

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Card Room Gambling Tax
DEPARTMENT: City Council
PRESENTED BY: Mayor Ransom

PROBLEM/ISSUE STATEMENT:

This item has been put on this evening's agenda at the request of Mayor Ransom. The purpose is for the Council to consider the extension of the reduced card room gambling tax rate from 10% to 7% through June 30, 2007.

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 provided that the card room gambling tax rate would return to 10% effective April 1, 2007, if the City Council took no further action. The primary reason in which the Council adopted the nine month reduction in card room gambling tax rate was due to the temporary negative impacts to the casino operations from the Aurora construction project.

Mayor Ransom has requested that the Council consider a three month extension of the tax rate reduction to allow for a recovery period during the final construction stages and the substantial completion of the project. This means that the 7% card room gambling tax rate would remain in effect until June 30, 2007, if approved by the City Council.

FINANCIAL IMPACT:

An additional three months reduction in gambling tax is estimated to reduce gambling tax revenues to the City by approximately \$163,000. This assumes that the card rooms have the same activity level during the second quarter of 2007 as they did in 2006. 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

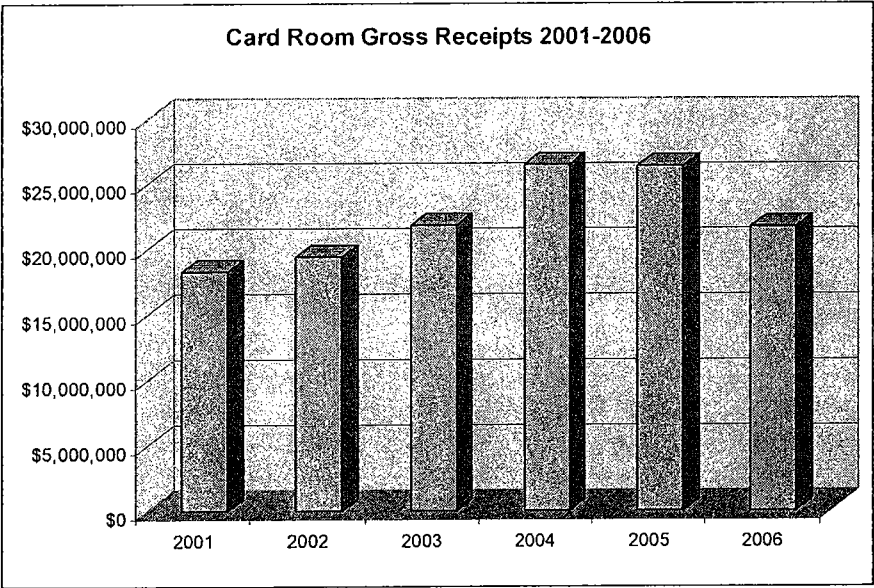
negatively impacted by competition from regional non-tribal casinos, tribal casinos, on-line illegal betting, and traffic impacts from the Aurora improvement project. Although not all casinos are in the construction zone, delays and less traffic on Aurora in general has contributed to a loss of patronage.

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 would return to 10% on April 1, 2007.

DISCUSSION

Card room gambling tax provided \$1.8 million of general fund revenue in 2006. This was approximately 7% of general fund revenues. Historically card room gambling tax provided 10 to 12% of general fund revenues.

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%

The City has received one quarter of taxes for 2007. The following table shows a comparison of gross card room revenue for the first quarter for years 2001 through 2007.

Casino	2001	2002	2003	2004	2005	2006	2007	06 to '07 % Change
Goldies	\$1,581,845	\$1,516,572	\$1,425,190	\$1,679,818	\$1,615,173	\$1,333,886	\$1,462,821	9.67%
Golden Nugget	\$0	\$0	\$336,816	\$601,308	\$631,746	\$437,207	\$576,341	31.82%
Drift On Inn	\$1,836,253	\$1,610,710	\$1,816,794	\$1,572,582	\$1,483,359	\$1,214,190	\$1,032,828	-14.94%
Hollywood	\$0	\$0	\$0	\$1,793,380	\$1,280,876	\$1,299,699	\$1,022,977	-21.29%
Parkers	\$1,378,009	\$1,167,105	\$1,154,996	\$1,361,737	\$1,575,857	\$1,311,464	\$1,380,372	5.25%
TOTAL	\$4,796,106	\$4,294,387	\$4,733,796	\$7,008,825	\$6,587,011	\$5,596,446	\$5,475,339	-2.16%
Annual Change		-10.46%	10.23%	48.06%	-6.02%	-15.04%	-2.16%	

The first quarter 2007 gross receipt activity varied by casino. Overall the first quarter receipts were 2.16% less than first quarter 2006. Even though this is the case three card rooms showed improved results when comparing first quarter activity: Goldies (9.67%), Golden Nugget (31.82%), and Parkers (5.25%). On the other hand, both Drift On Inn and Hollywood continued to show a drop in activity level at 14.94% and 21.29% respectively.

On April 30, 2007, the City Council had an opportunity to receive information from various representatives that are involved in the gambling industry including the Washington State Gambling Commission, Goldie's Casino, Washington Recreation Gaming Association, and Washington State Council on Problem Gambling.

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 contribution 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%.

Even though staff recommends that no further action be taken, staff has provided Ordinance No. 474 that would extend the 7% gambling tax rate to June 30, 2007, if Council decides to extend the temporary rate reduction.

Approved By: City Manager  City Attorney _____

ATTACHMENTS

Attachment A – Ordinance No. 437

Attachment B – Ordinance No. 474

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

ORDINANCE NO. 474

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, AMENDING ORDINANCE NO. 437 BY EXTENDING FOR THREE MONTHS THE REDUCTION IN THE CITY GAMBLING TAX ON SOCIAL CARD ROOMS TO 7% OF GROSS RECEIPTS; AND AMENDING SHORELINE MUNICIPAL CODE 3.30.020.

WHEREAS, on July 24, 2006, the City Council adopted Ordinance No. 437 which reduced the city gambling tax on social card rooms from 10% to 7% of gross receipts for the July 1, 2006 to March 31, 2007 timeframe; and

WHEREAS, the Council continues to find that there is a sufficient showing that the current tax rate may result in unprofitable operations due to statewide and local factors affecting the gaming industry and temporary impacts from the Aurora Project; and

WHEREAS, the Council desires to amend Ordinance No. 437 to extend the reduction in the gambling tax rate until June 30, 2007 in order to reduce the negative impacts on the gaming industry; now therefore

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

Section 1. Amendment. Ordinance No. 437, Section 1, is amended to extend the 7 percent gambling tax rate until June 30, 2007.

Section 2. Amendment. Ordinance No. 437, Section 2, is amended to terminate the 7 percent tax rate and commence the 10 percent gambling tax rate effective July 1, 2007.

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 JUNE 11, 2007.

Mayor Robert L. Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication: June 14, 2007
Effective Date: June 19, 2007