

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Ordinance No. 545 – Adopting a temporary reduction in the City Gambling Tax on Social Card Rooms during the construction of the next phase of the Aurora project (165 th to 185 th)
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Robert L. Olander, City Manager Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The City of Shoreline currently has a 10% gambling tax rate on the gross receipts of social card game rooms. In 2006 the City temporarily reduced the card room gambling tax rate to 7% for nine months to help off-set the impacts that the Aurora construction project was having on the local casino operations. In addition to the construction impact, the casinos were experiencing a substantial drop in activity related to the smoking ban passed by the Washington State voters in December 2005 and from tribal casino competition. Several councilmembers requested the City Manager to schedule an opportunity for the Council to discuss the impacts of providing a similar reduction in card room gambling tax rate during the construction of the improvements from 165th to 185th on Aurora Avenue. The City Council discussed these impacts during the Study Session on May 4, 2009. This report is being transmitted prior to the Study Session, and as such, the outcome of the Study Session is not known and therefore not included in this report.

DISCUSSIONS:

In discussions with the Shoreline casinos it is apparent that their business is being affected by a number of statewide and local factors. Those factors include the following:

- Competition from Tribal Casinos
- Smoking Ban
- Economic Recession

In 2008 the City's casino's saw overall gross receipts fall by 9.5% when compared to 2007. The impact on the individual casinos was different. For example, the Hollywood Casino saw gross receipts improve, as compared to 2007, by 10.8%, while Debbie's Drift On Inn saw receipts drop by 35%. Overall card room gambling activity has fallen by 30% since its peak in 2004.

The City's 2009 first quarter card room taxes reflect a fall in overall activity of 6.5% when compared to the first quarter of 2008, but a 7% increase in activity when compared to the fourth quarter of 2008. Even though activity in the first quarter of 2009

was lower than that for the same period in 2008, it is a smaller drop than previous quarters have shown. Although it is still early, it may indicate that we are starting to see the "floor" of sustainable gambling activity levels.

The change by individual casino varied. For example Hollywood casino saw activity levels similar to those of 2005, with first quarter activity growing by nearly 37% compared to the first quarter of 2008 and 33% compared to fourth quarter 2008. Debbie's Drift On Inn had its lowest level of activity since City incorporation. Both Hollywood and Debbie's are operated by the same owner. Combining the activity of both casinos reflects an activity level equal to those experienced in 2007 when both casinos were under different ownership. Golden Nugget's activity was 2.5% lower for the first quarter 2009. Goldie's first quarter activity was 4% less than the same period in 2008, but 7% better than fourth quarter 2008. Parker's saw activity levels fall by 17.5% compared to the first quarter 2008 and by 8% compared to fourth quarter 2008. Parker's has seen its largest drop in activity levels in the last two quarters.

Staff believes that the appropriate role for the City is to ensure a level playing field for private industry competition. To that end the City's tax rate should be average to what other nearby cities and the unincorporated area are charging. This is the primary reason the City reduced the tax rate to 10% in 2005. Since this is still the area average, we do not believe there is justification for a lower base rate. (Attachment B has a listing of current gambling tax rates of other cities in the Puget Sound Region) However, the one area in which the City does have control and some responsibility is that of traffic impacts due to Aurora construction. Though the other structural factors are the primary cause of lower casino revenues, traffic congestion may very well contribute to lower customer volume.

The City has taken lessons learned during the construction of the first mile of Aurora improvements and developed a better traffic management plan for the next phase of construction. Some of the improvements planned for this next phase include:

- ◆ We are planning on having the contractor work into the evenings, and on Sundays (not Saturday, because that is a big shopping day). The idea is to get the project built quickly, versus dragging it out. We hope to get the project awarded and construction underway so that it only spans one winter season. Our goal is to have a 12 – 14 month construction period.
- ◆ We also are going to highlight driveway entrances so that they are clearly marked for the traveling public – last time we had too many orange barrels and so we are looking at a different shape and color for the markings at driveways, in addition to the blue "businesses are open" signs.
- ◆ We will have a stronger communication plan, and will have a liaison that will be focused on walking the street and communicating with businesses and sharing schedules, etc. The traffic plan is to maintain driveway access at all times, and to maintain 2 lanes of traffic each way during the peak hours.
- ◆ We are investigating doing the paving on a Sunday or during the nighttime to minimize impacts.
- ◆ We will utilize the variable message signs to provide information to drivers on upcoming traffic events, and to direct them to the freeways when there will be significant restrictions on flow.

- ◆ We will also schedule a couple of “meet the contractor” meetings aimed at the businesses. This will occur right after award of construction.

Even given these steps, there is still the possibility that the casinos will be impacted by the construction activity, and since the City did set a precedent with a temporary tax reduction for the first phase of Aurora, it is worthwhile to discuss if a similar reduction should be considered for the second phase.

Based on the most recent casino activity levels, staff estimates that a reduction in the card room gambling tax rate from 10% to 7% will result in a reduction in City revenue of \$540,000 for 12 months or \$810,000 for 18 months. The City Council's policy has been to put any gambling tax revenue collected in excess of a 7% tax rate in the City's Road Capital Fund. If the City Council adopts a lower gambling tax rate during the construction period, no monies from gambling taxes will be allocated to the Roads Capital Fund. Staff is currently preparing the 2010–2015 Capital Improvement Plan (CIP). This plan is being developed assuming an 18 month Aurora construction period, and therefore an \$810,000 reduction in revenue, related to a gambling tax reduction, as compared to the 2009-2014 CIP. In addition to the gambling tax reduction, the City is lowering its anticipated revenue from Real Estate Excise Taxes (REET) for 2009 and 2010 by \$950,000. Even though we are seeing some positive results in our construction bids, it is not enough to fully mitigate the decline in revenue. As a result, staff anticipates making the following adjustments to the Capital Improvement Program for 2009 and 2010 in order to keep the CIP balanced:

- ◆ Reduce 2009 and 2010 expenditures for priority sidewalks by \$600,000.
- ◆ Reduce the traffic small works project funding by \$150,000 for 2010 through 2012.
- ◆ Reduce the anticipated cost for the Transportation Master Plan by \$130,000. As a result of the slow down in development activity the master plan will be completed by staff and consultant services will only be used for traffic modeling.
- ◆ Reduce funding for the Neighborhood Traffic Safety Program by \$30,000 for 2010 through 2011.
- ◆ Reduce the scope and therefore cost of the traffic signal at 170th/15th Ave NE by \$150,000.

Ordinance No. 545 has been drafted so that any reduction in gambling tax rate, as a result of anticipated declines in activity from the Aurora construction, coincides with the start of the Aurora construction, currently estimated for September 2009. The reduction in rate will remain until the construction is completed and then will return to the 10% tax rate. The current estimated construction period is 18 months, but staff is hoping to reduce the construction window to 12 to 14 months. If the beginning of construction is delayed then the tax rate reduction will not occur until construction starts. Likewise, if construction is prolonged past 18 months or if construction is completed in a shorter time period than currently estimated, the City Manager will bring forth an amendment to restore the gambling tax rate to the 10% level in concurrence with the completion of construction.

Given the current financial challenges that both the gambling businesses and the City are facing it is difficult to determine the best action for Council to take at this time. The casinos are requesting a reduction in gambling tax rate not only in anticipation of construction impacts, but as a result of the slow down in business they have experienced over the last few years. It is difficult to know if the gambling industry will recover to the levels of activities they experienced in years prior to 2006 or if the market has become saturated and a long-term change in the market is taking place.

FINANCIAL IMPACTS

As Council is aware, the City has recently reduced its 2009 forecasted revenues by \$1.7 million as a result of the current recession. Prior to the recession staff had forecasted an operating budget gap of \$1.1 million for 2010. As a result of the severe downturn in the economy, and the forecasts that it will be a slow economic recovery, the City's revenue forecast for 2010 will need to be reduced. This will result in a larger forecasted budget gap for 2010. Although the forecasts provided that the portion of gambling tax in excess of a 7% tax rate would be transferred to capital, the Council could change their policy and have those revenues remain in the General Fund in order to provide funding for City services. This was one of the recommendations from the Citizens Advisory Committee on Long-Range Financial Planning. Reducing the gambling tax rate to 7% eliminates this possibility as the City will not be collecting the revenue.

One option available to the City Council is the creation of the Transportation Benefit District and the implementing a vehicle license fee up to \$20 to be used for transportation related purposes. The projected revenue collected from this source is \$600,000 annually.

The reduction in the card room gambling tax rate from 10% to 7% is expected to result in a reduction of City revenues of \$540,000 for a 12 month period or \$810,000 for an 18 month period. This will directly reduce funding for transportation related projects. Given that the City is experiencing a dramatic drop in REET there are no revenues from that source that will be able to off-set the reduction in gambling taxes. In 2006 when the City implemented a nine month reduction in the gambling tax rate REET revenues exceeded expectations and helped off-set the reduction in gambling taxes. This will not be the case in 2009 and 2010, as current REET collections are half of the historical norm.

RECOMMENDATION

The City Council should discuss this issue and determine if they would like to implement the temporary gambling tax rate reduction. If Council determines that the City should reduce the gambling tax rate during the Aurora construction period, then Ordinance No. 545 has been prepared in order to allow a temporary rate reduction for the term of the Aurora construction.

ATTACHMENT: Attachment A - Ordinance No. 545 – Adopting a temporary reduction in the City gambling tax on social card rooms to 7% of gross receipts during the construction period of the Aurora project from 165th to 185th.

Attachment B – Comparison of Card Room Gambling Tax Rates
with other Puget Sound Cities and Counties

Approved By:

City Manager  City Attorney _____

ORDINANCE NO. 545

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, ADOPTING A TEMPORARY REDUCTION IN THE CITY GAMBLING TAX ON SOCIAL CARD ROOMS TO 7% OF GROSS RECEIPTS DURING THE CONSTRUCTION OF AURORA IMPROVEMENTS FROM 165TH TO 185TH; 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 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 September 1, 2009 through February 28, 2011.

A. Shoreline Municipal Code section 3.30.020 is amended as follows for the period September 1, 2009 through February 28, 2011; provided, however, that the effective date of the amendment may be delayed to the first day of any month after September 1, 2009 if the Notice to Proceed has not been issued on the Aurora Ave. N.(165th -185th) Project and the City Manager has provided a ten day written notice of the delay to each taxpayer subject to the amendment:

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 February 28, 2011. Shoreline Municipal Code section 3.30.020 is amended as follows effective March 1, 2011

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 MAY 11, 2009.

Mayor Cindy Ryu

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication:
Effective Date:

ATTACHMENT A

CARD ROOM GAMBLING TAX RATES AS OF 2/9/09

City/County	Local Tax Rate	# of Card Rooms currently Operating
Auburn	12%	1
Bellingham	10%	1
Burien	11%	1
Des Moines	10%	0
Everett	10%	2
Federal Way	20%	1
Fife	4%	1
Kenmore	15%	1
Kent	11%	1
King County	11%	5
Lake Stevens	5%	1
Lakewood	11%	4
Mount Lake Terrace	10%	3
Olympia	3%	1
Renton	10%	4
SeaTac	10%	1
Shoreline	10%	5
Snohomish County	10%	3
Tacoma	11%	0
Tukwila	10%	4