



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Interim Chairwoman Cameron and Commissioners O'Brien, Stebbins, and Zuniga
From: Edward Bedrosian, Jr., Executive Director and Derek Lennon, CFAO
Date: 1/10/2019
Re: Fiscal Year 2019 (FY19) Mid-Year Budget Review

Summary:

The Massachusetts Gaming Commission approved a FY19 budget for the Gaming Control Fund of \$33.4M composed of \$22.6M in regulatory costs and \$10.79M in statutorily required costs. The Gaming Control Fund required an initial assessment of \$28.32M on licensees. FY18 revenue exceeded FY18 expenses by \$947.3K, which resulted in the initial FY19 assessment being reduced from \$28.32M to \$27.37M.

The FY19 approved budget does not include operational or public safety costs associated with the opening of the Everett casino site. Additionally, the FY19 approved budget does not include the costs associated with migrating our technology backbone outside of the Commonwealth's information technology support group, or the additional costs of on-going litigation. Staff is recommending that \$3.25M in additional costs be added to the FY19 approved budget.

The above mentioned increase in costs would result in a revised budget of \$36.6M for the Gaming Control Fund. The increased costs are partially offset by \$860.9K in revenue that has exceeded the initial FY19 projections. The combined effect of budget increases and additional revenue would result in an increase to licensees' assessments of \$2.39M. The table below summarizes the impact of the additional costs and excess revenues:

Category	Description	Amount
Opening of Everett Casino		
	Public Safety Everett	\$807,876.57
	Gaming Agents Everett	\$229,709.50
	IT Everett	\$134,386.00
	GameSense Everett	\$144,418.00
Subtotal Opening of Everett Casino		\$1,316,390.07
Other Mid-Year Needs		
	Public Safety MGM Springfield	\$396,341.78
	Litigation	\$750,000.00
	IT Migration	\$791,429.03
Subtotal Other Mid-Year Needs		\$1,937,770.81
Total Mid-Year Request		\$3,254,160.88
Less Revenue in Excess of Projections		\$860,945.25
Increase to Licensee Assessment		\$2,393,215.63



Massachusetts Gaming Commission

Everett Casino Operational and Public Safety Cost Details:

When the Commission approved the FY19 initial budget it was with the knowledge that MGC operational and public safety costs associated with the start-up of the Everett casino site were not included. Staff explained in the June 2018 public meetings the reason for not including the start-up costs was due to the uncertain time table for the opening of the casino. At this point, while the time table is still uncertain, if the Commission fails to authorize funding for the operational and public safety costs requested to open a casino, the Commission's staff will not be able to make the end of June time table currently projected.

The additional costs total \$1.31M and are composed of new full-time positions and fringe benefits (10 FTEs, \$229.7K), funding of the Gaming Enforcement Unit (\$807.8K), information technology circuits, equipment, and testing of Gaming Equipment at MGC offices in the Everett facility (\$134.8K), and GameSense program start-up (\$144.4K). The following chart lists the costs by spending category and below the chart is a description of the costs as it relates to each division:

Object Class	Description	Amount
AA	Full-time Equivalent Salaries	167,500.00
DD	Fringe and Payroll Taxes	72,423.00
HH	GameSense	144,418.00
JJ	Public Safety Costs	807,876.57
UU	Gaming Technology	134,386.00
Total Everett Operational and Public Safety Costs		1,316,390.07

Office of Information Technology \$134.3K:

- Slot Machine Testing \$75K: Testing of progressive metering devices and casino management system by independent test laboratory.
- Hardware and Data Lines \$59.3K: Data lines and equipment for MGC's central monitoring system, and IT equipment for staff at Everett Casino.

Investigations and Enforcement Bureau \$1.03M:

- Gaming Agents Division \$229.7K: One [1] senior supervising gaming agent for the Everett site, four [4] supervisor agents seven [5] gaming agents. All these positions would be budgeted for the last three months of FY19
- Gaming Enforcement Unit \$807.8K: 19 members composed of both Everett and MSP Lieutenant, Sergeants, and Troopers/Officers. All of these positions would be budgeted for the last four months of FY19.

Office of Research and Responsible Gaming \$144.4K:

- Mass Council on Compulsive Gambling—GameSense start-up costs for staffing and printed materials.

Other Mid-Year Needs:

In addition to the operational and public safety costs for the Everett Casino site, staff is requesting consideration for funding for litigation (\$750K, this covers current legal costs), additional public safety funding for MGM Springfield (\$396.3K), and migration of the MGC IT backbone from the Executive



Massachusetts Gaming Commission

Office of Technology and Security (EOTSS) to a cloud based solution (\$791.4K). The following chart lists the costs by spending category and below the chart is a description of the costs as it relates to each division:

Object Class	Description	Amount
HH	Outside Counsel Litigation	750,000.00
JJ	Public Safety Costs	396,341.78
UU	IT Migration to Cloud	791,429.03
Total Other Mid-Year Costs:		1,937,770.81

Office of General Counsel \$750K:

- Litigation for Boston based services \$500K.
- Litigation for Nevada based services \$250K.

Investigations and Enforcement Bureau \$396.3K:

- Five months funding for three additional staff (2 MSP and 1 Springfield) for the Springfield Gaming Enforcement unit (\$146.3K). Post opening of the casino, the Springfield GEU has had to adjust security levels based on operational needs. This funding will help to reduce overtime costs as well as staff burnout.
- Replenish of overtime budget for GEU at MGM, Plainville and Central Office \$250K.

Office of Information and Technology \$791.4K:

- Switches, circuits, servers and equipment for a new network and cloud environment (\$184.2K)
- Migration from EOTSS to independent cloud with active back-up and creation of our own domain (\$527.2K)
- Migration of applications (JIRA, Intranet, LMS, Itrak, etc) to cloud format (\$80K)

The litigation request funds current litigation costs. Costs for the remainder of the year can range anywhere from an additional \$500K to \$1M. Staff will wait until the end of the third quarter to come back to the Commission on an estimate to finish the year. The litigation outlook should be clearer at that time.

The additional \$250K of overtime proposed in this document will take a great deal of management and prioritizing to last the next six months. However, staff is hopeful that with the addition of three staff at MGM Springfield to help manage high volume times this amount will be sufficient to close out the fiscal year.

The Migration from EOTSS supported services to the cloud environment has been one the Commission has been contemplating for a couple of years. With the opening of an Everett location, as well as a refresh cycle coming up for our IT equipment (which is close to 5 years old and either at the end or past the end of its useful life cycle) now is the time to migrate to avoid duplicative costs.

Mid-Year Revenue Update:

The FY19 Budget for the Gaming Control Fund relies on fees from licensing and slots of ~\$5.08M, and an assessment of \$28.32M to fund the spending needs. Revised licensing estimates have licensing fees exceeding initial projections by \$185.1K. The commission has received a reimbursement of \$57K in attorney's fees from our insurance company as well as another \$4K in miscellaneous revenue sources



Massachusetts Gaming Commission

that were not anticipated in FY19. The Commission also billed for and received \$614.8K in direct costs associated with the Wynn suitability investigation that represents costs from the inception of the investigation through September of 2018. This is a total of \$860.9K in additional revenue that was not included in the initial FY19 budget documents. This revenue will offset the requested \$3.25M in additional spending, thus reducing any additional assessment on licensees to \$2.39M

Assessment on Licensees:

205 CMR 121.00 describes how the Commission shall assess its operational costs on casino licensees including any increases or decreases that are the result of over or under spending. CMR 121.04(3) states “If at any time during the fiscal year the commission determines that actual costs will exceed the projected costs and projected revenue in the budget the Commission will revise the Annual Assessment assessed to each gaming establishment and invoice each gaming establishment for its proportional share of such costs.”

205 CMR 121.01 (3) states “The following fees are due and payable to the commission:

(b) An annual assessment, (Annual Assessment) as provided by M.G.L. c.23K § 56(c), to be determined by the commission and calculated in accordance with M.G.L. c.23K § 56(c) to cover costs of the commission necessary to maintain control over gaming establishments, in proportion to the number of gaming positions approved by the commission at the gaming establishment; provided, however, that such assessment may be adjusted by the commission at any time after payment is made where required to reflect the actual number of positions at a gaming establishment...”

The MGM Springfield was initially responsible for paying ~39% (see table below titled “Initial FY19 Gaming Positions Calculation”) of the assessment based on the gaming positions in their approved application (3,600). Currently the casino has 2,435 EGDs, 91 Table Games and 23 Poker Tables. By calculating gaming positions based on the table below, the total number of gaming positions in January for MGM drops to 3,276, and would also result in their proportional share of the assessment dropping to 36.77% (see table below titled “Revised FY19 Gaming Positions Calculations”). While the CMR does allow the commission to adjust the assessment at “any time” staff is suggesting that the commission only adjust one time per year (at the mid-year budget review), and adjust the assessment from January 1st forward and not go retro-active.

Prior to the opening of a category 1 casino, the commission estimated table gaming positions as 6 seats/positions per table. Now that a facility is open, staff is recommending that the following table be used to estimate gaming positions per table game:

Type of Game	Positions
Slot machine	1 position for each seat/ slot
Craps	14 positions for each table
Poker	10 positions for each table
Big 6	8 positions for each table
Roulette	7 positions for each table
All other table games	6 positions for each table



Massachusetts Gaming Commission

Initial (June 2018) FY19 Gaming Positions Calculation					
Licensee	Slots	Table Games	Table Gaming Positions*	Total Gaming Positions*	Percentage of Gaming Positions
MGM	3,000	100	600	3,600	38.99%
Encore	3,242	168	1,008	4,250	46.03%
Penn	1,250	-	-	1,383	14.98%
	7,492	268	1,608	9,233	100.00%
*Table gaming positions, slots and table gaming positions for casinos not currently open 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 at facilities not yet open, a multiplier of 6 for each table game is used. For open facilities, the table in this memorandum is utilized. For PPC, it is the amount approved as of June 2018.					

Revised (January 2019) FY19 Gaming Positions Calculation					
Licensee	Slots	Table Games	Table Gaming Positions*	Total Gaming Positions*	Percentage of Gaming Positions
MGM	2,435	114	841	3,276	36.77%
Encore	3,242	168	1,008	4,250	47.70%
Penn	1,250	-	-	1,383	15.52%
	7,492	268	1,608	8,909	100.00%
*Table gaming positions, slots and table gaming positions for casinos not currently open 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 at facilities not yet open, a multiplier of 6 for each table game is used. For open facilities, the table in this memorandum is utilized.					

The result of the balance forward of \$947.3K in unrestricted revenue from FY18 decreased the FY19 assessment from \$28.32M to \$27.37M. If the Commission agrees to the \$3.2M increase in costs it would be offset by the \$860.9K in additional revenue and would result in an additional \$2.39M to be assessed on licensees

Conclusion:

Staff is seeking comment, questions and discussion from the Commissioners on the proposed budget increases, as well as the proposal for timing and calculation of gaming positions to allow for adjusting the Annual Assessment and proportional billing across licensees. If the Commissioners deem it appropriate, staff is also seeking public comment on the information in this memorandum and presentation.

Attachment: A FY19 Actuals Spending and Revenue as of 12/1/2018



Massachusetts Gaming Commission