



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Chairman Crosby and Commissioners Cameron, Macdonald, Stebbins and Zuniga
From: Edward Bedrosian, Jr. and Derek Lennon
Date: 6/8/2017
Re: Fiscal Year 2018 (FY18) Initial Budget Recommendations

Summary

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2018 (FY18) budget and assessment projections are composed of the following:

Gaming

- \$18.75M for gaming regulatory costs including funding for 69.5 full-time equivalents (FTEs), 3.5 of which are new positions during FY18;
- \$1.66M assessment from the Commonwealth indirect costs;
- \$3.67M assessment for the Office of the Attorney General's (AGO) gaming operations inclusive of Massachusetts State Police (MSP) assigned to the AGO;
- \$4.99M assessment for the research and responsible gaming agenda inclusive of DPH costs which will be funded from the Public Health Trust Fund in future years;
- \$75K for the Alcohol and Beverage Control Commission (ABCC); and,
- \$29.15M combined total of the Gaming Control Fund Budget.

Racing

- \$2.7M for racing regulatory costs including funding for seven (7) FTEs;
- \$163.4K assessment from the Commonwealth for indirect costs;
- \$2.86M combined total of regulated racing costs.

Total

- \$31.74M – Total Gaming Assessments (\$29.15) plus Total Racing Costs (\$2.86M).
- This funds ~76.5 FTEs.

A list of the MGC's spending and revenue projections by appropriation is attached to this document (Attachment A).

The MGC, under 205 CMR 121.00 will assess gaming licensees the difference between its Gaming Control Fund (1050-0001) budget and anticipated revenues in FY17. The MGC's gaming regulatory costs combined with the statutorily required assessments are projected to be \$29.15M, and



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revenues are anticipated to be ~\$4.69M, which would leave an assessment of \$24.46M 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 FY15-FY16.

Regulatory vs. Statutory Costs

It is important to distinguish among the different components of the proposed Gaming Control Fund for FY18 and understand the difference between regulatory and statutory costs. The composition of the \$29.15M can be broken up into two areas. The first area comprises the regulatory costs of the Massachusetts Gaming Commission to regulate category 1 and 2 facilities. The regulatory costs are directly within control of the Gaming Commission. The second area, comprises statutory costs that are assessments contained in the Expanded Gaming Act but are not within the budgetary discretion of the Gaming Commission. The statutory costs are the responsibility of our licensees to pay. The break out of regulatory versus statutorily required is illustrated in the chart below:

Item	Amount	Notes
Regulatory Costs		
MGC Regulatory Costs	18,759,583.75	Costs of MGC to Regulate Category 1 and 2 facilities.
Statutorily Required		
Office of the Attorney General	3,668,416.98	Up to \$3M for AGO operations (~\$2.6M in FY18) and a separate reimbursement for their share of MSP costs.
Research and Responsible Gaming	4,989,606.34	Includes DPH responsible gaming funding. In future years this entire budget will be part of Public Health Trust Fund.
Commonwealth Assessed Indirect Costs	1,659,949.80	Governor's office of Administration and Finance assesses these costs and they go directly to the MA General Fund.
Alcohol Beverage Control Commission	75,000.00	
Total Statutory Costs	10,392,973.12	

The statutorily required costs in FY18 are projected to be \$10.39M and include

- \$3.67M for the costs of the Attorney General's Office (C. 12 § 11M),
- \$4.99M for the Research and Responsible Gaming office, which will be funded from the Public Health Trust Fund in subsequent years (C. 23K § 56(e), 58, and 71),
- \$75K for the Alcoholic Beverage Control Commission (C. 10 § 72A), and
- \$1.66M for Commonwealth of Massachusetts Assessed Indirect Costs (ANF Bulletin 5).

The Commission's regulatory FY18 budget projections total \$18.76M, and fund 11 divisions. The funding level of each division along with the change from the previous year is laid out in further detail later in this memorandum.



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Gaming Control Budget FY18 Compared to FY17

The MGCs currently approved FY17 budget for the Gaming Control Fund is \$27.07M. The MGC is recommending an FY18 budget of \$29.15M, that includes both regulatory and statutory costs. The Gaming Control Fund's total budget increase is ~7.7%. However, the MGC's regulatory costs only grew by ~1.5% from \$18.48M in FY17 to \$18.76M in FY18 while the statutorily required costs grew by ~21% from \$8.58M in FY17 to \$10.39M in FY18. The table below explains significant changes by regulatory vs statutorily required costs between fiscal years.

Fund	Grouping Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
Gaming Control Fund (1050-0001)						
	MGC Regulatory Costs	18,484,154.63	18,759,583.75	275,429.12	1.49%	Revised cost allocation plan to reflect larger portion of time spent on racing activities. Addition of 3.5 FTEs, increase of over 1% in fringe rate, decrease in consultants by \$600K, increase of MSP costs by \$843.6K (includes 2 months' salary of 19 troopers for Springfield and 1 in IEB, OT increase and annualization of salaries in IEB and Plainville).
Statutorily Required Costs						
	Indirect	1,635,476.20	1,659,949.80	24,473.60	1.50%	Corresponds to costs in AA, CC, HH, and JJ MGC regulatory spending.
	Research and Responsible Gaming/PHTF	4,498,929.33	4,989,606.34	490,677.01	10.91%	Reduction of .5 FTE, reduction in research agenda by over \$100K, increase in DPH ISA by ~\$600K.
	Office of Attorney General and AGO MSP	2,376,844.36	3,668,416.98	1,291,572.62	54.34%	Additional 5 FTEs, \$500K in office improvements, salary of 4 additional MSP troopers and \$100K in MSP OT.
	Alcohol and Beverage Control Commission	75,000.00	75,000.00	-	0.00%	
	Total Statutorily Required Costs	8,586,249.89	10,392,973.12	1,806,723.23	21.04%	
10500001	Total	27,070,404.52	29,152,556.87	2,082,152.35	7.69%	

The chart below breaks the costs above out in a little more detail by object class within each grouping:

Fund	Grouping Name	Obj Class	Obj Class Name	Current Year Amount	Next Year Amount	Variance	% Var	Explanation
(1050-0001) Gaming Control Fund								
<i>MGC Regulatory Costs</i>								
		AA	REGULAR EMPLOYEE COMPENSATION	6,007,876	5,950,131	(57,745)	-1%	Cost allocation plan for shared services revised. 3.5 new FTEs included in this number.
		BB	REGULAR EMPLOYEE RELATED EXPEN	71,900	78,400	6,500	9%	
		CC	SPECIAL EMPLOYEES	106,863	-	(106,863)	-100%	Elimination of contract employees.
		DD	PENSION & INSURANCE RELATED EX	2,173,259	2,208,050	34,791	2%	Fringe Rate went up from 33.5% to 34.88%.



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							-Workforce development flyer printing, -Increases for subscriptions (instatrac, Westlaw, Nat. Student Loan, Hire Authority, Lexis Nexis) -Increase in travel agent costs for licensing and finance for anticipated licensing reviews and for regulatory needs for ANF -Career Development and Required Trainings for MGC.
EE	ADMINISTRATIVE EXPENSES	592,826	647,724	54,898	9%		
GG	ENERGY COSTS AND SPACE RENTAL	1,221,983	1,247,229	25,247	2%		Escalator in lease agreement.
HH	CONSULTANT SVCS (TO DEPTS)	1,324,603	727,000	(597,603)	-45%		Decrease in outside counsel \$127K, decrease in gaming consultants tribal and regulatory \$240K, decrease in general consultants \$100K, Women in Trade and WF coordinator shifted to grants resulted in decrease of \$150K.
JJ	OPERATIONAL SERVICES	3,179,186	4,022,785	843,599	27%		Annualization of costs of troopers and increase in OT for MSP of \$100K.
KK	EQUIPMENT PURCHASE	8,400	78,444	70,044	834%		2 New finger print machines for printing of MGM employees, Electronic Gaming Device verification equipment.
LL	EQUIPMENT LEASE- MAINTAIN/REPAR	29,684	32,107	2,423	8%		Planned addition of a leased copier for an owned one at replacement stage.
NN	INFRASTRUCTURE:	-	1,000	1,000	-		
PP	STATE AID/POL SUB	125,000	150,000	25,000	20%		Re-alignment of grants for supplier and workforce development.
UU	IT Non-Payroll Expenses	3,642,576	3,616,714	(25,863)	-1%		
<i>MGC Regulatory Costs Total</i>		18,484,155	18,759,584	275,429	1%		
<i>Indirect Costs</i>							
EE	ADMINISTRATIVE EXPENSES	1,635,476	1,659,950	24,474	1%		Corresponds to AA, CC, HH and JJ spending.
<i>Indirect Total</i>		1,635,476	1,659,950	24,474	1%		
<i>Research and Responsible Gaming/PHTF</i>							
AA	REGULAR EMPLOYEE COMPENSATION	322,465	205,318	(117,148)	-36%		Reduction of .5FTE and shifting of all DPH costs to State Aid Item.
BB	REGULAR EMPLOYEE RELATED EXPEN	9,000	6,000	(3,000)	-33%		Shifting of all DPH costs to State Aid item.
CC	SPECIAL EMPLOYEES	20,000	-	(20,000)	-100%		Shifting of all DPH costs to State Aid item.
DD	PENSION & INSURANCE RELATED EX	113,745	74,592	(39,153)	-34%		Reduction of .5FTE and shifting of all DPH costs to State Aid Item.
EE	ADMINISTRATIVE EXPENSES	25,719	8,000	(17,719)	-69%		Shifting of all DPH costs to State Aid item.
FF	FACILITY OPERATIONAL EXPENSES	500	500	-	0%		
HH	CONSULTANT SVCS (TO DEPTS)	1,427,500	1,380,000	(47,500)	-3%		Shifting of all DPH costs to State Aid item.
JJ	OPERATIONAL SERVICES	20,000	-	(20,000)	-100%		
MM	PURCHASED CLIENT/PROGRAM SVCS	40,000	25,000	(15,000)	-38%		Reduction in Reviewers. DPH ISA costs all shifted here and increase of \$550K for Public Health Trust Fund.
PP	STATE AID/POL SUB	2,455,000	3,215,197	760,197	31%		
UU	IT Non-Payroll Expenses	65,000	75,000	10,000	15%		
<i>Research and Responsible Gaming/PHTF Total</i>		4,498,929	4,989,606	490,677	11%		
<i>Office of Attorney General and AGO MSP</i>							
JJ	OPERATIONAL SERVICES	472,304	1,068,417	596,113	126%		Increase of 4 troopers and \$100K increase in OT.
OO	(blank)	1,904,541	2,600,000	695,459	37%		Addition of 5 FTEs and Office Build Outs of \$500K.
<i>Office of Attorney General and AGO MSP Total</i>		2,376,844	3,668,417	1,291,573	54%		
<i>Alcohol and Beverage Control Commission</i>							
OO	(blank)	75,000	75,000	-	0%		
<i>Alcohol and Beverage Control Commission Total</i>		75,000	75,000	-	0%		
10500001 Total		27,070,405	29,152,557	2,082,152	8%		



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FY18 Regulatory Budget Development Process and Recommendations

In FY18, 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.

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 FY18 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 16, 2017 at the MGC office. The meeting 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.

Below is a summary by appropriation of spending anticipated for the MGC Regulatory costs of the Gaming Control Fund and the Racing Oversight and Development Fund. Immediately following each summary is a chart that demonstrates significant variances between FY17 and FY18 for 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. 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 MGC Regulatory portion of the Gaming Control Trust funds 11 divisions/bureaus. Each division's/bureau's 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. This item funds 69.5 FTEs. The FY18 recommended spending level includes funding for ~3.5 new positions in the IEB, as well as funding for the positions approved in the FY17 spending plan. Through an updated cost allocation plan, ~4 FTEs were transferred from the Gaming Control Fund to the Racing Oversight and Development Fund. In addition, while we determine the Research and Responsible Gaming/Public Health Trust Fund (PHTF) component of the Gaming Control Fund to be a statutorily required funding source, 2 MGC FTEs in that unit are included in the 69.5 FTE count. As one would expect the fiscal year prior to opening a facility, the increases are found in the IEB and licensing divisions.

Below is a chart that shows the FY17 currently approved budget by division compared to FY18 proposed budget for the Regulatory portion of the Gaming Control Fund with a brief explanation for any large discrepancies. Further details for budgets by each division are provided in attachments B and C:



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Fund	Grouping Name	Unit	Unit Name	Current Year Amount	Next Year Amount	Variance	% Var	Explanation
(1050-0001) Gaming Control Fund								
<i>MGC Regulatory Costs</i>								
		1000	Finance and Administration	2,164,548	2,008,544	(156,003)	-7%	Shift in salaries and fringe benefits to Racing through cost allocation
		1100	Human Resources	591,405	488,902	(102,503)	-17%	Shift in salaries and fringe benefits to Racing
		1200	Legal	1,363,444	1,223,859	(139,585)	-10%	Shift in salaries and fringe benefits to Racing through cost allocation as well as \$127K reduction in Outside Counsel budgeted items
		1300	Executive Director	804,808	876,698	71,890	9%	Reduction of \$220K in consultant costs, offset by organizational realignment of 2.7 FTEs from Commissioners item to E.D. item
		1400	Information Technology	4,485,946	4,457,067	(28,879)	-1%	
		1500	Commissioners	1,366,586	882,571	(484,016)	-35%	Shift of 2.7 FTEs to Executive Director's item, as well as reduction of 1 FTE, and reduction in contracts by \$35K.
		1600	Workforce and Supplier Diversity	583,301	453,370	(129,931)	-22%	Reduction of .5 FTE, shifted \$150K in grants to Community Mitigation Fund
		1800	Communications	372,789	359,155	(13,634)	-4%	Shift in salaries and fringe benefits to Racing through cost allocation
		1900	Ombudsman	485,238	442,378	(42,859)	-9%	Reduction of \$50K in contracts. One amount rolled up for potential contracts under Executive Director.
		5000	Investigations and Enforcement Bureau	5,714,561	6,969,889	1,255,328	22%	Addition of 3.5 FTEs, elimination of all contracted staff. Annualization of MSP costs of \$260K, addition of 19 MSP for MGM and one for background unit for last two months of fiscal year \$448K and an additional \$137.5K of MSP OT for background checks and opening of MGM facility. \$40K for additional equipment needed at MGM (fingerprint machinery, Electronic Gaming Device authentication equipment.
		7000	Licensing Division	551,528	597,150	45,622	8%	Travel, supplies and temp help for licensing operations associated with opening of MGM Springfield
		<i>MGC Regulatory Costs Total</i>		18,484,155	18,759,584	275,429	1%	

The Research and Responsible Gaming/PHTF budget is considered a Statutorily required component of the Gaming Control Fund due to the fact that it will be funded from the Public Health Trust Fund (PHTF) once category 1 facilities become operational and taxes from gross gaming revenue begin to fund the PHTF. However, I have included a brief chart of that budget comparing FY17 to FY18 below because 2 MGC employees are funded from that budget.

<i>Research and Responsible Gaming/PHTF</i>								
		1700	Problem Gambling	4,498,929	4,989,606	490,677	11%	Reduction of .5 FTE, decrease of research by \$100K, and increase in DPH ISA by ~ \$600K.

10500003 Racing Development and Oversight Trust Fund

This item funds the operations of the Racing division. The majority of funding from this appropriation is payroll, seasonal payroll, and fringe related costs. However, the MGC performed an updated cost allocation plan, which shifted the cost of approximately (four) 4 FTEs from Gaming to Racing, and for the first time since the Racing operations were part of the Gaming Commission, the state troopers assigned to racing will be funded from the racing budget. These two items resulted in a significant increase to the Racing Development and Oversight Fund. Other costs of the



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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 totaling \$235K.

Below is a chart that shows the FY17 currently approved budget by division compared to FY18 proposed budget for the Regulatory portion of the Gaming Control Fund with a brief explanation for any large discrepancies. Further details for budgets by each division are provided in attachments B and C:

Fund	Grouping Name	Unit	Unit Name	Current Year Amount	Next Year Amount	Variance	% Var	Explanation
(1050-0003) Racing Oversight and Development Fund								
<i>MGC Regulatory Costs</i>								
-				-				
		1000	Finance and Administration	33,534	223,481	189,947	566%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1100	Human Resources	23,044	114,221	91,177	396%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1200	Legal	10,260	49,774	39,514	385%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1300	Executive Director	12,599	48,958	36,358	289%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1400	Information Technology	13,159	46,745	33,585	255%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1500	Commissioners	41,725	73,473	31,748	76%	Shift in salaries and fringe benefits from Gaming through cost allocation
		1800	Communications	-	15,367	15,367	-	Shift in salaries and fringe benefits from Gaming through cost allocation
		3000	Racing Division	1,341,931	1,854,555	512,624	38%	Paying for MSP Costs as well as increase in drug testing
		7000	Licensing Division	-	1,350	1,350	-	Shift in salaries and fringe benefits from Gaming through cost allocation
<i>MGC Regulatory Costs Total</i>				1,476,253	2,427,923	951,670	64%	

Funding Exposures not Included in FY18 Budget Proposal

FY18 was a particularly challenging budget year given the potential opening of MGM Springfield in September of 2018, less than 90 days into FY19. If MGM Springfield stays on schedule, the IEB may need gaming agents and state police for part of FY18 to begin opening preparations. Finance may need an additional tax verification professional for table games. Rather than speculating on the appropriate timing for additional staff, staff proposes an assessment towards the end of calendar year 2017 to determine if MGM Springfield is on schedule. This will allow for a more concrete determination on whether or not MGC will need additional personnel in FY18. In addition, we have built in the minimum required by our insurance policy for litigation costs in the legal budget. Staff anticipates the figure to grow above the amount funded in this budget.

It is important for the Commission to be aware that there both regulatory and public safety costs that are anticipated for the FY18 budget year that are not included in this proposal. A state police complement was built into the IEBs budget for the two months staff anticipates having troopers assigned to MGC in FY18; however, there are costs the MSP will bear as a result of the MGC taking troopers from their ranks and further discussion on how to fund these costs is required. The costs not included in this budget have been discussed with our licensees, as well as the rationale for not including the costs. Staff intends on returning to the Commission towards the end of calendar year



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2017 to address both the public safety and regulatory funding exposures as the landscape and timeline for the opening of MGM Springfield becomes more concrete and better estimates/options for funding are available.

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 FY18, the commission will utilize 205 CMR 121.01 3(c) to assess ~\$24.45M 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%	\$9,535,923.44
Wynn	3,242	168	1,008	4,250	46.03%	\$11,257,721.37
Penn	1,250	-	-	1,383	14.98%	\$3,663,712.06
	7,492	268	1,608	9,233	100.00%	\$24,457,356.87

*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 2017.

Conclusion

Staff is proposing an FY18 Gaming Control Fund budget of \$29.15M for Regulatory and Statutorily Required Costs and an FY18 Racing Oversight and Development Fund budget of \$2.59M for Regulatory and Statutorily Required Costs. Staff seeks the Commission's guidance on further spending recommendations and to post the budget for public comment prior to the next public meeting.

Staff would like to remind the Commissioners that there are both public safety and regulatory funding exposures not built into this budget that will need to be addressed prior to the end of calendar year 2017.

Attachments:

Attachment A: FY18 Listing of Accounts Spending and Revenue

Attachment B: Next Year Budget All Departments for Commission

Attachment C: Next Year Budget by Object Class for Commission



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