

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Card Room Gambling Tax
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

In July 2006 the City Council adopted Ordinance No. 437 (Attachment A) which reduced the card room gambling tax rate from 10% to 7% for a nine month period starting July 2006 and concluding March 31, 2007. Ordinance No. 437 provides that the card room gambling tax rate will return to 10% effective April 1, 2007. One reason the Council adopted the nine month reduction in the card room gambling tax rate was due to the temporary negative impacts to the casino operations from the Aurora construction project. The expiration date of March was selected to provide some recovery time after substantial completion of the project in late December, early January. However, due to adverse weather and the concrete strike substantial completion has been delayed until late February or early March.

Mayor Ransom has requested that the Council consider a two month extension of the tax rate reduction to accommodate the delay in substantial completion. This means that the 7% card room gambling tax rate would remain in effect until May 31, 2007, if approved by the City Council. Parker's Casino has submitted a letter to the City requesting that the tax rate remain at 7% because of the negative impact of the increase in minimum wage to their business.

FINANCIAL IMPACT:

An additional two months reduction in gambling tax is estimated to reduce gambling tax revenues to the City by approximately \$112,000. The revenue reduction would necessitate a reduction in the revenues allocated to the Roads Capital Fund for capital projects.

BACKGROUND

In 2005 the City Council reduced the card room gambling tax rate from 11% to 10%. This rate change was effective April 1, 2005. The tax rate reduction was in response to requests from casinos as they believed the tax rate reduction would enable them to have a more acceptable profit margin. Also a review of tax rates of other local jurisdictions indicated that most jurisdictions had a card room gambling tax rate of 10%.

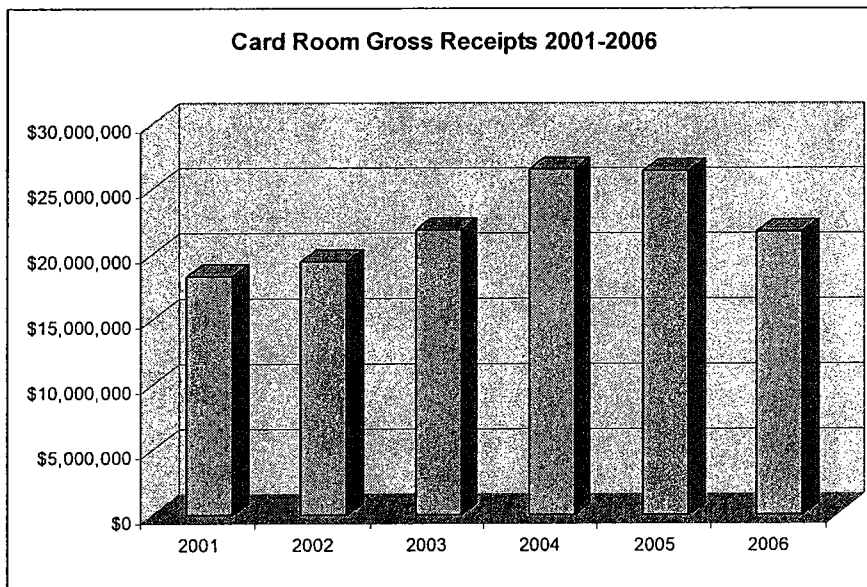
On December 8, 2005, a state-wide smoking ban went into effect for public places. This included all non-tribal casinos. It appears that this smoking ban had a negative impact on the overall card room activity occurring at the casinos within Shoreline. In addition to the smoking ban casinos have indicated that the level of local casino activity has been

negatively impacted by competition from regional non-tribal casinos, tribal casinos, on-line illegal betting, and traffic impacts from the Aurora improvement project. Although not all casinos are in the construction zone, delays and less traffic on Aurora in general has contributed to a loss of patronage.

As a result of these impacts the casino operators requested an additional decrease in gambling tax rate in July 2006. Council approved Ordinance No. 437 which reduced the gambling tax rate from 10% to 7% for nine months, primarily to mitigate any negative impacts that the Aurora construction was having on business activity levels within the casinos. If Council takes no further action the card room gambling tax rate will return to 10% on April 1, 2007.

DISCUSSION

In 2006 overall gross receipts for the City's five casinos were down by 17.5%, \$4.6 million, compared to 2005. Gross receipts for 2006 totaled \$21.7 million, approximately the same level as 2003.



Although overall card room gross receipts were down by 17.5%, individual casinos had varying activity levels. The Golden Nugget is the only casino that had greater card room gross receipts in 2006 than in 2005. The Golden Nugget gross receipts were 4.8%, \$106,269, greater than those generated in 2005. The other four casinos experienced a drop in gross receipts

in 2006. Of the four casinos that experienced a drop in gross receipts, Debbie's Drift On Inn had the greatest drop, 27.1% or \$1.6 million, and Parker's had the lowest decrease, 12% or \$677,800. The following table shows the gross receipts for each casino for 2001 through 2006:

Card Room Gross Receipts Annual Totals 2001 - 2006								
Casino	2001	2002	2003	2004	2005	2006	Gross Receipts \$\$ Change 2005 to 2006	% Change 2005 to 2006
Drift on Inn	6,985,380	6,448,370	6,974,897	\$5,711,995	\$5,905,951	\$4,302,524	-\$1,603,427	-27.1%
Hollywood	0	0	1,298,809	\$5,753,616	\$5,764,890	\$4,867,981	-\$896,909	-15.6%
Golden Nugget	0	1,025,408	2,149,027	\$2,476,600	\$2,197,973	\$2,304,242	\$106,269	4.8%
Goldie's	4,821,256	5,768,931	5,568,043	\$7,015,323	\$6,758,391	\$5,224,913	-\$1,533,478	-22.7%

Hideaway	1,480,501	1,526,308	1,584,498	\$919,005	\$17,495	\$0	-\$17,495	-100.0%
Parkers	5,052,948	4,649,161	4,285,255	\$5,455,839	\$5,710,732	\$5,032,932	-\$677,800	-11.9%
TOTAL	18,340,085	19,418,178	21,860,529	\$26,413,373	\$26,337,937	\$21,732,592	-\$4,605,345	-17.5%

Even though the card room tax rate was reduced from 10% to 7% for the last six months of 2006, Goldie's casino continues to be behind in making full payment on the gambling taxes and penalties owed to the City. Goldie's accumulated in excess of \$54,000 in penalties during 2006 as a result of late payment of taxes. The City agreed to allow Goldie's to pay the penalties over a nine month period of January through September 2007, as long as all future quarterly payments were made on time and in whole to prevent the further accumulation of any penalties. Unfortunately, Goldie's only paid \$50,000 of their fourth quarter tax due totaling \$97,110 by the due date of January 30, 2007. The partial payment has resulted in additional penalties of \$4,700. The City received the remainder of the tax due totaling \$47,110 on February 12, 2007. The additional penalty for the late payment of fourth quarter taxes of \$4,700 will still be assessed.

In the view of staff, the non-tribal industry throughout the State is facing serious structural competition well beyond the control of the City. The decline in card room gross receipts is not only being experienced by the casinos in Shoreline, but also by casinos in most jurisdictions. Most jurisdictions agree that the smoking ban has been a major contributor to the decline in card room activity in 2006. In addition to this, the continuing competition from both tribal casinos and on-line betting has likely contributed to the saturation of the gambling market. Even though construction along Aurora may have had some negative impact to the casinos, staff continues to believe that this is not the major reason for the decline in gambling activity. As stated last July, it would not surprise us to see some casinos in the region go out of business, change emphasis or merge. Regardless of any reasonable action the City undertakes these larger forces will determine the shape of the industry and the future of local casinos.

Staff believes that Shoreline casinos do benefit from some local competitive advantages. First of all, Seattle does not allow casinos so Shoreline establishments have a distinct advantage in being the closest casino gambling available for all of north Seattle. Second, Shoreline has established that no new casinos are allowed, but that existing ones may continue as non-conforming uses. This guarantees no added local competition. It also makes it possible that if a casino were to go out of business that someone else may purchase that business in order to preserve the use and gaming license since no more would be allowed in the future. This makes the existing gambling licenses very valuable.

Staff acknowledges that the level of gambling activity within the City has declined. Even though this is the case, there is no guarantee that a lower tax rate will result in all casinos being profitable or remaining in business. A review of local jurisdiction gambling tax rates continues to show that the most common card room tax rate is 10%.

Staff continues to recommend that the City's gambling tax rate be 10%. This recommendation is based on the substantial completion of the Aurora project, the tax rate of surrounding jurisdictions and the limitation on future gambling expansion within Shoreline.

RECOMMENDATION

Staff recommends that Council take no further action. Ordinance No. 437 as adopted by the City Council, will sunset the gambling tax reduction to 7% as of April 1, 2007, and will result in the card room gambling tax rate returning to 10%.

Approved By: City Manager  City Attorney ____

ATTACHMENTS

Attachment A – Ordinance No. 437

ORDINANCE NO. 437

**AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON,
ADOPTING A NINE MONTH REDUCTION IN THE CITY GAMBLING
TAX ON SOCIAL CARD ROOMS TO 7% OF GROSS RECEIPTS; AND
AMENDING SHORELINE MUNICIPAL CODE 3.30.020.**

WHEREAS, The City Council received requests from the Shoreline card room operators for a reduction in the City's gambling tax; and

WHEREAS, the Council finds there is a sufficient showing that the current tax rate may result in unprofitable operations due to statewide and local factor affecting the gaming industry and temporary impacts from the Aurora Project; and the gambling tax rate should be reduced during the period of Aurora Project impacts; now therefore

**THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO
ORDAIN AS FOLLOWS:**

Section 1. Amendment in effect from July 1, 2006 to March 31, 2007. Shoreline Municipal Code section 3.30.020 is amended as follows for the period July 1, 2006 to March 31, 2007:

3.30.020 Imposed.

Pursuant to RCW 9.46.110 as the same now exists or may hereafter be amended, there is levied upon all persons, associations or organizations a tax on all gambling activities occurring within the city as permitted by state law at the following rates:

... [A- C unchanged]

D. All social card game rooms licensed under the provisions of RCW 9.46.030(1) and (4) at a rate equal to ~~7~~ 10 percent of the annual gross receipts exceeding \$10,000.

Section 2. Amendment in effect after March 31, 2007. Shoreline Municipal Code section 3.30.020 is amended as follows effective April 1, 2007:

3.31.020 Imposed.

Pursuant to RCW 9.46.110 as the same now exists or may hereafter be amended, there is levied upon all persons, associations or organizations a tax on all gambling activities occurring within the city as permitted by state law at the following rates:

... [A- C unchanged]

D. All social card game rooms licensed under the provisions of RCW 9.46.030(1) and (4) at a rate equal to 10 ~~7~~ percent of the annual gross receipts exceeding \$10,000.

Section 3. Publication, Effective Dates. This ordinance shall take effect and be in full force five days after passage and publication of a summary consisting of the title.

PASSED BY THE CITY COUNCIL ON JULY 24, 2006.

Mayor Robert L.Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication: July 27, 2006
Effective Date: August 1, 2006