

Michael Cruz
Director of Gaming Laboratory Operations – PGCB
House Gaming Oversight Committee
April 23, 2009

Good afternoon Chairman Santoni, Chairman Schroder, members of the House Gaming Oversight Committee.

My name is Michael Cruz, and I am the Director of Gaming Laboratory Operations for the Pennsylvania Gaming Control Board (“Board”). The Board’s gaming laboratory is mandated by the Gaming Act and is one of several public laboratories in the United States. Our laboratory is charged with testing all slot machines used in the Commonwealth under the Gaming Act to make sure that the machines and the programs associated with them meet the requirements for a legal slot machine for use in the Commonwealth. I’m proud to say that in a relatively short time, and through the hard work of our staff, we have acquired a nationally-recognized reputation for excellence in our testing.

Before I begin my testimony, I want to say that my staff and I look forward to the Committee’s visit next week to our Gaming Laboratory.

I have been asked to appear before this Committee to discuss the difference between a “video lottery terminal” as proposed in House Bill 1317 and a “slot machine” as defined under the Pennsylvania Race Horse Development and Gaming Act (“Gaming Act”) and the Board’s regulations. Confusion sometimes surrounds these two terms as differing jurisdictions sometimes use the terms interchangeably and sometimes there can be some overlap between the two based upon technical configurations and specifications. Since my focus at the Gaming Control Board is on slot machines, I’ll start with a basic overview of what a slot machine is pursuant to the Gaming Act and the Board’s regulations. There are 3 key components that we test for to determine whether a device qualifies as a slot machine:

1. First, every slot machine must use a computer programmed Random Number Generator (RNG). As its name implies, the Random Number Generator assures that each game is in fact random and the product of chance.
2. Second, the programming of each slot machine must use the random numbers produced by the Random Number Generator and directly map them to symbols. These symbols can be 7’s on a spinning reel or an Ace of spades in a deck of cards. The resulting combination of these symbols then corresponds to a table of payouts. The combination of symbols and their corresponding pay outs are independent of all previous and future outcomes. Additionally, each machine’s payout percentage must be at least 85%.
3. Finally, all slot machines must be compatible with the Central Control Computer System for the purposes of accounting and general machine control.

In contrast, a “video lottery terminal”, or VLT, has different meanings in different gaming jurisdictions. In some jurisdictions, VLTs are synonymous with slot machines and might qualify as a slot machine in Pennsylvania, while VLTs in other jurisdictions are not synonymous with slot machines and wouldn’t qualify as slot machines in Pennsylvania.

Under House Bill 1317, the definition of “video lottery terminal” indicates that the term “shall not include an authorized slot machine as defined under 4 PA.C.S. § 1103 (relating to definitions).” Therefore, by definition, a VLT must be something different than what we test and approve for use in Pennsylvania casinos. Based upon my review of House Bill 1317, I presume that the VLT model this legislation seeks to authorize is similar to the VLT systems used in the states of New York and Washington, which use VLTs that are clearly distinguishable from slot machines as defined under the Gaming Act and Board’s regulations.

The difference between a slot machine and a VLT may not be readily apparent simply by looking at the unit but must be examined in term of the manner in which they operate internally. VLTs often look just like slot machines in appearance. In fact, manufacturers are very good at making VLTs that look very similar to slot machines from the patron’s point of view. However, there is a clear difference between a slot machine in Pennsylvania and a VLT used in states such as New York or Washington. In a basic sense, that difference is realized by the co-existence of 2 factors unique to VLTs.

The first factor is the existence of a single Random Number Generator located at the central system as opposed to the Random Number Generator located at the machine level. However, this difference alone does not separate a machine as a VLT. In some instances newer technology has created slot machine server based systems which qualify as slot machines even though each individual unit does not have a random number generator but instead random numbers are generated individually by a server for each game.

The second and more important factor is the existence of a finite depleting prize pool. The Random Number Generator located at the central system in a VLT randomly selects a prize from a known group of winning and losing prizes. The VLT then proceeds to show the patron through the use of spinning reels or playing cards the outcome of this randomly selected prize. This is different from a slot machine, which does not use a finite depleting prize pool. Nor does a slot machine’s random number generator pick winners. Instead, a slot machine’s random number generator picks symbols which correlate to an approved pay table.

For example, the most widely used analogy for a VLT is that of scratch off lottery tickets. When a batch of scratch off lottery tickets is manufactured, there is a finite amount of winning and losing tickets. The tickets are then randomly distributed for sale at vending machines and convenience stores. When a patron purchases a scratch off ticket

it is not only one less ticket out in the market but the patron's outcome has already been determined since that ticket came from a finite prize pool.

Again, thank you for inviting me to testify before you today, and I'll be happy to try and answer any questions you have.

MICHAEL CRUZ
DIRECTOR OF
GAMING LABORATORY OPERATIONS



Michael Cruz was appointed to the position of Director of Gaming Laboratory Operations by the Pennsylvania Gaming Control Board on January 11, 2008.

Prior to joining the Gaming Control Board, Mr. Cruz was a Senior Engineer with New Jersey's Division of Gaming Enforcement from 2003 to 2006.

Mr. Cruz joined the Gaming Control Board in February 2006 as the Manager of Slot Certification and was an integral part of the openings of the Commonwealth's first slots facilities at Mohegan Sun at Pocono Downs and Philadelphia Park Racetrack and Casino. In February 2007, Mr. Cruz was promoted to Senior Manager of Gaming Laboratory Operations, during this time Mr. Cruz supervised the Lab's role in the opening of Harrah's Chester Casino and Racetrack, Presque Isle Downs and Casino, The Meadows Racetrack and Casino, and Mount Airy Casino Resort.

In addition, Mr. Cruz directed the opening of the state of the art slot machine testing laboratory in Harrisburg in September of 2007.

Mr. Cruz earned his Bachelor's degree in Electrical and Computer Engineering from Rutgers University.