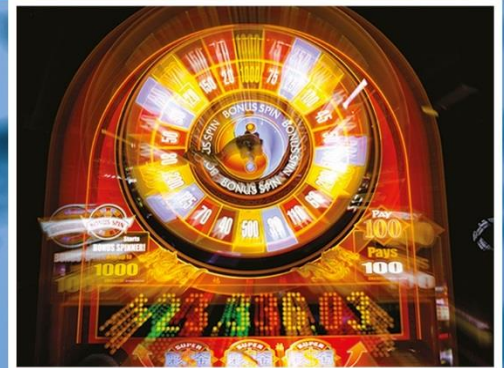


# 2016 Michigan Gaming Control Board

# Annual Report



# Annual Report To The Governor

Calendar Year 2016



Michigan Gaming Control Board  
3062 West Grand Boulevard, Suite L-700  
Detroit, MI 48202

Submitted pursuant to the  
*Michigan Gaming Control & Revenue Act*, as amended  
(Public Act 69 of 1997)

This document is also available online at  
[www.michigan.gov/mgcb](http://www.michigan.gov/mgcb)





**RICK SNYDER**  
GOVERNOR

STATE OF MICHIGAN  
**MICHIGAN GAMING CONTROL BOARD**  
DETROIT

**RICHARD S. KALM**  
EXECUTIVE DIRECTOR

March 1, 2017  
Honorable Rick Snyder  
Governor of Michigan

**AN OPEN LETTER TO GOVERNOR RICK SNYDER AND THE MICHIGAN LEGISLATURE:**

On behalf of the Michigan Gaming Control Board (Board), I am pleased to present the Annual Report to the Governor for calendar year 2016, pursuant to Section 15(1) of the *Michigan Gaming Control and Revenue Act*, as amended, Public Act 69 of 1997, MCL 432.201 (Act). This Annual Report is submitted not only to comply with the statutory reporting requirements under the Act, but to provide a summary of significant activities and operations of the Board and the Board's staff. The Annual Report includes a report on the licensure, regulation and operations of authorized commercial casino gaming in the City of Detroit for 2016.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Anthony", with a long horizontal flourish extending to the right.

Robert L. Anthony  
Chairperson



# Michigan Gaming Control Board

## FROM THE EXECUTIVE DIRECTOR

2016 was an accomplished and busy year for the Michigan Gaming Control Board. Our strategic plan emphasizes implementing and maintaining continuous internal improvements and establishing high achievement standards. Staff implemented process improvements fulfilling both casino occupational and millionaire party license requests more efficiently.

Through employees' diligent efforts, casino occupational license application approval time was reduced 70 percent to nine calendar days, and millionaire party application processing time 48 percent to 26 calendar days. Both are models for successfully examining processes to improve service.

The three Detroit casinos reported aggregate revenue of \$1.386 billion. State gaming taxes for the three Detroit casinos were \$112.2 million. The casinos reported paying \$175.5 million in wagering taxes and development agreement payments to the city of Detroit, which relies strongly on the casino tax revenue. Charitable gaming millionaire parties self-reported 2016 gross revenue of \$93.5 million with \$8.8 million in net profit to charitable organizations. In 2016, horse racing continued its decline. Payments to the Agriculture Equine fund totaled \$3.9 million. In addition, through our investigations of occupational, supplier and vendor license and exemption applicants, the agency successfully recovered nearly \$2 million in State of Michigan and IRS tax delinquencies.

2016 was the first full year of implementation of Resolution 2015-01. The Resolution increased the threshold requirements for vendors and suppliers wishing to conduct business with the three Detroit commercial casinos before having to apply for licensure, providing they remain within the limits set. The Resolution has enabled the MGCB to effectively reduce the number of casino vendor exemptions required by 31 percent and the number of non-gaming suppliers by 16 percent.

In March, the Board approved MGM Resorts International's (parent of MGM Grand Detroit, LLC) request to move forward with its proposal to reorganize and move certain real property into a Real Estate Investment Trust (REIT). Through its subsidiaries, the REIT now holds the real property currently occupied by 10 MGM properties, including the Detroit property.

In June, the MGCB office in Detroit hosted members of the newly formed Massachusetts Gaming Commission who requested we share our financial investigation expertise with them.

Live horse racing occurred concurrently at two tracks from late May through early October. To fulfill the live race meeting requests, MGCB hired and trained additional staff to accommodate the increased activity.

MGCB staff assisted the American Red Cross with water distribution in Flint and assisted local food banks supporting the Michigan Harvest Gathering.

Staff members participated in the 2016 Virtual Gaming Summit in August and the Flint Business Summit in September, both of which were hosted by Pure Michigan Business Connect.

The MGCB continues to work closely with our partner agencies, the Michigan State Police (MSP) and Michigan Attorney General's (AG) office, as well as the Detroit Police Department and the commercial casinos' security directors. The MGCB, in conjunction with the AG's office, conducted millionaire party investigations resulting in over \$106,000 in restitution being awarded to charities whose millionaire party profits were embezzled or taken under false pretenses.

I would like to thank the Governor, the Legislature, our partner agencies and other public officials for their cooperation and service. My sincere appreciation also goes to the Board and to MGCB employees for their dedicated service. I am proud of our professional, dedicated and committed staff who believe strongly in our mission: to ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan.

Sincerely,  
/s/  
Richard Kalm



# Michigan Gaming Control Board

## Table of Contents

Mission Statement.....	1
2016 Board Members.....	2
Organizational Chart.....	3
Activities of the Board.....	4
MGCB Notable Activities.....	5
Administration & Indian Gaming Division.....	5
Licensing & Investigations Division.....	7
<i>Enterprise Licensing Section</i> .....	7
<i>Investigations Section</i> .....	8
<i>Criminal Investigations Section</i> .....	8
<i>Millionaire Party</i> .....	10
Legal Affairs & Gaming Regulation Division.....	13
<i>Horse Racing Section</i> .....	13
<i>Gaming Lab Section</i> .....	14
Casino Audit & Enforcement Division.....	15
<i>Audit Section</i> .....	15
<i>Casino Revenues and Wagering Taxes</i> .....	16
Casino Revenues.....	16
State Casino Wagering Tax.....	17
City of Detroit Wagering Tax.....	18
<i>Enforcement Section</i> .....	19
<i>Employee Licensing Section</i> .....	21
Minors and Compulsive Gambling.....	22
Annual Underage and Compulsive Gaming Studies.....	22
Board Revenues and Expenditures.....	23
State Services Fee Fund.....	23
Application and License Fees, Fines and Costs.....	23
Native American Casino Fund.....	24
Lab Fund.....	24
Equine Development Fund (Horse Racing).....	24
State Lottery Fund (Millionaire Party).....	25
Board Statement of Revenues and Expenditures.....	25



# Michigan Gaming Control Board

## Mission Statement

*"The Michigan Gaming Control Board shall ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan."*

### Introduction

In November 1996, Michigan voters approved Proposal E, authorizing the development of up to three licensed commercial casinos in Detroit. Proposal E subsequently took effect as law on December 5, 1996, as the *Michigan Gaming Control & Revenue Act (Act)*. The voter-initiated Act established the MGCB as an autonomous agency within the Michigan Department of Treasury (Treasury) exclusively responsible for licensing and regulating the three commercial Detroit casinos. In July 1997, the voter-initiated Act was amended substantially by the Michigan Legislature's enactment of Public Act 69 of 1997. The amended Act provided for more stringent licensing criteria, substantially strengthened the licensing and regulatory authority of the MGCB and provided for a system to collect wagering taxes and fees for the City of Detroit and the State of Michigan.

The Board is comprised of five Michigan residents appointed by the Governor with the advice and consent of the Senate. One member is designated by the Governor as the chairperson. Under the Act, no more than three members may belong to the same political party. The Michigan Legislature vested the Board and MGCB employees with certain powers and duties specified in the Act and such other powers necessary and proper to fully and effectively implement, administer and enforce the provisions of the Act relating to the licensing and regulation of authorized commercial casino gaming in the City of Detroit.



# Michigan Gaming Control Board

## Michigan Gaming Control Board 2016 Board Members

### Mr. Robert L. Anthony, Chair



Mr. Anthony has been appointed by Governor Rick Snyder to serve as Board Chair for a term at the pleasure of the governor. Mr. Anthony has served on the Gaming Control Board since January 2011 and has been reappointed by Governor Rick

Snyder to serve as a board member for a four-year term expiring on December 31, 2018.

Mr. Anthony retired as a senior risk and quality partner of PricewaterhouseCoopers, LLP. Anthony served global clients over his career working closely with client audit committees and senior management on matters that included entity-wide risk analysis and risk management. He also served as a member of the PricewaterhouseCoopers Global Audit Policy Board.

Mr. Anthony graduated from the University of Michigan where he was awarded a B.A. and an M.B.A. He currently resides in Northville with his wife Catherine.

### Mr. Michael Watza



Mr. Watza, partner of Kitch, Druthas, Wagner, Valitutti & Sherwood, was reappointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2016.

### Ms. Carla Walker-Miller



Ms. Walker-Miller of Detroit, president of Walker-Miller Energy Services, L.L.C., has been appointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2016.

### Mr. Patrick M. McQueen



Mr. McQueen, Managing Director of McQueen Financial Advisors, was reappointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2019.

### Mr. Andrew T. Palms

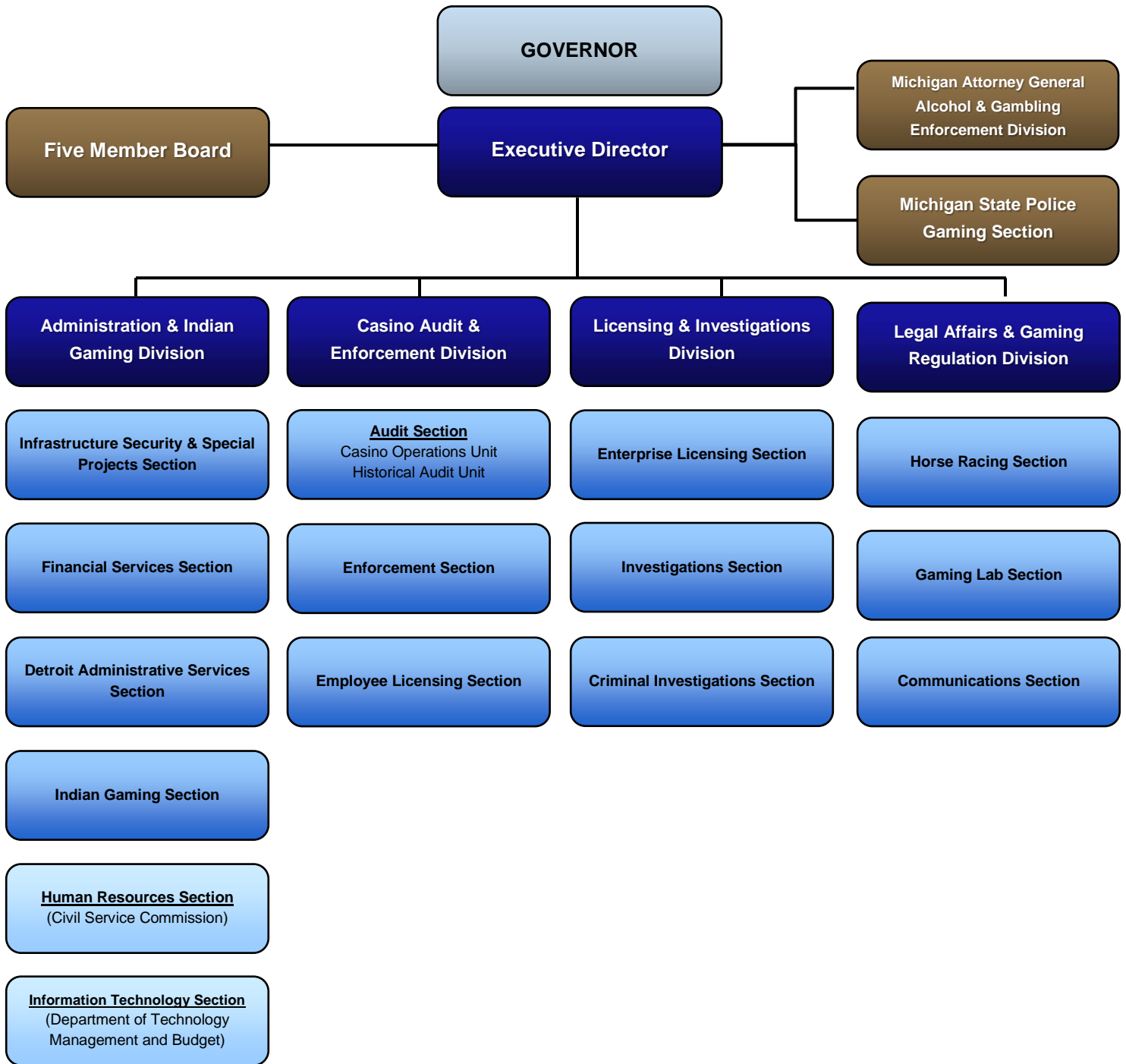


Mr. Palms, Executive Director of Communications Systems at the University of Michigan, was reappointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2019.



# Michigan Gaming Control Board

## Organizational Chart







# Michigan Gaming Control Board

## Activities of the Board

### Board Meetings

From inception, the Board has encouraged public input regarding policies, procedures and activities related to licensing and regulating the three Detroit commercial casinos. To conduct Board business, inform and receive input from the public, the Board held seven public meetings in 2016. At these meetings, the Board not only conducted its official business, it also provided the public and news media with opportunities to ask questions and offer comment regarding casino gaming issues and the Board's relevant policies, procedures and activities. The Board met at the Detroit office located at Cadillac Place, 3062 West Grand Boulevard, Suite L-700, on the following dates:

January 12, 2016	September 13, 2016
March 22, 2016	September 21, 2016
May 10, 2016*	November 1, 2016
July 12, 2016	

The Board adjourned to closed session after the public meetings to review confidential materials that were part of casino license applications and applications for placement on the Board's Disassociated Persons List and thus protected from public review and disclosure under Sections 4c and 25 of the *Michigan Gaming Control & Revenue Act*, as amended, Public Act 69 of 1997, MCL 432.204c and MCL 432.225(4)(c). Closed Sessions are not open to the public, nor are minutes of such sessions available to the public, under *Michigan's Open Meetings Act*, as amended, Public Act 267 of 1976. All Board meetings, whether open or closed, were held in accordance with Michigan's Open Meetings Act.

*\*No closed session held*



## MGCB Notable Activities

### Administration & Indian Gaming Division



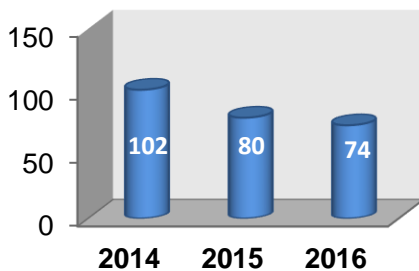
The section’s primary task in 2016 was the ongoing MGCB IT modernization project. The MGCB IT modernization project encompasses the replacement of more than 20 MGCB legacy systems with a more efficient and customer friendly IT application. The section led the effort to evaluate bids from various vendors for a replacement system and participated in contract negotiations on behalf of the agency.

Notable accomplishments and further details of actions completed by the Indian Gaming Section can be found in the separate Indian Gaming Annual Report.

### *Disassociated Persons List and Problem Gambling Diversion Program*

---

**Diversion Program Completions by Year\***



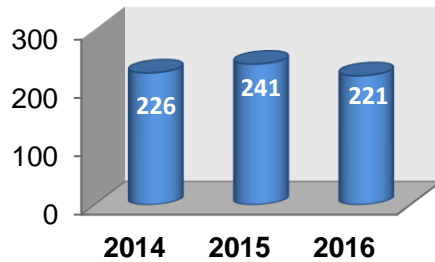
The Act created the Disassociated Persons List (DPL) designed for problem gamblers who request to exclude themselves from entering and gaming at the three casinos located in the city of Detroit for life. The law also states an individual who violates the terms and conditions of the DPL is guilty of criminal trespassing. This is punishable by imprisonment for not more than one year, a fine of not more than \$1,000 or both. As of December 31, 2016, 4,013 people were in the DPL program.

*\*The Diversion Program offers a first-time offender the option of completing a treatment program rather than burdening the criminal justice system further. First-time offenders offered the Diversion Program within a calendar year may not complete the program until the following year. Statistics provided above are the number of completed individual diversion programs per calendar year. Individual diversion programs may elapse between two calendar years.*



# Michigan Gaming Control Board

**Approved DPL Applications by Year**



In 2016, 86 first-time DPL offenders were offered the Diversion Program, and 74 discharge summaries were received for those completing the program. As of December 31, 2016, 565 DPL offenders had been offered the Diversion Program, and 447 of them completed it.



# Michigan Gaming Control Board

## Licensing & Investigations Division



The Licensing & Investigations Division is responsible for licensing the commercial casinos and their employees and suppliers, administering licensing exemptions, reviewing casino debt transactions, reviewing transfers of ownership in casino and supplier licensees, millionaire party program licensing and conducting regulatory and criminal investigations.

### Enterprise Licensing Section

---

The Enterprise Licensing Section is responsible for the licensing function for commercial casinos and suppliers to commercial casinos, administering licensing exemptions, reviewing casino debt transactions, reviewing transfers of ownership in casino and supplier licensees, millionaire party program licensing (refer to the Millionaire Party section below for additional information) and assisting the Investigations Section with analytical review of financial documentation related to ongoing investigations.

The Act and related Administrative Rules require gaming and nongaming suppliers providing a good or service to a commercial casino to obtain a license with the MGCB with the exception of entities qualifying for an exemption from licensing requirements. As of December 31, 2016, there were 123 active supplier licensees.

Vendor exemptions and supplier license exemptions are conditional waivers of the supplier licensing requirements of the Act and Administrative Rules. Vendor exemptions must be approved by the Executive Director and are only eligible for nongaming entities providing a good or service under an established monetary threshold determined by the Board. As of December 31, 2016, there were 674 entities holding a vendor exemption with the MGCB. Supplier license exemptions are approved by the Executive Director for nongaming entities which are not deemed necessary to protect the public interest or accomplish the policies and purposes of the Act. As of December 31, 2016, there were 254 entities holding a supplier license exemption.

Non-gaming supplier licensees decreased by 19 (19%) since January 1, 2015 due to Resolution 2015-01. Also, it is important to note that because of Resolution 2015-01, the threshold increase to \$50K triggered a reduction of 317 (32%) vendors requiring an exemption. This allowed more new entities to fall under the automatically exempt rule (<\$50K).



# Michigan Gaming Control Board

The resolution provides companies easier access to work with the casinos without a lengthy approval process when they are providing minimal services.

<b>Entities Licensed or Exempt Through MGCB (As of December 31, 2016)</b>	
Commercial Casinos	3
Licensed Suppliers	123
Supplier License Exemptions	254
Vendor Exemptions	674
<b>Total</b>	<b>1,054</b>

## **Investigations Section**

---

The Act requires each supplier to renew its license annually. In 2011, the policy for conducting the annual review of suppliers was updated to require an onsite investigation only every five years for the applicants, while the investigation occurs remotely for the four interim years. This policy update has reduced costs associated with the renewal for the suppliers and has proved to be a more efficient and cost-saving method for MGCB to perform its annual renewal of supplier licenses.

The Act requires the Board to investigate and determine the eligibility of all applicants. These applicants are referred to as “qualifiers.” Qualifiers — persons referred to in the definition of applicant — are affiliates, affiliated companies, officers, directors or managerial employees of the person making application and persons who hold a greater than 1 percent direct or indirect interest in the person making application for a license.

In 2016, MGCB staff conducted supplier investigations throughout the United States, Canada, Australia, Austria, Japan, France, Italy, Slovenia, Switzerland and the United Kingdom.

The Investigations Section also conducted three casino renewal investigations. Recommendations for approval of the three casino renewals were approved by the Board on September 13, 2016.

## **Criminal Investigations Section**

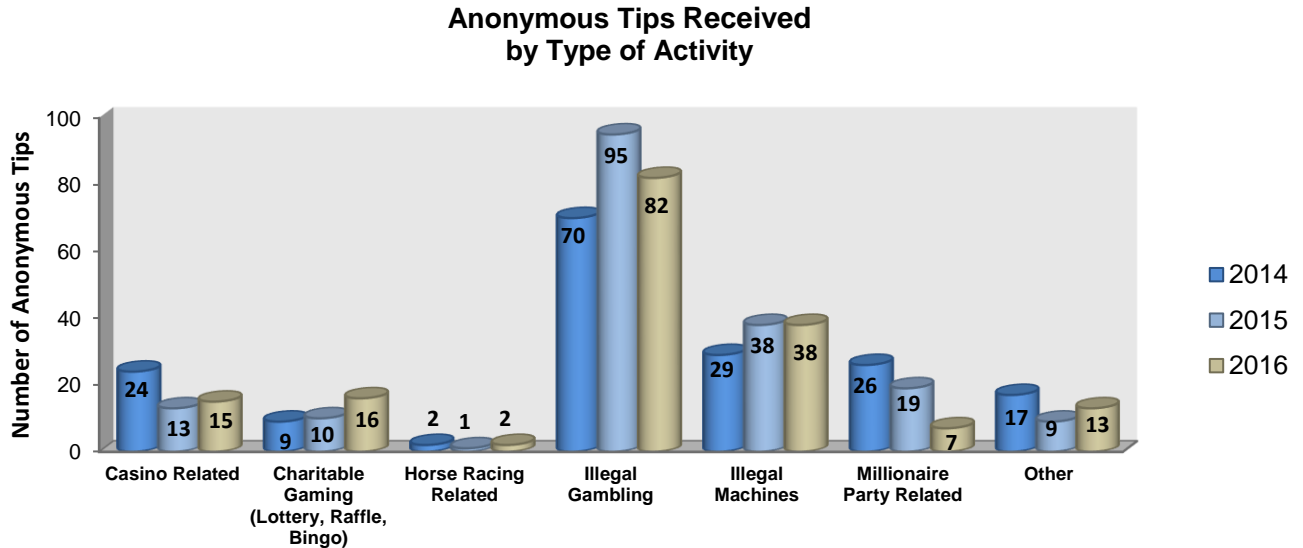
---

In 2011, the MGCB established an anonymous tip line and email address for the public to report illegal or suspected illegal gambling activity. All information received is reviewed for credibility and appropriately assigned for follow-up investigations. The CIS forwarded 32 anonymous tips to other agencies for follow-up while investigating an additional 15 themselves.



# Michigan Gaming Control Board

The following table illustrates the types of activity reported to the MGCB through the tip line over the last three years:



## *Investigations Involving Occupational Licensee*

---

During 2016, the CIS conducted 56 investigations into alleged violations by holders of an Occupational License issued by the MGCB. These particular investigations focused on licensee suitability. As a result of investigations, 11 individuals voluntarily surrendered their Occupational Licenses and three warning letters were issued.

Additionally, 12 investigations were turned over to Employee Licensing and six investigations were turned over to the Enforcement Section for further action.

## *Exclusion List*

---

The MGCB is committed to ensuring a safe environment for those who patronize the three licensed casinos in Detroit. One method for accomplishing this goal is by excluding individuals from entering any of the casinos who may adversely affect the public's confidence and trust in the integrity of casino gaming in the three state-licensed casinos as outlined in MCL 432.204a(1)(l). The Exclusion List, which is posted on the MGCB website, contains the names of individuals who meet the criteria for exclusion and are not allowed into any of the three licensed casinos. Violating this exclusion is a misdemeanor criminal offense. During 2016, 50 individuals were investigated to determine if they met the criteria for exclusion from the three licensed casinos in Detroit. As a result, seven individuals were added to the Exclusion List, while 29 are in the process of being excluded.



# Michigan Gaming Control Board

## **Millionaire Party**

---

Governor Rick Snyder signed Executive Order 2012-4 on April 11, 2012, transferring the licensing and regulation of millionaire parties from the Michigan Lottery (Lottery) Commissioner to the Executive Director of MGCB effective 60 days from the date of signing of the Order. The Executive Director enforces the oversight of millionaire party events through the *Traxler-McCauley-Law-Bowman Bingo Act*, Public Act 382 of 1972 (Bingo Act).

A millionaire party is an event where wagers are placed on games of chance customarily associated with casino gaming, using imitation money or chips. The most common millionaire party poker game conducted throughout the state is Texas Hold'em poker, either tournament style or player on player. Other preferred games include Omaha, which is played player against player, and blackjack, which is player against the house. Millionaire parties are held by non-profit organizations to generate funds for charitable purposes.

## *Qualified Organizations*

---

Qualified organizations (commonly referred to as "charities") are defined in the Bingo Act as bona fide religious, educational, service, senior citizens, fraternal or veterans' organizations that operate without profit to their members and either have been in existence continuously as an organization for a period of five years or are exempt from taxation as 501(c).

## *Locations*

---

Locations may be at church venues, K of C halls, VFW halls, etc. As of December 31, 2016, there were 54 locations approved to host millionaire parties on a recurring basis.

## *Suppliers*

---

Millionaire party suppliers are licensed by the Executive Director to provide goods and services to a qualified organization. As of December 31, 2016, there were 35 active millionaire party suppliers licensed by the Executive Director.



# Michigan Gaming Control Board

## *On-Site and Post Inspections\**

---

In 2016, the MGCB conducted 1,609 on-site and post event inspections. Each of the inspections are an opportunity for Board staff to interact with and counsel charitable organizations on how to manage their events while complying with the Act and Rules. As a result of these inspections, the Board issued 289 warnings, 18 percent of the inspections conducted. The breakdown of those warnings is as follows:

- 178 verbal warnings to charitable organizations for various violations
- 111 written warnings to charitable organizations for various violations

In addition, there were 33 Notice of Opportunity to Show Compliance (NOSC) letters issued, 2 percent of the total inspections, resulting in the loss of 75 licenses to charitable organizations.

*\*On-Site Inspections:* Regulation officers conduct inspections during ongoing millionaire party events to ensure compliance with the Act and Rules.

*Post Inspections:* Regulation officers conduct inspections of qualified organizations after a millionaire party event has taken place. All game documents and financial records are reviewed and the principal officer is interviewed.

## *Compliance Actions Against Suppliers*

---

Supplier Aim High Proceeds LLC was given a 4-day suspension (held in abeyance) from managing events.

## *Compliance Actions Against Locations*

---

The Board summarily suspended all licensed events at Heck's Bar, located in Saginaw, for allowing illegal gaming to occur on its premises. The illegal gaming was in the form of illegal poker machines paying out in cash.

## *Licensing Activity*

---

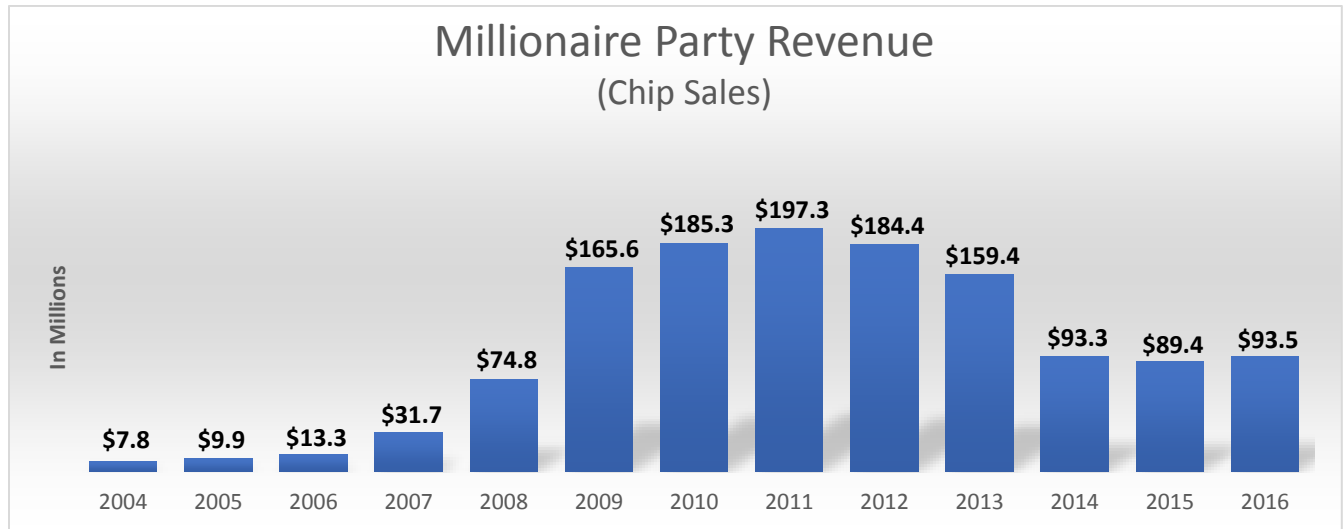
For the calendar year 2016, a total of 2,619 millionaire party licenses were issued authorizing 9,608 separate millionaire party days. This resulted in the sale of approximately \$93.5 million in chips at millionaire parties with net profits to charities of approximately \$8.8 million. While the number of charities hosting events and seeking licenses declined slightly, charities saw increased chip sales and net profit. Licensing volumes in 2016 remained relatively consistent throughout the year.





# Michigan Gaming Control Board

The charitable organizations self-report all financial data for their millionaire party events to the MGCB.



## Licensing and Event Days

The chart below represents licensing and event day trends since 2007.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Licenses Issued</b>	2,822	4,029	8,140	8,217	7,894	7,218	5,339	3,022	2,820	2,619
<b>Party Event Days</b>	6,138	14,020	32,005	29,964	29,212	27,119	18,997	10,508	10,146	9,608



# Michigan Gaming Control Board

## Legal Affairs & Gaming Regulation Division



### Horse Racing Section

In 2016, Hazel Park Raceway Thoroughbreds and Northville Downs Standardbreds raced on the same evenings for the first time.

Michigan's two pari-mutuel tracks hosted live racing for a combined 97 days in 2016. An executive order granted Hazel Park Raceway's request for seven additional live race days, which extended the race meet to October 1, for a total of 37 race days. Northville Downs held a total of 60 live race dates in 2016.

On July 1, the governor signed into law legislation to update the Michigan horse racing law. The most significant changes included:

- Site-specific simulcast purse distribution
- Negotiated purse funding levels
- Minimum numbers of race days and races per day

The amended law now requires simulcast purse pool monies generated by a specific track stay with that venue's certified horsemen's organization. This replaces previous regulations that placed all applicable funds into a common pool, which was split according to breed requirements stated in the horse racing act. Purse funding levels will depend on negotiations among the horsemen's groups and the race meet licensees and must range from 25 percent to 40 percent of the track's net commission.

The amended law also called for the formation of a Horse Racing Advisory Commission appointed by the governor. The advisory commission resides within the Michigan Department of Agriculture and includes a chairperson, the department's representative, a veterinarian, one representative each from the Thoroughbred and Standardbred horsemen's organizations and representatives from Hazel Park Raceway and Northville Downs.

Horse racing staff completed a review of the racing rules and sent draft changes to the MGCB rule-making committee. A new equine drug-testing laboratory was selected for 2017 after the Michigan laboratory discontinued drug-testing services.



# Michigan Gaming Control Board

<b>Summary of Horse Racing Revenue</b>	
<b>January 1, 2016, through December 31, 2016</b>	
Simulcast Wagering Taxes*	\$3,464,651
Occupational License Fees	41,905
Outs**	266,506
Racing Fines	9,000
Track Licenses	2,000
Other Revenue	91,286
Revenue Transfers	(18,773)
<b>Total Horse Racing Revenue</b>	<b>\$3,856,575</b>
<b>State Tax Summary</b>	
Hazel Park Raceway	\$1,961,174
Northville Downs	1,503,477
<b>Total State Tax</b>	<b>\$3,464,651</b>

\* The simulcast wagering tax is 3.5 percent of all wagers on simulcast races at each licensed track. Live wagering is not taxed in Michigan. The simulcast wagering tax total was calculated based on date earned and verified by independent auditors. Timing differences exist when reconciling to the State accounting system due to the actual depositing of revenue occurring in the subsequent calendar year.

\*\* "Outs" are uncashed winning tickets. Governed by Public Act 505, 1998, the race meeting licensee (the track) keeps 50 percent of the winning payout on the tickets and the other 50 percent is deposited into the Agriculture Equine Fund

For additional information regarding horse racing, please refer to the MGCB 2016 Horse Racing Annual Report.

## Gaming Lab Section

In 2016, the lab completed 1,264 gaming product evaluations, of which 1,192 were for new gaming software and 72 were for new gaming hardware. The lab randomly performed 1,149 unique tests on new product submissions. The lab also processed 60 revocations of previously approved product submissions. Once revoked, a product is no longer approved for use in the commercial casinos.

Lab staff also performs forensic evaluations, reviews progressive liability transfers performed by the casinos, processes malfunction occurrences and manufacturer notifications, researches emerging gaming technologies, reviews data and reports used in gaming tax calculations, drafts rule waivers, creates policies and assists in addressing patron complaints.



# Michigan Gaming Control Board

## Casino Audit & Enforcement Division



### **Audit Section**

---

In 2016, the Audit section continued to perform historical and operational audits. The Audit Section realigned staffing by adding an assistant audit manager, filling all vacant positions and cross training the audit staff in completing both historical and operational audits.

#### *Historical Audit*

---

Historical auditors completed and issued final reports for 13 compliance audits in calendar year 2016. Four of the 13 compliance audits issued were carried over from 2015. In addition, auditors conducted nine compliance audits as scheduled at each of the three Detroit commercial casinos for gaming operations in the following areas: Accounting, Cage and Credit. The overall audit objective is to provide reasonable assurance the operating activities for the three Detroit casinos conform to specified conditions, rules and regulations, and control activities provide for integrity and reliability of reported gaming revenues and other financial information.

Auditors concluded the three Detroit casino gaming operations generally were in compliance for the audits issued in 2016. However, for all three casinos combined, the following audit findings were noted: one Administrative Rule violation, 15 issues of noncompliance to internal controls, 11 administrative modifications to internal control systems and two procedural improvements.

#### *Operational Audit*

---

Operational auditors completed the review of 1,095 daily tax returns and 36 monthly tax returns to provide reasonable assurance the reporting of \$1.39 billion in gaming revenue to the State of Michigan was free of material misstatement. Furthermore, it was assured the proper payments of \$112.2 million in state wagering taxes were paid and received. They also completed the review of monthly credit reports and quarterly reports for 2016 to ensure the licensees complied with the Administrative Rules and their Internal Control Standards (ICS). Monthly and quarterly financial information, as required for submission by the licensees, has been or is being reviewed and analyzed accordingly.



# Michigan Gaming Control Board

In 2016, the Michigan Gaming Control Board audit section confirmed \$175.5 million in wagering taxes and development agreement payments with City of Detroit officials.

## Casino Revenues and Wagering Taxes

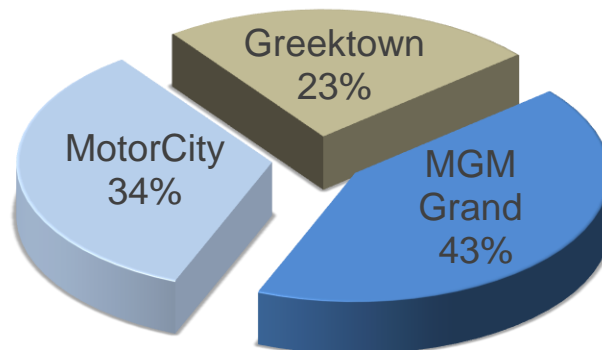
### Casino Revenues

The Act defines “adjusted gross receipts” as the licensee’s gross gaming receipts less winnings paid to wagerers. “Gross receipts” are defined as the monetary value collected from gaming less a deduction for bad gaming debt. The adjusted gross receipts of the Detroit casinos include both table games and electronic games of chance.

A monthly and annual summary of the adjusted gross receipts and market share for the three Detroit casinos for calendar year 2016 follows:

Month	MGM GRAND CASINO	MOTORCITY CASINO	GREEKTOWN CASINO	TOTAL DETROIT CASINOS
January	\$ 46,718,389	\$ 37,132,789	\$ 25,215,520	\$ 109,066,698
February	47,193,904	40,385,060	28,822,029	116,400,993
March	51,818,121	43,700,909	29,430,087	124,949,117
April	50,462,058	42,346,725	29,548,118	122,356,901
May	51,903,470	39,010,274	27,621,012	118,534,756
June	47,555,020	35,895,882	25,161,439	108,612,341
July	50,185,322	40,569,698	27,707,524	118,462,544
August	51,333,426	37,835,364	26,734,163	115,902,953
September	48,479,768	37,034,304	26,653,492	112,167,564
October	47,347,683	37,182,514	26,207,798	110,737,995
November	48,191,386	37,236,627	26,074,020	111,502,033
December	50,937,207	39,526,855	26,443,809	116,907,871
<b>Total</b>	<b>\$ 592,125,754</b>	<b>\$ 467,857,001</b>	<b>\$ 325,619,011</b>	<b>\$ 1,385,601,766</b>

### Detroit Adjusted Gross Receipts \$1,385,601,766





# Michigan Gaming Control Board

## State Casino Wagering Tax

Section 432.212 of the Act imposed an 8.1 percent State Wagering Tax on the adjusted gross receipts received by each Detroit casino licensee from casino gaming authorized by the Act. The 8.1 percent is deposited in the State's School Aid Fund to provide additional funds for K-12 public classroom education.

In calendar year 2016, the combined 8.1 percent State Wagering Taxes paid by the three Detroit casino licensees and deposited in the School Aid Fund totaled \$112,233,743.

The following is a monthly and annual summary of the State Wagering Tax payments for the three Detroit casinos for calendar year 2016:

Month	MGM GRAND CASINO	MOTORCITY CASINO	GREEKTOWN CASINO	TOTAL DETROIT CASINOS
January	\$ 3,784,190	\$ 3,007,756	\$ 2,042,457	\$ 8,834,403
February	3,822,706	3,271,190	2,334,584	9,428,480
March	4,197,268	3,539,774	2,383,837	10,120,879
April	4,087,427	3,430,085	2,393,397	9,910,909
May	4,204,181	3,159,832	2,237,302	9,601,315
June	3,851,957	2,907,566	2,038,076	8,797,599
July	4,065,011	3,286,145	2,244,310	9,595,466
August	4,158,007	3,064,664	2,165,467	9,388,138
September	3,926,861	2,999,779	2,158,933	9,085,573
October	3,835,162	3,011,784	2,122,832	8,969,778
November	3,903,502	3,016,167	2,111,996	9,031,665
December	4,125,914	3,201,675	2,141,949	9,469,538
<b>Total</b>	<b>\$ 47,962,186</b>	<b>\$ 37,896,417</b>	<b>\$ 26,375,140</b>	<b>\$ 112,233,743</b>



# Michigan Gaming Control Board

## City of Detroit Wagering Tax

Section 432.212 of Public Act 69 of 1997 imposed a 9.9 percent wagering tax on the adjusted gross receipts received by each Detroit casino licensee from casino gaming authorized by the Act. Public Act 306 of 2004 amended the original Act. Effective September 1, 2004, the city of Detroit wagering tax was temporarily increased by 2 percent to 11.9 percent. The elevated tax rate was reduced by 1 percent to the current rate of 10.9 percent when each of the three Detroit casinos became fully operational.

Development agreements also exist between each of the three Detroit casinos and the city of Detroit. Within these agreements, an additional 1 percent of each casino's adjusted gross revenue is required to be disbursed daily to the city. Once a casino reaches \$400 million in adjusted gross revenue for a calendar year, an additional 1 percent is required. The requirements outlined within the development agreements exceed what is required by the Act.

In calendar year 2016, the combined City of Detroit Wagering Taxes paid by the three Detroit casino licensees totaled \$175,486,437. Currently, this represents a significant percentage of the City of Detroit's budget.

A monthly and annual summary of the City of Detroit Wagering Tax payments for the three Detroit casinos for calendar year 2016 follows:

Month	MGM GRAND CASINO	MOTORCITY CASINO	GREEKTOWN CASINO	TOTAL DETROIT CASINOS
January	\$ 5,559,488	\$ 4,418,802	\$ 3,000,647	\$ 12,978,937
February	5,616,075	4,805,822	3,429,821	13,851,718
March	6,166,356	5,200,408	3,502,181	14,868,945
April	6,004,985	5,039,260	3,516,226	14,560,471
May	6,176,513	4,642,223	3,286,900	14,105,636
June	5,659,047	4,271,610	2,994,211	12,924,868
July	5,972,053	4,827,794	3,297,196	14,097,043
August	6,108,678	4,502,408	3,181,365	13,792,451
September	10,225,587	4,407,083	3,171,766	17,804,436
October	6,107,851	4,424,719	3,118,728	13,651,298
November	6,216,689	8,714,460	3,102,808	18,033,957
December	6,570,900	5,098,964	3,146,813	14,816,677
<b>Total</b>	<b>\$ 76,384,222</b>	<b>\$ 60,353,553</b>	<b>\$ 38,748,662</b>	<b>\$ 175,486,437</b>



# Michigan Gaming Control Board

## Enforcement Section

---

The Enforcement Section continues daily monitoring of the casinos' responsibilities to ensure gaming integrity. Regulation officers are located in the three Detroit casinos and are authorized by the Act to investigate alleged violations of the Act, Administrative Rules and internal controls systems to ensure all casino facilities, activities and games are in compliance.

### *Violations Issued/Fines Imposed*

---

During 2016, the Enforcement Section issued violations and imposed fines as follows:

#### **Greektown Casino, LLC (GTC)**

On 11/01/2016, the MGCB settled violations related to one minor in the casino. GTC paid a \$2,500 fine for the violation which occurred in 2015.

On 11/01/2016, the MGCB settled an additional violation related to GTC completing transactions for a disassociated person in the casino. GTC paid a \$30,000 fine for the violation which occurred in 2015.

On 3/4/2016, GTC was issued a warning letter for a playing card violation.

On 7/11/2016, GTC was issued a warning letter for use of withdrawn software.

On 10/17/2016, GTC was issued a warning letter for an internal control violation involving chips in the cage.

One (1) GTC occupational licensee was issued a warning letter for a playing card violation.

Two (2) GTC occupational licensees were issued warning letters for allowing minors to enter the casino.

#### **Detroit Entertainment, LLC d/b/a MotorCity Casino-Hotel (MCC)**

On 3/22/2016, the MGCB settled violations related to MCC's use of withdrawn software, a disassociated person completing transactions in the casino, a playing card violation, an unlicensed worker in a restricted area and a minor in the casino. The incidents occurred in 2014 and 2015. The total fine was \$60,000.

On 11/01/2016, the MGCB settled violations related to two (2) minors in the casino. MCC paid a \$3,000 fine for the violations.





# Michigan Gaming Control Board

Five (5) MCC occupational licensees were issued warning letters for allowing minors to enter the casino. The violations occurred in 2015 and 2016.

One (1) MCC occupational licensee was issued a warning letter for a playing card violation.

## **MGM Grand Detroit, LLC (MGM)**

On 3/22/2016, the MGCB settled violations related to six (6) minors in the casino. MGM paid an \$18,500 fine for the violations which occurred in 2014.

On 1/27/2016, MGM was issued a warning letter for allowing a minor to enter the casino. However, the minor did not game or consume alcohol.

Twelve (12) MGM occupational licensees were issued warning letters for allowing minors to enter the casino. The violations occurred from 2014 through 2016.

One (1) MGM occupational licensee was issued a warning letter for failure to identify a disassociated person in the casino.

One (1) MGM occupational licensee was issued a warning letter for sale of alcohol to an underage patron.

Two (2) MGM occupational licensees settled violations for two unrelated incidents in 2014 for allowing minors in the MGM Grand Detroit casino. Each occupational licensee was fined \$100.

## **Supplier Fines**

### Aristocrat Technologies Inc.

On 2/3/2016, the MGCB settled a violation related to the distribution of unapproved software. The supplier paid a \$15,000 fine for the violation which occurred in 2015.

### Bally Technologies, Inc.

On 9/13/2016, the MGCB settled a violation related to the distribution of unapproved software. The supplier paid a \$15,000 fine for the violation which occurred in 2015.

### IGT

On 9/13/2016, the MGCB settled a violation related to the distribution of unapproved software. The supplier paid a \$15,000 fine for the violation which occurred in 2015.



# Michigan Gaming Control Board

## Employee Licensing Section

---

The Detroit casinos and related suppliers employ approximately 7,000 personnel in positions requiring an occupational license. These individuals are licensed for a two-year period. In 2016, the section received 4,162 new and renewal occupational applications for investigation.

Occupational and Renewal Applications Received in 2016	
Supplier/Vendor Applications	980
MGM Grand Casino Applications	1,223
MotorCity Casino Applications	1,052
Greektown Casino	907
<b>Total</b>	<b>4,162</b>

In addition, licensing actions were taken against occupational licensees due to various violations of the Michigan Gaming Control & Revenue Act and Administrative Rules as depicted below:

	Employee Licensing	Criminal Investigations	Enforcement Section	Totals
Voluntary Surrenders	1	11	0	12
Voluntary Withdrawals	12	0	0	12
Warning Letters	4	3	23	30



# Michigan Gaming Control Board

## Minors and Compulsive Gambling

### Annual Underage and Compulsive Gaming Studies

Section 15(2) of the Act, MCL 432.215(2), requires each casino licensee to conduct an annual study on minors and compulsive gaming. Section 15(1) of the Act further requires MGCB include certain information regarding minors on casino premises, which each licensee must compile as part of the annual study. The following table summarizes the required information compiled and reported by each of the three Detroit commercial casino licensees in their respective annual studies on minors and compulsive gaming for calendar year 2016:

**Casino Licensees' Reported Contacts with Minors  
On Licensed Casino Premises During Calendar Year 2016**

<i>Number of Minors</i>	<b>MGM Grand</b>	<b>MotorCity</b>	<b>Greektown</b>
<b>Denied entry into the casino</b>	<b>2,209</b>	<b>10,833</b>	<b>11,915</b>
<b>Physically escorted from the casino premises</b>	<b>27</b>	<b>3</b>	<b>3</b>
<b>Detected participating in gambling games other than slot machines</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Detected using slot machines</b>	<b>3</b>	<b>1</b>	<b>0</b>
<b>Taken into custody by a law enforcement agency on the casino premises</b>	<b>27</b>	<b>4</b>	<b>0</b>
<b>Detected illegally consuming alcohol on the casino premises</b>	<b>5</b>	<b>0</b>	<b>0</b>

*MotorCity includes one (1) minor taken into custody by a law enforcement agency in the non-casino area.*

*MGM Grand includes two (2) minors taken into custody by a law enforcement agency; both consumed alcohol in the non-casino area.*



# Michigan Gaming Control Board

## Board Revenues and Expenditures

### **State Services Fee Fund**

Section 432.212a of the Act provides all casino-related regulatory and enforcement costs, compulsive gambling programs and other casino-related programs, activities and services conducted by MGCB, the MSP, AG's office, MDHHS and other state agencies shall be paid from annual fees assessed on the three Detroit casino licensees. Under the Act, each casino is required to pay an annual assessment fee on or before the date on which the licensee first began operating its casino and each year thereafter on that date. The amount of each licensee's annual assessment is equal to 1/3 of \$25,000,000 adjusted annually by multiplying the previous year's assessment by the Detroit consumer price index, as defined and reported by the United States Department of Labor, Bureau of Labor Statistics. Based on this formula, each of the three Detroit casinos were assessed and paid a total of \$33,383,016 for calendar year 2016 and \$33,697,618 for fiscal year 2016.

From the annual assessment fees paid each year by the licensees, \$2,000,000 must be deposited in the State of Michigan's Compulsive Gaming Prevention Fund. Up to \$1,040,000 may be distributed annually to the Domestic Violence and Treatment Board administered by the Department of Health and Human Services (DHHS). The remaining \$960,000 is to be used exclusively for the treatment, prevention, education, training, research and evaluation of compulsive gamblers and their families, as determined by the director of the DHHS.

### **Application and License Fees, Fines and Costs**

The Act authorizes the MGCB to collect various license application fees to fund MGCB's cost of conducting required background investigations of applicants for casino, supplier and occupational licenses. After an applicant is determined eligible and suitable for licensure, the Act authorizes MGCB to assess and collect license fees for both the initial issuance and subsequent renewals of casino, supplier and occupational licenses. In addition to application and license fees, the Act authorizes MGCB to order reimbursement of investigative costs and to impose fines as disciplinary actions to penalize violators of the Act or Administrative Rules of the Board. MGCB collected application and license fees and other authorized fees, fines and reimbursement of costs totaling \$2,671,052 for calendar year 2016, and \$2,633,569 for fiscal year 2016.



# Michigan Gaming Control Board

## **Native American Casino Fund**

The Indian Gaming Oversight program originally was established within the Office of Racing Commissioner, Department of Agriculture. The Governor of Michigan officially designated and authorized the Executive Director of MGCB and his designees, agents and employees as the State of Michigan's representative to conduct the State's authorized inspections of tribal Class III gaming facilities and records, pursuant to and in accordance with the provisions of the various Tribal-State Compacts for the conduct of tribal Class III gaming on Indian lands in Michigan. Oversight responsibilities include conducting financial and compliance audits of the tribal casino's operations to determine the extent of compliance with the Tribal-State Gaming Compacts and related Consent Judgments. Board members of MGCB have no oversight role or authority over the Tribal-State Gaming Compacts. Each compact specifies that the tribe shall make annual payments to the State to fund the costs incurred for carrying out functions authorized by the compact's terms.

Subject to certain exclusivity provisions, the Tribal-State Compacts and related consent agreements stipulate payment of a percentage of annual net win, derived from all Class III electronic games of chance, to the Michigan Strategic Fund (MSF) or Michigan Economic Development Corporation (MEDC). The MEDC provides funding to the Board for oversight related to the payments.

## **Lab Fund**

Administrative Rule 432.1842 of the Act requires all gaming devices and equipment distributed to a casino licensee to be approved by the Board prior to being placed on the gaming floor of the Detroit casinos. It further provides the manufacturer or distributor of the equipment must pay testing costs. The lab has an established fee payments schedule for various testing which is designed to fund the associated costs.

## **Equine Development Fund (Horse Racing)**

Executive Order 2009-45 abolished the Office of the Racing Commissioner and the position of Racing Commissioner and transferred the functions to the MGCB Executive Director. All powers, duties and functions of regulating live horse racing were placed with the Executive Director effective January 17, 2010. MGCB Board members have no authority or role in regulating live horse racing. Prior to Executive Order 2009-45, the Office of Racing Commissioner was a Type-I agency under the Michigan Department of Agriculture. Executive Order 2009-54 maintains the authority, powers, duties and functions under Section 20 of the *Horse Racing Law of 1995*, Public Act 279 of 1995, MCL 431.320 (Equine Development Fund) within the Michigan Department of Agriculture effective March 15, 2010. These Executive Orders gave regulatory authority of racing to the Executive Director, but MDARD retained the funding of this function.



# Michigan Gaming Control Board

## **State Lottery Fund (Millionaire Party)**

Executive Order 2012-04 transferred the licensing and regulation of charitable millionaire party gaming from Lottery to the Executive Director of MGCB. This Executive Order transferred the licensing and regulatory authority of millionaire party gaming under the Bingo Act to the MGCB Executive Director; however, Lottery retained the funding of this function through the State Lottery Fund. All millionaire party fees collected by MGCB are remitted for deposit into the State Lottery Fund, and the State Lottery Fund finances all necessary expenses MGCB incurs. MGCB Board members have no authority or role in regulating millionaire parties. Regulation of other forms of charitable gaming such as bingo and raffles remains with Lottery.

## **Board Statement of Revenues and Expenditures**

Section 432.215(1) of the Act requires MGCB's Annual Report include an account of financial position and the results of operations under the Act for the period covered by the report. While MGCB, like other state agencies, operates on a fiscal year (October 1 – September 30) basis, the Act requires MGCB's Annual Report be based on the calendar year.

To give a more comprehensive account of financial position and the results of operations, the following financial statement reports MGCB's revenues and expenditures for both calendar and fiscal year 2016.

# Statement of Revenues and Expenditures

<i>(In Thousands)</i>		
<b>REVENUES</b>		
	<u>Fiscal Year 2016</u>	<u>Calendar Year 2016</u>
<b>State Casino Gaming Fund</b>		
Casino and Supplier Fines	\$ 191.2	\$ 184.2
Other	2.7	2.0
<b>State Services Fee Fund</b>		
Annual Assessments	33,697.6	33,383.0
<b>Application Fees:</b>		
Casinos	192.1	191.7
Suppliers	420.0	431.5
Occupational	130.0	136.3
Vendors	17.4	14.8
<b>License Fees:</b>		
Casinos	75.0	75.0
Suppliers	545.0	535.0
Occupational	403.9	394.5
Vendors	62.8	63.2
<b>Other fees</b>		
Badge Replacement Fees	6.6	6.3
Other	0.1	0.1
<b>Native American Casino Fund</b>		
Oversight Fees	780.0	921.5
<b>Lab Fund</b>		
Testing Fees	586.8	636.4
<b>Total Revenue</b>	<b>\$ 37,111.2</b>	<b>\$ 36,975.5</b>
<b>EXPENDITURES</b>		
<b>State Services Fee Fund</b>		
Board	\$ (10.2)	\$ (8.7)
Administration	(20,648.3)	(21,211.4)
Information Technology	(1,856.8)	(1,840.7)
<b>Native American Casino Fund</b>	(736.1)	(731.3)
<b>Lab Fund</b>	(578.3)	(582.3)
<b>State Lottery Fund</b>	(2,514.5)	(2,518.3)
<b>Equine Development Fund</b>	(1,645.7)	(1,657.4)
<b>Total Expenditures</b>	<b>\$ (27,989.9)</b>	<b>\$ (28,550.1)</b>

## Statement of Revenues and Expenditures (cont.)

<i>(In Thousands)</i>	<u>Fiscal Year 2016</u>	<u>Calendar Year 2016</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
<b>Transfers from Other Funds:</b>		
Department of Agriculture	\$ 1,660.6	\$ 1,660.6
Michigan State Lottery	2,612.6	2,394.0
<b>Total Transfers from Other Funds</b>	<b>4,273.2</b>	<b>4,054.6</b>
<b>Transfers to Other Funds:</b>		
<b>State Services Fee Fund</b>		
Department of Health and Human Services	(2,000.0)	(2,000.0)
Michigan Office of the Auditor General	(1,331.3)	(1,331.3)
Department of Treasury	(312.0)	(312.0)
Michigan State Police	(7,938.4)	(7,938.4)
Department of Civil Service	(202.8)	(202.8)
<b>Native American Casino Fund</b>		
Department of Civil Service	(9.4)	(9.4)
<b>Lab Fund</b>		
Department of Civil Service	(8.5)	(8.5)
<b>State Lottery Fund</b>		
Department of Treasury	(58.3)	(58.3)
Department of Civil Service	(39.8)	(39.8)
<b>Equine Development Fund</b>		
Department of Civil Service	(14.9)	(14.9)
<b>Total Transfers to Other Funds</b>	<b>(11,915.4)</b>	<b>(11,915.4)</b>
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (7,642.2)</b>	<b>\$ (7,860.8)</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>\$ 1,479.1</b>	<b>\$ 564.6</b>
<b>Notes:</b>		
1. Approval for calendar year presentation was received from the Department of Technology, Management and Budget, Office of Financial Management.		
2. Governmental fund types are accounted for using the modified accrual basis of accounting.		





This Annual Report was not produced at taxpayer expense.  
[www.michigan.gov/mgcb](http://www.michigan.gov/mgcb)