

2017-19 Biennium Budget Decision Package

Agency: **117 Washington State Gambling Commission**

Decision Package Code/Title: **9J – Nonappropriated Fund Adjustment**

Budget Period: **2017-19**

Budget Level: **M2 - Inflation and Other Rate Changes**

Agency Recommendation Summary Text: The Washington State Gambling Commission (WSGC) requests an adjustment to the Carry Forward Level (CFL) fund totals that reflect the 2017-19 biennium operating budget approved by the Commission. WSGC operations are funded by Special Revenue Funds that are non-appropriated/allotted and are collected through licensing and regulatory fees remitted by licensees and Tribal Governments. No state funds are appropriated for the WSGC.

Fiscal Summary: Decision package total dollar and FTE cost/savings by year, by fund, for 4 years. Additional fiscal details are required below.

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 141-6	-154,000	0	0	0
Fund 226-6	-602,000	0	0	0
Fund 884-6	-1,183,000	-1,685,000	0	0
Total Cost	-1,939,000	-1,685,000	0	0
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	-4.0	0	0	0
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 884-6	0	0	0	0

Package Description

This decision package reflects the adjustments necessary to the CFL fund totals for the WSGC operating budget. Per RCW 9.46, the Commission approves the WSGC biennial operating budget which they did on August 11, 2016. Funding is non-appropriated/allotted and must be sustainable through the collection of licensing fees, which this adjustment ensures. No state funds are appropriated for WSGC operations.

Decision Package Justification and Impacts

What specific performance outcomes does the agency expect?

The funding adjustment described in this decision package adjusts the gap between the CFL and the operating budget approved by the Commission. Agency performance in 2017-19 is assumed to be consistent with current measures.

What are other important connections or impacts related to this proposal? Please complete the following table and provide detailed explanations or information below:

Impact(s) To:	Identify / Explanation
Regional/County impacts?	Identify: None
Other local gov't impacts?	Identify: None
Tribal gov't impacts?	Identify: None
Other state agency impacts?	Identify: None
Facility/workplace needs or impacts?	Identify: The Commission Headquarters footprint will be smaller after a move planned for mid-FY17.
Capital Budget Impacts?	Identify: None
Is change required to existing statutes, rules or contracts?	Identify: If the Commission moves forward with fee restructuring, many agency rules will be revised.

What alternatives were explored by the agency and why was this option chosen?

Gambling Revolving Account estimated revenues and fund balance are not sufficient to support OFM's carry-forward level. The Commission has no choice but to reduce its 17-19 Biennium budget to a level that can be supported by funds expected to be available.

What are the consequences of not funding this request?

CFL is inconsistent with projected revenue and does not reflect the approved operating budget. Not making this adjustment will perpetuate this inconsistency.

How has or can the agency address the issue or need in its current appropriation level?

The Commission is a non-appropriated agency which is supported by the dedicated Gambling Revolving Account.

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)

2017-19 Biennium Budget Decision Package

Agency: 117 Washington State Gambling Commission

Decision Package Code/Title: AF – Restructuring Agency License Fees

Budget Period: 2017-19

Budget Level: M2 – Inflation and Other Rate Changes

Agency Recommendation Summary Text: This decision package reflects a fee restructure assumed by the Washington State Gambling Commission (WSGC) in the approved 2017-19 operating budget. As the industry evolves and changes, the existing fee structure has become less than equitable among license types and less sustainable in support of agency operations. The current proposal is projected to be revenue neutral at the fund level and includes no increase to expenditures.

Fiscal Summary: Decision package total dollar and FTE cost/savings by year, by fund, for 4 years. Additional fiscal details are required below.

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 884-6	0	0	0	0
Total Cost	0	0	0	0
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0	0	0	0
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 884-6	0	0	0	0

Package Description

This decision package provides the context for the work currently underway to restructure major parts of the license fee structure that began in 1973 and continues today. The Commission, over the years, has established license fees pursuant to RCW 9.46.070 for operators of legal gambling activities as those activities have been authorized by the Legislature, for individuals employed by those operators involved in legal gambling activities, and for vendors who manufacture and distribute gambling supplies and equipment to those licensed operators. Licenses are valid for twelve months unless suspended for cause.

As illustrated below, the current fee structure provides an unequitable economic benefit to licensees of different types.

Current Fee Revenue Structure And Net Receipts with FY 2015 Data

	License Fee Revenue		Net Receipts		License Fees as a Percentage of Net Receipts
PB/PT	\$3,105,472	54.34%	\$64,829,274	12.27%	4.79%
Card Rooms	\$62,262	1.09%	\$5,982,619	1.13%	1.04%
House-Banked Card Rooms	\$1,511,205	26.45%	\$228,803,109	43.32%	0.66%
Bingo	\$104,082	1.82%	\$7,960,474	1.51%	1.31%
Manufacturers *	\$122,776	2.15%	\$173,408,244	32.83%	0.07%
Distributors *	\$74,382	1.30%	\$19,527,956	3.70%	0.38%
Amusement Games	\$322,556	5.64%	\$21,460,371	4.06%	1.50%
Raffles	\$316,843	5.54%	\$6,022,322	1.14%	5.26%
FREs/NP Amusement Games	\$11,254	0.20%	\$229,155	0.04%	4.91%
Service Suppliers*	\$51,748	0.91%	Not collected		
Other Revenue	\$31,935	0.56%			
TOTAL	\$5,714,515	100.00%	\$528,223,524	100.00%	

*Does not include individuals or representatives licenses

SOURCES: FY 2015 License Fee Revenue from State Enterprise reports, Net Receipts generated by GIMS from compiled activity reports

With guidance and direction from Commissioners, WSGC staff has worked to create a proposed alternative to the current fee structure. The restructure being developed changes the way fees would be paid by gambling activity and vendor licensees, but will not change the structure for fees for individuals.

The implementation plan for this fee restructuring will phase licensees into the progressive fee schedule at the expiration of their current licenses beginning with licenses expiring on June 30, 2017. Licensees whose licenses expire on June 30 will pay the base fee applicable to their license on or before June 30, and then begin paying the calculated fee based on their gross receipts for the license year-to-date in the month following each fiscal quarter (i.e. the first quarterly payment based on quarterly gross receipts would be made in October, 2017 and the payment for the fourth quarter would be made in July, 2018).

The progressive rates defined in the proposal were calculated to be revenue neutral. The fee structure currently under consideration is as follows:

	Gambling Activities		Vendors	
	Threshold	Marginal Rate	Threshold	Marginal Rate
Gross Receipts	\$0	0.50%	\$0	0.50%
	\$10,000	0.55%	\$250,000	0.55%
	\$25,000	0.60%	\$500,000	0.60%
	\$50,000	0.70%	\$1,000,000	0.65%
	\$150,000	0.80%	\$2,500,000	0.70%
	\$500,000	0.95%	\$5,000,000	0.72%
	\$2,000,000	1.10%		
Base Fee		\$60		\$650

Licensee reports for Fiscal Year 2015 were used to estimate the revenue that would be generated by this approach. Once fully implemented, revenue from the licensees affected by this proposal should be approximately the same as it now, subject to changes in numbers of licensees and the financial success of their gambling enterprises. During FY18, however, moving from the current practice of paying the license fee in advance based upon anticipated receipts to a program in which payments on actual receipts are paid in the month following the quarter causes payments based upon gross receipts in the fourth quarter of FY18 to be received in FY19. As a result, the use of \$3.8M from Working Capital Reserves will be needed in FY18 as a bridge as we transition from the current methodology to the new proposal.

This proposal is currently being communicated to stakeholders with their feedback being solicited and recorded. The Commission and staff will consider the feedback and use it to make any modifications to the fee restructure proposal that will ultimately be presented to the Commission for approval. Any changes to the fee structure would have to be done through rulemaking, which is also done by the Commissioners.

Decision Package Justification and Impacts

What specific performance outcomes does the agency expect?

Because this restructure is designed to remove inequitable economic benefit among licensees, most licensees will experience reductions in fees to the Commission to legally operate gambling activities, and some will see fees increase. The proposal is designed to be revenue neutral, in the aggregate. As revenue requirements of the agency change in the future, it will be possible to adjust licensee fee revenue in one simple rule rather than have to make multiple changes in several complicated rules.

What are other important connections or impacts related to this proposal? Please complete the following table and provide detailed explanations or information below:

Impact(s) To:	Identify / Explanation
Regional/County impacts?	Identify: None
Other local gov't impacts?	Identify: None
Tribal gov't impacts?	Identify: None
Other state agency impacts?	Identify: None
Facility/workplace needs or impacts?	Identify: None
Capital Budget Impacts?	Identify: None
Is change required to existing statutes, rules or contracts?	Identify: If the Commission moves forward with fee restructuring, many agency rules will be revised.

What alternatives were explored by the agency and why was this option chosen?

Licenseses have been asking for simplification of the Agency's fee structure for several years. Looking ahead, Commissioners and staff are looking for a structure that is simpler and that is flexible in responding to adjusting license fee revenue up or down as circumstances warrant.

What are the consequences of not funding this request?

This decision package does not request funding. It describes work the Commission is doing to prepare for a possible adjustment to how it generates revenue.

How has or can the agency address the issue or need in its current appropriation level?

The Commission is a non-appropriated agency.

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

No 

Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)