

INDIANA GAMING COMMISSION

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Adam Horst, Director
Indiana State Budget Agency
200 West Washington Street
Indianapolis, IN 46204

Dear Mr. Horst:

This transmittal letter presents the funding request of the Indiana Gaming Commission (IGC) for the 2014-2015 biennium. This request is comprised of four budgeted funds, which are as follows: (1) IGC Administrative Budget with an annual funding of \$3,422,402; (2) the Charity Gaming Enforcement Budget with an annual funding of \$5,777,043 ; (3) the Athletic Division funding of \$207,501; and (4) the Department of Gaming Research funding of \$185,265.

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. The budget for the Department of Gaming Research is comprised of fees paid by each riverboat licensee, operating agent, and horserace track and is part of the General Fund.

MISSION

To license and regulate riverboat gambling in Indiana and ensure compliance with applicable statutes, rules, and regulations in a manner that promotes the integrity of gaming and the best interest of the State of Indiana and its citizens.

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 over 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 oversight occurring within each IGC division:

Gaming Agent Division

The Gaming Agent Division is comprised of an investigations section and an enforcement section. The Background and Financial Investigations Section of this division consists of a diverse team of professional gaming agents who specialize in law enforcement and finance. 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 381 Level One license investigations, 3,667 Level Two investigations, and 3,232 Level 3 investigations over the last two years.

The Enforcement Section of this division is currently comprised of 151 gaming agents who are responsible for the on-site regulation of gaming activities and must be present at a casino in order for gaming to be conducted. They 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.

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 various casino audits. Numerous Program and Special Audits were conducted through the course of the fiscal year. The Program Audits have been expanded to include Child Support Arrears Delinquency Registry. Special Audits are currently being conducted regarding Suspicious Activity Reports and Currency Transaction Reports.

Legal Division

The primary role of the Legal Division is to provide advice and counsel to the Commission, the Executive Director, and the other Commission divisions on matters involving applicable laws and regulations. Among other things, Commission attorneys represent IGC in administrative proceedings, advise on matters relating to the investigation and licensure of casino employees, casino owners, and casino suppliers, and maintain the Commission's exclusion list. This division also promulgates regulations that govern casino gaming, charity gaming, and boxing and unarmed combat in Indiana. In FY 2012, the Legal Division drafted and promulgated six final rules and nine emergency rules, and readopted expiring rules.

Charity Gaming Division

The Charity Gaming Division performs the functions of licensing and regulatory enforcement for the 3,226 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 FY12, the IGC collected \$4,328,319 in gaming license fees and \$47,512 in penalties assessed through violations. Gross income reported by these organizations is \$466,963,232 with total prize payouts of \$375,371,366. These statistics may change as not all financial reports have been received and reviewed for this period.

Gaming Control Division

The Gaming Control Division initiated 56 investigations during FY 2012, which led to the confiscation of 87 illegal gambling devices. Furthermore, the following actions and/or inspections were completed during FY 2012: Enforcement action was taken against six illegal poker establishments, two illegal pull tab operations and one dog fighting operation. Four sports bookmaking operations were shut down, with criminal charges filed and financial information turned over to both the Internal Revenue Service and the Indiana Department of Revenue. Also, a total of 1,655 inspections were conducted at retail businesses to ensure that illegal gambling devices were not present. The division currently has 36 active, ongoing investigations.

License Control Division

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.

Compliance Division

The Compliance Division is responsible for pursuing disciplinary actions against casino licensees and the regulation of promotions and tournaments, electronic gaming devices, and table games. 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.

Information Technology Division

In FY 2012, the Information Technology Division (IT) continued to provide resources to support the technological needs of the Commission's users. One of the major projects that the Information Technology Division has been working on this past fiscal year is the design and development of a new application for the Charity Gaming Division. This system will incorporate the entire work flow of the Charity Gaming staff. In addition to the tracking of the existing Charity Gaming License types, there has been the creation of a new comprehensive license that has required Information Technology Division resources to make a tracking process available at the beginning of the new fiscal year.

Other Divisions

Administrative support for IGC is provided by a Controllers Division that monitors the IGC budget, revenues and expenditures and a Human Resource Division responsible for all IGC employment issues and support staff back-up for operational function and efficiency.

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 FY2012, ten professional boxing events and seventy-three mixed martial arts events were conducted under the regulatory authority of the Athletic Division.

ACCOMPLISHMENTS & CHALLENGES

FY2012 will be remembered as the relative calm before Indiana braces for the looming storm of interstate competition for gaming revenues. FY2012 also witnessed a milestone in revenue for the State of Indiana. Since the first casino opened its turnstiles at Aztar in December 1995, the total deposits of wagering and admission taxes exceed \$10 Billion.

Legislative Modifications

SEA 47 was proposed by the Indiana Casino Association and arose from several findings from the 2009 Interim Gaming Study Committee. The Commission now has the ability to officially designate a riverboat as a permanently moored vessel. As such, the licensee could be allowed to reduce or eliminate marine staff and/or to remove navigation equipment. Each request will be addressed separately with first consideration given to the safety issues presented by the unique conditions surrounding individual boats.

In 2011 the legislature approved the concept of requiring the casinos to check jackpot recipients for delinquent support obligations. The Child Support Intercepts process is initiated whenever a WG-2 is issued for a slot machine jackpot payout in excess of \$1,199. The system became fully operational last October, and in the ensuing nine months, 182,549 searches produced 304 intercepts totaling \$610,929. The casinos were cooperative in implementing the program, and the Commission has not discovered any regulatory violations since its inception.

SEA 36 modified restrictions on race track ownership. After July 1, 2011, the same person or entity could own both Hoosier Park and Indiana Downs . Since the Gaming Commission can only issue a casino license to a racetrack permit holder, this bill would affect the potential field of racino owners as well.

A series of opinions from the Indiana Supreme Court in 2010 regarding the City of East Chicago and Ameristar reaffirmed the concept that IGC possessed exclusive jurisdiction over regulating Local Development Agreements between riverboat licensees and local units. As a result, the Commission adopted Emergency Rules regarding LDAs which were statutorily codified by the General Assembly in SEA 325. The Act also specifically endorses the Commission's role over the agreements and establishes certain parameters and procedures.

Senate Enrolled Act 315, effective on July 1, 2012, made several changes to Indiana Code 4-32.2 . A qualified organization need only exist for three (3) years instead of five (5) as previously defined. The Act also added an Annual Comprehensive Gaming License which allows national organizations the ability to conduct raffle or door prize events under a single license.

REGULATORY MATTERS

Economic Development

The hovering threat to Indiana's dominance in commercial casino revenues among its sister states is evolving into reality. With the advancement of gaming initiatives in each of our neighboring states, the bottom line in nearly each of the thirteen venues will be impacted. The biggest challenge will be withstanding the birth of casinos in Ohio. On a more positive note, even as the industry continues to recover nationally, some notable investments in Indiana properties were made this year by our casino licensees.

Casino Aztar spent \$7.2 million on upgrades to its original hotel, including the complete renovation of all rooms and \$3.5 million on the construction of a new pedestrian bridge that will enhance access to the gaming floor for its newer hotel, Le Merigot. Ameristar refreshed its hotel rooms with \$7.3 million in upgrades, and Hollywood Casino entered into an agreement to operate a new hotel and convention center in its community. The Lawrenceburg Hotel and Convention Center will include 150 guest rooms and 18 suites, along with 36,000 square feet of convention and meeting space and 8,000 square feet of restaurant space. Construction is scheduled to begin September 2012 and finish by early Spring of 2014.

Staff is currently working with the Center for Urban Policy and the Environment at Indiana University-Purdue University Indianapolis to complete the required five-year update of our disparity study. The new study is on schedule to be released during the third quarter of CY 2012, with any new goals anticipated to take effect in CY 2013.

Bankruptcies

On September 15, 2011, the Commission approved the transfer of the gambling game license from Hoosier Park, L.P. to Hoosier Park, L.L.C. and approved the application of Centaur Holdings, L.L.C. to be the substantial owner of Hoosier Park L.L.C. The Commission also approved its exit financing package. These approvals fulfilled conditions necessary for Centaur to emerge from bankruptcy, which Centaur did on October 1, 2011.

On November 10, 2011, the Commission approved the application of Wayzata Opportunities Fund II, L.P. to acquire approximately 48% indirect ownership interest in casino licensees The Majestic Star Casino, L.L.C. and The Majestic Star Casino II, Inc. This approval did not transfer the casino licenses but approved Wayzata as the new substantial owner in accordance with the reorganization plan. The Commission also approved an exit financing package. Majestic Star emerged from bankruptcy on December 1, 2011.

Indianapolis Downs, L.L.C., which operates the Indiana Grand Casino, is still in the bankruptcy process. The court has approved a path to emergence in which prospective buyers may submit bids to purchase Indianapolis Downs out of bankruptcy at the same time as the company works toward reorganization.

Performance Measurement

IGC continues to work with the Office of Management and Budget to establish 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 FY14 – FY15

- Continue our longstanding responsibilities of regulatory oversight
- Streamline business processes for recently acquired regulatory duties

Budgetary Matters

The following measures were taken to meet the current 3% reserve: restricted in-state and out-of state-travel, reduced equipment and supply purchases, and limited the use of professional services for financial analysis. The voluntary unpaid leave program resulted in an additional savings of \$15,000 for FY12.

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

The next biennium bodes to be as exciting and challenging to the Indiana Gaming Commission as the previous years. While we will be challenged to continue our high level of regulatory oversight under these budgetary restrictions, we are committed to doing so. A current organizational chart is attached for your review. Thank you for your consideration of this request.

Sincerely,



Ernest E. Yelton
Executive Director

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