



## MASSACHUSETTS GAMING COMMISSION

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### MEMORANDUM

**To:** Chairman Crosby and Commissioners Cameron, McHugh, Stebbins and Zuniga  
**From:** Rick Day and Derek Lennon  
**CC:** Public Meeting Packet 6/11/2015  
**Date:** 6/11/2015  
**Re:** Fiscal Year 2016 (FY16) Initial Budget Recommendations

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#### **Summary:**

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2016 (FY16) budget projections include \$28.3M for gaming operations including funding for 70.48 FTEs, 1 contract position and 3 interns, \$1.57M for racing operations including funding for 5 FTEs and one contract position and an additional \$1.7M of racing payments to licensees for a total agency budget of \$31.58M (75.48 FTEs, 2 contractors and 3 interns). 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 FY16. The MGC's gaming operations costs are projected to be \$28.3M, and revenues are anticipated to equal ~\$6.1M, which would leave an assessment of \$22.2M 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 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 FY13-FY14.

Analyzing FY15 compared to FY16 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 the FY15 and FY16 spending figures. A brief chart is included in this memorandum showing changes by spending category. A more detailed comparison and analysis of year-over-year will be beneficial once the MGC reaches a steady state. The MGC's budget is presented at the Division/Bureau functional level. The process of each division being assigned a budget, that budget being established in the Commonwealth's accounting system, and expenditures tracked against that budget began in FY15. This same process is being carried into FY16. Some of the more significant anticipated costs of each division/bureau are described later in this memo.

## Gaming Control Budget Overview

10500001--Gaming Control				
Object Class Name	FY16 Projection	FY15 Current Projection	Variance	Variance Explanation
AA REGULAR EMPLOYEE COMPENSATION	6,460,884.92	4,889,693.08	1,571,191.84	Staffing levels increased by 8 new FTEs, the 13 gaming agents added at the end of FY15 for overseeing the Plainridge Casino and annualization of FY15 hires. 70.48 FTEs,
BB REGULAR EMPLOYEE RELATED EXPEN	90,900.00	80,400.00	10,500.00	
CC SPECIAL EMPLOYEES	150,506.15	90,462.50	60,043.65	Three new interns were added. Two of these interns were supposed to be hired in FY15 but were delayed until the very end of FY15/beginning of FY16. 1 contractor and 3 interns
DD PENSION & INSURANCE RELATED EX	1,903,677.87	1,376,872.66	526,805.21	Fringe rate increased slightly and this accounts for additional salary costs.
EE ADMINISTRATIVE EXPENSES	505,193.58	517,743.00	(12,549.42)	
FF PROGRAMMATIC FACILITY OPERATIONAL SUPPLIES	500.00	500.00	-	
GG ENERGY COSTS AND SPACE RENTAL	1,129,453.26	633,157.52	496,295.74	Rent will be at market rate once we move into our new space and we will be paying for 10 months at the new rate.
HH CONSULTANT SVCS (TO DEPTS)	5,239,276.14	6,533,642.81	(1,294,366.67)	Large decrease has to do with taking costs in-house (investigative, as well as the performance management/Smart Goals project entering the final phase.
JJ OPERATIONAL SERVICES	5,193,333.57	2,814,566.98	2,378,766.59	Increased costs here are associated with Massachusetts State Police (MSP) and Massachusetts Attorney General (AGO). MSP costs have risen by ~\$1.2M which is a combination of AGO anticipated costs as well as the costs of officers to provide 24 hour law enforcement presence at Plainridge Casino. AGO costs have risen from \$800K in FY15 to \$1.9M in FY16.
KK Equipment Purchase	80,000.00	265,500.00	(185,500.00)	Most of move costs are covered in FY15 budget
LL EQUIPMENT LEASE- MAINTAIN/REPAR	25,617.71	23,458.00	2,159.71	
MM PURCHASED CLIENT/PROGRAM SVCS	35,000.00	35,000.00	-	
NN INFRASTRUCTURE:	-	-	-	
PP STATE AID/POL SUB	3,011,010.00	4,287,055.29	(1,276,045.29)	Decrease in SEIGMA baseline cost estimates, as well as grants under Ombudsman's office

UU IT Non-Payroll Expenses	4,487,017.99	2,930,348.00	1,556,669.99	Increase is mainly attributed to CMS costs in FY16 and Licensing Management System going into a maintenance/targeted updates mode rather than a full development mode. 10 months of CMS are built into this budget.
FY15 ISAs with DPH and AGO		181,716.65	(181,716.65)	These costs are included in the FY16 object classes and not broken out.
<b>Total</b>	<b>28,312,371.19</b>	<b>24,660,116.49</b>	<b>3,652,254.70</b>	

In FY15 the budgets of Pennsylvania and Michigan Gaming Control Boards were compared to the Massachusetts budget to test the reasonableness of MA's budget and to ensure our cost of regulating was not disproportionate to other jurisdictions. While MA did not have a casino open to regulate in FY15, a good case was made that the cost of regulating in MA was not out of line with other jurisdictions.

Licensees requested that we continue to monitor our overall cost of regulating to ensure MA is not an outlier. Monitoring in such a way requires continued review of the intricacies of each law. The MGC budget for oversight of gaming operations is projected at \$28.3M in FY16. Included in that budget is \$1.9M for the State Attorney General's office (reimbursements for these costs are required by statute and the MGC does not have discretion), \$3.2M in State Police related costs (\$475K for the AGO's state police detail), \$4.6M in Responsible Gaming related expenditures, which will be funded from the Public Health Trust Fund in subsequent years, as well as ~\$1M in anticipated Region C one-time costs. If you reduce the Commission's budget by those items, the internal costs of MGC are closer to \$17.6M from \$28.3M. Below is a simple analysis on three additional gaming jurisdictions (Maryland, Ohio, Colorado), including a short summary of the peculiar pieces of each jurisdiction's legislation. We intend to provide a chart that compares the 5 jurisdictions with MGC at the June 25<sup>th</sup> meeting.

*Colorado:*

This jurisdiction has a \$100 bet maximum, and has 36 venues. Most venues are relatively small in number of gaming devices and the tax structure is built to accommodate the difference in size. In total, Colorado receives \$101.7M in tax revenue from 36 venues. In addition, the funding for the Commission's budget comes from that \$101.7M.

Colorado	Colorado	Included in Budget	Colorado Comments
<b>Budget</b>	15,331,439.00		Comes from Gaming Taxes. Colorado Gaming only allowed in the towns of Black Hawk, Central City and Cripple Creek. Division of Gaming located within the Enforcement Business Group of Colorado DOR.

<b>FTEs</b>	91.00	Yes	91 FTEs assigned to Gaming.
<b>Cost of FTEs</b>	8,282,451.00	Yes	Commission staff and fringe costs
<b>Contracted Costs</b>	7,048,988.00	Yes	Rent for headquarters, Other state agencies (state police, Colorado bureau of investigations, state auditors, department of law) IT infrastructure, legal services, utilities.
<b>State Police</b>	3,200,000.00	Yes	Troopers included in \$15.3M and part of \$4.3M agency services ~\$3.2M
<b>Attorney General</b>	250,000.00	Yes	included in \$15.3M and part of \$4.3M agency services ~\$250K
<b>Department of Revenue*</b>	-	Yes	The department of revenue runs the Colorado Gaming Commission
<b>Other State Agency Costs</b>	850,000.00	Yes	
<b>Part Time Commission</b>		Yes	5 member Commission
<b>Total Revenue Generated</b>	101,718,812.00		.25% on amounts up to \$2 million 2% on amounts over \$2 million and up to \$5 million 9% on amounts over \$5 million and up to \$8 million 11% on amounts over \$8 million and up to \$10 million 16% on amounts over \$10 million and up to \$13 million 20% on amounts over \$13 million

*Ohio:*

There are four venues in Ohio. The Gaming Control Board and Lottery split responsibilities. The Gaming Control Board oversees Casinos with the combination of live table games and video lottery terminals/electronic gaming devices. The Lottery oversees Racing establishments with video lottery terminals. Gross Gaming Revenue tax is 33%. Administration expenses are capped at 1% of GGR and any license fees generated.

<b>Ohio</b>	<b>Ohio</b>	<b>Included in Budget</b>	<b>Ohio Comments</b>
<b>Budget</b>	9,136,213.00		3% of GGR 33% tax (1% of GGR) plus License fees.
<b>FTEs</b>	100.00		
<b>Cost of FTEs</b>	8,052,585.00		Includes salaries and fringe
<b>Contracted Costs</b>	1,083,628.00		Administrative Hearings, Rent, Travel, Supplies, Equipment, intrastate payments (\$358K)

<b>State Police</b>	-	No	In Ohio Gaming Agents have arrest authority
<b>Attorney General</b>		No	No funding allocated
<b>Department of Revenue*</b>		No	No Funding allocated
<b>Responsible Gaming</b>	5,467,866.61	No	2% of the 33% GGR ( or .67% of GGR)
<b>Central Monitoring System</b>		No	No Central Management System
<b>Part Time Commission</b>	250,000.00	Yes	7 member board. Salary of \$30K/Commissioner plus actual expenses
<b>Total Revenue Generated</b>	273,393,330.00		33% of GGR

*Maryland:*

The Gaming Division is a unit within the Maryland Lottery and there are five venues monitored. The tax rate in Maryland is at least 67% of GGR from slots and 20% from table games. Maryland originally purchased or leased all slot machines. Beginning in FY16 slot machines will be the responsibility of the casinos (with the exception of two smaller casinos).

<b>Maryland</b>	<b>Maryland</b>	<b>Included in Budget</b>	<b>Comments</b>
<b>Budget</b>	85,607,818.00		2% of GGR from slots operations until April 1 then 1% of GGR from slots. Only \$13M of budget comes from GGR the remainder comes from the General Fund.
<b>FTEs</b>	146		142 FTEs and 4 contractors. 60 casino compliance reps 9-16 at each facility 10 hr days 4 days/wk. Cost of employees does not include cost of legal, finance, HR staff.
<b>Cost of FTEs</b>	9,103,487.00		
<b>Contracted Costs</b>	76,504,331.00		\$55M for rental of slot machines, \$8.9M for debt payment on purchase of slot machines. \$11M left for central system, software licensing, some machine costs maintenance, and e-licensing system
<b>State Police</b>	0	No	
<b>Attorney General</b>	80,000	Yes	1 staff attorney salary
<b>Central Monitoring System</b>	4,000,000	Yes	
<b>Part Time Commission</b>	162,000.00	Yes	9 part-time Commissioners not more than \$1,500/mtg each

**FY16 Budget Structure:**

In FY16, 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 FY16 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 18, 2015 at MGC offices. 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 hire. As a result of that meeting, the budget was reduced by \$1.075M. The most significant reduction was \$717K cut to Oversight Project Management ("OPM") anticipated costs.

Each appropriation (eight digit number assigned in the accounting system that expenditures are tracked against and to which revenue is assigned) 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, object code and then specific budget item view of each division/bureau budget. For purposes of utilizing the state accounting system, budgets will be loaded at the object class level.

Appropriation	Appropriation Name	Unit	Unit Name	FY16 Budget
10500001	Gaming Control Fund	1000	Finance and Administration	\$2,956,994.00
		1100	Human Resources	\$590,512.26
		1200	Legal	\$3,370,130.97
		1300	Executive Director	\$1,067,157.18
		1400	Information Technology	\$5,319,453.01
		1500	Commissioners	\$2,115,563.01
		1600	Workforce and Supplier Diversity	\$370,166.17
		1700	Responsible Gaming and Research	\$4,612,969.16
		1800	Communications	\$384,633.70
		1900	Ombudsman	\$717,442.52
		5000	Investigations and Enforcement Bureau	\$6,131,615.95
		7000	Licensing Division	\$675,733.26
		12		<b>\$28,312,371.19</b>

10500003	MGC Mass Racing Development and Oversight Trust	3000	Racing Division	\$1,471,540.28
		1100	Human Resources	\$107,888.70
				<b>\$1,579,428.98</b>
10500013	MGC Plainridge Racecourse Capital Improvement Trust	3000	Racing Division	<b>\$125,000.00</b>
10500021	MGC Sterling Suffolk Promotional Trust	3000	Racing Division	<b>\$146,000.00</b>
10500022	MGC Sterling Suffolk Capital Improvement Trust	3000	Racing Division	<b>\$525,500.00</b>
10500140	MGC Payments to Cities/Towns for Local Share Racing Tax Rev	3000	Racing Division	<b>\$900,000.00</b>
				<b>\$31,588,300.17</b>

*10500001 Gaming Control Trust Fund*

The 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. The short table below represents at a macro level the anticipated spending for gaming regulatory operations for FY16 and the corresponding flows of revenue.

Budget	FY16 Projection
<b>10500001--Gaming Control</b>	
AA REGULAR EMPLOYEE COMPENSATION	6,460,884.92
BB REGULAR EMPLOYEE RELATED EXPEN	90,900.00
CC SPECIAL EMPLOYEES	150,506.15
DD PENSION & INSURANCE RELATED EX	1,903,677.87
EE ADMINISTRATIVE EXPENSES	505,193.58
FF PROGRAMMATIC FACILITY OPERATONAL SUPPLIES	500.00
GG ENERGY COSTS AND SPACE RENTAL	1,129,453.26
HH CONSULTANT SVCS (TO DEPTS)	5,239,276.14
JJ OPERATIONAL SERVICES	5,193,333.57

KK EQUIPMENT PURCHASE	80,000.00
LL EQUIPMENT LEASE-MAINTAIN/REPAR	25,617.71
MM PURCHASED CLIENT/PROGRAM SVCS	35,000.00
NN INFRASTRUCTURE:	-
PP STATE AID/POL SUB	3,011,010.00
UU IT Non-Payroll Expenses	4,487,017.99
<b>Total</b>	<b>28,312,371.19</b>
<b>Revenues</b>	<b>FY16 Projection</b>
REGION C PHASE 1 INVESTIGATION COLLECTIONS	200,000.00
REGION C PHASE 2 CATEGORY 1 COLLECTIONS	800,000.00
GRANT COLLECTIONS (RESTRICTED)	400,000.00
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)	30,000.00
KEY GAMING EXECUTIVE (GKE)	35,000.00
KEY GAMING EMPLOYEE (GKS)	20,000.00
NON-GAMING VENDOR (NGV)	30,000.00
VENDOR GAMING PRIMARY (VGP)	45,000.00
VENDOR GAMING SECONDARY (VGS)	40,000.00
GAMING SERVICE EMPLOYEE LICENSE (SER)	-
SUBCONTRACTOR ID INITIAL LICENSE (SUB)	-
TEMPORARY LICENSE INITIAL LICENSE (TEM)	-
VETERANS INITIAL LICENSE (VET)	-
TRANSFER OF LICENSING FEES TO CMF	-
ASSESSMENT	22,217,171.19
MISC	
<b>Total</b>	<b>28,312,371.19</b>

For the purposes of this memorandum, only large contractual/programmatic expenditures in relation to a division's overall budget are listed below. Further details for budgets by each division are provided in attachment B:

- Division of Finance and Administration—office space lease, build out and moving costs ~\$1.04M, oversight project monitoring ~\$717K.



- 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) \$759K, and \$1.91M MA Office of Attorney General
- Executive Director—Smart Goals/Performance Management final phase \$495K.
- Information Technology Division—applications development (licensing system, documentum) \$700K, central management system \$2.03M, hardware and software \$200K, IT consulting expertise \$100K.
- 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 \$125K.
- Research and Responsible Gaming—responsible gaming branding, education and staffing of on-site centers, advertising and evaluation of program \$1.13K, SEIGMA core baseline study and Magic cohort study \$2.2M, ISA with DPH \$180K, data storage of player data \$250K.
- Communications—website design, streaming of public meetings, and media subscriptions \$130K.
- Ombudsman—grants to host and surrounding communities \$400K
- Investigations and Enforcement Bureau—investigations of license applicants (vendor and employee) and region C applicants \$400K, MOU with state police for MGC investigative troopers, OT and travel, and troopers for slots parlor \$2.53M, fingerprint costs \$175K, State Police Costs for the MA Office of Attorney General \$475K.
- Licensing Division—supplies for licensing badges \$16K.

*10500003 Racing Development and Oversight Trust Fund*

Budget	FY16 Projection
<b>1050003--Racing Oversight Trust Fund</b>	
AA REGULAR EMPLOYEE COMPENSATION	\$ 523,531.72
BB REGULAR EMPLOYEE RELATED EXPEN	\$ 5,000.00
CC SPECIAL EMPLOYEES	\$ 408,245.20
DD PENSION & INSURANCE RELATED EX	\$ 168,147.06
EE ADMINISTRATIVE EXPENSES	\$ 30,855.00
FF PROGRAMMATIC FACILITY OPERATONAL SUPPLIES	\$ 1,000.00
HH CONSULTANT SVCS (TO DEPTS)	\$ 32,000.00
JJ OPERATIONAL SERVICES	\$ 59,300.00
LL EQUIPMENT LEASE-MAINTAIN/REPAR	\$ 6,650.00

MM PURCHASED CLIENT/PROGRAM SVCS	\$ 266,000.00
NN INFRASTRUCTURE:	\$ -
UU IT Non-Payroll Expenses	\$ 78,700.00
<b>Total</b>	<b>\$ 1,579,428.98</b>
<b>Revenues</b>	<b>FY16 Projection</b>
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 RACING DEVELOPMENT OVERSIGHT LIVE	\$ -
SUFFOLK TVG COMMISSION LIVE	\$ -
SUFFOLK TVG COMMISSION SIMULCAST	\$ 92,997.43
SUFFOLK TWIN SPIRES COMMISSION LIVE	\$ -
SUFFOLK TWIN SPIRES COMMISSION SIMULCAST	\$ 92,997.43
SUFFOLK XPRESS BET COMMISSION LIVE	\$ -
SUFFOLK XPRESS BET COMMISSION SIMULCAST	\$ 92,997.43
TRANSFER TO GENERAL FUND 10500140	
WONDERLAND ASSESSMENT	\$ 15,132.22

WONDERLAND DAILY LICENSE FEE	\$ 80,073.00
WONDERLAND RACING DEVELOPMENT OVERSIGHT SIMULCAST	\$ 120,746.64
TRANSFER TO GENERAL FUND 10500140	\$ (900,000.00)
MISC	\$ -
<b>Total</b>	<b>\$1,662,447.52</b>

This item funds the operations of the Racing division. The majority of funding from this appropriation is payroll related at ~\$623K. In addition, the racing division spends between \$310K 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, eighth pole payments, and the jockey guild \$165K.

*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 for expenses which the MGC must reimburse the general fund. Funds from this item go directly to race tracks and represent a percentage of pari-mutuel taxes.

**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 FY16, the commission will utilize 205 CMR 121.01 3(c) to assess ~\$22.2M on licensees as shown in the chart below:

	Slots	Table Games	Table Gaming Positions*	Total Gaming Positions*	Percentage of Gaming Positions	Annual Assessment
MGM	3,000	100	600	3,600	38.50%	\$8,554,204.95
Wynn	3,242	168	1,008	4,250	45.45%	\$10,098,714.18

Penn	1,250	-	-	1,500	16.04%	\$3,564,252.06
	7,492	268	1,608	9,350	100.00%	\$22,217,171.19

\*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.

**Conclusion:**

Staff is proposing an FY16 MGC budget of \$28.3M for gaming operations and \$1.57M for racing operations and an additional \$1.7M of racing payments to licensees for a total agency budget of \$31.58M. Staff seeks the Commission’s guidance on further spending recommendations or seeking additional comment. If this version is approved, the MGC will assess \$22.2M on the slot and casino licensees in FY16.

For FY16 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 7/1/2015, 25% billed on 9/1/2015, 25% billed on 12/1/2015, and the final 25% billed on 3/1/2016

**Attachments:**

- Attachment A: Listing of Accounts and Revenues
- Attachment B: Next Year Budget All Departments
- Attachment C: Next Year Budget by Object Class