

INDIANA GAMING COMMISSION

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August 15, 2014

Mr. Brian Bailey, Director
Indiana State Budget Agency
200 West Washington Street
Indianapolis, IN 46204

Dear Mr. Bailey:

This transmittal letter presents the funding request of the Indiana Gaming Commission (IGC) for the 2016-2017 biennium. Our request is comprised of three budgeted funds, which are as follows: (1) IGC Administrative Budget (2) the Charity Gaming Enforcement Budget; and (3) the Athletic Division.

As a dedicated fund agency, our budget is primarily funded by three sources of revenue, the Riverboat Wagering Tax, Charity Gaming Application Fees and Excise Tax.

MISSION

To maintain the integrity of legal gaming activities and athletic contests through strict regulation in accordance with state statute and to provide enforcement of illegal gambling laws.

AGENCY FUNCTIONS

The IGC is a seven-member bi-partisan part-time citizen commission established in 1993 by the Riverboat Gambling Act (ACT) to develop and oversee the riverboat gambling industry. The day-to-day operations of the agency are managed by the Executive Director.

The IGC has the statutory responsibility to license and exercise regulatory oversight of 13 casinos. It is also charged with licensing and regulatory oversight of Charity Gaming which includes bingo, charity gaming nights, raffles, door prize drawings, festivals, water races, qualified drawings, and the sale of pull tabs, punch boards and tip boards conducted by qualified non-profit organizations. Our gaming control officers and license control counselor combat illegal gambling throughout the state. Additionally, our athletic division provides licensing and regulatory oversight of professional boxing, sparring, and unarmed combat, as well as amateur unarmed combat. The following is a summary of the daily regulatory activities occurring within each IGC division:

Legal Division

The Legal Division serves as the regulatory backbone of the agency in maintaining current administrative rules and providing guidance in all matters regarding the conduct of regulatory efforts. This division is also responsible for overseeing the licensing activities associated with all casino, supplier and occupational licensees, as well as all agency contracting and the monitoring of litigation, local development agreements and personnel matters. Additionally, the Legal Division is responsible for lawfully processing public records requests, offers input and guidance on all disciplinary actions and regulatory policies. Decisions related to patron safety also fall under the responsibilities of this division in the area of both maritime and permanently moored structure requests and resolutions. This division also promulgates regulations that govern casino gaming, charity gaming, and boxing and unarmed combat in Indiana.

Audit Division

The Audit Division (Audit) is responsible for the daily monitoring of tax remittance by casino licensees, the approval of internal control procedures, and conducting program and special audits. The Program Audits have been expanded to include Child Support Arrears Delinquency Registry. Special Audits have also been conducted regarding; free play, child support payments, credit, uncollectables and the Purchase Tracking System. Other activities include: Monitoring of anti-money laundering (AML) activities as mandated upon casinos by federal law as well as compliance with internal control procedures. This division maintains regular communications with key personnel in casino finance departments, gaming operations and corporate casino internal audit staff.

Compliance Division

The focus of the Compliance Division is to regulate Indiana's gaming industry through the fair and consistent application of disciplinary actions, internal control standards, promotional guidelines, surveillance standards, electronic gaming shipping and cataloging requirements and patron complaint procedures. Compliance is also responsible for the Voluntary Exclusion Program and oversight of the Electronic Gaming Device System (EGDS). The EGDS contains a catalogue of all laboratory-tested and approved gaming-related hardware, as well as associated software. Compliance also monitors and approves all movements, purchases, and sales of table games and electronic gaming devices, ensuring that only authorized parties are involved in these processes.

Background and Financial Investigations Division

This division consists of a diverse team of professional gaming agents who specialize in law enforcement and finance. It is their mission to ensure the integrity of gaming by conducting thorough investigations of gaming companies, suppliers of gaming equipment and individuals, as required by statute. Background investigations, including criminal history checks, are conducted on every individual statutorily required to hold a gaming license in Indiana. Each investigation includes a background and financial investigator working in a team to ensure a comprehensive review of all relevant factors in determining suitability. Agents are responsible for obtaining and analyzing detailed information concerning the personal, business and financial backgrounds of the companies and individuals requesting licensure from IGC for casino operations, completing 361 Level One license investigations, 3,822 Level Two investigations, and 2,798 Level 3 investigations over the last two years.

Enforcement Division

The Enforcement Division supports the statutory mission of the IGC by providing robust on-site law enforcement and regulatory oversight of the gaming industry. This division is currently comprised of 150 gaming agents who are responsible for regulation of gaming activities and must be present at a casino in order for gaming to be conducted. Gaming Agents are certified law enforcement officers who perform such functions as initial review of occupational license applications, conducting arrests for and investigations of criminal activity, and oversight of electronic gaming device testing and movements as well as the enforcement IGC rules and policies. The Enforcement Division continues to conduct numerous regulatory and criminal investigations throughout the year. In FY 2014, they conducted over 2,000 regulatory investigations, approximately 1,400 criminal investigations and effectuated approximately 750 arrests. The criminal investigations and arrests include; Theft, Cheating, Fraud and Forgery. IGC's 10th Gaming Enforcement Academy is scheduled to begin in September.

Controllers Division

To utilize all available resources in monitoring and controlling agency costs. To employ strict oversight of procurement, travel and other costs in order to ensure agency accountability. The Controller Division also conducts billing functions to collect occupational license fees, background investigation costs and recover agency expenses from licensees. This division is also responsible for payroll processing and works closely with other divisions on contracting activities.

Charity Gaming Division

The Charity Gaming Division performs the functions of licensing and regulatory enforcement for the 3,466 organizations qualified to conduct charity gaming in Indiana. Its goal is to ensure compliance with applicable statutes and regulations in a manner that promotes the integrity of charitable gaming in Indiana. During FY14, the IGC collected \$3,853,215 in gaming license fees and \$228,976 in penalties assessed through violations. Gross income reported by these organizations is \$413,472,617 with total prize payouts of \$329,624,127. These statistics may change as not all financial reports have been received and reviewed for this period. Charity Gaming also includes two specialized units to combat illegal gambling throughout the state: Gaming Control and License Control.

The Gaming Control Division initiated 52 investigations during FY 2014, which led to the confiscation of 87 illegal gambling devices. Furthermore, the following actions and/or inspections were completed during FY 2014: Enforcement action was taken against fourteen illegal poker establishments, five illegal pull tab operations, one animal fighting operation and four sports bookmaking operations. Also, a total of 2,189 inspections were conducted at retail businesses to ensure that illegal gambling devices were not present. The division currently has 16 active, ongoing investigations. Prosecutors successfully filed civil forfeiture action on five (5) of the criminal cases. This resulted in a total of \$11,960 being placed in the Gaming Control Forfeiture Fund. This fund has been used to procure some equipment and training to enhance investigative capabilities as well as funding ongoing investigations.

The primary purpose of IGC's License Control Division is to conduct administrative enforcement actions against licensed entities engaged in unlawful gambling. In addition, License Control supports the Gaming Control Division by providing legal support, drafting search warrants, and obtaining subpoenas. License Control also works as a liaison with local county prosecutors to advocate for the filing of criminal and civil charges when appropriate.

Athletic Division

The Athletic Division is responsible for ensuring the safety of participants and the fairness and integrity of sparring, boxing, and unarmed combat matches or exhibitions in the state. Athletic Division staff must be on-site for every event that occurs in Indiana to make certain that all statutory and regulatory provisions are strictly observed. During FY2014, nine professional boxing events and thirty-nine mixed martial arts events were conducted under the regulatory authority of the Athletic Division.

Other Divisions

Administrative support for IGC is provided by a Human Resource Division responsible for all IGC employment issues and support staff back-up for operational function and efficiency and an Information Technology Division which supports the technological needs of the Commission's users.

ACCOMPLISHMENTS & CHALLENGES

In spite of the surge in interstate competition, Indiana still ranks third nationally in tax revenues earned. In the last few months, the ranks of the gaming employees have remained stable. While some observers predict stabilization for Indiana casinos, a return to the days of higher revenues and greater employment opportunities will prove to be a considerable challenge.

Legislative Modifications

Senate Enrolled Act 528 allows the Commission to approve the use of mobile gaming at the riverboat casinos and the racinos. It creates a new Local Development Agreement report to be submitted by political subdivisions that will be posted on the State's transparency website. SEA 528 also provides for a lower wagering tax rate of 5%, versus 15%, for riverboat casinos that have less than \$75 million in Adjusted Gross Receipts in a given year. Riverboats and racinos are also able to deduct free play promotions from AGR. Each riverboat and racino was allowed a deduction of \$2.5 million in fiscal year 2013, which resulted in a \$9.8 million dollar reduction of state wagering taxes. The \$5 million free play deduction in FY 14 resulted in a \$ 13.7 million dollar reduction of wagering tax. This deduction remains in place for FY15. The Commission is charged with conducting a study on the free play deduction and must present its findings and recommendations to the Budget Committee by November of 2015.

House Enrolled Act 1176 was passed to add Gaming Control Officers and Gaming Agents to the statutory definition of a "law enforcement officer." Gaming Control Officers and Agents already had authority to act as law enforcement officers, so this addition is viewed as a technical correction. HEA 1176 also contains provisions relating to prohibited wagering by Commission members, employees of the Commission, and their spouses.

The comprehensive criminal code overhaul bill, House Enrolled Act 1006, creates a new Class C infraction for persons that are under-21 and attempt to or do enter a riverboat or racino, which will allow Gaming Agents to issue citations and thereby create more consistent and uniform enforcement. Senate Enrolled Act 559 makes changes to the use of a Hoosier Works debit card, or any Title IV-A assistance program, at riverboats, racinos, and allowable charity gaming events.

Senate Enrolled Act 609 is a comprehensive bill concerning horseracing. However, there are a few provisions relating to the racinos and the Commission. The bill provides that the graduated slot machine tax is imposed on 91.5% of AGR, versus 99%, and includes a portion of those amounts paid by the racinos to support the horsemen associations. The racinos and horsemen

associations are to negotiate a distribution agreement to determine the percentage of AGR, between 10% and 12%, from the slot machines distributed to the horsemen.

In the 2014 “short” legislative session the Legislative Council announced an interim study committee for (i) Competition and potential competition posed to existing casinos and casinos in Indiana; and (ii) Comparative impact of potential changes in Indiana’s existing gaming laws on the viability, patron admissions and revenues of existing casinos in Indiana.

Regulatory Matters

Consolidation

Statutorily, one licensee is entitled to own two casinos, and one licensee/permit holder can own both racinos. Theoretically, a single entity could possess four; two casinos and two racinos. Indiana is experiencing a trend of consolidation within its gaming state boundaries. For some time, Caesars Entertainment has held two licenses (Horseshoe Hammond and Horseshoe Southern Indiana) as has Majestic Star (Majestic Star I and II). Recently, the ranks of those licensee holders with dual properties doubled to four.

On April 7, 2011, Indianapolis Downs, LLC, filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code. During that process, the court authorized the sale of substantially all of the assets to Centaur Acquisitions, LLC for \$500 million dollars. The Federal Trade Commission decided to review the transfer under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. At a special meeting held on January 10, 2013, the Commission issued an Order approving the transfer of the gambling license pending a successful finding by the FTC and the closing of a financial package. Centaur satisfied both conditions, and the Commission transferred the license effective February 20, 2013.

On December 21, 2012, Pinnacle Entertainment, Inc. and Ameristar Casinos, Inc. announced the companies had entered into a definitive agreement under which Pinnacle would acquire all outstanding shares of Ameristar in an all cash transaction of \$2.8 billion dollars. Once again the FTC initiated a Hart-Scott-Rodino review and agreed not to challenge the merger if Pinnacle would divest its Lumiere Place property and the planned Ameristar investment in their Lake Charles property. On June 17, 2013, the Commission issued an Order approving the transaction also subject to the satisfaction of the FTC and a successful financing package. The acquisition was completed as of August 14, 2013.

Economic Development

Although at lower levels compared to previous years, millions of dollars were spent by Indiana’s casino operators on projects intended to maintain and improve their properties. Some of the notable investments in Indiana properties include:

Belterra spent \$5.3 million renovating its casino carpet and gaming equipment as well as hotel room upgrades, and rebranded steakhouse and lobby bar. Hollywood spent \$4.2 million on remodeling its hotel, including all regular rooms, corridors, vending areas and the lobby and Horseshoe Southern spent \$900,000 updating its hotel rooms and common areas. Rising Star also initiated a \$400,000 upgrade to its hotel, which will result in replacement of all “soft goods”, such as bedding, wall coverings, window treatments and carpeting.

Several other casinos expended capital to maintain and improve their parking garages, streetscapes and pavilions. Among them are Ameristar at \$915,000 and Horseshoe Southern, which spent \$250,000 to provide an additional foot of relief to their flood plan. This improvement will most certainly decrease the incidence of closure due to flooding at the property, an issue that has caused numerous closings and significant loss of revenue there in the

past. Majestic Star improved IT systems and equipment and is also commencing a flyover project to eliminate a viaduct at an estimated cost of \$6.7 million

Hoosier Park Racing & Casino concluded an over \$5 million renovation of their Terrace showroom, Homestretch Steakhouse and Dan Patch's Brewhouse. And Indiana Grand Racing & Casino completed a \$1 million renovation/upgrade of its new Wilmer's Circle Brewpub and OTB.

2013 also saw the rebranding of Indiana's first casino in Evansville. In June, Casino Aztar became Tropicana Evansville. This rebranding led to an additional \$4.5 million in updates, including new slot products and renovation of the hotel lobby and the property's dining options.

In November of 2013 a new \$8.5 million hotel addition was opened at the Rising Star Casino Resort property featuring 104 hotel rooms and suites. This expansion was completed by a unique collaboration between Full House Resorts and Rising Sun/Ohio County First (RSOCF) and Rising Sun Regional Foundation (RSRF)

Ameristar East Chicago added \$ 1.1 million of improvements including a new poker room, kitchen upgrades and initial design of a new sports bar.

A new Lawrenceburg Event Center & Hotel is anticipated to open in the Fall of 2014. The public/private project includes 168 hotel rooms with exhibition, ballroom and meeting space at an estimated cost of \$49 million.

Performance Measurement

IGC continues to work with the Office of Management and Budget to finalize performance goals. The current program measures are as follows:

IGC Administration:

1. Percentage of waiver requests answered within 30 days
2. Percentage of temporary level 1 licenses issued within 5 business days
3. Percentage of level 2 & 3 investigations completed within 30 days
4. Number of audits of casinos conducted (unannounced and follow-up) per quarter
5. Percentage of previously identified deficiencies corrected at the time of the next unannounced audit
6. Percentage of investigative time billed to licensees
7. Percentage of scheduled casino audits completed (unannounced and follow-up)

Charity Gaming:

1. Number of inspections of qualified organizations
2. Number of days to process permit applications or license renewals

Athletic Division:

1. Percentage of ticket audits completed within three days

Objectives for FY16-FY17

- Continue our longstanding responsibilities of regulatory oversight
- Streamline business processes for increased operational efficiency

Budgetary Matters

The following measures were taken to meet the current 4.5% reserve: Point 1 reductions were achieved through the unfilled vacancies of clerical staff in our Legal and Controllers divisions. Additional savings were obtained through restrictions of in-state and out-of state-travel, reduced equipment and supply purchases, and limited the use of professional services for financial analysis.

For the Charity Gaming Division the budgetary limitations for purchases of supplies, equipment, and restricted travel have been fully implemented.

Additional funding source for the Athletic Division: The Athletic Division was created by the General Assembly and transferred to IGC from IPLA without a budget allocation. It was likely assumed that fees collected from events would cover the cost of the division's operation. Unfortunately, these fees do not cover the costs and it has been necessary for IGC to transfer funds from the IGC administrative reserve to support the Athletic Division. It is unlikely this budget problem will be resolved through a surge in fees, as the potential for significant fee collection lies with large mixed martial arts events. The premier organization for these events is Ultimate Fighting Championship (UFC). It was originally represented that UFC would hold a major event in Indiana every other year, with lower-tier events held more frequently. Unfortunately only one major event and one midweek event have taken place since 2010. As a result, the IGC is seeking assistance from OMB to determine a funding solution.

Please be assured that the Indiana Gaming Commission will continue to closely regulate gaming to assure all the citizens of Indiana that gambling from top to bottom is conducted fairly, cleanly and with unquestionable integrity by individuals and entities that possess the same characteristics. A current organizational chart is attached for your review. Thank you for your consideration of this request.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest E. Yelton".

Ernest E. Yelton
Executive Director

EEY/kjn