for submission to the Lottery Commission and a copy will go to the Casino Commission as well. He added that IPI is working with their Hong Kong office, as their main function is the financial aspect of the company. The Chairman asked if Mr. Tao has any knowledge as to how much it would cost to complete the IPR, to which he answered that they have an estimate, but there isn't a final figure. He noted that the labor, material, and shipping costs are changing due to the pandemic. The Chairman recommended to have the financial information readily available, given the pending request from the Lottery Commission. He noted that the information would be helpful to the Lottery Commission in reaching a decision as it would show how IPI expects to move forward with their plans. He further stated that the only reference IPI made to funding in their submission was the \$2M that would be reimbursed for dismantling tower crane 4, but noted that IPI would need a lot more than \$2.5M for the remainder of the project. Mr. Tao stated that they would need a dedicated team to give an accurate and final figure of the funding requirement. He noted that once the Lottery Commission gives them a timeframe, they would likely need additional resources to get the final estimate.

The Chairman asked if IPI is prohibited from hiring CW and H2B workers, to which Mr. Tao replied yes. The Chairman said that they should have already started looking into getting US or local workforce if they do plan to continue construction. Mr. Tao said that their approach is to hire workers directly under IPI, noting that they have already identified the resources to remove tower crane 6. He shared that IPI is utilizing a few of the former local workers to remove the crane which consist of one supervisor, two crane operators and a number of other specialty roles. He further stated that they

will provide the names to DPW and the Commission. the Chairman asked where they plan to get the money to pay the previous and the current employees. Mr. Tao answered that they have already identified the funding source as part of the funding request, adding that they only need to identify an insurance company to provide the workman's compensation. The Chairman asked how this relates to the federal restriction on the construction activity. Mr. Tao answered that they received a special permit from DPW last week, as well as permission from the court. The Chairman asked the Director to obtain a copy from DPW, but Mr. Tao responded that he will provide the Director a copy.

b) Status of Tower Cranes 1, 5 and 6 at IPR & DPW Secretary's demand letter, dated August 13, 2021

As asked by the Chairman, Mr. Tao clarified that IPI already has the funding to dismantle the crane. He stated that they had requested USDOL to postpone their September payment and it was approved, further stating that IPI now has \$164,000 available to complete the dismantling.

Vice Chairman Demapan asked how IPI plans to address the dismantling of the crane in the event that they are unable to obtain workman's compensation. Mr. Tao responded that they have submitted several applications and have already received a couple denials. He assured the Commission that he will notify them right away if there are any issues, as they anticipate to have workers hired by next week.

The Chairman asked if IPI has done the inspection report as stated in the letter from the DPW Secretary, to which Mr. Tao replied yes. The Chairman shared that in the same letter, it specifies that if IPI is not able to remove the crane, DPW will remove it themselves at the expense of IPI. He stated that he would like to hear from DPW later on about how they plan to do that, given that there's no money. He then asked if IPI is prepared for DPW to take over as mentioned, in the event that they are unable to secure workman's compensation. Mr. Tao answered that they will have to look at their options if that time comes, but at this time they do have the funding for it.

Commissioner Taitano referenced the August 13, 2021 letter addressed to IPI from then Acting Executive Director, Ms. Ruth Ann Sakisat in regards to the ongoing request for employee payroll. He asked if IPI has completed and submitted the documents, to which Ms. Sakisat replied yes. The Chairman shared that the Commission has been concerned about IPI's financial obligations to its present and previous employees, and they have been monitoring even those who are no longer on island and still owed severance pay. He noted that the Commission recently received a list of all those names from IPI and thanked them for providing it. He told IPI that they need to take a serious look at their obligations and make sure they are paid out because even if the pandemic measures are lifted, the Commission may still hold off on giving IPI the green light until those obligations are satisfied.

The Chairman shared that he understands all businesses are facing financial difficulties, but as far as PL 18-56 is concerned, IPI needs to be deemed financially suitable. He mentioned that the AG had previously assisted the Commission in defining financial suitability, which he stated as "paying your debt as they become due". The Chairman said it surprises him that IPI had to ask USDOL to forgive the September payment simply because they need to use it to remove the crane. He asked how exactly they intend to prove their financial suitability when they aren't even able to come up with the amount of money needed to remove the crane. He stated that if IPI does not have the money they need to satisfy their obligations, they should not be holding on to the license. He asked Mr. Tao to impress upon those left at IPI about the urgency to remove the crane, adding that they should not wait for the September

meeting. He further noted that even IPI's own staff member, who is a specialist on cranes, has informed them that they have three months until it starts falling apart. The Chairman said that in the September meeting, they will be discussing the status of the crane again, adding that he hopes it does not fall by then and hurt someone. He noted that there would be an enormous liability considering that they have been made publicly aware of the urgency, especially from their own staff. Further, as IPI is now being ordered by DPW to remove the crane, the Chairman stated that he would like to hear from them about what their enforcement action on this matter would be. He added that if IPI does not remove it, there has to be some sort of timeline in which someone else would come in to do it. He stated that the Commission is not a construction or building code regulator, but they are not going to sit by and wait until someone gets hurt.

Mr. Tao shared that right now IPI is just trying to get through the rough patches they are in that was caused by the pandemic. He said although the pandemic may not be a reoccurring event, it had a major impact on the business. He further added that IPI is making efforts to obtain funding and the parent company has made a lot of requests to different financial institutions. He said they are hopeful they will get a commitment soon and hopeful as well that the gaming market will resume to its previous state and customers will return to the casino.

Commissioner Dela Cruz asked if Mr. Jess Aquiningoc, IPI Crane Supervisor, is on Saipan, to which Mr. Tao replied yes. He then asked if IPI is ready to dismantle the crane, assuming they are able to obtain workman's compensation. Mr. Tao answered yes, adding that they have had several meetings already and as soon as they have the staff on board, they will start right away, as early as next week. He further stated that Ms. Frances Mafnas will give an update on the workman's compensation issue.

Mr. Ignacio Santos, DPW Senior Inspector, introduced himself and apologized that his boss wasn't able to attend as he had another meeting to go to. He noted that he will try to answer the Commission's questions as best as he can. The Chairman referenced the August 13, 2021 letter from the DPW Secretary and asked who has jurisdiction over the tower cranes, specifically if it is DPW's jurisdiction through the building code. Mr. Santos answered that according to the International Building Code (IBC), tower cranes fall under unsafe structures and equipment. He said that whenever a tower crane is deemed unsafe, they would regulate it through that code. He further noted that whenever a construction company uses a large tower crane, the manufacturer would recommend a period of certification which would be done by a third-party independent company. The Chairman stated that IPI has six cranes and asked if they had ever received certification from DPW. Mr. Santos replied that his boss would be the best person to answer that question, as he receives those documents. The Chairman asked if Mr. Santos can find out if IPI had certified the cranes before they started using it. Mr. Santos responded that according to the letter from the DPW Secretary, before IPI uses tower crane 5 to dismantle tower crane 6, they need to have it certified. He added that in three months (from the date of the letter) if they don't use it, it will also need to be dismantled.

The Chairman then referenced the August 13<sup>th</sup> letter which states that if IPI does not dismantle the crane, DPW will have it removed at IPI's expense. He asked what the timeline is to get this done. Mr. Santos answered that on August 20, 2021 DPW issued a special demolition permit to IPI for them to remove tower crane 6, but they were also notified that they need to seek approval from the federal court before they go in to dismantle the crane. The Chairman asked if the approval has been granted by the court, to which Mr. Santos replied he hasn't seen proof of any approval.

The Chairman mentioned that the DPW Secretary's letter lists several conditions for IPI to adhere to, and asked if those conditions have been met. Mr. Santos answered

that IPI hasn't yet submitted the reports as requested in the letter. Mr. Vince Babauta, DEI Manager asked if only the arm of the tower crane will be dismantled. Mr. Santos replied yes, adding that IPI is not done with the crane. He noted that the mass itself is stable and that an independent inspector would certify that. He said that only the arm poses a safety hazard right now especially with the rusty components. He further stated that once the independent inspector certifies it, they will put it back up.

The Chairman asked if DPW is comfortable with IPI doing their certifications in-house. Mr. Santos replied that to his knowledge, IPI cannot do their own certification, they must use a third-party special inspector. He said that way, they cannot cheat themselves. Commissioner Dela Cruz asked if the inspection report required by DPW has been submitted. Mr. Tao answered that they still have the report, which they will locate and forward to DPW.

The Chairman thanked Mr. Santos for his help and asked that he extend his thanks to Mr. James Ada, DPW Secretary and Mr. Isagani Salazar, Director, DPW Technical Services. He noted that the IPR is the first superstructure in the commonwealth and it is important for DPW to step forward, as they have the jurisdiction on the building code. He then asked how often DPW goes to the site. Mr. Santos answered that they were there almost every day when the project first started, as they were required to have special inspectors on site. He noted that every time they pour cement for the foundation or for the columns, DPW had to be there to sign off. He added that the inspectors from Hofschneider Engineering and Aquino Engineering were there as well. He further stated that with the main structure up, the special inspectors were there often to monitor the MEP installation work. However, the reports had stopped coming in and for that reason, DPW had to issue a stop work order.

The Chairman asked what DPW can do now to monitor the crane issue and make sure it is properly resolved. Mr. Santos replied that IPI just needs to follow the requirements as stated in the Secretary's letter. The Chairman then asked if DPW has ever discussed with an engineering firm the safety of cranes during typhoon season. Mr. Santos replied yes, adding that there is a certain way that the crane should be positioned but they would still need to be concerned about the condition of the crane and the strength of the typhoon. The Chairman asked DPW to monitor the crane issue until it is resolved, especially since everyone is relying on DPW to ensure the safety of the building. He said that based on IPI's presentation this morning, it seems they are going to try and do everything in house, which is a dangerous position if they are not in compliance with the building code. Mr. Santos reiterated that IPI would need to have a third-party certify the crane and as such, they would also be held liable.

Mr. Tao clarified that they were supposed to have Mr. Eric Poon, IPI Construction Manager report on the crane in today's meeting, but he was not available as he is currently doing an assessment. He then shared that he has some information that was provided by the CEO. He reported on the workman's compensation matter by stating that once they receive three denials, they can report it to the insurance commission who would then force a company to provide the insurance. He then reported on the workforce that was put together for the project, stating that they are experienced operators who belong to AM Group. He said they have done the same work before on the same site, and they'll be hired again. In terms of the certification, Mr. Tao reported that they plan to hire a group called DR Safety. He said if the Commission has any further questions or concerns, they can schedule another time to meet so they can get a detailed update on the work.

Commissioner Taitano referenced Ms. Ruth Ann Sakisat's August 13<sup>th</sup> letter which mentioned that Ms. Remy Mafnas' employment was terminated. He asked if there is already a replacement to handle the compliance matters of IPI. Mr. Tao replied that



Ms. Mafnas was the legal manager and she would coordinate all the cases and files, as well as make sure that IPI has sufficient legal support for all the cases. He added that they are still looking for resources for Compliance.

The Chairman asked for an update on the status of IPI's response to FinCEN. Mr. Tao answered that they have submitted all of the required documents to FinCEN, but so far, they have not received any feedback. He added that Ms. Mafnas was the point of contact for the transmittals to FinCEN, but since she left, they now have Mr. Billy Lai taking over. Mr. Tao noted that they also have an updated organizational chart that will be submitted to the Commission.

**2. IPI Personnel Matters:**

- a) Status of Employee Payroll
- b) Status of unpaid payroll & severance pay for employees already off-island
- c) Others

Ms. Frances Mafnas, IPI Director of Treasury, reported that she will provide a brief report on personnel matters as Ms. Redie Dela Cruz is not feeling well and is not in attendance.

Ms. Mafnas shared that the employee payroll has been released without delay. She further shared that she will not be giving an update on the status of unpaid payroll and severance pay, as that is an HR matter which Ms. Dela Cruz will report on at a later date. The Chairman shared concern that the issue of unpaid payroll and severance pay continues to surface not only with the Commission, but with Chairman Propst as well, as he mentioned this morning. Ms. Mafnas said she understands, noting that she will follow up with Redie on this matter.

The Chairman asked if all the employees have workman's compensation insurance, as required by law. Ms. Mafnas replied that IPI is still trying to work with local insurance, adding that they have received two denials already and another two pending. She noted that if the two pending end up getting rejected as well, they will bring it up to Commerce to try and get help. The Chairman shared concern about IPI's inability to provide workman's compensation, as it is violating its responsibility as an employer. He said that although they received the green light to proceed with the dismantling of the crane, they first need to obtain the workman's compensation. He added that if the USDOL is telling IPI that they need workman's compensation, they must be aware that they currently don't have it.

**B. IPI Financial Matters:**

**1. Status of IPI's final Annual Audit Report (for the year ended December 31, 2020)**

Ms. Mafnas shared that there are still some adjustments being worked out with the local auditor, Mr. Dave Burger. She noted that she reached out to him before this meeting and he informed her that he is still looking at the audit report and hopes to have it completed by the end of the month, which is just next week. When asked by the Chairman about the corporate audit, Ms. Mafnas reported that there are adjustments being made as well.

The Chairman asked if it is concerning that both of the auditors from IPI CNMI and their corporate office refuse to put a position or opinion on the audit. He further noted that their logic is that IPI's liabilities exceeds its revenue assets, that they have zero ability to pay any of their debts, and they are fully dependent on the parent company. Ms. Mafnas said that she can't speak to their position or opinion, but noted that the



Chairman's comments about their financial situation is correct. The Chairman further asked if the parent company has shared any information with Ms. Mafnas regarding the finances, to which she replied no, but she can request for it.

The Chairman asked how IPI CNMI plans to handle all of its activities with zero knowledge about how much money they will have in the future. He said it is even more critical now since they have a pending request before the Lottery Commission for a five-year extension. Mr. Tao interjected to say that although they haven't finalized the audit report for 2020, they are going to issue a preliminary report next Tuesday, August 31<sup>st</sup>. He noted that what's pending is the evaluation report, but they already hired a third-party company who will be responsible for evaluating the current assets. He added that he was informed that a representative from this company will come to Saipan to do a site inspection, as required before the annual report is finalized. He added that he isn't sure when they will be arriving as they are still trying to sort out the flights and the quarantine requirements. The Chairman asked what would happen if this company found IPI was financially unable to proceed. Mr. Tao answered that he doesn't believe that's the case, adding that the big question would be how much their assets are worth at this point. He noted that given the current market condition, he thinks they are just trying to lock down the numbers.

Commissioner Dela Cruz asked for an update on the accounts receivables, adding that he asks this same question in every meeting and doesn't seem to get much of a response. Ms. Mafnas referred the question to Mr. Tao, who answered that they have a fairly new legal team in the mainland who suggested that they put together a list of all the people who have gaming debt and evaluate each case to see if they can sue them in the CNMI in order to start collecting. The Chairman said that to his understanding, there should not be a need to go into litigation as that is the reason they had guarantors set up in the past, to put up front money if the players do not pay up. He asked why IPI hasn't taken up on the front money, especially since that would be a way out of their financial problems. He said he doesn't believe they will be able to get very far with a litigation, adding that it would be illegal for IPI to attempt to collect from Chinese players. He further reminded IPI of their financial obligations.

## 2. Status of the 2021 Annual Exclusive Casino License Fee due on August 12, 2021

Ms. Mafnas shared that she does not have an update on the annual license fee. She noted that they haven't forgotten about it, it's just a matter of funding. The Chairman shared that on October 1<sup>st</sup>, there is a regulatory fee of \$3.1M due, adding that the previous year has not been paid either. He asked that IPI take these financial responsibilities seriously, but commended Mr. Tao and Ms. Mafnas for trying their best.

The Chairman asked Ms. Mafnas if she and Mr. Tao are getting their paychecks on time, to which she replied yes. He then asked if she is involved in the financial discussions with the corporate office, to which she answered that she communicates with them through a translator.

The Chairman asked if IPI is using its own local bank account and if so, who the expenditure authority is on that account. Ms. Mafnas replied yes, noting that they use it for operations and payroll with Mr. Hao Yo Chi and Ms. Redie Dela Cruz as the expenditure authorities. She further noted that they utilize a payment request form that is certified by her, Ms. Mafnas, and approved by the CEO, adding that this is their normal internal payment procedure.

The Chairman asked for an update on the status of the IPI equipment, trucks, and all other items or inventory that are scheduled to be auctioned. Mr. Tao explained that they have three writs at this time; the seven workers case, USA Fanter, and Ping Shun.

The Chairman asked if IPI is going to pay them, or if they are going to be paid from the equipment that will be auctioned off. Mr. Tao replied saying that they have already appointed a receiver who is in Hong Kong, and they are trying to figure out a way to handle the auction. He said they would need to package some equipment together and find a major buyer so that they can auction it off faster. He said that if they were to auction it off one by one, it could take years. The Chairman asked what would then happen if the machines are auctioned off, to which Mr. Tao answered they will buy new ones. The Chairman then asked about the status of the chips and if they are still secured, Mr. Tao answered yes, adding that nothing has changed with the US Marshal's seal, which means they can't remove anything from the building.

The Chairman asked Ms. Mafnas if she has calculated how much the machines and vehicles would be worth after they are all sold, she answered that they have only based it on the fixed assets listing that they have. The Chairman said that he'd like to ask Legal Counsel during executive session whether the regulatory fee is subject to line up those as creditors.

Commissioner Dela Cruz reiterated his concern about the repatriated employees who remain unpaid. He asked Ms. Mafnas to work with the corporate office and have them provide funding to address the issue. Ms. Mafnas replied that she will work with Ms. Dela Cruz in sending a request to Hong Kong. The Chairman reminded Ms. Mafnas to get an update from Ms. Dela Cruz about the workman's compensation.

Commissioner Taitano made a motion to recess until 2:00 pm, seconded by Vice Chairman Demapan. The motion was put to a vote and unanimously approved. Recess was called by the Chairman at 11:53 am.

C. Other Miscellaneous Matters - None

V. OLD BUSINESS. None

VI. NEW BUSINESS:

A. Saipan Local Law No. 22-6 *"To impose a local license fee on all electronic gaming devices as defined in Title 6 Section 3154(a)(4), inclusive of poker amusement machines on the same e-gaming premises as defined in Title 6 Section 3156(b), located within the Third Senatorial District; and for other purposes"*.

The Chairman noted that this item was addressed earlier during the meeting in which it was disclosed that SLL No. 22-6 does not apply to the electronic gaming machines at IPI based on a legal opinion received by the Commission.

B. CCC FY2019 Audit Report by Deloitte

The Chairman noted that in the Director's report which he shared earlier, he shared that the FY 2019 audit by Deloitte was completed and that no negative findings were found. He announced that the audit of FY 2020 will soon commence.

C. CCC Internet Gaming Presentation

The Chairman explained that the issue of internet gaming has been brought up for several years now since the establishment of the Commission and the opening of the casino. The exclusive licensee since day one was interested to explore the implementation of internet gaming. He explained that at the time, the federal wire act was very specific that the use of telephone or wire is restricted except to those states currently operating like Nevada and New Jersey. He said that because of these restrictions, the idea was put on hold.

The Chairman explained that recently, a circuit court of appeal out of New Hampshire declared that New Hampshire's lottery was ok and that it was not a violation of the Wire Act. What's restricted is sports betting as it relates to the wire act, the Chairman shared.

The Chairman disclosed that the Commission already submitted its comments on House Bill 22-47, a bill that proposes to allow Senatorial Districts to establish and regulate internet gaming ("i-Gaming") and for other purposes. He asked the Director to share his presentation on the findings and suggested that it not only cover the financial aspects of the internet gaming, rather whether the Commission, as regulators, should restrict this type of gaming to just brick and mortar casinos, or open with limited numbers and how the Commission would go about regulating such an industry.

Director Yeom said that the Chairman's suggestions can be considered an open ended question. He said that some thought should be put on whether or not it should be wide open to anyone who is interested in applying for a license. He pointed out that there are good and bad points: good because it's an opportunity for anyone who's interested; bad because it could get difficult to regulate especially small operators who chose to do things in swindler ways. He stressed that there's a possibility that control would be lost especially through the cyber space.

The Director recommended that to start off, it would be good to tie internet gaming to a brick and mortar casino in the CNMI so that there's some sort of control that could be regulated properly. He said that by doing it this way, we see how it works and determine later whether it should be opened to other entities and not only brick and mortar.

The Chairman noted that if it's restricted to brick and mortar casinos, it would mean that only IPI would be considered for a license because they are the only casino operator. The Director agreed that it would have to be that way at the present time but that we never know what would happen down the line. The Chairman asked the Director if he ever discussed with IPI how they envision to implement internet gaming if it were to be available. The Director stated that he's asked IPI representatives before but he believes they themselves don't know exactly what they want to do or they're going to go about it. However, they are still very interested in internet gaming, he said. He shared that Mr. Tao Xing as IPI VP of Marketing, during one conversation, had no answer to the question on how it will be implemented and it seemed like he didn't know what to do.

The Chairman asked the Director what type of gaming can be considered for internet gaming. The Director stated that it can be both table games and slot machines, and that slot machines are the bigger deal in the internet space. As far as table games, he said it could be baccarat or black jack which would be video streamed live in a brick and mortar casino with actual dealers and an empty table with no players. The Director reserved any further discussion on the set up because he did not want to give the wrong idea to the operators.

The Chairman, for purpose of discussion, asked the Director if the player has to register before the games begin. The Director responded that the player would have to be a member which will require a registration in the gaming portal as part of the due diligence process. The Chairman then inquired, based on the Director's former employment, how was the FinCEN reporting on suspicious activity or cash transaction above \$10K handled in internet gaming. The Director shared that game points are usually charged up in the game portal that you're a member of using a credit card, prepaid cards, bank deposits or physical collection from the player. He explained that it could be a 1 to 1 ratio so \$1K credit card swipe would mean 1,000 game points. The game points would be used to play the game, he added. He explained that traditional partnerships can be developed in the collection and charging up of customer's account and this is where a junket operator can step in as a money collector. The Chairman inquired if the issue of compliance with Title 31 Bank Secrecy Act is less or greater in internet

gaming. The Director responded that it would depend on the way things are set up. He stressed that he is not comfortable commenting on the matter as he did not want to give the impression to a potential operator that there's a way to circumvent the wire act. The Chairman asked for more clarity on the matter at a later time. The Director commented that the Chairman brought up a lot of important points and he believes that only in H.B. 22-47 can those gray areas be clarified.

#### **INTERNET GAMING SUMMARY- Market Research and Findings by the Executive Director**

The Director first explained that his presentation is based on hypothetical numbers compiled by the CCC and are only for projection review purposes. He emphasized that his forecasts do not represent the actual numbers as there are no practical data available in the CNMI.

The Director noted 4 categories in his presentation: Overview, Market Size, Compound Annual Growth, and the Revenue Potential. In his overview, based on research, online casino revenues in the second quarter tripled compared to the prior year with revenues surpassing \$400 MIL worldwide. This was due mainly to the COVID-19 pandemic in which digital user demand increased because of the complications surrounding brick and mortar casinos. New states also began legalizing online gambling products during the pandemic.

The Director's presentation showed that the research on market size indicated that 4.2 billion people gamble globally offline; 3% from the US and 5% from Asia. Some of the different jurisdictions with internet gambling are Singapore, Philippines, South Korea, Macau, Atlantic City and Las Vegas, to name a few. Studies show that an estimate of 40% of overall visitors are likely to gamble online.

With regards to the Compound Annual Growth Rate (CAGR), information from Grand View Research predicts that the U.S. online sports betting and gambling opportunity will continue to increase between \$42 to \$58 billion annually. There's an expected 11.25% increase in CAGR for i-Gaming into 2025. The U.S gambling industry, despite strict regulations, contributes around \$137.5 billion to the economy in addition to the direct employment of more than 730,000 people based on statistics from Statista. However, \$150 billion is assumed to be wagered off-shores due to legal complications.

The Director presented some CAGR facts starting with Roundhill Investment showing that user demand of legalized online gambling has grown. In West Virginia, there were nearly \$50 million in legal online wager within the first four weeks of legislation. Pennsylvania's online casinos saw \$51 million in revenues in July 2020 with wagers on slots surpassing \$1 billion for the third consecutive month. Despite the complete shutdown of land-based casinos due to Covid-19, New Jersey's online casinos brought in over \$81 million in June 2020 resulting in a \$14 million collection in tax revenue for the state for that month.

The Director stated that as i-Gaming continues to grow globally, so does the potential market share for the CNMI. He then presented a forecast that predicts that each visitor will spend an average of \$442 which could potentially generate tax revenue of \$7.5 million if 100 percent of the total visitors participate in i-Gaming. He presented forecasts of what the CNMI could earn using fiscal year 2019 visitor's arrival data from Marianas Visitors Authority (MVA) which was estimated at 340,000. The Chairman inquired if the visitors will be playing from their hotel rooms. The Director said it could be from anywhere where internet is available; their rooms, the lobby, the cafeteria, wherever they may be, possibly even from home.

The Director's presentation included a BGRT comparisons of off-shore versus domestic for the different years (2022-2025), starting off slow and small. He stated that there's no question that off-shore market could bring in bigger revenues if done properly as opposed to opening just to domestic. However, opening off-shore will come with risks relating to wire act and other related compliance issues. It ultimately means high risk, high return, but that he is

uncertain if this will be worth the risk or not.

< End of Presentation Summary >

The Chairman questioned how would the issue be controlled considering there are three different regulatory bodies: Saipan, Tinian and Rota. The Director replied that it would be in the hands of the legislature to determine the manner as this body can only deal with Saipan. Hypothetically speaking, the Director added that it would depend on how each portal will be set up. If partnership is involved, the relationship and contract between the partners would have to be looked into by the regulatory body, he explained. He said that different jurisdictions have different partners and portals to worry about. Part of regulating i-Gaming would not only look into that but also into the server and geo locations, he said. The regulations that will have to be promulgated would indicate conditions pertaining to all of the above, and what is prevailing in other industries can always be followed as a model. He said that if the proposed legislation passes into law, establishing regulations would require a lot of work, manpower who are tech savvy and lots of training. The Director elaborated that if i-Gaming were to be implemented, regulating the industry would require its own funding and its own personnel.

The Director shared that in terms of technicality, there many different ways to set up internet gaming but there may be a need to work with the operators who may choose to go into partnerships. If too much teeth are put into it, there's a possibility that it can't be set up. He added that there are many unknown factors involving the actual internet gambling such as the Wire Act and the Unlawful Internet Gambling Enforcement Act (UIGEA). Every country would have its game publisher who will look after the region, market the product and collect money. The Chairman inquired if a game publisher is similar to a junket operator. The Director replied that it somewhat is in a brick and mortar set up. Compliance Specialist Leonard Leon added that the UIGEA has policies against anyone playing the role of a junket. The Director noted that this is one of the unknown gray areas as we do not know how the Feds and the US Attorneys will treat this in determining if it's a violation of the Wire Act.

The Chairman stated that it would make sense to require servers and portals to be located in the CNMI should the internet gaming law come into place, regardless whether brick and mortar or another type of license. The Director explained that the data base server can be in the CNMI but a server also has to be available in the area where the player is joining from. These are two different jurisdictions that would be involved and we can't control who is joining, for example Singapore, who has its own regulations which we do not have jurisdiction over. The Chairman shared that he envisioned the individual player calling in which would eliminate the need for the other country to go through their server. The Director explained that the wagering would occur in the country where the call is coming from, therefore, their regulations would apply which we would have to respect. He once again reiterated that there's so many different ways of setting it up and it would all depend on the operator.

Chief Babauta inquired how the revenue would be realized in the CNMI if wager would occur outside. The Director explained that it would again depend on the set up in which the BGRT can be split 50/50 with the partnerships. The Chairman asked if this would amount to the gross gaming revenue minus the partnership payment. The Director agreed that it could be interpreted that way, somewhat like a junket structure. The Chairman asked how the operator on our end would collect its share. The Director explained that the partner in the area where the wagering occurred would collect the revenue but the operator in the CNMI would have control of information on how many players played from that jurisdiction for the particular month. It's the partner's responsibility to collect and pay taxes in its jurisdiction, then split the amount with the operator based on the agreed percentage. The operator would then have to pay applicable taxes in the CNMI based on the amount it collects from the partner. The Director noted that the operator in the CNMI may not have to worry about FinCEN because the funds would have been already collected through the internet in that particular country.

The CNMI operator would in essence only be collecting royalty revenue, he said. He further explained that royalty means how much the operator made using the partner's software which the operator would have complete information on.

The Chairman commented that based on the Director's example, it is incumbent on the Commission to really look closely into game publishers or junket partners to prevent the CNMI from being defrauded. He questioned whether the publishers need to be licensed or taxed one hundred percent of revenues. The Director explained that a 100% tax might not be possible but extreme due diligence can be implemented through the promulgation of regulations granting the Commission authority to inspect partnership set up to determine its legitimacy. The Chairman said that it is necessary for the Commission to have more exposure to internet gaming. The Director mentioned that the Commission's advantage is that he used to be in charge of the global game publishing in Korea for over 14 years so he would know what to do should the legislators choose to go down this path. However, he noted that he would need the help of the staff and legal counsel to promulgate regulations to guard against and circumvent any of the loop holes. The Chairman inquired if the legislation can proceed without factoring in brick and mortar but in concept, just allow the Commission to regulate the number of licenses to be issued since it will be a while before the brick and mortar is up and running again. Commissioner Dela Cruz suggested allowing the poker houses to venture into internet gaming while ensuring that their servers and portals are located in the CNMI. The Chairman replied that poker parlors are not in the Commission's jurisdiction but rather the Department of Finance. The Director noted that there must be clarification on who the regulatory body will be should this path be taken as it cannot be both bodies.

The Chairman noted that H.B. 22-47 will also affect Tinian and Rota so he asked the Director if he plans to reach out and work with the regulators there in approaching the legislators to see how the legislation can be worked out. The Director acknowledged and agreed with the Chairman's suggestion as it will benefit the entire CNMI, instead of dividing the three small regions which will be very costly.

The Chairman thanked the Director and the staff for putting together the presentation on i-Gaming. He suggested that the Commission monitor the progression of the proposed legislation. Should the Commission be asked for more comments, it will be ideal for the Director to spend time with the Gaming Committee to discuss and explore what IPI, as the brick and mortar, intends to do. The Director stated that he believes it is the operator's responsibility to explain the set-up of internet gaming to the legislature and not his.

## **VII. EXECUTIVE SESSION:**

**Commissioner Dela Cruz moved to rise into executive session to consult with Legal Counsel, to receive reports from the Compliance, Audit and Enforcement divisions and to discuss personnel matters. The motion was seconded by Commissioner Taitano, put to a roll call vote with all members voting yes. (Enter 3:21 p.m.)**

- A. Consult with Legal Counsel**
- B. Report by the CCC Divisions (Compliance, Audit and Enforcement)**
- C. CCC Personnel Matters**

**Commissioner Dela Cruz moved to exit executive session, seconded by Commissioner Taitano. The motion was put to a vote and unanimously approved. (Exit 4:00 p.m.)**

The Chairman shared that during executive session, the Commissioners consulted with the legal counsel regarding several matters involving the Commission and the industry. He noted that the Commission heard reports from the different divisions and held some discussions on personnel matters.

Commissioner Taitano announced that he received a copy of a certification letter from Island Certs certifying that Mr. Jess Aquingoc is more than qualified as a competent person to manage and supervise the dismantling of the cranes. The Chairman asked the Director to make a note and to keep the letter in file.

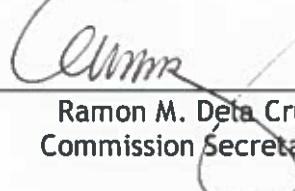
VIII. ADJOURNMENT

Commissioner Taitano made a motion to adjourn the meeting, seconded by Vice Chairman Demapan. The motion was put to a vote and unanimously approved. Meeting was adjourned at 4:02 pm on Thursday, August 26, 2021.

Prepared by:  Date: 9/23/2021  
Elicia San Nicolas, Executive Secretary

And  Date: 9/23/2021  
Ruth Ann P. Sakisat, Executive Assistant

APPROVED AND ADOPTED ON: 29<sup>th</sup> day of September, 2021.

 Date: 9/29/2021  
Ramon M. Deta Cruz  
Commission Secretary