



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Chairman Crosby and Commissioners Cameron, McHugh, Stebbins and Zuniga
From: Rick Day and Derek Lennon
CC: Public Meeting Packet 5/29/2014
Date: 5/27/2014
Re: FY15 Initial Budget Recommendations

Summary:

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year (FY) 2015 budget projections include \$24.5M for gaming operations and \$4.8M for racing operations for a total of \$29.3M. At the commission's request we completed an analysis comparing the projected FY 15 costs of the MGC's gaming operations to those of two other states. As FY 2015 is the first budget that will be assessed on the gaming licensees the comparison is intended to provide a frame of reference regarding the reasonableness of MGC's budget in relation to peer agencies. The analysis demonstrates that while Massachusetts is still in start-up mode and our contracted costs are disproportionate to salaries, the MGC's costs are comparable to the Pennsylvania and Michigan Gaming Control Boards.

The MGC, under 205 CMR 121.00 will assess licensees the difference between its budget and anticipated revenues in FY15. The MGC's gaming operations costs are projected to be \$24.5M, and net revenues are anticipated to equal \$4.1M, which would leave an assessment of \$20.4M to be divided up among the licensees.

The Racing Division's budget is funded through a portion of wagering. While the landscape of racing in Massachusetts is not stable, the Division's budget was built using prior year revenue projections deflated at the average rate of decline experienced from FY12-FY13.

For the first time, the MGC's budget is presented at the Division/Bureau functional level. FY15 will begin the process of each division being assigned a budget, that budget being



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established in the Commonwealth’s accounting system, and expenditures tracked against that budget. Some of the more significant anticipated costs of each division/bureau are described later in this memo.

Gaming Operations Comparison:

The MGC is committed to establishing a comprehensive regulatory environment for gaming in Massachusetts, but is also aware of the licensee’s competitive business environment. Therefore, the MGC compared its FY15 budget projections to the current budgets for the Michigan Gaming Control Board (MGCB), and the Pennsylvania Gaming Control Board (PGCB). It is difficult to do an exact comparison between gaming commissions/control boards. In an effort to normalize the budgets, this analysis concentrated on the total projected budget, number of full time equivalents (FTEs), cost of FTEs (inclusive of fringe benefits), and total contracted costs. The analysis also looked at what costs of providing a regulatory environment are built into each entity’s budget as opposed to funded through a separate item, but still assessed on the industry. A few other characteristics were looked at for comparison purposes such as how many operations are monitored, whether there is a full or part-time commission, and the total amount of revenue generated for state purposes. The final comparison was the percentage change in the consumer price index for the region over a 30 year time period to put in Massachusetts dollars the relative cost of the regulatory environment in Pennsylvania and Michigan.

	Massachusetts		Michigan		Pennsylvania	
Headquarters	Boston		Detroit		Harrisburg	
Budget	24,500,000.00		24,500,000.00		36,900,000.00	
FTEs	73.00		116.00		315.00	
Cost of FTEs	6,500,000.00		10,000,000.00		30,100,000.00	
Contracted Costs	18,000,000.00		14,500,000.00		6,800,000.00	
Characteristic Comparison		Included in Agency Budget		Included in Agency Budget?		Included in Agency Budget?
State Police	1,800,000.00	Yes	4,000,000.00	Yes	22,500,000.00	No
Attorney General	800,000.00	Yes	1,300,000.00	Yes	1,000,000.00	No
Department of Revenue*	-	NA	-	NA	2,500,000.00	No
Problem Gambling	3,900,000.00	Yes	960,000.00	Yes	8,200,000.00	No



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Centralized Monitoring System	1,600,000.00	Yes	-	NA	7,000,000.00	No
Full Time Commission	2,000,000.00	Yes	-	NA	1,020,000.00	Yes
Part Time Commission	-	NA	8,000.00	Yes	-	NA
Operations Monitored	3.00		3.00		12.00	
CPI % Change since 1984 Natl Avg 124%	140%		113%		131%	
Total Revenue Generated	300,000,000.00		115,000,000.00		1,400,000,000.00	
Total Amount Spent on Regulatory Control	24,500,000.00		24,500,000.00		69,900,000.00	
Cost of Regulatory Control in MA Dollars	24,500,000.00		30,380,000.00		74,793,000.00	

The Massachusetts gaming commission’s regulatory control budget is derived from a combination of reimbursements for investigative costs, per slot machine annual fees, licensing division fees and an assessment on each licensee for their proportional share of the difference between the commission’s anticipated expenditures and the aforementioned revenues. In Michigan, the MGCB’s regulatory control budget is derived from an annual assessment of \$11+M on each of the three licensees. The total assessment began at \$25M when the legislation was passed and grows annually tied to the Detroit CPI. The current total assessment is in excess of \$33M. The PGCB’s regulatory control budget is derived from an assessment of 1.5% of each operator’s gross gaming revenue (GGR) and revenues from their licensing division and their gaming laboratory. The 1.5% funds more than just the PGCB’s budget, and Pennsylvania is actually operating at ~2% of GGR, but has built up a reserve in their regulatory control fund from previous fiscal years and has used this surplus to keep the assessments at 1.5%.

Massachusetts is projected to spend \$24.5M in FY15, which is the same amount Michigan is projecting to spend on its casino/gaming oversight, and Pennsylvania is projecting to spend ~\$36.9M for its operations. Massachusetts differs from both Pennsylvania and Michigan in that its ratio of FTE costs in comparison to contractual costs is much lower. Massachusetts is heavily reliant on contracted assistance to set up the commission, where MGCB and PGCB have gone through that process and are now in a regulatory role, which by nature is more FTE cost driven. Massachusetts is similar to Michigan in that the costs of the state police the attorney general’s office, and problem gambling are built into the commission’s budget, where as in Pennsylvania, the gaming regulatory costs of the state police and the attorney general’s office are direct appropriations to those agencies out of the 1.5% GGR fund, and problem gambling is appropriated from the tax assessment on slot revenue.



MGC is similar to Pennsylvania in that it has full-time commission/board and is expecting to have a central monitoring system for slots (VLT/EGM) operations while Michigan has a part-time board that does not receive salaries, and does not have the costs of a central monitoring system assessed on its licensees. However, the cost of the central monitoring system in Pennsylvania is not included in the PGCB's appropriation from the 1.5% assessment on GGR, but is rather appropriated to the Pennsylvania department of revenue out of the 1.5% GGR assessment fund.

The total cost to provide regulatory control of commercial casino and slot operations in Massachusetts for FY15 is projected to be \$24.5M. The FY14 total commercial casino regulatory control budgets for Michigan and Pennsylvania are \$24.5M and \$69.9M respectively. The MGC is anticipating within the next couple of months to have three licensees, which is the same as Michigan, while Pennsylvania currently has 12 licensees and is expecting to increase to 14 within the next 12 months. The final analysis conducted was to look at the inflation in the consumer price index (CPI-U) for the Boston, Detroit and Philadelphia areas to compare the cost of doing business in Michigan and Pennsylvania to what it would cost in Massachusetts. From 1984-2013, the CPI-U for the country rose by 124%. In the Boston area it increase by 140%, in Philadelphia it increased by 131% and in Detroit it increased by 113%. Using the CPI-U index increases Boston grew 7% more than Philadelphia and 24% more than Detroit over the same time period. In Boston dollars, the \$24.5M needed to regulate Michigan would equal ~\$30.4M, and the \$69.9M needed to regulate Pennsylvania would equate to \$74.8M.

Assessment on Licensees:

Chapter 23K § 56 (a)-(c) define how the MGC will fund its annual costs. This chapter was further defined through 205 CMR 121.00. The finance office has met with each division/bureau head within the MGC and developed spending and revenue projections that are realistic representations of what will be needed in FY15 to operate the commission, as well as what can be expected for revenue based on the commission's current fee structures. These requests were then reviewed by the CFAO, the Executive Director, and the Treasurer of the commission. The short table below represents at a macro level the anticipated spending for gaming regulatory operations for FY15 and the corresponding flows of revenue. It is important to note that the MGC retained \$17.5M of the \$25M category 2 license fee to fund a portion of its FY14 operations. The remaining --- was transferred into the licensing fund to be distributed per section 93 of the Acts of 2011. The commission is anticipating carrying \$14M of those funds into FY15



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to begin operations until assessments are received. There is a corresponding \$17.5M transfer line out of the Gaming Control fund and back into the Community Mitigation fund (CMF) scheduled for the last quarter of FY15 to fully fund the (CMF). This schedule was described in a memorandum presented to the commission on April 20, 2014.

By taking the projected spending less the net revenues projected for FY15, the commission will utilize 205 CMR 121.01 3(c) to assess ~\$20.4M on licensees as shown in the chart below.

Appropriation	Appropriation Name	Cost Category	Annual Projection
10500001	Mass. Gaming Commission	AA-REGULAR EMPLOYEE COMPENSATION	\$4,975,166.60
		BB-REGULAR EMPLOYEE RELATED EXPEN	\$80,900.00
		CC-SPECIAL EMPLOYEES	\$131,412.50
		DD-PENSION & INSURANCE RELATED EX	\$1,348,548.83
		EE-ADMINISTRATIVE EXPENSES	\$503,569.71
		GG-ENERGY COSTS AND SPACE RENTAL	\$633,157.52
		HH-CONSULTANT SVCS (TO DEPTS)	\$6,060,200.00
		JJ-OPERATIONAL SERVICES	\$2,935,016.31
		KK-EQUIPMENT PURCHASE	\$161,500.00
		LL-EQUIPMENT LEASE-MAINTAIN/REPAR	\$33,458.00
		MM-PURCHASED CLIENT/PROGRAM SVCS	\$35,000.00
		PP-STATE AID/POL SUB	\$3,841,814.00
		UU-IT Non-Payroll Expenses	\$3,816,811.00
Cost Projections Total			\$24,556,554.47
Appropriation	Appropriation Name	Revenue Description	Annual Projection
10500001	Mass. Gaming Commission	Employee License Fees Gaming	\$82,500.00
		Employee License Fees Non-Gaming	\$12,000.00
		Employees License Fees Key Gaming	\$197,500.00
		Gaming Control Fund Beginning Balance	\$14,000,000.00
		Gaming Vendor Primary	\$900,000.00
		Gaming Vendor Secondary	\$150,000.00
		Grant Collections	\$700,000.00
		Region A Slot Machine Fee	\$1,860,000.00
		Region B Slot Machine Fee	\$1,800,000.00
		Region C Phase 1 Investigation Collections	\$400,000.00
		Region C Phase 2 Category 1 Collections	\$800,000.00



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Slots Parlor Slot Machine Fee	\$750,000.00
Transfer of Licensing Fees to CMF	(\$17,500,000.00)
Revenue Projections Total	\$4,152,000.00
Assessment (Cost Projections-Revenue Projections)	\$20,404,554.47

The Racing Division’s budget is found below in the FY15 Budget Structure section under item 10500003 as its funding is generated through specific revenue percentages of wagering and fees/assessments. A complete list of the MGC’s spending and revenue by appropriation is attached to this document (Attachment A).

FY15 Budget Structure:

Beginning in FY15, the MGC will be allocating funds to each division/bureau and tracking contractual commitments, expenditures and salaries against each division/bureau budget. The commission will be using the expense budget feature in the Massachusetts Management and Accounting Reporting System (MMARS) to establish these budgets and automate the process of keeping track of budget to actual expenditures and commitments.

Each appropriation (eight digit number assigned in the accounting system that expenditures are tracked against and revenue is assigned to) will have expense budgets set up so that the MGC can verify at any point that the approved spending levels will not exceed the approved budget. Below is a summary of each division/bureau proposed budget. Immediately following the table are highlights of significant spending in each division/bureau. Attachment B to this document provides an object class level budget for each division/bureau. Divisions/bureaus were required to build budget requests at the object code level, but for purposes of entering budgets into the state accounting system, budgets will be loaded at the object class level.

Appropriation	Appropriation Name	Unit	Unit Name	Budget
10500001	Mass. Gaming Commission	1000	Finance and Administration	\$3,428,116.61
		1100	Human Resources	\$674,368.25
		1200	Legal	\$2,267,059.19
		1300	Executive Director	\$891,627.69
		1400	Information Technology	\$4,610,559.20



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		1500	Commissioners	\$2,039,811.63
		1600	Workforce and Supplier Diversity	\$354,818.84
		1700	Problem Gambling	\$3,946,825.16
		1800	Communications	\$320,214.01
		1900	Ombudsman	\$983,525.05
		5000	Investigations and Enforcement Bureau	\$4,436,072.70
		7000	Licensing Division	\$603,556.14
10500001 Total		12		\$24,556,554.47
10500002	MGC - Racing Stabilization Trust Fund	3000	Racing Division	\$743,988.10
10500003	MGC Mass Racing Development and Oversight Trust	3000	Racing Division	\$2,060,548.31
10500013	MGC Plainridge Racecourse Capital Improvement Trust	3000	Racing Division	\$125,000.00
10500021	MGC Sterling Suffolk Promotional Trust	3000	Racing Division	\$146,000.00
10500022	MGC Sterling Suffolk Capital Improvement Trust	3000	Racing Division	\$527,000.00
10500140	MGC Payments to Cities/Towns for Local Share Racing Tax Rev	3000	Racing Division	\$1,150,000.00
Grand Total:				\$29,309,090.88

10500001 Gaming Control Trust Fund

Funds 12 divisions and bureaus. Each division/bureaus salaries and fringe benefits are built into the figures in the chart above. For the purposes of this memorandum, only major contractual expenditures are listed below. Further detail is listed in attachment B:

- Division of Finance and Administration—office space lease, build out and moving costs ~\$750K, oversight project monitoring ~\$1.7M, parking \$85K, supplies \$55K.
- Human Resources Division—office wide overtime allocation (excluding state police) \$100K, raises and benefits on raises for entire office ~\$200K.
- Legal Division—outside counsel (labor counsel, litigation counsel, general assistance) \$800K, and \$800K MOU with Attorney General’s Office.
- Executive Director—high performing agency \$480K.



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- Information Technology Division—licensing system phase 1 completion and phase 2 build out \$1.2M, central management system \$1.75M, hardware and software \$200K, IT consulting expertise \$250K.
- Commissioners—space for public meetings, stenography of public meetings and miscellaneous costs \$150K, review of region C applications \$800K.
- Workforce and Supplier Diversity—grants for small business training and development in licensed regions, English for speakers of other languages \$130K.
- Problem Gambling Division—responsible gaming branding, education and staffing of on-site centers \$540K, SEIGMA core baseline study and Magic cohort study \$3M.
- Communications—website design, streaming of public meetings, and media subscriptions \$50K.
- Ombudsman—grants to host and surrounding communities \$700K
- Investigations and Enforcement Bureau—investigations of license applicants (vendor and employee) and region C applicants \$1.1M, MOU with state police for investigative troopers, OT and travel, recruit class for slots parlor and troopers for slots parlor \$1.75M, fingerprint costs \$225K, industry best practices training of gaming agents, state troopers and financial investigators \$250K.
- Licensing Division—supplies and equipment for licensing badges and finger print machines \$80K.

There are several items that are very hard to predict and are best estimates. The cost of a central monitoring system projected in FY15 at \$1.7M figure is not a full year cost, and we have not yet put out a competitive procurement. The MGC is set to move into new office space at some point in FY15, but we have not fully negotiated a new lease as of this memorandum. We have projected moving and costs of desks and work stations, but those are once again just estimates. The phase 2 licensing system cost is an estimate and not based on any work papers, the cost of investigations and application reviews for region C are estimates, but revenue neutral, similar to the grants under the Ombudsman’s office. The state police costs for new troopers for the opening of the slots parlor are estimates based on an opening in the last quarter of FY15.



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10500003 Racing Development and Oversight Trust Fund

Appropriation	Appropriation Name	Cost Category	Annual Projection
10500003	MGC Mass Racing Development and Oversight Trust	AA-REGULAR EMPLOYEE COMPENSATION	\$457,788.33
		CC-SPECIAL EMPLOYEES	\$717,758.00
		DD-PENSION & INSURANCE RELATED EX	\$136,907.98
		EE-ADMINISTRATIVE EXPENSES	\$30,290.00
		FF-FACILITY OPERATIONAL EXPENSES	\$1,000.00
		HH-CONSULTANT SVCS (TO DEPTS)	\$120,000.00
		JJ-OPERATIONAL SERVICES	\$244,400.00
		LL-EQUIPMENT LEASE-MAINTAIN/REPAR	\$7,650.00
		MM-PURCHASED CLIENT/PROGRAM SVCS	\$266,000.00
		NN-INFRASTRUCTURE:	\$1,000.00
		UU-IT Non-Payroll Expenses	\$77,754.00
		Cost Projections Total	\$2,060,548.31
Appropriation	Appropriation Name	Revenue Description	Annual Projection
10500003	MGC Mass Racing Development and Oversight Trust	Plainridge Assessment	\$146,236.00
		Plainridge Commission Live	\$7,630.72
		Plainridge Commission Simulcast	\$469,462.74
		Plainridge Daily License Fee	\$54,600.00
		Plainridge Occupational License	\$5,235.00
		Racing Oversight and Development Balance Forward	\$1,200,000.00
		Raynham Assessment	\$120,958.00
		Raynham Daily License Fee	\$48,900.00
		Raynham Raynham Commission Simulcast	\$469,462.74
		Suffolk Assessment	\$465,577.00
		Suffolk Commission Live	\$37,449.74
		Suffolk Commission Simulcast	\$190,764.78
		Suffolk Daily License Fee	\$54,300.00
		Suffolk Occupational License	\$50,400.00
		Suffolk TVG Commission Live	\$4,086.95
		Suffolk TVG Commission Simulcast	\$140,085.58



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Suffolk Twin Spires Commission Live	\$1,724.52
Suffolk Twin Spires Commission Simulcast	\$79,219.27
Suffolk Xpress Bet Commission Live	\$1,147.43
Suffolk Xpress Bet Commission Simulcast	\$40,056.08
Transfer to General Fund 10500140	(\$1,150,000.00)
Wonderland Assessment	\$17,229.00
Wonderland Daily License Fee	\$13,180.00
Revenue Projections Total	\$2,467,705.55
Variance (Revenue Projections-Cost Projections)	\$407,157.24

This item funds the operations of the Racing division. The majority of funding from this appropriation is payroll related ~\$680K. In addition, the racing division spends between \$450K and \$600K on seasonal salaries during the live racing season. Other costs of the division are drug and laboratory testing \$200K, purchased client services for economic hardship payments, eight pole payments, and the jockey guild \$165K, and independent financial services \$100K.

Racing Capital Improvement and Promotional Trust Funds

The racing division has historically spent ~\$650K annually from the harness horse and racing horse capital improvement trust funds. Revenue for these funds are generated through a portion of the total amount wagered at each track. Projects approved from these funds must be approved by the commission. Payments are made as funds become available in the trust funds.

10500140 Payments to Cities and Towns for Local Share of Racing Tax Revenue

This item is a state appropriated item that the MGC must reimburse the general fund for expenses from it. Funds from this item go directly to race tracks and represent a percentage of pari-mutuel taxes.

Conclusion:

Staff is proposing an FY15 MGC budget of \$29.3M. \$24.5M is to support commercial casino and slot parlor operations and \$4.8M to support the racing division. Staff seeks



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the commission's guidance on either developing further spending recommendations or approving this version for the Massachusetts Gaming commission's budget. If this version were to be approved, the MGC will assess \$20.4M on the slot and casino licensees in FY15.

For FY15 the following recommendations are made regarding assessments and fees:

- The commission should delay assessing the costs until the region A and B licenses are awarded;
- The commission should assess licensees their full year share of the assessment regardless of when the actual license is awarded and accepted; and
- The commission should assess the \$600/slot machine fee for the full year cost regardless of when the license is awarded and accepted.



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