



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Chairman Crosby and Commissioners Cameron, O'Brien, Stebbins and Zuniga
From: Edward Bedrosian, Jr. and Derek Lennon
Date: 5/24/2018
Re: Fiscal Year 2019 (FY19) Initial Budget Recommendations

Summary

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2019 (FY19) budget and assessment projections are composed of the following:

Gaming

- \$22.6M for gaming regulatory costs including funding for 84.3 full-time equivalents (FTEs), 1 of which is a new position funded in FY19 and 2 contract positions;
- \$2.04M assessment from the Commonwealth indirect costs;
- \$3.85M assessment for the Office of the Attorney General's (AGO) gaming operations inclusive of Massachusetts State Police (MSP) assigned to the AGO;
- \$4.82M assessment for the research and responsible gaming agenda inclusive of 2 FTEs, which does not include DPH costs. The costs of DPH will be funded from the Public Health Trust Fund for the first time in FY19;
- \$75K for the Alcohol and Beverage Control Commission (ABCC); resulting in,
- \$33.4M total funding of the Gaming Control Fund.

Racing

- \$2.52M for racing regulatory costs including funding for 7.7 FTEs;
- \$202.7K assessment from the Commonwealth for indirect costs;
- \$2.72M combined total of regulated racing costs.

Total

- \$36.1M – Total Gaming Fund Costs (\$33.4M) plus Total Racing Costs (\$2.72M).
- This funds ~94 FTEs and 2 contract positions.

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 FY19. The MGC's gaming regulatory



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costs combined with the statutorily required assessments are projected to be \$33.4M, and revenues are anticipated to be ~\$5.08M, which would leave an assessment of \$28.32M 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 revised based on the experienced from FY16-FY17.

Regulatory vs. Statutory Costs

It is important to distinguish among the different components of the proposed Gaming Control Fund for FY19 and understand the difference between regulatory and statutory costs. The composition of the \$33.4M 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 costs is illustrated in the chart below:

Item	Amount	Notes
Regulatory Costs		
MGC Regulatory Costs	22,605,257.67	Costs of MGC to Regulate Category 1 and 2 facilities.
Statutorily Required		
Office of the Attorney General	3,856,997.20	Up to \$3M for AGO operations (~\$2.76M in FY19) and a separate reimbursement for their share of MSP costs.
Research and Responsible Gaming	4,825,981.00	Does not include DPH responsible gaming costs. Those will be funded by PHTF in this and future years.
Commonwealth Assessed Indirect Costs	2,037,294.23	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	10,795,272.00	

The statutorily required costs in FY19 are projected to be \$10.79M and include

- \$3.85M for the costs of the Attorney General's Office (C. 12 § 11M),
- \$4.82M 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
- \$2.04M for Commonwealth of Massachusetts Assessed Indirect Costs (ANF Bulletin 5).

The Commission's regulatory FY19 budget projections total \$22.6M, 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.

Gaming Control Budget FY19 Compared to FY18

The MGCs currently approved FY18 budget for the Gaming Control Fund is \$31.08M. The MGC is recommending an FY19 budget of \$33.4M that includes both regulatory and statutory costs. The



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Gaming Control Fund's total budget increase is ~7.5%. The MGC's regulatory costs grew by ~9.77% from \$20.6M in FY18 to \$22.6M in FY19 while the statutorily required costs grew by ~2.9% from \$10.49M in FY18 to \$10.8M in FY19. The table below explains significant changes by regulatory vs statutorily required costs between fiscal years.

Fund	Grouping Name	Current Amount	Year	Next Year Amount	Variance	% Change	Explanation
Gaming Control Fund-10500001							
	MGC Regulatory Costs	20,593,675.81		22,605,257.67	2,011,581.86	9.77%	Annualization of MGM Springfield Costs
Statutorily Required Costs							
	Indirect	1,693,854.46		2,037,294.23	343,439.77	20.28%	Annualization of MGM Springfield Costs
	Research and Responsible Gaming/PHTF	5,053,957.84		4,825,981.00	(227,976.84)	-4.51%	Costs of DPH no longer funded from here.
	Office of Attorney General and AGO MSP	3,668,416.98		3,856,997.20	188,580.22	5.14%	Annualization of MGM Springfield Costs
	Alcohol and Beverage Control Commission	75,000.00		75,000.00	-	0.00%	
Statutorily Required Costs Total		10,491,229.28		10,795,272.43	304,043.15	2.90%	
Gaming Control Fund Total		31,084,905.09		33,400,530.10	2,315,625.01	7.45%	

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	% Change	Explanation
Gaming Control Fund-10500001								
	MGC Regulatory Costs							
		AA	REGULAR EMPLOYEE COMPENSATION	6,206,831.99	7,301,056.69	1,094,224.70	17.63%	Annualization of MGM hires.
		BB	REGULAR EMPLOYEE RELATED EXPEN	78,400.00	89,400.00	11,000.00	14.03%	Additional in-state travel and training for category 1 Casinos
		CC	SPECIAL EMPLOYEES	43,250.00	135,000.00	91,750.00	212.14%	Annualization of MGM hires.
		DD	PENSION & INSURANCE RELATED EX	2,295,124.31	2,674,809.96	379,685.65	16.54%	Annualization of MGM hires.
		EE	ADMINISTRATIVE EXPENSES	653,223.64	601,607.48	(51,616.16)	-7.90%	
		GG	ENERGY COSTS AND SPACE RENTAL	1,247,229.38	1,271,894.58	24,665.20	1.98%	Lease escalator
		HH	CONSULTANT SVCS (TO DEPTS)	1,487,756.00	750,644.48	(737,111.52)	-49.55%	Decrease of legal costs to minimum required for insurance
		JJ	OPERATIONAL SERVICES	4,595,689.01	5,643,125.02	1,047,436.01	22.79%	Annualization of MGM public safety costs
		KK	EQUIPMENT PURCHASE	78,944.00	96,000.00	17,056.00	21.61%	Start-up equipment for MGM Springfield
		LL	EQUIPMENT LEASE-MAINTAIN/REPAR	32,106.80	36,824.00	4,717.20	14.69%	Introductory period for new copier leases expired and will have to pay per click copy costs
		NN	INFRASTRUCTURE:	1,000.00	2,500.00	1,500.00	150.00%	
		PP	STATE AID/POL SUB				31.30%	Additional WFSD grants



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		114,244.00	150,000.00	35,756.00		
						Refresh of equipment, and anticipated costs of opening category 1 facilities
	UU	IT Non-Payroll Expenses	3,759,876.68	3,852,395.46	92,518.78	2.46%
	MGC Regulatory Costs Total		20,593,675.81	22,605,257.67	2,011,581.86	9.77%
	Indirect					
	EE	ADMINISTRATIVE EXPENSES	1,693,854.46	2,037,294.23	343,439.77	20.28%
	Annualization of MGM costs					
	Research and Responsible Gaming/PHTF					
	AA	REGULAR EMPLOYEE COMPENSATION	205,317.50	201,973.00	(3,344.50)	-1.63%
	BB	REGULAR EMPLOYEE RELATED EXPEN	6,000.00	6,000.00	-	0.00%
	DD	PENSION & INSURANCE RELATED EX	74,591.84	75,012.77	420.93	0.56%
	EE	ADMINISTRATIVE EXPENSES	18,000.00	32,995.23	14,995.23	83.31%
	FF	FACILITY OPERATIONAL EXPENSES	500.00	1,000.00	500.00	100.00%
	HH	CONSULTANT SVCS (TO DEPTS)	1,419,351.50	2,454,000.00	1,034,648.50	72.90%
	Increase in GameSense advisors for MGM opening					
	JJ	OPERATIONAL SERVICES	15,000.00	-	(15,000.00)	100.00%
	MM	PURCHASED CLIENT/PROGRAM SVCS	25,000.00	10,000.00	(15,000.00)	-60.00%
	PP	STATE AID/POL SUB	3,215,197.00	2,045,000.00	(1,170,197.00)	-36.40%
	DPH costs will be against PHTF this year. Not included in this item in FY19					
	UU	IT Non-Payroll Expenses	75,000.00	-	(75,000.00)	100.00%
	No IT development costs anticipated this year.					
	Research and Responsible Gaming/PHTF Total		5,053,957.84	4,825,981.00	(227,976.84)	-4.51%
	Office of Attorney General and AGO MSP					
	JJ	OPERATIONAL SERVICES	1,068,416.98	1,096,997.20	28,580.22	2.68%
	Annualization of trooper class					
	OO	(blank)	2,600,000.00	2,760,000.00	160,000.00	6.15%
	Annualization of MGM hires.					
	Office of Attorney General and AGO MSP Total		3,668,416.98	3,856,997.20	188,580.22	5.14%
	Alcohol and Beverage Control Commission					
	OO	(blank)	75,000.00	75,000.00	-	0.00%
	10500001 Total		31,084,905.09	33,400,530.10	2,315,625.01	7.45%

FY19 Regulatory Budget Development Process and Recommendations

In FY19, 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 FY19 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, Encore and MGM) at a meeting on May 11, 2018 at the MGC office.



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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.

The following section of this memorandum 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 FY18 and FY19 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 84.3 FTEs. The FY19 recommended spending level includes funding for 1 new IT position, as well as funding for the positions approved in the FY18 spending plan. 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 not included in the 84.3 regulatory FTE count, but are included in the 96 overall FTE count. The majority of the increased costs are from annualizing the hiring and public safety costs that were partially funded in FY18 to support the opening of the MGM Springfield facility.

Below is a chart that shows the FY18 currently approved budget by division compared to FY19 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:

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 FY18 to FY19 below because 2 MGC employees are funded from that budget.

Fund	Grouping Name	Division	Division Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
Gaming Control Fund-10500001								
	MGC Regulatory Costs							
		1000	Finance and Administration	2,057,570.73	2,107,937.82	50,367.09	2.45%	
		1100	Human Resources	515,643.51	659,838.34	144,194.83	27.96%	Annualization of a new hire, raises on higher total salary, and increased workers comp
		1200	Legal	1,923,859.30	1,223,585.71	(700,273.59)	-36.40%	Reduce litigation costs to minimum required by insurance
		1300	Executive Director	876,698.44	862,101.87	(14,596.57)	-1.66%	
		1400	Information Technology	4,602,230.02	4,967,360.61	365,130.59	7.93%	Annualization of 2 new hires
		1500	Commissioners	882,570.81	886,684.93	4,114.12	0.47%	
		1600	Workforce and Supplier Diversity	440,261.41	481,792.46	41,531.05	9.43%	Annualization of new hire
		1800	Communications	358,654.82	379,186.94	20,532.12	5.72%	New intern
		1900	Ombudsman				1.38%	



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			442,378.19	448,478.49	6,100.30		
	5000	Investigations and Enforcement Bureau	7,836,453.82	9,801,338.50	1,964,884.68	25.07%	Annualization of MGM hires and public safety costs associated with MGM
	7000	Licensing Division	657,354.76	786,952.00	129,597.24	19.71%	Annualization of new hires
	MGC Regulatory Costs Total		20,593,675.81	22,605,257.67	2,011,581.86	9.77%	
	Research and Responsible Gaming/PHTF						
	1700	Problem Gambling	5,053,957.84	4,825,981.00	(227,976.84)	-4.51%	

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. Costs of the division are payroll, drug and laboratory testing, ISA to DPH, and purchased client services for economic hardship payments, eighth pole payments, and the jockey guild.

Below is a chart that shows the FY18 currently approved budget by division compared to FY19 proposed budget for the Racing Oversight and Development 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	Division	Division Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
	Racing Oversight and Development Trust Fund-10500003					-		
	MGC Regulatory Costs					-		
		1000	Finance and Administration	223,481.41	283,090.19	59,608.78	26.67%	
		1100	Human Resources	114,220.90	99,382.99	(14,837.91)	-12.99%	
		1200	Legal	49,773.57	50,173.52	399.95	0.80%	
		1300	Executive Director	48,957.77	49,426.05	468.28	0.96%	
		1400	Information Technology	46,744.56	104,063.51	57,318.95	122.62%	
		1500	Commissioners	73,473.01	58,411.22	(15,061.79)	-20.50%	
		1800	Communications	15,367.26	15,458.57	91.31	0.59%	
		3000	Racing Division	1,854,555.21	1,853,098.17	(1,457.04)	-0.08%	
		7000	Licensing Division	1,349.76	5,197.02	3,847.26	285.03%	
	MGC Regulatory Costs Total			2,427,923.45	2,518,301.24	90,377.79	3.72%	
				2,427,923.45	2,518,301.24	90,377.79	3.72%	

Funding Exposures not Included in FY19 Budget Proposal

FY19 was another challenging budget year given the opening of MGM Springfield in August of 2018, less than 90 days into FY19 and the projected opening of the Encore facility in Everett in June of 2019, just days before the close of the fiscal year. In addition to the anticipated openings of the two category 1 casinos, 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



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It is important for the Commission to be aware that there are both regulatory and public safety costs that are anticipated for the FY19 budget year that are not included in this proposal. The costs of both public safety personnel as well as gaming agents for the Everett category 1 facility are not included in this budget. That facility is anticipated to open in June of 2019. 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 between the end of the first quarter of FY19 and end of calendar year 2018 to address both the public safety and regulatory funding exposures as the landscape and timeline for the opening of Everett facility becomes more concrete and better estimates are available. This is similar to the process used for funding the MGM start-up costs in the last budget cycle.

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 FY19, the commission will utilize 205 CMR 121.01 3(c) to assess ~\$28.3M 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%	\$11,042,096.71
Encore	3,242	168	1,008	4,250	46.03%	\$13,035,847.95
Penn	1,250	-	-	1,383	14.98%	\$4,242,385.45
	7,492	268	1,608	9,233	100.00%	\$28,320,330.10

*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 FY19 Gaming Control Fund budget of \$33.4M for Regulatory and Statutorily Required Costs and an FY19 Racing Oversight and Development Fund budget of \$2.72M 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 2018.

Attachments:

- Attachment A: FY19 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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