



## MASSACHUSETTS GAMING COMMISSION

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### MEMORANDUM

**To:** Chair Judd-Stein and Commissioners Cameron, O'Brien, Stebbins and Zuniga  
**From:** Edward Bedrosian, Jr. and Derek Lennon  
**Date:** 6/6/2019  
**Re:** Fiscal Year 2020 (FY20) Budget Recommendations

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### Summary

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2020 (FY20) budget and assessment projections are composed of the following:

#### Gaming

- \$28.42M for gaming regulatory costs including funding for 96.59 full-time equivalents (FTEs), 1 of which is a new position funded in FY20 and 4 contract positions;
- \$2.04M 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;
- \$75K for the Alcohol and Beverage Control Commission (ABCC); resulting in,
- \$34.2 M total funding of the Gaming Control Fund.

#### Racing

- \$2.55M for racing regulatory costs including funding for 7.41 FTEs and 2 contract positions;
- \$202.7K assessment from the Commonwealth for indirect costs;
- \$2.75M combined total of regulated racing costs.

#### Public Health Trust Fund

- \$6.54M for the research and responsible gaming agenda inclusive of 3 FTEs, one if with is a new position funded in FY20 this will signify the first year the Commission's research and responsible gaming office will be funded by the Public Health Trust Fund (PHTF)

#### Total

- \$43.5M – Total Gaming Fund Costs (\$34.2M), plus Total Racing Costs (\$2.75M), plus Research and Responsible Gaming Costs from Public Health Trust Fund (\$6.54M).
- This funds ~107 FTEs and 6 contract positions.

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



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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 FY20. The MGC's gaming regulatory costs combined with the statutorily required assessments are projected to be \$34.2M, and revenues are anticipated to be ~\$4.41M, which would leave an assessment of \$29.7M to be divided up among the licensees.

In addition, this will be the first year that the Commission assesses \$5M per 801 CMR 121 to be contributed to the Public Health Trust Fund (PHTF). The combination of the assessment for the Gaming Control Fund and the PHTF will result in a \$34.7M assessment on 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 FY17-FY18.

### Regulatory vs. Statutory Costs

It is important to distinguish among the different components of the proposed Gaming Control Fund for FY20 and understand the difference between regulatory and statutory costs. The composition of the \$12.3M 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
<b>Regulatory Costs</b>		
MGC Regulatory Costs	\$28,424,376.60	Costs to regulate category 1 and 2 facilities
<b>Statutorily Required Costs</b>		
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
Office of Attorney General and AGO MSP	\$3,668,277.62	Up to \$3M for AGO operations (~2.76M) and a separate reimbursement for their share of MSP costs.
Alcohol and Beverage Control Commission	\$75,000.00	
<b>Public Health Trust Fund</b>		
Research and Responsible Gaming	\$6,544,075.84	Includes indirect for this program
<b>Total Statutory Costs</b>	<b>\$12,324,647.69</b>	

The statutorily required costs in FY20 are projected to be \$12.32M and include

- \$3.67M for the costs of the Attorney General's Office (C. 12 § 11M),
- \$6.54M for the Research and Responsible Gaming office, which will be funded from the Public Health Trust Fund for the first time.
- \$75K for the Alcoholic Beverage Control Commission (C. 10 § 72A), and
- \$2.04M for Commonwealth of Massachusetts Assessed Indirect Costs (ANF Bulletin 5).



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The Commission's regulatory FY19 budget projections total \$28.4M, 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 FY20 Compared to FY19

The MGCs currently approved FY19 budget for the Gaming Control Fund is \$37.85M. The MGC is recommending an FY20 budget of \$34.2M that includes both regulatory and statutory costs, but excludes Research and Responsible Gaming (\$6.54M) due to it being funded from the Public Health Trust Fund for the first time in FY20. For comparison's sake, for the rest of this memo, I will combine the Gaming Control Fund and MGC spending from the Public Health Trust Fund figures together to compare year over year and call it the Gaming and Statutory Cost Funding. The Gaming and Statutory Cost Funding total budget increase is ~7.64%. The MGC's regulatory costs grew by ~5.05% from \$27.06M in FY19 to \$28.42M in FY20 while the statutorily required costs grew by ~14.12% from \$10.8M in FY19 to \$12.3M in FY20. The table below summarizes significant changes by regulatory vs statutorily required costs between fiscal years.

Func	Grouping Name	CY Amount	Next Year Amount	Variance	% Change	Explanation
<b>Gaming Control Fund 10500001</b>						
	MGC Regulatory Costs	\$27,057,875.57	\$28,424,376.60	\$1,366,501.03	5.05%	Annualization of EBH costs
<b>Statutorily Required Costs</b>						
	Indirect	\$2,037,294.23	\$2,037,294.23	\$0.00	0.00%	PHTF funding indirect costs of research and responsible gaming
	and AGO MSP	\$3,856,997.20	\$3,668,277.62	-\$188,719.58	-4.89%	
	Alcohol and Beverage Control Commission	\$75,000.00	\$75,000.00	\$0.00	0.00%	
<b>Statutorily Required Costs Total</b>		\$5,969,291.43	\$5,780,571.85	-\$188,719.58	-3.16%	
<b>Gaming Control Fund Total</b>		\$33,027,167.00	\$34,204,948.45	\$1,177,781.45	3.57%	
<b>Public Health Trust Fund 40001101</b>						
	Research and Responsible Gaming/PHTF	\$4,830,839.73	\$6,544,075.84	\$1,713,236.11	35.46%	Research and Responsible Gaming budgeted here this year
<b>Gaming and Stutory Funding</b>		\$37,858,006.73	\$40,749,024.29	\$2,891,017.56	7.64%	

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



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Fun	Grouping Name	Object Class	Object Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
Gaming Control Fund 10500001								
	MGC Regulatory Costs	AA	EMPLOYEE COMPENSATION	\$7,279,428.60	\$8,295,338.72	\$1,015,910.12	13.96%	Raises of 2% and annualization of EBH staff
		BB	EMPLOYEE RELATED EXPEN	\$89,400.00	\$95,700.00	\$6,300.00	7.05%	
		CC	EMPLOYEES	\$135,000.00	\$236,000.00	\$101,000.00	74.81%	Additional civilian investigators
		DD	INSURANCE RELATED EX	\$2,737,019.46	\$3,082,939.57	\$345,920.11	12.64%	Fringe on raises as well as fringe rate increased
		EE	ADMINISTRATIVE EXPENSES	\$601,607.48	\$638,539.84	\$36,932.36	6.14%	veterans suppliers and memberships
		GG	AND SPACE RENTAL	\$1,271,894.58	\$1,295,301.30	\$23,406.72	1.84%	
		HH	CONSULTANT SVCS (TO DEPTS)	\$3,000,644.48	\$792,094.48	-\$2,208,550.00	-73.60%	Minimum amount needed for insurance policy
		JJ	SERVICES	\$6,879,346.48	\$9,554,800.27	\$2,675,453.79	38.89%	Annualization of EBH costs
		KK	PURCHASE	\$108,268.73	\$50,500.00	-\$57,768.73	-53.36%	One-time purchases
		LL	EQUIPMENT LEASE- MAINTAIN/REPAR	\$37,824.00	\$35,450.98	-\$2,373.02	-6.27%	
		NN	INFRASTRUCTURE:	\$2,500.00	\$33,318.00	\$30,818.00	1232.72%	Re-arrange office layout
		PP	SUB	\$150,000.00	\$200,000.00	\$50,000.00	33.33%	
		UU	IT Non-Payroll Expenses	\$4,764,941.76	\$4,114,393.44	-\$650,548.32	-13.65%	One-time costs of CMS for EBH and MGM and start-up of EBH
	MGC Regulatory Costs Total			\$27,057,875.57	\$28,424,376.60	\$1,366,501.03	5.05%	
	Indirect	EE	EXPENSES	\$2,037,294.23	\$2,037,294.23	\$0.00	0.00%	
	General and AGO MSP	JJ	OPERATIONAL SERVICES	\$1,096,997.20	\$908,277.62	-\$188,719.58	-17.20%	
		OO		\$2,760,000.00	\$2,760,000.00	\$0.00	0.00%	
	Office of Attorney General and AGO MSP Total			\$3,856,997.20	\$3,668,277.62	-\$188,719.58	-4.89%	
	Beverage Control Commission	OO		\$75,000.00	\$75,000.00	\$0.00	0.00%	
	Gamin Control Fund 10500001 Total			\$33,027,167.00	\$34,204,948.45	\$1,177,781.45	3.57%	
Public Health Trust Fund 40001101								
	Research and Responsible Gaming/PHTF	AA	REGULAR EMPLOYEE COMPENSATION	\$206,831.73	\$314,445.80	\$107,614.07	52.03%	Additional hire for data and research
		BB	EMPLOYEE RELATED EXPEN	\$6,000.00	\$10,000.00	\$4,000.00	66.67%	
		DD	INSURANCE RELATED EX	\$75,012.77	\$72,520.04	-\$2,492.73	-3.32%	
		EE	EXPENSES	\$31,860.23	\$475,100.00	\$443,239.77	1391.20%	
		FF	OPERATIONAL EXPENSES	\$1,000.00	\$2,000.00	\$1,000.00	100.00%	
		HH	SVCS (TO DEPTS)	\$2,454,000.00	\$3,369,010.00	\$915,010.00	37.29%	Game Sense for EBH
		MM	CLIENT/PROGRAM SVCS	\$10,000.00	\$0.00	-\$10,000.00	-100.00%	
		PP	SUB	\$2,045,000.00	\$2,298,000.00	\$253,000.00	12.37%	Research
		UU	Expenses	\$1,135.00	\$3,000.00	\$1,865.00	164.32%	
	Responsible Gaming/PHTF Total			\$4,830,839.73	\$6,544,075.84	\$1,713,236.11	35.46%	
	Gaming and Statutory Totals			\$37,858,006.73	\$40,749,024.29	\$2,891,017.56	7.64%	



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## **FY20 Regulatory Budget Development Process and Recommendations**

In FY20, 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 FY20 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 16, 2019 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.

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 FY19 and FY20 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 and 40001101 Public Health 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 96.59 FTEs. The FY20 recommended spending level includes funding for 1 new IT position, as well as funding for the positions approved in the FY19 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, 3 MGC FTEs in that unit are not included in the 96.59 regulatory FTE count, but are included in the 107 overall FTE count. The majority of the increased costs are from annualizing the hiring and public safety costs that were partially funded in FY19 to support the opening of the Encore Boston Harbor facility.

Below is a chart that shows the FY19 currently approved budget by division compared to FY20 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 MGC and for the first time will be funded from the Public Health Trust Fund now that all three licensees are expected to be open in FY20. However, I have included a brief chart of that budget comparing FY19 to FY20 below because MGC employees and programs are funded from that budget.



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Fund	Grouping Name	Unit	Unit Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
Gaming Control Fund 10500001								
	MGC Regulatory Costs	1000	Finance and Administration	\$2,137,927.29	\$2,222,714.41	\$84,787.12	3.97%	Lease escalator and increase for independent audit of licensees
		1100	Human Resources	\$525,328.97	\$659,372.25	\$134,043.28	25.52%	Raises budgeted here and then disbursed to divisions
		1200	Legal	\$3,284,269.24	\$1,250,192.72	-\$2,034,076.52	-61.93%	Legal costs budgeted at minimum required by insurance policy
		1300	Executive Director	\$863,368.87	\$862,202.91	-\$1,165.96	-0.14%	
		1400	Information Technology	\$5,877,892.37	\$5,334,536.58	-\$543,355.79	-9.24%	One-time costs for start-up of EBH and implementation of CMS at EBH and MGM
		1500	Commissioners	\$894,780.73	\$949,837.43	\$55,056.70	6.15%	
		1600	Workforce and Supplier Diversity	\$486,468.93	\$527,664.02	\$41,195.09	8.47%	Grants
		1800	Communications	\$384,150.38	\$392,865.84	\$8,715.46	2.27%	
		1900	Ombudsman	\$456,740.44	\$454,166.58	-\$2,573.86	-0.56%	
		5000	Investigations and Enforcement Bureau	\$11,341,563.04	\$15,014,610.42	\$3,673,047.38	32.39%	Annualization of staff and public safety costs at EBH
		7000	Licensing Division	\$805,385.31	\$756,213.44	-\$49,171.87	-6.11%	One-time costs for temp help
	MGC Regulatory Costs Total			\$27,057,875.57	\$28,424,376.60	\$1,366,501.03	5.05%	
Public Health Trust Fund 40001101								
	Research and Responsible Gaming/PHTF	1700	Problem Gambling	\$4,830,839.73	\$6,544,075.84	\$1,713,236.11	35.46%	Annualization of Game Sense at EBH
Total				\$31,888,715.30	\$34,968,452.44	\$3,079,737.14	9.66%	

### 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 FY19 currently approved budget by division compared to FY20 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	Unit	Unit Name	Current Year Amount	Next Year Amount	Variance	% Change	Explanation
Racing Development and Oversight Fund 10500003								
	MGC Regulatory Costs	1000	Finance and Administration	\$283,090.19	\$282,687.06	-\$403.13	-0.14%	
		1100	Human Resources	\$99,382.99	\$67,295.35	-\$32,087.64	-32.29%	
		1200	Legal	\$50,173.52	\$50,811.59	\$638.07	1.27%	
		1300	Executive Director	\$49,426.05	\$49,732.40	\$306.35	0.62%	



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1400	Information Technology	\$104,063.51	\$115,490.18	\$11,426.67	10.98%
1500	Commissioners	\$58,411.22	\$82,593.91	\$24,182.69	41.40%
1800	Communications	\$15,458.57	\$15,554.39	\$95.82	0.62%
3000	Racing Division	\$1,857,756.23	\$1,885,370.02	\$27,613.79	1.49%
7000	Licensing Division	\$5,197.02	\$4,709.70	-\$487.32	-9.38%
MGC Regulatory Costs Total		\$2,522,959.30	\$2,554,244.60	\$31,285.30	1.24%

### Exposures in the FY20 Budget Proposal

FY20 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 and beginning of the next fiscal year, thus limiting the ability to project a “steady state” funding level. In addition to the 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. This figure has been difficult to project in the last two fiscal years. In addition, we have included full year revenue projections for Suffolk simulcasting. Suffolk’s ability to simulcast at its facility is uncertain after December 31, 2019 and could result in a budget gap if it is not extended.

### 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 FY20, the commission will utilize 205 CMR 121.01 3(b) to assess ~\$29.7M on licensees. In addition per 205 CMR 121.01 3(c), the Commission will for the first time assess \$5M to be deposited into the PHTF. This will result in a \$34.7M total assessment on licensees. The way we have chosen to count gaming positions for the purposes of calculating the assessment on licensees, is solely based on the number of available seats/positions at a table that can be occupied, and should not be confused with how many people on average or at any given time are at the casino. The chart below breaks out the total number of actual available seats for each casino as of June 1, 2019:

Licensee	Slots	Table Games	Table Gaming Positions	Total Gaming Positions	Percentage of Gaming Positions	Annual Assessment
MGM	2,200	111	790	2,990	32.73%	\$11,362,212.25
Encore	3,158	232	1,656	4,814	52.70%	\$18,293,541.72
Penn	1,250	-	-	1,331	14.57%	\$5,057,894.48
	6,608	343	2,446	9,135	100%	34,713,648.45

### Conclusion

Staff is proposing an FY20 Gaming Control and Public Health Trust Fund budget of \$40.75M for Regulatory and Statutorily Required Costs and an FY20 Racing Oversight and Development Fund budget of \$2.75M for Regulatory and Statutorily Required Costs. Staff will post this budget to our website for public comments and return to you at the next regularly scheduled public meeting for a



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vote to either approve the budget as it is presented or with any changes the Commission may deem appropriate.

Attachments:

Attachment A: FY20 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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