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**SENATE COMMITTEE ON COMMUNITY, ECONOMIC AND  
RECREATIONAL DEVELOPMENT**

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Good morning.

My name is Steve Kniley. I am a Deputy Chief of Staff in the Governor's Office. More relevant to my presence here today, however, is my previous job. From October 2003 until May of this year I served as press secretary in the Department of Revenue, where I participated in the Department's efforts to implement the new gaming act.

As you know, on July 5, 2004, Governor Rendell signed into law legislation that authorizes slots gaming at 14 venues throughout the state. Act 71 assigned to the Department of Revenue the task of procuring a central control computer system that would monitor – in real time – the money flowing through each of the up to 61,000 slot machines permitted under the Act. The central computer system would facilitate the Revenue Department's other responsibility: collecting gaming taxes and assessments.

In the days following the enactment of Act 71, it became apparent that there would be significant lag time between the signing of the bill and the constitution of the Gaming Control Board. The need to appoint and conduct background checks on Board members meant that months would pass before gaming regulators were ready to begin work. In fact, the first meeting of the Gaming Control Board did not occur until Dec. 14, 2004.

To move the process forward during what became a four-month gap between the signing of Act 71 and the first Board meeting, the Administration thought that the best interests of the Commonwealth, as we anticipated the start-up of this new industry, would be served by forming a Best Practices Committee. The committee was to be coordinated by the Revenue Department, and identify "best practices" in the gaming industry that should be adopted in Pennsylvania.

On July 20, 2004, the Department of Revenue contracted with Information Services Group, New Cumberland, to provide support for it and the Best Practices Committee. ISG was supported by two New Jersey-based subcontractors: Spectrum Gaming Group and Gaming Laboratories International.

On July 27, 2004, John Estey, then the Governor's Chief of Staff, sent a letter to the leaders of the four legislative caucuses inviting them to participate in the Best Practices Committee.

On July 29, 2004, the Senate Republican Caucus responded to Mr. Estey's letter, saying, in effect, "not so fast." Senate President Pro Tempore Robert Jubelirer wrote that the Administration's proposed approach "gives the impression of a series of important decisions being force-fed to the (Gaming Control) Board at its initial meeting."

The Revenue Department responded to the concerns expressed by the Senate Republican Caucus first through a name change: The Best Practices Committee became the Common Practices Working Group.

The new name was not just a semantic exercise. It reflected a fundamental change in direction. Rather than attempt to decide what gaming regulatory actions were best, the working group would instead collect information about practices used in other states and provide that information to the Gaming Board to help it make the important implementation decisions it was charged with under Act 71.

On Aug. 4, 2004, at the first meeting of the Common Practices Working Group, Revenue Secretary Greg Fajt made the change in focus very clear. With your indulgence, I'd like to read one paragraph from his opening statement:

Secretary Fajt said: "It is not my intention, or that of the Administration, to dictate policies to the Gaming Control Board. I am a non-voting member of the Board, and as such, my role is to attend meetings and help the Board in any way I can. The Board's voting members will ultimately decide what gaming applications will look like, what regulations are adopted and what staffing levels are appropriate."

We have provided you with copies of the letters written by Mr. Estey and the Senate Republican leader, as well as Secretary Fajt's remarks at the first Common Practices Working Group meeting.

The Common Practices Working Group met three times during the summer of 2004. I should add here that group included representatives from all four legislative caucuses, and that its meetings were open to the media.

During that period the Revenue Department also worked with ISG to prepare a briefing document for the Gaming Control Board. The Department made it clear to ISG that its work product should inform the Gaming Board, not attempt to dictate policy or make policy recommendations.

In October, the Department received a draft of the document that was, to be blunt, unacceptable. The document was defective in two key areas:

First, it did exactly what Secretary Fajt had promised not to do when the Common Practices Working Group began its work in August: It attempted to make policy decisions for the Gaming Control Board. Even the name of the draft was problematic. It was called “Blueprint for Slot Gaming Regulation in Pennsylvania.”

The blueprint for slots gaming is Act 71, and the regulations promulgated under the authority of the Act.

And while the draft said on its first page that it was not intended to dictate, it then proceeded to do just that, at great length.

The second problem with the draft document was that it tried to substitute the opinions of its writers for the language of Act 71. It committed what in this building is a fatal mistake: It went beyond the four corners of the bill.

Because it has been the subject of recent media attention, I will use an example from page 30 of the draft. The first sentence under a section dealing with licensing investigation responsibilities, reads as follows:

“The Pennsylvania State Police will have the primary role in the conduct of background investigations.”

A recent news article called that sentence a recommendation. It was not. The sentence was a statement of fact, and it was wrong. Act 71 does not assign the primary role of conducting background investigations to the Pennsylvania State Police. Act 71 does not assign that role to the Gaming Control Board’s Bureau of Investigations and Enforcement. Act 71 leaves that decision up to the Board.

The Department of Revenue ordered the draft to be re-written. The result was a document titled “Background Materials,” which was prepared by ISG in conjunction with Revenue Department staff and presented to the Gaming Control Board in December 2004. The revised document provided the Board with information, but left it up to the Board to make decisions. For example, the section on background investigations states that the division of labor between PSP and BIE is up to the Board, and provides information about background check procedures in other states.

I would like to conclude by correcting some inaccurate information that has appeared in recent media accounts.

First, Secretary Fajt did not order Spectrum Gaming to change a recommendation that background investigations should be conducted primarily by the State Police. In fact, Secretary Fajt ordered the entire document prepared by Spectrum Gaming and ISG to be re-written to remove all efforts to dictate policy to the Gaming Board. The reference to background checks was just one example.

Secretary Fajt also did not fire Spectrum Gaming. Spectrum stopped working when it was told that the draft it prepared with ISG was unacceptable. In effect, Spectrum quit when the Department of Revenue refused to let it tell the Gaming Control Board what to do.

I thank the committee for giving me the opportunity to appear today.

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