



MASSACHUSETTS GAMING COMMISSION

MEMORANDUM

To: Chair Judd-Stein and Commissioners Cameron, O'Brien, Stebbins and Zuniga
From: Karen Wells and Derek Lennon
Date: June 18, 2020
Re: Fiscal Year 2021 (FY21) Budget Recommendations

Summary

The Massachusetts Gaming Commission's (MGC) initial Fiscal Year 2021 (FY21) budget and assessment projections are composed of the following:

Gaming

- \$26.73M for gaming regulatory costs including funding for 82.765 full-time equivalents (FTEs), and 4 contract positions, a reduction of 9 FTEs from FY20;
- \$1.95M assessment from the Commonwealth indirect costs;
- \$3.48M 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,
- \$32.25M total funding of the Gaming Control Fund.

Racing

- \$2.48M for racing regulatory costs including funding for 6.985 FTEs and 2 contract positions;
- \$195.3K assessment from the Commonwealth for indirect costs;
- \$2.68M combined total of regulated racing costs.

Community Mitigation Fund

- For the first time, \$170K of the costs and 1.25FTEs to monitor and administer the program are shifted to this fund.

Public Health Trust Fund

- \$4.62M for the research and responsible gaming agenda, inclusive of 2 FTEs a reduction of one FTE from the FY20 approved level. The Commission's research and responsible gaming office will be funded by the Public Health Trust Fund (PHTF)

Total Budget



Massachusetts Gaming Commission

The total budget presented today, excluding racing capital and promotional trust funds that benefit licensees and grants from the Community Mitigation Fund, is \$39.73M and funds 93 FTES and 6 contract employees.

Fund	Grouping Name	Fiscal Year 21 Budget	FTEs	Contractors
10500001	Gaming Control Fund			
	MGC Regulatory Costs	\$26,733,576.20	82.765	4
	Indirect	\$1,955,030.20		
	Office of Attorney General and AGO MSP	\$3,486,948.80		
	Alcohol and Beverage Control Commission	\$75,000.00		
10500001	Total	\$32,250,555.20		
10500003	Racing Oversight and Development Fund			
	MGC Regulatory Costs	\$2,487,933.45	6.985	2
	Indirect	\$195,328.00		
10500003	Total	\$2,683,261.45		
10500004	Community Mitigation Fund			
	MGC Regulatory Costs	\$170,638.56	1.25	0
10500004	Total	\$170,638.56		
40001101	Public Health Trust Fund			
	Research and Responsible Gaming/PHTF	\$4,626,750.00	2	0
40001101	Total	\$4,626,750.00		
	Grand Total	\$39,731,205.21	93	6

Licensee Assessments

MGL C. 23K section 56 and 205 CMR 121.00 require the MGC to make the following annual fees and assessments on category 1 and 2 gaming licensees:

- \$600 fee for each slot machine approved to be used at a gaming facility as of July 1
- An annual assessment that is the difference between the projected spending for the gaming control fund and the projected revenues; and
- Not less than \$5M to be deposited in the Public Health Trust Fund.

Due to the uncertainty of the timing of re-opening of licensees, needing a revised approved slot count for July 1, and not knowing the number of gaming positions that will be approved on July 1, we are unable to give the actual numbers for the slot fees and annual assessment. However, licensing revenues are projected to be \$750K and spending is projected to be \$32.25M, therefore, the combination of slot fees and assessments will be the difference between the aforementioned figures, which is \$31.5M

The Commission will assess \$3.75 of the \$5M required under 801 CMR 121, to be contributed to the Public Health Trust Fund (PHTF). The combination of the slot fees and the assessments for the Gaming Control Fund and the PHTF results in \$35.25M of costs to category 1 and 2 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 FY18-FY19.



Massachusetts Gaming Commission

Gaming Control Fund Regulatory vs. Statutory Costs

It is important to distinguish among the different components of the proposed budget for FY21 and understand the difference between regulatory and statutory costs. The composition of the Gaming Control Fund budget 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	Fiscal Year 2021	Notes
Regulatory Costs		
MGC Regulatory Costs	\$26,733,576.20	Costs to regulate category 1 and 2 facilities
Statutorily Required Costs		
Commonwealth Assessed Indirect Costs	\$1,955,030.20	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	\$3,486,948.80	Up to \$3M for AGO operations (~2.51M) and a separate reimbursement for their share of MSP costs.
Alcohol and Beverage Control Commission	\$75,000.00	
Total Statutory Costs	\$5,516,979.00	

The statutorily required costs in FY21 are projected to be \$5.51M and include

- \$3.48M for the costs of the Attorney General's Office (C. 12 § 11M),
- \$75K for the Alcoholic Beverage Control Commission (C. 10 § 72A), and
- \$1.95M for Commonwealth of Massachusetts Assessed Indirect Costs (ANF Bulletin 5).

The Commission's regulatory FY21 budget projections total \$26.73M, 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 FY21 Compared to FY20

The MGCs currently approved FY20 budget for the Gaming Control Fund is \$33.77 M. The MGC is recommending an FY21 budget of \$32.25M that includes both regulatory and statutory costs. However, it excludes Research and Responsible Gaming (\$4.62M), due to it being funded from the Public Health Trust Fund. For clarity purposes, the Gaming Control Fund and the Public Health Trust Fund will be compared separately in the rest of this memorandum. The MGC's regulatory costs funded by the Gaming Control fund decreased by ~5.28% from \$28.22M in FY20 to \$26.73M in FY21 while the statutorily required costs decreased by 0.68% from \$5.55M in FY20 to \$5.51M in FY21. The Commission's Research and Responsible Gaming Office decreased by 26.5% from \$6.29M in FY20 to \$4.62M in FY21. The table below summarizes significant changes by regulatory vs statutorily required costs between fiscal years:



Massachusetts Gaming Commission

Fund	Grouping Name	FY20	FY21	Variance	% Change
Gaming Control Fund 10500001					
	MGC Regulatory Costs	\$28,223,070.44	\$26,733,576.20	-\$1,489,494.24	-5.28%
Statutorily Required Costs					
	Indirect	\$2,061,559.93	\$1,955,030.20	-\$106,529.73	-5.17%
	Office of Attorney General and AGO MSP	\$3,418,277.62	\$3,486,948.80	\$68,671.18	2.01%
	Alcohol and Beverage Control Commission	\$75,000.00	\$75,000.00	\$0.00	0.00%
Statutorily Required Costs Total		\$5,554,837.55	\$5,516,979.00	-\$37,858.55	-0.68%
Gaming Control Fund Total		\$33,777,907.99	\$32,250,555.20	-\$1,527,352.79	-4.52%

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



Massachusetts Gaming Commission

Fund	Grouping Name	Object Class	object_class_name	FY20 Amount	FY21 Amount	Variance	% Change	Explanation
10500001 Gaming Control Fund								
	MGC Regulatory Costs	AA	REGULAR EMPLOYEE COMPENSATION	7,408,944.22	6,678,875.97	(730,068.25)	-9.85%	No raises and not backfilling 9 open positions (10% of FTEs)
		BB	REGULAR EMPLOYEE RELATED EXPEN	59,503.50	-	(59,503.50)	-100.00%	All travel and training reduced to 1/3 of FY20 levels and funded under EE
		CC	SPECIAL EMPLOYEES	176,000.00	331,950.00	155,950.00	88.61%	Contract position for Communications and resuming
		DD	PENSION & INSURANCE	2,746,198.30	2,508,647.30	(237,551.00)	-8.65%	Reduction for decrease in FTEs
		EE	ADMINISTRATIVE	558,798.38	503,889.84	(54,908.54)	-9.83%	Travel reductions
		FF	FACILITY OPERATIONAL	15,000.00	-	(15,000.00)	-100.00%	
		GG	ENERGY COSTS AND	1,304,017.35	1,318,586.22	14,568.87	1.12%	Rent escalator
		HH	CONSULTANT SVCS (TO DEPTS)	1,892,122.56	705,094.48	(1,187,028.08)	-62.74%	Reduction in legal and independent monitor will be billed at actuals
		JJ	OPERATIONAL SERVICES	9,998,800.27	10,335,644.70	336,844.43	3.37%	Public Safety Costs
		KK	EQUIPMENT PURCHASE	35,500.00	57,500.00	22,000.00	61.97%	
		LL	EQUIPMENT LEASE-	35,450.98	44,994.25	9,543.27	26.92%	
		NN	INFRASTRUCTURE:	33,318.00	20,000.00	(13,318.00)	-39.97%	
		PP	STATE AID/POL SUB	200,000.00	150,000.00	(50,000.00)	-25.00%	Grant Reductions
		UU	IT Non-Payroll Expenses	3,759,416.88	4,078,393.44	318,976.56	8.48%	Move to Cloud
	MGC Regulatory Costs Total			28,223,070.44	26,733,576.20	(1,489,494.24)	-5.28%	
	Indirect	EE	ADMINISTRATIVE	2,061,559.93	1,955,030.20	(106,529.73)	-5.17%	
	Indirect Total			2,061,559.93	1,955,030.20	(106,529.73)	-5.17%	
	Office of Attorney General and AGO MSP	JJ	OPERATIONAL SERVICES	908,277.62	976,948.80	68,671.18	7.56%	
		OO	(blank)	2,510,000.00	2,510,000.00	-	0.00%	
	Office of Attorney General and AGO MSP Total			3,418,277.62	3,486,948.80	68,671.18	2.01%	
	Alcohol and Beverage Control Commission	OO	(blank)	75,000.00	75,000.00	-	0.00%	
	Alcohol and Beverage Control Commission Total			75,000.00	75,000.00	-	0.00%	
	10500001 Total			33,777,907.99	32,250,555.20	(1,527,352.79)	-4.52%	

FY21 Regulatory Budget Development Process and Recommendations

In FY21, 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 FY21



Massachusetts Gaming Commission

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) in a virtual meeting on May 28, 2020. 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, the Community Mitigation Fund, the Racing Oversight and Development Fund, and the Public Health Trust Fund. Immediately following each summary is a chart that demonstrates significant variances between FY20 and FY21 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 82.765 FTEs and 4 contract positions. The overall regulatory spending decreased by 5.28% from \$28.22M in FY20 to \$26.73 in FY21. Most of the decreased costs are in from cutting funding for 9 positions that were to be backfilled, shifting 1.25 FTEs to the Community Mitigation Fund, cutting travel by ~66%, and budgeting for \$344K in turn-over savings.

Below is a chart that shows the FY20 currently approved budget by division compared to FY21 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:



Massachusetts Gaming Commission

Fund	Grouping Name	Unit	Unit Name	FY20	FY21	Variance	% Change	Explanation
10500001	Gaming Control Fund							
	MGC Regulatory Costs	1000	Finance and Administration	\$2,205,114.41	\$2,204,556.19	-\$558.22	-0.03%	
		1100	Human Resources	\$402,914.55	\$407,172.74	\$4,258.19	1.06%	
		1200	Legal	\$1,562,192.72	\$1,075,743.27	-\$486,449.45	-31.14%	Cut funding for backfill of Staff Attorney position, GC for 6 months salary, and funded litigation at minimum required for insurance policy
		1300	Executive Director	\$683,202.91	\$557,253.03	-\$125,949.88	-18.44%	Cut funding for backfill for Chief Administrative Officer
		1400	Information Technology	\$4,811,276.07	\$4,987,287.64	\$176,011.57	3.66%	Increased for move to cloud, cut funding for backfill of helpdesk position
		1500	Commissioners	\$1,782,765.51	\$922,337.43	-\$860,428.08	-48.26%	Reduced funding in FY20 for Independent monitor and will bill and add to budget as invoices come in
		1600	Workforce and Supplier Diversity	\$502,764.02	\$471,753.90	-\$31,010.12	-6.17%	Reduced some grants
		1800	Communications	\$392,865.84	\$474,415.75	\$81,549.91	20.76%	Contract position for backfill of Communications Director
		1900	Ombudsman	\$454,166.58	\$115,792.56	-\$338,374.02	-74.50%	Moved positions to Community Mitigation Fund, and cut funding for backfill of Ombudsman
		5000	Investigations and Enforcement Bureau	\$15,256,962.64	\$15,286,774.01	\$29,811.37	0.20%	Public safety increases and cut funding for Open Source Specialist, Licensing Reciprocity Verification, 2 Gaming Agents, and Enforcement Counsel backfills
		7000	Licensing Division	\$706,213.44	\$575,464.68	-\$130,748.76	-18.51%	
	All	All Divisions		-\$537,368.25	-\$344,975.00	\$192,393.25	-35.80%	Built in anticipated attrition savings this year (\$250K plus associated fringe of \$94K).
	MGC Regulatory Costs Total			\$28,223,070.44	\$26,733,576.20	-\$1,489,494.24	-5.28%	

10500003 Racing Development and Oversight Trust Fund

This item funds the operations of the Racing division. Most of the funding from this appropriation is payroll, seasonal payroll, and fringe related costs. Costs of the division are payroll (seasonal, and full time), fringe costs, drug and laboratory testing, ISA to DPH, and purchased client services for economic hardship payments, eighth pole payments, and the jockey guild. In addition, the costs of the Massachusetts State Police associated with regulating racing is charged to this item, salaries of support staff at the MGC (Finance, HR, Legal and IT), and the Commonwealth assessed indirect costs.

Below is a chart that shows the FY20 currently approved budget by division compared to FY21 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:



Massachusetts Gaming Commission

Fund	Grouping Name	Unit	Unit Name	FY20	FY21	Variance	% Change	Explanation
10500003 Racing Oversight and Development Fund								
	MGC Regulatory Costs	1000	Finance and Administration	\$282,687.06	\$274,597.28	-\$8,089.78	-2.86%	
		1100	Human Resources	\$67,295.35	\$69,314.21	\$2,018.86	3.00%	
		1200	Legal	\$50,811.59	\$35,148.04	-\$15,663.55	-30.83%	
		1300	Executive Director	\$49,732.40	\$26,165.73	-\$23,566.67	-47.39%	
		1400	Information Technology	\$115,490.18	\$82,733.42	-\$32,756.76	-28.36%	
		1500	Commissioners	\$82,593.91	\$82,593.91	\$0.00	0.00%	
		1800	Communications	\$15,554.39	\$16,021.01	\$466.62	3.00%	
		3000	Racing Division	\$1,885,370.02	\$1,897,254.65	\$11,884.63	0.63%	
		7000	Licensing Division	\$4,709.70	\$4,105.20	-\$604.50	-12.84%	
	MGC Regulatory Costs Total			\$2,554,244.60	\$2,487,933.45	-\$66,311.15	-2.60%	
	Indirect	2000	MGC Indirect	\$202,687.10	\$195,328.00	-\$7,359.10	-3.63%	
	Indirect Total			\$202,687.10	\$195,328.00	-\$7,359.10	-3.63%	
10500003 Total				\$2,756,931.70	\$2,683,261.45	-\$73,670.25	-2.67%	

10500004 Community Mitigation Fund

The Massachusetts Gaming Commission is responsible for administering the Community Mitigation Fund, a grant program established by MGL C. 23K section 61. The fund received a portion of the initial licensing fees and receives 6.5% annually of the category 2 licensee taxes on gross gaming revenue. The fund is a competitive grant program that is intended to assist the host community and surrounding communities in offsetting costs related to the construction and operation of a gaming establishment. For the first time staff is recommending funding 1.25 FTEs who administer and manage this program daily to this fund.

Fund	Grouping Name	Unit	Unit Name	FY20	FY21	Variance	% Change	Explanation
10500004 Community Mitigation Fund								
	MGC Regulatory Costs	1900	Ombudsman	\$0.00	\$170,638.56	\$170,638.56		First time budgeting staff working on CMF to this appropriation.
	MGC Regulatory Costs Total			\$0.00	\$170,638.56	\$170,638.56		
10500004 Total				\$0.00	\$170,638.56	\$170,638.56		

40001101 Public Health Trust Fund

The Research and Responsible Gaming (RRG) office of the MGC is considered a statutorily required component of the MGC and was funded from the Public Health Trust Fund for the first time in FY20. Through a collaborative process with DPH and EOHHS and the Public Health Trust Fund Executive Committee, the MGC's RRG will continue to be funded from the PHTF in FY21. Funding for the office has been reduced by 26.5% from an approved FY20 budget of \$6.29M to an FY21 proposal of \$4.62M, with most of the cuts coming from the Game Sense program and the research contracts. However, funding for the research manager, a position that was approved in FY20, was cut from this budget, and represents a 33% cut to FTEs in the MGC's office of Research and Responsible Gaming. I have included a brief chart of that budget comparing FY20 to FY21 below:



Massachusetts Gaming Commission

Fund	Grouping Name	Object Class	object_class_name	FY20 Amount	FY21 Amount	Variance	% Change	Explanation
40001101 Public Health Trust Fund								
	Research and Responsible Gaming/PHTF	AA	REGULAR EMPLOYEE COMPENSATION	307,445.80	212,145.42	(95,300.38)	-31.00%	Did not fill research manager 33% reduction in staffing
		BB	REGULAR EMPLOYEE	10,000.00	10,000.00	-	0.00%	
		DD	PENSION & INSURANCE	72,520.04	80,594.05	8,074.01	11.13%	
		EE	ADMINISTRATIVE	475,100.00	319,389.54	(155,710.46)	-32.77%	Indirect Expense reduction
		FF	FACILITY OPERATIONAL	2,000.00	1,000.00	(1,000.00)	-50.00%	
		HH	CONSULTANT SVCS (TO	3,182,019.00	2,851,750.00	(330,269.00)	-10.38%	Reductions to GameSense Program
		JJ	OPERATIONAL SERVICES	7,000.00	10,000.00	3,000.00	42.86%	
		PP	STATE AID/POL SUB	2,235,000.00	1,139,870.99	(1,095,129.01)	-49.00%	Reductions to Research Programs
		UU	IT Non-Payroll Expenses	4,135.00	2,000.00	(2,135.00)	-51.63%	
	Research and Responsible Gaming/PHTF Total			6,295,219.84	4,626,750.00	(1,668,469.84)	-26.50%	

Exposures in the FY21 Budget Proposal

FY21 was another challenging budget to develop. We were hoping to be able to present a steady-state budget, however, due to the impacts of COVID-19, the FY21 budget does have some potential exposures. The following are a brief list of exposures:

- Funded the minimum required by our insurance policy for litigation costs in the legal budget.
- Funded MSP overtime at the FY20 funding levels.
- Cut funding of backfills for 10 FTEs (one of which is from the Research and Responsible Gaming office) from FY20 staffing levels.
- Cut travel and training budget by ~66%.
- Funded Research and Responsible Gaming office at a level below FY19.

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. Section 56 (a) requires that the Commission assess a \$600 per machine fee to each licensee for every slot machine approved to be used in the facility on July 1. Staff would then combine the slot fees with any other fees we were projecting to generate in the fiscal year (primarily licensing fees) to determine the total fee revenue for the Gaming Control Fund. Section 56 (c) directs the Commission to determine the difference between the projected budget, and the projected fees and assess that difference on licensees in proportion to each licensee's share of the total gaming positions.

Casinos have been closed since the middle of March 2020 and are part of the third phase of re-opening in Massachusetts. Licensees, as well as staff have not seen the detailed guidance for re-opening and have not been made aware of the date for re-opening. Therefore, it is impossible to determine the number of approved slot machines or gaming positions. The Gaming Control Fund's proposed budget for fiscal year 2021 is \$32.25M, and licensing fees are projected to be \$750K. Therefore, the combination of slot machine fees and assessments paid by licensees in FY21 are projected to be \$31,500,555.20. Once staff is updated on the approved number of positions, it will prepare a chart that details each licensee's slot machine fees, as well as proportional share of the assessment.



Massachusetts Gaming Commission

Section 56 (e) requires the Commission to annually assess a minimum of \$5M on licensees to be deposited into the Public Health Trust Fund in the same proportion as the annual assessment for the Gaming Control Fund.

Timing of Payments

In past fiscal years, the Commission has made an annual slot fee determination, and required that payment within the first 30 days of the fiscal year, it has made an annual assessment for the Gaming Control Fund and required quarterly payments of that cost (with the first quarterly payment due within 30 days of July 1, and in FY20 made its first assessment for the Public Health Trust Fund and required quarterly payments for that cost as well (first payment due within 30 days of July 1)). For the last quarter of FY20, the casinos have been paying the assessments for the PHTF and the Gaming Control Fund on a monthly basis. This request was made of the Commission, and the Commission approved due to the casinos closing in Massachusetts in response to the COVID-19 pandemic. The licensees have requested to continue this practice for FY21 and have asked to include the slot fee to be billed monthly as well.

The Public Health Trust Fund Executive Committee voted to delay the first quarter billing of the \$5M assessment until either the very end of FY21, or the beginning of FY22, which essentially helps with \$1.25M in cash flow timing for licensees.

Conclusion

Staff is proposing an FY21 Gaming Control Fund budget of \$32.25M, a Research and Responsible Gaming budget funded from the Public Health Trust Fund of \$4.62M, for the first time, funding \$170K in staff costs from the Community Mitigation Fund, and an FY21 Racing Oversight and Development Fund budget of \$2.68M. Staff is recommending that the Commission consider providing some relief as to timing of fees and assessments. Staff is recommending posting the budget document for public comment and return to discuss and approve or change at a subsequent public meeting.

Attachments:

- Attachment A: FY21 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



Massachusetts Gaming Commission