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The _____ MICHIGAN GAMING _____ Newsletter



EXCLUSIVE: INTERVIEW WITH MGCB EXECUTIVE DIRECTOR, RICHARD KALM



Richard Kalm was appointed Executive Director of the Michigan Gaming Control Board by Democrat Governor Jennifer Granholm on March 29, 2007 and then reappointed by Republican Governor Rick Snyder for a term expiring on June 3, 2019. He is responsible for the direction, execution, and coordination of all activities related to the regulation of commercial gaming, horse racing, and millionaire party charitable events in Michigan.

The Michigan Gaming Newsletter recently conducted an interview with Executive Director Kalm to gain insight of the MGCB and Mr. Kalm's goals for the upcoming year.

Since your appointment as Executive Director of the Michigan Gaming Control Board, has the mission of your agency changed at all? If so, how?

During my first year as the Executive Director of the agency (2007) the focus was dedicated to the mission of enforcing the Michigan Gaming Control and Revenue Act and the oversight of the three Detroit casinos along with oversight of compliance with compacts between the State and Native Americans operating tribal casinos. Since 2007, the state tribal casinos have grown to 24 and responsibilities of gaming now include horse racing as well as millionaire party charity gaming.

Therefore the scope of my daily responsibilities has expanded greatly,

however, we continue to operate with the same mission that: "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."

What are some of the main objectives/goals that your agency would like to accomplish during 2016?

As the agency has been tasked with greater responsibilities, which cross over between different industry segments (commercial casinos, Native American casinos, horse racing, and charitable gaming), we are in need of an updated data tracking system for the licensing of entities and individuals under all three of the gaming acts that our agency oversees. As such we have issued an RFP, and we are in the process of developing a new data system that will help to better manage the various components of licensing and regulation with respect to casino suppliers, horse racing drivers and track operators, as well as with charitable gaming suppliers and qualified organizations. This new technology, and its implications, will be a major undertaking for the agency, however, once incorporated it will make the communication between the various divisions of the agency much more efficient.

In addition, last year the MGCB increased the monetary threshold requirement for licensing for companies working with the Detroit casinos. In 2016 we are continuing to see the benefits to the licensing process as fewer companies are required to be licensed, which creates efficiencies with the casinos' business. So far, in 2016 we have 28% fewer licensed suppliers/vendors than we had prior to the change. The agency is bound by the provisions of the Gaming Act which is a very strict statute and therefore many of the regulations cannot be modified without legislative action, however, the agency continues to seek to find ways to operate more efficiently and promote positive business practices for those seeking to work with the casinos.

How have you used your background and prior experience to help further the mission of the Agency?

Prior to joining the agency, I had the pleasure of working for over 30 years in law enforcement for Macomb County Sheriff's office. My final position with the Sheriff's office was Chief of Staff, and I oversaw a workforce of over 500 people. Therefore, one of the greatest assets that I feel I brought to the agency was my ability to manage the agency staff through my knowledge of administration. What I have learned the most during my time with the MGCB has been on the business and financial sides of large-scale casino-hotel operations. The MGCB has a duty to oversee and approve various transactions and financial matters that impact the casinos, as well as suppliers to the casinos. Our role is to apply the law through our internal analysis while also obtaining support from our consultants and the Attorney General's office in order to complete our duties. Under my leadership, the MGCB has worked hard to balance the strict governance provisions of the Act, while seeking to be as business-friendly as possible.

What are the respective roles of the MGCB and of the State Police with regard to gaming enforcement issues? Is that a cooperative relationship, or do the agencies work independently in tandem?

The State Police is charged with the responsibility of reviewing and handling all crimes inside the Detroit casinos. This includes cheating, assaults, theft, etc. The MGCB, through the State Services Fee fund, assists with the funding of the State Police activities at the Detroit casinos. My staff meets monthly with the casinos, State Police, Detroit Police and Attorney General. The net result has been a cooperative process to ensure that the casino assets are protected and that the three Detroit casinos are properly staffed to ensure the safety of the over 40,000 visitors that come to the properties on a daily basis.

The MGCB also works with the State Police and local police departments across the state with respect to addressing illegal gambling issues on a

local level. You will note that over the last 5 years, the MGCB and the Attorney General's office have uncovered numerous violations of the charitable gaming laws and with the support of local law enforcement, these violators have been charged and convicted for their crimes.

Have you noticed any trends concerning regulatory-specific issues which have arisen and/or changed, during your tenure as Executive Director of the MGCB?

The great change since the original passage of the Casino Gaming law in 1997 has involved the evolution of the types of casinos games and technology around these devices as well as back-of-the-house operations. The casinos opened in Detroit at a time when physical tokens were the primary method for patrons to play slot machines. Since then the industry has transitioned to Ticket-In-Ticket Out (TITO) processing for slot play. Even more recently the industry has incorporated server-based gaming devices as opposed to stand alone slot machines. Presently the MGCB is working with the industry on the integration of online technology. Each of these technological changes requires the MGCB to balance what is permitted under the Gaming Act passed in 1997 with today's technology and at the same time to make sure that what is authorized can be tested and monitored to ensure integrity of gaming and fairness of play.

The horse racing industry in Michigan has gone through a number of changes and has reduced in size over the past few years, do you expect this trend to continue? What steps are being taken by this industry to try to revitalize horse racing? What is the role of the MGCB with regard to these matters?

Unfortunately across the nation, the horse racing industry is trending downward. Michigan's horse racing industry has been reduced from 7 tracks 15 years ago to only 2 in the state at the present time. In 2004, the voters of Michigan passed a constitutional amendment limiting the expansion of gaming, and it essentially prohibited placing slot machines at the Michigan tracks to create racinos. The net result was a further decline in the industry. Despite the decline the state continues to support the industry and is looking at additional

ways to assist the industry to help it continue to operate. Northville Downs and Hazel Park are seeking to advance legislation that would permit advance deposit wagering and other modifications that will hopefully attract a broader customer base. The two tracks are also seeking to modify the live racing schedule to further benefit from the time of the year when customers are more inclined to visit the tracks. The state looks forward to continuing to assist the industry and ensure the wagering activities are fair to the customers involved.

You created quite a "buzz" a month or so before the 2015 Global Gaming Expo by being the first gaming Executive Director to comment publicly against DFS. Has your position changed at all? If so, how?

Michigan law, from my view, is very clear on the point that only authorized forms of wagering are permitted. Therefore, it is my belief that the Michigan Legislature and Attorney General need to take a serious look at the industry and the framework for how it operates and address any inconsistencies with Michigan law. The Michigan Gaming Control Board has asked that my staff take a look at the Daily Fantasy Sports industry and the role of the MGCB in the process. We are looking at these issues and are scheduled to report to the Board our findings at the May meeting.

What is your general outlook on the state of the gaming industry in Michigan?

The state's casino industry is a very mature market place and any additional expansion has the potential of creating adverse impacts on the existing operations. The states 27 casinos (24 tribal and 3 commercial) are spread throughout the state and therefore there are not too many locations that are untapped markets. There have been discussions on expansion in Lansing and Romulus and these projects would cut into the revenues that the City of Detroit and State of Michigan receive. Importantly, the recent Detroit bankruptcy resulted in the increased importance of the tax payments made by the Detroit casinos as 17% of the operating budget of the city comes directly from the casino tax payments to the City. Any decline in revenues would directly result in the City's ability to pay its obligations.

Therefore, it is my opinion that any further expansion should be examined carefully as it would have an impact on the existing industry and the hundreds of millions of dollars that have been invested by the casino operators and more importantly the City of Detroit as a result of its reliance on the millions of dollars it receives annually to support 17% of its operating budget.

What do you enjoy most about your job as Executive Director of the Michigan Gaming Control Board?

First, I would like to acknowledge that the Detroit casinos we oversee are run by extremely professional individuals who are committed to compliance. The fact that the Detroit market has three tremendously well-managed operations with professional executive management staff makes my job much more manageable. Importantly the three casinos are also associated with very strong business owners. Two of the operators are directly connected to the broader regional economy with the Ilitch Family at MotorCity Casino, and Dan Gilbert who recently purchased Greektown Casino, with the third being associated with the international gaming company, MGM Resorts International in MGM Grand Detroit. Therefore our state is lucky to have three great operators with professional senior management staff and quality front line employees that seek to ensure that the wagering activities are fair and honest.

Secondly, I have a tremendously knowledgeable staff that supports me at the Michigan Gaming Control Board and makes overseeing the Detroit casinos, tribal casinos, charitable gaming and horse racing a much more easily manageable task. We also are lucky to have the support of the Michigan State Police and the Attorney General's office.

Finally, under Michigan's regulatory structure the state is aided with a five member appointed Board. Each of these individuals brings a wealth and experience and a unique perspective which provides oversight to my role as Executive Director and helps to ensure that the decisions made are well thought out and provide for a consistent application of the Gaming Act.

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