



May 1, 2019

Technical Backgrounder: Gaming Tax Revenue in the Commonwealth's Budget

Last summer, MGM Springfield opened its doors to the public and in doing so, opened the door to a new era of casino gaming in the Commonwealth of Massachusetts. The next milestone of this era is on track to come in June 2019 when Encore Boston Harbor opens for business. These new resort-style casinos come just three years after the opening of the only slots parlor in the state, Plainridge Park Casino in Plainville, in June 2015.

Revenue estimates included in both the Governor's budget proposal (H.1) and the House Committee on Ways and Means (HWM) budget for fiscal 2020 assume the Commonwealth will receive gaming tax revenue totaling about \$294 million. This policy brief summarizes current gaming revenue estimates and describes how gaming revenue will be spent according to the gaming law.

The key takeaways of this brief include:

- Total gaming tax revenues are estimated at **\$138 million** in fiscal 2019 and are projected to rise to **\$294 million** in fiscal 2020.
- Through February 2019, the Commonwealth collected approximately \$90 million of the anticipated \$138 million in total gaming revenue and is **essentially on pace** to reach the full year fiscal 2019 estimate.
- Current estimates assume fiscal 2020 will be the **first fiscal year** with two resort-style casinos and one slots parlor **in operation for the entire year**.
- In fiscal 2020, **approximately one in three gaming tax dollars** will not be directly appropriated as part of the annual budget process.
- The largest share of gaming revenue, or **\$107 million in fiscal 2020**, or 36 percent will support **local aid to cities and towns**. This represents 9 percent of unrestricted local aid (UGGA) grants.

Background

The gaming law created two categories of gaming license.¹ The law permitted three Category 1 licenses for resort-style casinos in different regions of Massachusetts (Greater Boston, Springfield, and Southeastern Massachusetts) and one Category 2 license for a slots parlor.

The law requires Category 1 licensees, hereafter to be referred to as resort-style casinos, to pay a 25 percent tax on gross gaming revenues (GGR). The Category 2 licensee, hereafter to be referred to as the slots parlor, pays a 49 percent tax on GGR. Both are required to remit tax revenue to the Commonwealth daily.²

The law earmarks gaming revenue to a variety of purposes. Proceeds from resort-style casinos are allocated to twelve spending areas, including:

- Local aid (20 percent)
- Transportation (15 percent)
- Education (14 percent)
- the state's rainy-day fund (10 percent)
- Debt defeasance and long-term liabilities (10 percent)
- Economic development (9.5 percent)
- Community mitigation (6.5 percent)
- Public health (5 percent)
- Local capital projects (4.5 percent)
- Race Horse Development (2.5 percent)
- Massachusetts Cultural Council (2 percent)
- Tourism (1 percent)

Revenue from the slots parlor goes to the following:

- Local aid (82 percent)
- Race Horse Development Fund (18 percent).

¹ M.G.L Chapter 23K

² M.G.L Chapter 23K, Section 55 imposes a 40 percent daily tax on the Category 2 license as well as an additional 9% rate dedicated to the Race Horse Development Fund.



A license for a resort-style casino in southeastern Massachusetts has been the subject of litigation since at least March 2016. The outlook for a facility in that region remains unclear at best.



Gaming Revenue Overview		Figures in \$ millions.			
Gaming Revenue Distribution by Fund	FY19	FY20	\$ change	% change	
Statutory Budgeted Revenue					
Gaming Local Aid	76.0	107.1	31.1	40.9%	
Commonwealth Transportation Fund	9.0	32.3	23.3	259.2%	
Education Fund	8.4	30.2	21.8	259.2%	
Gaming Economic Development Fund	5.7	20.5	14.8	259.2%	
Local Capital Projects Fund	2.7	9.7	7.0	259.2%	
Subtotal, Gaming Revenue to Budgeted Funds	101.8	199.7	98.0	96.2%	
Non-Statutory Revenue					
Stabilization Fund	6.0	21.5	15.5	259.2%	
<i>Debt and Long-Term Liability Reduction Trust Fund</i>	6.0	21.5	15.5	259.2%	
<i>Race Horse Development Fund</i>	15.5	19.4	3.9	25.0%	
<i>Community Mitigation Fund</i>	3.9	14.0	10.1	259.2%	
<i>Public Health Trust Fund</i>	3.0	10.8	7.8	259.2%	
<i>Mass Cultural Council</i>	1.2	4.3	3.1	259.2%	
<i>Mass Tourism Fund</i>	0.6	2.2	1.6	259.2%	
Subtotal, Gaming Revenue to Non-Statutory Funds	36.2	93.8	57.5	158.7%	
Total Gaming Tax Revenue	138.0	293.5	155.5	112.6%	

Notes:

The Commonwealth calculates "Consolidated Net Surplus" (CNS), also known as statutory balance, as the sum of funds not specifically exempted from the CNS calculation. Statutory Budgeted Revenue counts toward the CNS calculation.

Funds in italics are non-budgeted special revenue funds requiring no further appropriation to spend.

Figure 1: Gaming revenue estimates for FY19 and FY20

Current Projections

Estimates associated with gaming tax revenue are depicted in Figure 1. Through February 2019, the Commonwealth collected approximately \$90 million of the anticipated \$138 million in total gaming revenue and is essentially on pace to reach the full year estimate.³

Based on the assumptions included in both the Governor and House Committee on Ways and Means (HWM) budget proposals, the state expects to receive approximately \$294 million in total tax revenue in fiscal 2020, an increase of \$156 million over fiscal 2019 estimates. The increase is caused by the anticipated opening of Encore Boston Harbor, the full year value of revenue from MGM Springfield (12 months of operation in fiscal 2020 vs essentially 10 months of operation in fiscal 2019), and anticipated revenue growth at MGM Springfield over fiscal 2019.

These estimates assume the three licensees (Encore Boston Harbor, MGM Springfield, and Plainridge Park Casino) will be open for the entire fiscal year.

Statutory Budgeted Revenues

As shown in Figure 1, the Commonwealth expects to receive \$200 million in statutory budgeted revenue, an increase of \$98 million compared to fiscal 2019 estimates. This revenue is earmarked for a variety of purposes, including local aid, transportation, education, economic development, and local capital projects. Within these broad policy areas, however, the funds are allocated to specific spending items during the annual budget deliberations.

Gaming Local Aid (\$107 million in FY20)

The single largest share of gaming revenue is earmarked to support local aid. A total of \$107 million, or 36% of the expected total, will be distributed to cities and towns in Massachusetts as unrestricted general government aid (UGGA). Both the budget proposal offered by the Governor and the House Committee on Ways and Means (HWM) assume UGGA grants totaling \$1.1 billion in fiscal 2020, meaning that gaming revenue will represent about nine percent of total local aid funding in the upcoming fiscal year.

³ Gaming revenue actuals year-to-date from the Commonwealth Information Statement dated April 10, 2019. Page A-21.



Commonwealth Transportation Fund (\$32 million)

Gaming revenue totaling approximately \$32 million, or about eleven percent of the total, will support transportation spending. The bulk of transportation spending, about \$1.6 billion or 72 percent of the estimated total in fiscal 2020, supports debt service costs associated with transportation projects.

The gaming law originally credited this revenue to a different fund, the Transportation and Infrastructure Development Fund. The Fiscal 2019 General Appropriations Act (GAA) included language re-directing this revenue to the Commonwealth Transportation Fund for fiscal 2019, and language included in both the H.1 and HWM proposals makes the change permanent.

Education Fund (\$30 million)

The gaming law will direct approximately \$30 million to education funding in fiscal 2020. The gaming statute requires 35 percent of education fund dollars to go to higher education with the remaining 65 percent implicitly dedicated to K-12 education. As a result of this provision, about \$20 million will support Chapter 70 education aid while the remaining \$10 million will support spending increases at UMass, state universities, and community colleges. As proposed, 98 percent of this amount will go to UMass, while the remaining two percent (about \$200 K) will be divided among state universities and community colleges.

Economic Development (\$21 million)

The Commonwealth's economic development efforts will be supported by approximately \$21 million in gaming revenue in fiscal 2020. As proposed in both the Governor and HWM budgets, \$7 million will support the Workforce Competitiveness Trust Fund, which supports workforce training programs in the Commonwealth, \$5 million will expand higher education opportunities for childcare providers affiliated with the Department of Early Education and Care (EEC), and a portion will support the Commonwealth's summer jobs programs. In the Governor's budget, this total was about \$9 million, and about \$7 million in the HWM budget. HWM proposed to use \$2 million in gaming revenue to support a new Massachusetts Restaurant Commission, which will study and support the restaurant industry in the Commonwealth.

Local Capital Projects (\$10 million)

Approximately \$10 million, or three percent of total gaming revenue, will support local capital projects. The Governor proposed to spend \$7 million of this revenue on



subsidies to public housing authorities and \$3 million to support loans to create more accessible affordable housing units in Massachusetts. The HWM budget allocated all \$10 million to public housing authorities.

Non-Statutory Revenues

Non-statutory gaming revenue, or revenue that is not included typically in the Commonwealth's budget deliberations, will comprise 32 percent of the total in fiscal 2020, or about one in three gaming tax revenue dollars. Most of this revenue is earmarked for certain purposes as described below and generally do not require further action by the Governor and the legislature in order to be spent. These funds, which are anticipated to total \$94 million in fiscal 2020, will be expended by the controlling entity (usually a state agency).⁴

Rainy Day Fund (\$22 million)

In fiscal 2020, gaming revenues will add approximately \$22 million to the Commonwealth Stabilization Fund, or the state's "rainy day" fund, which is a budgeted fund but excluded from the calculation of Consolidated Net Surplus (CNS), the state's statutory definition of balance at the end of a fiscal year. This revenue will help the Commonwealth build reserves for future economic downturns.

Debt and Long-Term Liability Reduction (\$22 million)

Revenue credited to the Debt and Long-Term Liability Reduction Fund is dedicated for prepayment of debt and unfunded liabilities for state employee pensions and other post-employment benefits.⁵ This fund is expected to receive \$6 million in fiscal 2019 and \$22 million in fiscal 2020. Both the Governor's budget and HWM proposals assume the total amount of \$28 million will be spent on debt service costs in fiscal 2020.

Race Horse Development (\$19 million in FY20)

The Race Horse Development Fund supports the horse racing industry in Massachusetts. The gaming law specifies that 80 percent of the funds, or approximately \$16 million in fiscal 2020, will be credited to a "purse account" in order to provide larger purses for live horse races in Massachusetts.⁶ Further, 16 percent, or \$3 million in fiscal 2020, is split between the Massachusetts Thoroughbred Breeding Program and the

⁴ Further description of non-statutory revenue is provided in Appendix I.

⁵ The fund was created in Chapter 154 of the Acts of 2018 § 24. M.G.L. Chapter 23K § 59 describes how the funds are to be used.

⁶ M.G.L. Chapter 23K § 60



Massachusetts Standardbred Breeding Program. Slightly less than \$1 million will support health and pension benefits for the owners and trainers associated with horse racing facilities. Spending decisions are made by the Massachusetts Gaming Commission (MGC) at public meetings.

Community Mitigation (\$14 million)

Community mitigation funds can be used to offset the local costs associated with gaming facilities in the host communities.⁷ The law specifies these funds are to help host communities and surrounding communities pay for costs associated with the gaming facility, specifically noting water and sewer districts, local and regional education, transportation, housing, environmental issues, and public safety. The MGC will oversee the grant distribution of these funds and decide which of the eligible communities will receive funds in any given year. Grant award decisions are made by the MGC at public meetings.

Public Health/Gambling Addiction Services (\$11 million)

Funds earmarked for the Public Health Trust are aimed at addressing gambling addiction.⁸ The secretary of health and human services is designated as the trustee of these funds, and authorized to spend the money as she deems appropriate on gambling addiction prevention, substance abuse services, educational campaigns, and other similar efforts. Spending decisions are made by the Public Health Trust Fund Executive Committee at public meetings.

Mass Cultural Council (\$4 million)

The Massachusetts Cultural Council (MCC) will receive funds to support entertainment venues and activities that may be impacted adversely by the presence of casino gaming.⁹ In fiscal 2020, this is estimated to be approximately \$4 million. Of this amount, about \$1 million will support the MCC's organization support program, which provides unrestricted operating funds to cultural organizations.

Further, approximately \$3 million will support cultural organizations and facilities "impacted as a result of the operation of gaming facilities." The law stipulates such

⁷ M.G.L. Chapter 23K § 61

⁸ M.G.L. Chapter 23K § 58

⁹ Chapter 23K § 59(a)



funds should be used to subsidize fees paid to performers and distributed through a competitive grant process.

The Governor filed legislation in July 2018 to address a potential defect in the gaming law that makes it ambiguous whether the Massachusetts Cultural Council has the legal authority to expend these funds. No action has been taken by the legislature. The funds are being held in an MGC account pending further action.

Tourism (\$2 million)

A portion of gaming revenues supports tourism promotion efforts in the Commonwealth. In fiscal 2020, such revenues will total more than \$2 million. This money will be divided among the sixteen Regional Tourism Councils (RTCs). Per the Massachusetts Office of Travel and Tourism (MOTT) website, these councils “develop regional advertising, public relations, brochures, and other marketing initiatives throughout the year.”¹⁰

Conclusion

Fiscal 2020 is expected to be the first year in which much of the promise of legalized gaming is realized in terms of tax revenue to the Commonwealth.

Given the time that has passed since the enactment of the gaming law and the considerable amount of money at stake, it may be time for a fresh look at the allocation of gaming revenue in the Commonwealth’s budget. Policymakers on Beacon Hill, some of whom were not in office when the gaming law was adopted, may consider whether the allocation of resources outlined in the gaming enabling statute is consistent with current policy priorities and the goals of the Commonwealth.

Further, as the call for more revenue grows on Beacon Hill, reviewing the uses of existing revenue sources, like gaming revenue, is an important initial step and a worthwhile effort that may improve the fiscal health and long-term wellbeing of the Commonwealth.

¹⁰ MOTT website accessed April 17, 2019 <https://www.massvacation.com/navigate/regional-tourism-councils/>



Sources and Uses of Fiscal 2020 Gaming Tax Revenue

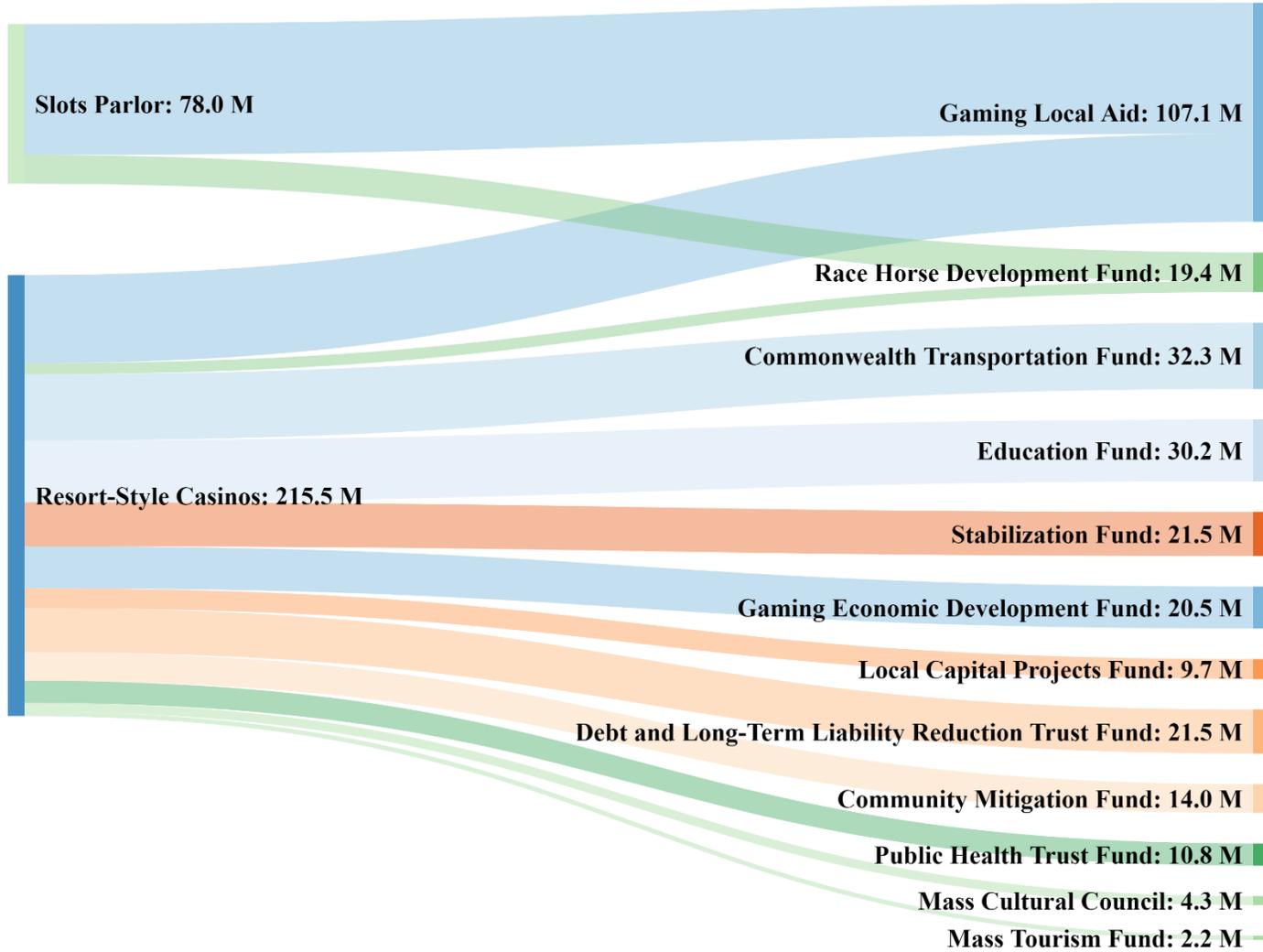


Figure 2: Sources and Uses of Fiscal 2020 Gaming Revenues. Totals may not add due to rounding.

Appendix I: Statutory Budgeted Revenue vs Non-Statutory Revenue

State finance law establishes at least two major categories of revenue and spending as depicted in Figure 2. The first category of revenue and spending addresses whether the flows are included in the calculation of statutory balance (CNS). Most of the revenue raised by the Commonwealth is spent through the annual budget process. In fiscal 2018, for example, this amounted to approximately \$44 billion. Approximately \$20 billion in revenue and spending was excluded from the calculation of statutory balance.¹¹

The second category addresses whether the Governor and Legislature must authorize expenditure of the revenue. In the case of gaming revenues, for example, the Governor and Legislature authorized the collection of these revenue in Chapter 23K and established the purposes for which the funds should be spent.

	Included in Calculation of Statutory Balance	Excluded from Calculation of Statutory Balance
Requires Further Appropriation	Statutory Budgeted Revenue	Minor Budgeted Funds
Does Not Require Further Appropriation	Revenue Reserved from the Prior Year	Non-Statutory Revenue

Note: The calculation of statutory balance is known as the Consolidated Net Surplus (CNS), and funds included in this calculation are sometimes called either "CNS Funds" or "Major Funds"

Figure 3: Types of Commonwealth Revenue and Spending

¹¹ Data from the MA Statutory Basis Financial Report for Fiscal Year 2018. Note these figures approximately \$15 billion in non-budgeted special revenue funds and about \$5 billion in capital projects funds. Also note some of the flows are counted twice, for example monies transferred during the annual budgeting process from budgeted funds to non-budgeted funds such as funding for the Massachusetts Department of Transportation.

