

# INDIANA GAMING COMMISSION

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September 23, 2010

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

Dear Mr. Horst:

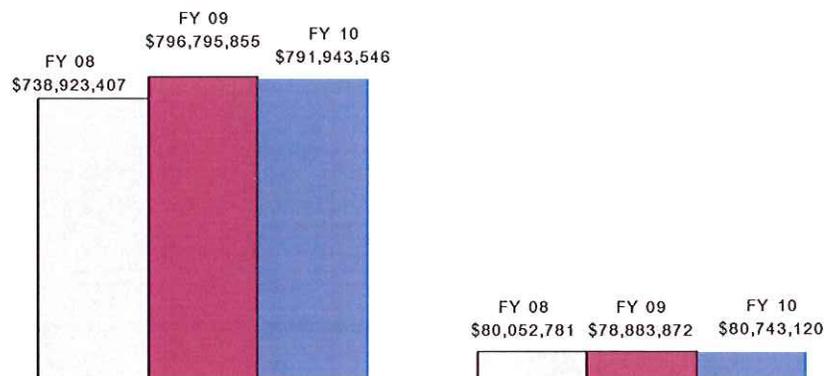
This transmittal letter presents the funding request of the Indiana Gaming Commission (IGC) for the 2012-2013 biennium. This request is comprised of four budgeted funds, which are as follows: (1) IGC Administrative Budget with an annual funding of \$3,526,903; (2) the Charity Gaming Enforcement Budget with an annual funding of \$5,777,050; (3) the Athletic Division funding of \$214,125; and (4) the Department of Gaming Research funding of \$190,999.

As a dedicated fund agency, our budget is primarily funded by two sources of revenue, the riverboat wagering tax and charity gaming application fees and excise tax. The budget for 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.

3 Year Overview  
Riverboat Wagering & Admission Tax



## **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 our 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. On July 1, 2009, the State Athletic Commission was created and transferred to the Gaming Commission. It will provide 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 regulation of gambling activities occurring within each IGC division:

The Gaming Agent Division was created on July 1, 2005, pursuant to Senate Enrolled Act 626. 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 326 Level One license investigations, 4,230 Level Two investigations, and 4,853 Level 3 investigations over the last two years. Additionally, 24 company investigations were completed.

During FY 2010, this division continued its pursuit to maintain an efficient and innovative operational standard by implementing new license applications for use in statutorily required reinvestigations. This move eliminated the submission of duplicate information to the Commission and will create both time and data storage efficiencies.

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.

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. As a cost-saving measure, this division was reorganized, eliminating the need to replace two individuals who retired in FY 2010. This year, Audit has been working with casino compliance departments to transfer the internal controls for all thirteen Indiana casinos from a paper format to an electronic format. Among other audits, Audit continues to perform Unannounced Program Audits. During an Unannounced Program Audit, a team of six auditors travels to a casino and conducts a thorough review of all departments and casino functions. If discrepancies are found, the division performs a follow - up audit to ensure

that the casino made the necessary changes to achieve compliance with all applicable regulations.

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 the Commission in administrative proceedings, advise the Commission and other divisions 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.

The Charity Gaming Division performs the functions of licensing and regulatory enforcement for the 2,919 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. In FY 10, the gross charitable gaming income reported by Indiana qualified organizations was \$498,342,570, with \$393,552,443 in prize payouts.

The Gaming Control Division is the newest enforcement arm of the IGC. The Gaming Control Division was established by House Bill 1510-2007 and went into effect July 1, 2007. The Gaming Control Division conducted 119 investigations during FY 2010, which led to the confiscation of 302 illegal gambling devices. Furthermore, the following actions and/or inspections were completed during FY 2010: Enforcement action was taken against nine illegal poker establishments and three dog fighting operations. 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 1,798 inspections were conducted at retail businesses to ensure that illegal gambling devices were not present.

Also created by House Bill 1510-2007 was the License Control Division. The primary purpose of this 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.

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.

In FY 2010, the Information Technology Division (IT) continued to provide resources to support the technological needs of the Commission's users. There were several processes performed by Commission staff that were changed from paper driven processes to

electronic - driven methods. These new processes take advantage of using Adobe file formats and electronic signatures. Development of a new charity gaming application continued throughout the year which will provide a new, comprehensive application to manage their overall operation. IT also provided resources to assist the Athletic Commission in its migration into our agency and developed a new method of generating badges for licensed individuals.

Administrative support for IGC is provided by a Controllers Division that monitors the IGC budget as well as all costs reimbursed to the IGC and a Human Resource Division responsible for all IGC employment issues and support staff back-up for operational function and efficiency.

With the passing of Senate Enrolled Act 160 during the 2009 legislative session, the Indiana State Athletic Commission came into existence on July 1, 2009. Pursuant to the Act, the Executive Director of the Gaming Commission was empowered to hire staff to carry out all of the duties and functions of the new Athletic Commission, which included the regulation of unarmed combat.

The Athletic Commission 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 Commission staff must be on - site for every event that occurs in Indiana to make certain that all statutory and regulatory provisions of the Athletic Commission are strictly observed.

### **ACCOMPLISHMENTS & CHALLENGES**

While global economic issues adversely impacted the gaming industry's revenues in 2008, IGC was occupied with the opening of new venues, continued vigilance against illegal gambling, increased charity gaming licensing, and the daily demands of regulatory oversight.

### **Legislative Modifications**

On March 17, 2010, Governor Daniels signed Senate Enrolled Act 163 into law. This law contains a requirement that casinos withhold delinquent child support from the casino winnings of child support obligors whenever the obligor's winnings generate a W - 2G.

2009 was an unusually busy legislative session for the IGC. During the regular session, two charity gaming bills passed. The first, Senate Enrolled Act 414, allows workers at a festival event to participate in events except in the one that he or she is conducting and prohibits workers from participating in any Pull-tab, Punchboard and Tipboard (PPT) event during the calendar day he or she conducts the event. The legislation also requires charity gaming patrons to provide their names, signatures, and dates of birth upon winning \$250 or more on any PPT and allows qualified organizations to share reusable licensed supplies that were acquired prior to January 1, 2009. Finally, it allows individuals to serve as operators for three qualified organizations per month rather than only one.

House Enrolled Act 1286 removes civic organizations from the eligibility list for an annual charity game night license, but added fraternal organizations. This act also allows qualified organizations which totally restructure to be eligible for licensure without waiting five years and limits the use of facilities and locations for annual charity gaming nights to only three

calendar days per week. The act also makes qualified and winner take all drawings eligible for roll-overs under specific conditions that do not increase the frequency of the drawing or the maximum limit of award. Lastly, driver's license information acquired by the IGC is now deemed confidential.

House Enrolled Act 1285 authorizes the IGC to require selection of a trustee for each casino licensee to be poised to assume operational control of any casino that has a license revocation, a license non-renewal or a failure to transfer the license in a block sale of other casinos. It is patterned after the process used in Evansville by agreement between the Commission and Tropicana. HEA 1285 also clarifies that only one supplier license is required to conduct business with both casinos and racinos and increased the annual supplier license fee from \$5,000 to \$7,500. Finally, it authorizes the Commission to issue occupational licenses for periods of one, two, or three years rather than only one and required the horse racing integrity fund assessed to the racinos to be paid directly to the Horse Racing Commission rather than the Gaming Commission.

The last bill was Senate Enrolled Act 160. In 2006, Governor Daniels' Program Results: An Outcome-Based Evaluation (PROBE) recommended, among many other changes, the relocation of the Boxing Commission from the Professional Licensing Agency to the Commission. SEA 160 abolished the Boxing Commission and created the State Athletic Commission which will license and regulate not only boxing but mixed martial arts. While the new commission is independent of the Gaming Commission, it will be staffed by existing agency personnel, with minimal new staff. The Athletic Commission is funded by a new dedicated fund center consisting of license fees, penalties and a percentage of gate receipts.

## **REGULATORY MATTERS**

### **Economic Development**

In spite of the economic conditions, Indiana casinos completed unprecedented investment in their gaming properties in 2009. In March, Indiana Live in Shelbyville opened its permanent casino, a \$200 million facility with 2,000 machines, including electronic blackjack, roulette, and three-card poker. The 233,000 square foot casino also features six dining and entertainment venues.

In Lawrenceburg, the new \$336 million Hollywood Casino opened in June, replacing the former Argosy property, including a name change and complete re-branding. The new vessel has 150,000 of casino square footage, 4,400 gaming positions, and a 108-seat restaurant.

In addition to new casinos, other major projects were also completed. Blue Chip opened its new \$130 million, 22-story hotel in January. The Spa Blu Tower has 302-rooms, including sixty suites, and it is complemented by new dining and entertainment venues, including the new Stardust Event Center, a 20,000 square-foot, multipurpose entertainment venue that holds up to 1,200 guests. French Lick Resort Casino opened its new Pete Dye golf course in April and hosted the 43rd PGA Professional National Championship in 2010. The previously refurbished Donald Ross course will also be used for this event. In addition, French Lick completed substantial renovations to its casino floor to accommodate non-smoking patrons and continued to modify its exterior aesthetics.

## **Bankruptcies**

One of the byproducts of a national recession and tightening credit markets is bankruptcy, and the gaming industry has not been immune. The first to file was Casino Aztar's owner, Aztar Indiana Gaming Company, LLC, on May 5, 2008. Twenty months thereafter, the Commission transferred the license to Tropicana Entertainment, Inc. when it emerged from the Federal Court proceeding. Its primary owner is Carl Icahn from Chicago whose track record is replete of acquiring struggling corporations and transferring them into attractive assets for resale.

Next to follow were Majestic Star Casino, LLC, and Majestic Star Casino II, Inc., who filed for restructuring on November 23, 2009. An examination of the numerous petitions and motions indicate that little progress towards discharge has yet to have occurred. Finally, Centaur, Inc. initiated its Chapter 13 bankruptcy on March 6, 2010. It operates Hoosier Park in Anderson. Centaur has been aggressive in its pursuit of an acceptable final plan and is hopeful that one will be reached by the end of the calendar year.

## **Performance Measurement**

The program measures established by OMB for the IGC are as follows:

### **IGC Administration:**

1. % of waiver requests answered within 30 days
2. % of temporary level 1 licenses issued within 5 business days
3. % 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: program measures will be established in FY11.

## **Objectives**

### **Our objectives for FY12 – FY13 include:**

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

## **Budgetary Matters**

As the result of SEA 160, three staff members were hired to conduct the daily regulatory functions of the Athletic Division. FY11 will be the first full year of operations. We have estimated a conservative biennium budget of \$214,125, for its fund.

The following measures were taken to meet the current 15% reserve and FY12-FY13 base budget requirements for the IGC administration fund: eliminated 3 staff positions, 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 nearly \$17,000 for FY10 and \$8,400 in the first quarter of FY11.

Also, at least one staff position is being eliminated in the Charity Gaming Division and the budgetary limitations for purchases of supplies, equipment, and restricted travel have been fully implemented. The additional savings from voluntary unpaid leave are \$5,000 for this division in the first quarter of FY11.

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,

A handwritten signature in black ink, appearing to read "Ernest E. Yelton", with a large, sweeping flourish extending to the right.

Ernest E. Yelton  
Executive Director

EEY/kjn