



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Chairman Crosby and Commissioners Cameron, Macdonald, Stebbins and Zuniga
From: Edward Bedrosian, Jr. and Derek Lennon
Date: 6/9/2016
Re: Fiscal Year 2017 (FY17) Initial Budget Recommendations

Summary:

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2017 (FY17) budget projections are composed of \$24.79M for gaming operations including funding for 69.25 FTEs, and 1 contract position, a \$2.37M assessment for the Office of the Attorney General's (AGO) gaming operations inclusive of Massachusetts State Police (MSP) assigned to the AGO, \$1.47M for racing operations including funding for 3.75 FTEs an additional \$16.34M of racing payments to licensees and associations, of which \$14.4M is generated from the Race Horse Development Fund for a total agency budget of \$44.99M (73 FTEs and 1 contractor). A complete list of the MGC's spending and revenue by appropriation is attached to this document (Attachment A).

The MGC, under 205 CMR 121.00 will assess licensees the difference between its budget and anticipated revenues in FY17. The MGC's gaming operations costs combined with the AGO's are projected to be \$27.17M, and revenues are anticipated to equal ~\$4.72, which would leave an assessment of \$22.45M to be divided up among the licensees.

The Racing Division's budget is funded through a portion of wagering as stipulated in statute. While the landscape of thoroughbred 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 FY14-FY15.

Gaming Control Budget FY17 Compared to FY16

Analyzing FY16 compared to FY17 does not present significant insight as the Commission is still in the "start-up" phase and costs/programmatic expenses from year-to-year are not consistent. There are still significant one-time costs included in both fiscal year figures.

Beginning in FY17 the Commission's presentation of the Gaming control budget varies slightly from the past. At a summary level we will be breaking the costs of the AGO out in a separate line. The Gaming Act authorized the AGO to spend and be reimbursed up to \$3M annually. In FY17 the costs of the AGO's operations as well as their usage of the MSP is anticipated to be approximately \$2.37M. This year's recommendation for the Gaming control budget includes an item for indirect costs (\$1.6M) which was not included in previous years. Another first for FY17 is the Treasurer will be



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reviewing the Commission's costs for reasonableness in relation to other Gaming Control Boards/Commissions.

The MGC began FY16 with an approved budget of \$28.3M, which did not include indirect costs. The MGC is recommending an FY17 budget of \$27.17M, which includes \$1.63M in indirect costs. Comparing FY17 to FY16 by excluding the indirect from the FY17 budget, the MGC's budget proposal would be \$25.5M, which is approximately \$2.8M lower than the FY16 initial budget. The table below explains significant changes by spending category between fiscal years.

Appropriation	Object Class	Initial 2016	Adjustments 2016	Current 2016	2017	Variance 2017 -	
						Current 2016	Variance Explanation
10500001	AA	6,460,884.92	(590,721.36)	5,870,163.56	6,442,204.17	572,040.61	Hiring/Backfilling of positions approved in FY16 Budget
	BB	90,900.00	5,000.00	95,900.00	73,000.00	(22,900.00)	Travel Reduction Statewide Pool
	CC	150,506.15	71,980.00	222,486.15	120,000.00	(102,486.15)	Reduction in Interns and contracted staff
	DD	1,903,677.87	(90,269.96)	1,813,407.91	2,322,173.63	508,765.72	Shift from Contractors and Fringe rate increased by 4.5% in FY17
	EE	505,193.58	54,114.19	559,307.77	2,251,920.84	1,692,613.07	Budgeting for Indirect in FY17
	FF	500.00	62,244.01	62,744.01	500.00	(62,244.01)	One-time clothing costs to identify troopers at PPC
	GG	1,129,453.26		1,129,453.26	1,221,982.62	92,529.36	Annualized Rent at 75-101
	HH	5,239,276.14	(578,389.28)	4,660,886.86	2,692,103.14	(1,968,783.72)	Continued effort to reduce contractors (OPM, High Performance, Consultant Reviews, Contracted Investigations)
	JJ	5,193,333.57	(1,997,040.60)	3,196,292.97	3,141,685.78	(54,607.19)	Alignment of ISAs
	KK	80,000.00	129,926.25	209,926.25		(209,926.25)	Build out of 75-101
	LL	25,617.71	7,000.00	32,617.71	29,683.80	(2,933.91)	
	MM	35,000.00	(17,500.00)	17,500.00	40,000.00	22,500.00	
	PP	3,011,010.00	(50,000.00)	2,961,010.00	2,680,000.00	(281,010.00)	Reduction in research contracts for Responsible Gaming
	UU	4,487,017.99	(412,959.54)	4,074,058.45	3,704,596.18	(369,462.27)	Reduction in one-time costs of start-up of PPC as well as reduced miscellaneous equipment items
	ISAs		1,969,684.91	1,969,684.91	-	(1,969,684.91)	MSP Finger Prints, AGO and DPH in FY16
	ABCC				75,000.00	75,000.00	
	AGO				2,376,844.36	2,376,844.36	
10500001	Total	28,312,371.19	(1,436,931.38)	26,875,439.81	27,171,694.52	296,254.71	

FY17 Budget Process and Recommendations:

In FY17, the MGC will continue 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.



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The MGC's office of finance 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 FY17 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. A third review was conducted by representatives of the current gaming licensees (Penn, Wynn and MGM) at a meeting on May 11, 2016 at the MGC office. The meeting was productive and included a comprehensive review of the Commission's budget at a line item level, as well as a review of each division's staffing levels by employee and anticipated hires. As a result of that meeting, the budget was reduced by \$2.28M.

Below is a summary by appropriation of spending and revenues anticipated for the Gaming Control Fund and the Racing Oversight and Development Fund. Immediately following each summary are highlights of significant spending in each division/bureau. Attachment B to this document provides a view of each division's budget by object class, object code and then specific budget item view of each division/bureau budget. This same information can be found in Attachment C but the view is ordered first by object class, then object code, then division and finally by specific budget item.

10500001 Gaming Control Trust Fund

The Gaming Control Trust funds 12 divisions/bureaus. Each division/bureaus costs of providing regulatory oversight to expanded gaming are built into the spending figures in the table below which represents at a macro level the anticipated spending and the corresponding flows of revenue. This item funds 69.25 FTEs and one (1) contracted position. The FY17 recommended spending level includes funding for one new position in the office of Workforce and Supplier Diversity, as well as funding for the positions approved in the FY16 spending plan.

Spending	Initial Projection
10500001	
AA REGULAR EMPLOYEE COMPENSATION	\$ 6,442,204.17
BB REGULAR EMPLOYEE RELATED EXPEN	\$ 73,000.00
CC SPECIAL EMPLOYEES	\$ 120,000.00
DD PENSION & INSURANCE RELATED EX	\$ 2,322,173.63
EE ADMINISTRATIVE EXPENSES	\$ 2,251,920.84
FF PROGRAMMATIC FACILITY OPERATONAL SUPPLIES	\$ 500.00
GG ENERGY COSTS AND SPACE RENTAL	\$ 1,221,982.62
HH CONSULTANT SVCS (TO DEPTS)	\$ 2,692,103.14
JJ OPERATIONAL SERVICES	\$ 3,141,685.78
LL EQUIPMENT LEASE-MAINTAIN/REPAR	\$ 29,683.80
MM PURCHASED CLIENT/PROGRAM SVCS	\$ 40,000.00
PP STATE AID/POL SUB	\$ 2,680,000.00
UU IT Non-Payroll Expenses	\$ 3,704,596.18
ABCC	\$ 75,000.00



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AGO		\$ 2,376,844.36
Grand Total		\$ 27,171,694.52
	Revenues	Initial Projection
Gaming Control Fund Beginning Balance		
Grant Collections (restricted)	\$	50,000.00
Region A slot Machine Fee	\$	1,945,200.00
Region B Slot Machine Fee	\$	1,800,000.00
Slots Parlor Slot Machine Fee	\$	750,000.00
Gaming Employee License Fees (GEL)	\$	35,000.00
Key Gaming Executive (GKE)	\$	5,000.00
Key Gaming Employee (GKS)	\$	15,000.00
Non-Gaming Vendor (NGV)	\$	31,000.00
Vendor Gaming Primary (VGP)	\$	30,000.00
Vendor Gaming Secondary (VGS)	\$	45,000.00
Gaming Service Employee License (SER)	\$	15,000.00
Assessment	\$	22,450,494.52
Misc		
Grand Total	\$	27,171,694.52

For the purposes of this memorandum, only large contractual/programmatic expenditures in relation to the appropriation are listed below. Further details for budgets by each division are provided in attachments B and C:

- Division of Finance and Administration—office space lease \$1.19M
- Human Resources Division— office wide raises and benefits on raises \$318K.
- Legal Division—outside counsel (labor counsel, litigation counsel, general assistance)\$659.6K
- Executive Director—Tribal and gaming Consultant \$240K.
- Information Technology Division—applications development (licensing system) \$500K, central management system \$2.26M, hardware and software \$200K, state chargebacks \$278K.
- Commissioners—industry consultants \$50K.
- Workforce and Supplier Diversity—workforce development and diversity grants \$225K, MCCTI statewide workforce coordinator \$50K.
- Research and Responsible Gaming—responsible gaming branding, education and staffing of on-site centers, advertising and evaluation of program \$1.3M, SEIGMA core baseline study and Magic cohort study \$2.0M, ISA with DPH \$477K, data storage of player data \$150K.
- Communications—website design, streaming of public meetings, and media subscriptions \$85K.
- Ombudsman—construction and design consultants \$50K
- Investigations and Enforcement Bureau—MOU with state police for MGC investigative troopers, OT and travel, and troopers for slots parlor \$2.59M, Plainville police \$280K, fingerprint costs \$175K, Alcohol Beverage Control Commission \$75K.
- Licensing Division—supplies and travel \$16K.



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- Office of the Attorney General—general office costs \$1.9M, state police straight time and overtime \$472.3K

10500003 Racing Development and Oversight Trust Fund

Row Labels	Initial Projection
1050003	
AA REGULAR EMPLOYEE COMPENSATION	\$ 383,644.22
BB REGULAR EMPLOYEE RELATED EXPEN	\$ 12,000.00
CC SPECIAL EMPLOYEES	\$ 330,000.00
DD PENSION & INSURANCE RELATED EX	\$ 135,249.14
EE ADMINISTRATIVE EXPENSES	\$ 32,855.00
FF PROGRAMMATIC FACILITY OPERATONAL SUPPLIES	\$ 2,000.00
HH CONSULTANT SVCS (TO DEPTS)	\$ 25,000.00
JJ OPERATIONAL SERVICES	\$ 238,300.00
LL EQUIPMENT LEASE-MAINTAIN/REPAR	\$ 3,500.00
MM PURCHASED CLIENT/PROGRAM SVCS	\$ 235,000.00
UU IT Non-Payroll Expenses	\$ 78,700.00
Grand Total	\$ 1,476,248.36
Revenues	Initial Projection
Plainridge Assessment	\$ 170,849.60
Plainridge Daily License Fee	\$ 124,695.42
Plainridge Occupational License	\$ 85,000.00
Plainridge Racing Development Oversight Live	\$ 18,674.66
Plainridge Racing Development Oversight Simulcast	\$ 264,972.66
Racing Oversight and Development Balance Forward	
Raynham Assessment	\$ 126,681.83
Raynham Daily License Fee	\$ 110,931.00
Raynham Racing Development Oversight Simulcast	\$ 457,149.55
Suffolk Assessment	\$ 437,169.33
Suffolk Commission Racing Development Oversight Simulcast	\$ 170,748.32
Suffolk Daily License Fee	\$ 80,631.00
Suffolk Occupational License	\$ 20,000.00
Suffolk TVG Commission Simulcast	\$ 92,997.43
Suffolk Twin Spires Commission Simulcast	\$ 92,997.43
Suffolk Xpress Bet Commission Simulcast	\$ 92,997.43
Wonderland Assessment	\$ 15,132.22
Wonderland Daily License Fee	\$ 80,073.00
Wonderland Racing Development Oversight Simulcast	\$ 120,746.64
Misc	
Grand Total	\$2,562,447.52



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This item funds the operations of the Racing division. The majority of funding from this appropriation is payroll seasonal and fringe related \$848.9K. Other costs of the division are drug and laboratory testing \$238K, ISA to DPH for \$70K, and purchased client services for economic hardship payments, eighth pole payments, and the jockey guild \$235K.

Assessment on Licensees:

Chapter 23K §56 (a)-(c) define how the MGC will fund its annual costs related to Gaming/non-racing activities. This chapter was further defined through 205 CMR 121.00. By taking the projected spending less the net revenues projected for FY17, the commission will utilize 205 CMR 121.01 3(c) to assess ~\$22.45M on licensees as shown in the chart below:

Licensee	Slots	Table Games	Table Gaming Positions*	Total Gaming Positions*	Percentage of Gaming Positions	Annual Assessment
MGM	3,000	100	600	3,600	38.99%	\$8,753,577.41
Wynn	3,242	168	1,008	4,250	46.03%	\$10,334,084.45
Penn	1,250	-	-	1,383	14.98%	\$3,362,832.66
	7,492	268	1,608	9,233	100.00%	\$22,450,494.52

*Table gaming positions, slots and table gaming positions are derived by using the HLT figures from Finance Plan section of the Presentation under 2.3 the table titled Proposed Facility Suitability. For estimating gaming positions from table games, a multiplier of 6 for each table game is used. For PPC, it is the amount approved as of June/6/2016.

Conclusion:

Staff is proposing an FY17 MGC budget of \$27.17M for gaming operations and \$1.47M for racing operations and an additional \$16.34 of racing payments to licensees and associations for a total agency budget of \$44.99M. Staff seeks the Commission's guidance on further spending recommendations and/or seeking additional comment.

For FY17 the following recommendation is made regarding payment of the assessment:

- The Commission should bill the assessment in quarterly installments with 25% of the assessment billed on 7/1/2016, and additional 25% billed following each of the first three quarterly updates.

Attachments:

Attachment A: Listing of Accounts and Revenues

Attachment B: Next Year Budget All Departments

Attachment C: Next Year Budget



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