

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Motion Authorizing the City Manager to Write Off Debt
DEPARTMENT:	Administrative Services
PRESENTED BY:	Patti Rader, Finance Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

As a result of the normal course of business, the City collects taxes, fees, and various charges for services. Some taxpayers or customers become delinquent on these payments and after all available attempts have been made for collection, some accounts remain uncollectible. At this time, there are two large outstanding gambling tax debts that staff has deemed as being uncollectible. Staff is seeking approval from Council to write off these two debts and remove them from our accounts receivable.

FINANCIAL IMPACT:

Staff has not included any anticipated collections on these two outstanding debts in its long range revenue projections; therefore there will be no financial impact as a result of this action.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to write off debt in the amounts of \$149,528 owed by Slam Dunk Entertainment and \$11,629 owed by Gloria Kalitovic.

Approved By: City Manager **DT** City Attorney **MK**

BACKGROUND

On April 13, 2015, staff presented information to Council on the current types of outstanding debt owed to the City. One of those types is gambling tax debt. At that time, staff also presented proposed Ordinance No. 711 to enact a new chapter, SMC 3.65 – Collection of Debt, to the Shoreline Municipal Code. Council discussed this item and adopted Ordinance No. 711 on May 18, 2015. SMC 3.65.035 required Council approval to write off debt amounts in excess of \$5,000 as recommended by the City Manager.

SMC 3.30.060 requires that gambling taxes are due to the City on a quarterly basis and should be paid on or before 30 days after the end of each quarter and sets penalties for late payments of between 10% and 20% depending upon how late payment is received. When gambling taxes remain unpaid, the City has taken numerous actions to recover the debt. These actions have included placing liens on property and items used for gambling operations; entering into promissory notes with gambling operators, and finally the filing of a lawsuit.

Even after taking all of these actions, the City has not been able to collect on some outstanding debts. These debts remain on the City's accounts receivable ledger during these collection attempts. After exhausting all available collection tools, once a debt is deemed as being uncollectible, staff would like to write off the debt allowing us to remove the item from the City Accounts Receivable ledger.

DISCUSSION

Parker's Casino

Parker's Casino was operated by 17001 Corporation, which was wholly owned by Slam Dunk Entertainment ("Slam Dunk"). A single individual owned 90% of the stock in Slam Dunk Entertainment. That individual sold his entire interest to Washington CRET ("WA CRE"). This transfer of ownership resulted in the suspension of the gambling license for the operation of Parker's Casino by the Washington State Gambling Commission on April 10, 2012 since the new ownership had not applied for a license to continue gaming operations. As a result the casino ceased operations in early 2012.

In 2011 prior to the closure, the City entered into a promissory note with Slam Dunk to recover outstanding gambling taxes. While the first payment was made, no subsequent payments were made, leaving an outstanding balance of \$149,528. The City filed a lawsuit against Slam Dunk on February 7, 2012 to recover damages due to the breach of contract and for unpaid gambling taxes. On March 8, 2012, the court granted a writ of attachment. On March 26, 2012, in accordance with state law, a general receiver was appointed and the City's action was stayed until August 24, 2012. The receiver was required to file reports to the court which included an update on Slam Dunk's assets and liabilities, a statement of their outstanding accounts payable, and a tax disclosure statement listing any post-filing taxes due or tax deposits required. Based on this information, the City Attorney determined that the City's claim was subordinate to other claims against Slam Dunk, including the Internal Revenue Service, resulting in no assets to cover the City's claim.

As there has been no change in the apparent ability of Parker's prior ownership to pay the outstanding gambling taxes and penalties, staff would like to write off the debt totaling \$149,528. This is currently the highest value debt on the City's accounts receivable.

Echo Lake Tavern

On July 20, 2009, the owner of the Echo Lake Tavern, Gloria Kalitovic, was informed that she owed the City a total of \$31,008 for delinquent gambling taxes and penalties from pull-tab operations for the period spanning the third quarter of 2006 through the fourth quarter of 2008. The City entered into a promissory note with the property owners on May 11, 2010 for the existing outstanding balance of \$29,008. The note called for installment payments with the full amount of principal and interest being due and payable on or before July 1, 2015. Payments totaling \$17,379 were made as a result of the note. The note is now in default and no payments have been made since January 8, 2013, leaving an outstanding balance of \$11,629. The gambling tax statute limits collection actions to five years from the date the tax is imposed (2013). Thus the City has lost its opportunity for any further collection actions. Staff would like to write off the balance of the promissory note.

FINANCIAL IMPACT

Staff has not included any anticipated collections on these two outstanding debts in its long range revenue forecast, therefore there will be no financial impact as a result of this action.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to write off debt in the amounts of \$149,528 owed by Slam Dunk Entertainment and \$11,629 owed by Gloria Kalitovic.